

DEMOTT MARC E  
Form 4  
August 02, 2005

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
DEMOTT MARC E

(Last) (First) (Middle)  
P.O. BOX 3668  
(Street)  
MOULTRIE, GA 31776  
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
ABC BANCORP [ABCB]

3. Date of Earliest Transaction  
(Month/Day/Year)  
07/29/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

\_\_\_ Director \_\_\_ 10% Owner  
 Officer (give title below) \_\_\_ Other (specify below)  
SVP & Dir of Automation & Oper

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D) Code V Amount Price			
Common	07/29/2005		S	464 D \$ 19.56	6,480.681	D	
Coomon					348	I	Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Reporting Transaction (Instr. 6)
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## Reporting Owners

Reporting Owner Name / Address	Relationships				Amount or Number of Shares
	Director	10% Owner	Officer	Other	
DEMOTT MARC E P.O. BOX 3668 MOULTRIE, GA 31776			SVP & Dir of Automation & Oper		

## Signatures

Marc E. DeMott, by Cara P. Horne, Attorney-In-Fact 08/02/2005

\_\_Signature of Reporting Person Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Section 2, Part C.7 under the heading "Circulation of Scheme Consideration and payments on a modelled basis" will not have been applied, and accordingly each of the numbers set out above will be reduced by between approximately 0.41 per cent. and 0.47 per cent. For the purposes of the above calculations, Known Claims that are denominated in a currency other than sterling and New Junior Notes that will be issued by reference to a US dollar amount have been converted at the Voting Rate. The final calculations as to Known Claims will be made at the Scheme Rate (which will be set five Business Days before the Effective Date). The final calculations as to the principal amounts of the New Senior Notes and the New Junior Notes to be received by a Scheme Creditor on the First Initial Distribution will be made at the Currency Rate (which will be set the Business Day before the Corp Scheme Meeting). The Corp Scheme provides that a portion of the Corp Scheme Consideration will initially be used to meet Known Claims that have been identified prior to the Record Date. On such a Known Claim becoming Admitted in the Corp Scheme, the Corp Scheme Creditor with that Known Claim will be entitled to receive the portion of the Corp Scheme Consideration designated to meet that Known Claim. Corp has undertaken extensive due diligence and advertised in newspapers in the UK, the US and elsewhere in order to identify its creditors and ensure that all Corp Scheme Creditors are included in the schedule of Known Claims. Corp has also written to its Known Creditors that will be affected by the Corp Scheme with the exception of certain financial creditors with Known Claims who have been represented in negotiations with Corp and plc regarding the development of the Restructuring

proposals of Corp and plc, creditors for unclaimed interest and redemptions on loan notes issued by Corp whose potential claims are easily quantified and are provided for in full, and those whose addresses Corp has been unable to ascertain. With the exception of two claims (one apparently against Corp) which were clearly frivolous, the advertising process identified no claims which had not previously been identified by Corp's due diligence. In addition to the Known Claims that have been identified, the Corp Scheme includes a reserve of Scheme Consideration that would be able to meet the payment of an Initial Distribution in respect of Scheme Claims which are Admitted for up to L125 million, which Corp is satisfied will 24 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP ----- be sufficient to cover any other Scheme Claims that had not been identified by the Record Date. The Prospective Supervisors have confirmed that they have no reason to disagree with Corp's view that the reserve is sufficient. However, a mechanism has been put in place to ensure that Corp will not proceed with the Corp Scheme and will withdraw the Scheme if, prior to the Effective Date of the Corp Scheme, it becomes apparent that there may be Scheme Claims against Corp which are not Known Claims and Corp is not satisfied that the reserve will be sufficient to meet distributions due to be made out of it or if the Prospective Supervisors do not confirm that they have no reason to disagree with Corp's view that the reserve is sufficient. Details of this mechanism are set out in Section 2, Part C.7. If the Corp Scheme is withdrawn then the plc Scheme will also be withdrawn. If at any time after the issue of the First Initial Distribution Notice, which will occur on the Effective Date, the Supervisors are not satisfied that the reserve will be sufficient to meet distributions due to be made out of it, then the remaining Scheme Consideration set aside to meet Known Claims and the remaining reserve will be aggregated and all Further Distributions under the Corp Scheme will be made out of the remaining Scheme Consideration, on a strictly pari passu basis. PLC SCHEME The plc Admitted Scheme Creditors will be entitled to receive a distribution pro rata to their Scheme Claims out of plc's assets which are available for distribution to plc Admitted Scheme Creditors. Assuming the Corp Scheme becomes effective, plc's assets will principally comprise the cash, New Shares and New Notes that plc receives under the Corp Scheme from Bonds held by Ancrane and from monies owed by Corp to Ancrane (as described above). plc's entitlement to this Scheme Consideration will arise from a repayment of capital in specie by Ancrane to plc of all of its assets other than L100. The plc Scheme provides that plc will set aside the sum of L7,000,000 from the cash element of Corp Scheme Consideration it receives via Ancrane which, together with plc's cash of approximately L2,300,000, interest on the aggregate of these two cash amounts and L2,000,000 available to be drawn (at Corp's request) under a letter of credit to be provided in favour of the plc Scheme Supervisors from time to time by HSBC Bank plc pursuant to the Performance Bonding Facility described below, will be available to meet plc's Ongoing Costs. plc's Ongoing Costs are estimated to be a maximum of L11,300,000 plus an amount which will be covered by the interest referred to above, and will include: a. the costs of plc, the Supervisors, the Escrow Trustee, the Distribution Agent and their respective advisers in implementing the Restructuring and administering the plc Scheme; b. any costs plc or the Supervisors incur in continuing to defend Allowed Proceedings (including any adverse costs orders); c. the payment of any claims which are to be excluded from the plc Scheme and which have not been novated to Corp which represent all claims as at the Record Date which would have been preferential in a liquidation and claims in respect of unpaid dividends which in a liquidation would have been subordinated; and d. any ongoing administrative costs of plc, including the preparation and filing of accounts, the holding of any annual general meetings that are required to be held under the Act and the costs of plc's eventual dissolution or liquidation. Any monies remaining following the payment of plc's Ongoing Costs will be distributed to all plc's Admitted Scheme Creditors in the Final Distribution under the plc Scheme. Subject to any limitations under applicable securities laws, the assets plc receives from Ancrane will be distributed to the plc Scheme Creditors in specie (i.e. in the form in which they are held, and not realised for cash prior to distribution). Any other assets of plc are expected to be converted into cash before distribution. 25 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP ----- First Initial Distribution The mechanism for calculating and distributing a plc Scheme Creditor's entitlement to receive plc Scheme Consideration is detailed in the plc Scheme set out in part III and is also described in more detail in Section 2, Part C.7. Both these sections should be read carefully. The plc Scheme provides that a First Initial Distribution will take place on the Effective Date of the plc Scheme, at the same time as the First Initial Distribution under the Corp Scheme. At the Court hearing to sanction the plc Scheme, plc will present to the Court a schedule of Scheme Claims

compiled by the Prospective Supervisors which will set out details of the Scheme Creditors with Known Claims which are proposed to be Admitted by the Supervisors on the Effective Date and that, in accordance with the terms of the plc Scheme, will receive their Initial Distribution through the First Initial Distribution. The Initial Distribution available to all plc Scheme Creditors will comprise all the Scheme Consideration received by plc via Ancrane as a result of Ancrane's entitlement to an Initial Distribution in the Corp Scheme (net of the sum of L7,000,000 set aside on account of plc's Ongoing Costs). Scheme Claims that have been Admitted by the Effective Date will receive their Initial Distribution through the First Initial Distribution. Corp has the benefit of a Scheme Claim of L146,587,439 against plc. If this Known Claim is Admitted in the plc Scheme in full (which Corp expects to be the case) Corp will become entitled to receive its pro rata entitlement in respect of its Admitted Scheme Claim in the First Initial Distribution under the plc Scheme. Both Corp and plc have agreed to distribute any Scheme Consideration they receive as a result of this claim to their respective Scheme Creditors by way of Additional Scheme Consideration. Further details of these payments are set out in Section 2, Part C.7 below under the heading "Circulation of Scheme Consideration and payments on a modelled basis". In summary, each plc Scheme Creditor that participates in the First Initial Distribution in the plc Scheme will be entitled to receive (assuming no increase in the cash element of the Corp Scheme Consideration but that the plc Scheme becomes effective on the same day as the Corp Scheme), for each L1,000,000 of Admitted Scheme Claim an Initial Distribution of cash, New Notes and New Shares of approximately: L9,446 cash; L14,554 equivalent in aggregate principal amount of New Senior Notes (which will be denominated in euro and/or US dollars, subject to elections made in Claim Forms and Account Holder Letters); L9,959 equivalent in aggregate principal amount of New Junior Notes (which will be denominated in US dollars); and 32,182 New Shares. If the plc Scheme does not become effective on the same day as the Corp Scheme the Corp/plc distribution model described in Section 2, Part C.7 under the heading "Circulation of Scheme Consideration and payments on a modelled basis" will not have been applied, and accordingly each of the numbers set out above will be reduced by approximately 8.51 per cent. For the purposes of the above calculations, Known Claims that are denominated in a currency other than sterling and New Junior Notes that will be issued by reference to a US dollar amount have been converted at the Voting Rate. The final calculations as to Known Claims will be made at the Scheme Rate (which will be set five Business Days before the Effective Date). The final calculations as to the principal amounts of the New Senior Notes and the New Junior Notes to be received by a Scheme Creditor on the First Initial Distribution will be made at the Currency Rate (which will be set the Business Day before the Corp Scheme Meeting). The plc Scheme provides that a portion of plc's assets available for distribution will be used to meet Known Claims that have been identified prior to the Record Date. On such Known Claim becoming Admitted in the plc Scheme, the plc Scheme Creditor with that plc Scheme Claim will be entitled to receive the portion of the plc Scheme Consideration designated to meet that Known Claim. plc has undertaken extensive due diligence and advertised in newspapers in the UK, the US and elsewhere in order to identify its creditors and ensure that all plc Scheme Creditors are included in the Schedule of Known 26 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP

----- Claims. plc has also written to all of its Known Creditors that will be affected by the plc Scheme with the exception of certain financial creditors with Known Claims who have been represented in negotiations with Corp and plc regarding the development of the Restructuring proposals of Corp and plc, and those whose addresses plc has been unable to ascertain. With the exception of one claim (which is disputed by plc, but is provided for in full in the plc Scheme), the advertising process identified no claims which had not been previously identified by plc's due diligence. In addition to the claims that have been identified, the plc Scheme includes a reserve of Scheme Consideration that would be able to meet the payment of an Initial Distribution in respect of Scheme Claims which are Admitted for up to L250 million, which plc is satisfied will be sufficient to cover any other Scheme Claims that have not been identified by the Record Date. The Prospective Supervisors have confirmed that they have no reason to disagree with plc's view that the reserve is sufficient. However, a mechanism has been put in place to ensure that plc will not proceed with the plc Scheme and will withdraw the Scheme if prior to the Effective Date of the plc Scheme it becomes apparent that there may be Scheme Claims against plc which are not Known Claims and plc is not satisfied that the reserve will be sufficient to meet distributions due to be made out of it or if the Prospective Supervisors do not confirm that they have no reason to disagree with plc's view that the reserve is sufficient. Details of this mechanism are set out in Section 2, Part C.7. In any event, if the Corp Scheme is withdrawn then the plc Scheme will also be withdrawn, but the Corp Scheme will not

be withdrawn only because the plc Scheme is withdrawn. If at any time after the issue of the First Initial Distribution Notice, which will occur on the Effective Date, the Supervisors are not satisfied that the reserve will be sufficient to meet distributions due to be made out of it, then the remaining Scheme Consideration set aside to meet Known Claims and in the reserve will be aggregated and all Further Distributions under the plc Scheme will be made out of the remaining Scheme Consideration, on a strictly pari passu basis. AGGREGATE FIRST INITIAL DISTRIBUTIONS FROM BOTH SCHEMES If a Scheme Creditor has an Admitted Scheme Claim in the Corp Scheme, which is guaranteed by plc, and the claim under the guarantee is Admitted in the plc Scheme, or vice versa, and that Scheme Creditor participates in the First Initial Distributions in both the Corp and plc Schemes, then that Scheme Creditor will be entitled to receive (assuming no increase in the cash element of the Corp Scheme Consideration but that the two Schemes become effective on the same day) for each L1,000,000 of Admitted Scheme Claims an aggregate Initial Distribution of cash, New Notes and New Shares of approximately: L73,642 cash; L99,576 equivalent in aggregate principal amount of New Senior Notes (which will be denominated in euro and/or US dollars, subject to elections made in Claim Forms and Account Holder Letters); L68,136 equivalent in aggregate principal amount of New Junior Notes (which will be denominated in US dollars); and 220,175 New Shares. If the plc Scheme does not become effective on the same day as the Corp Scheme the Corp/plc distribution model described in Section 2, Part C.7 under the heading "Circulation of Scheme Consideration and payments on a modelled basis" will not have been applied, and accordingly each of the numbers set out above will be reduced by between approximately 1.45 per cent. and 1.65 per cent. For the purposes of the above calculations, Known Claims that are denominated in a currency other than sterling and New Junior Notes that will be issued by reference to a US dollar amount have been converted at the Voting Rate. The final calculations as to Known Claims will be made at the Scheme Rate (which will be set five Business Days before the Effective Date). The final calculations as to the principal amounts of the New Senior Notes and the New Junior Notes to be received by a Scheme Creditor on the First Initial Distribution will be made at the Currency Rate (which will be set the Business Day before the Corp Scheme Meeting).

27 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP ----- LEGAL RESTRICTIONS ON DISTRIBUTION OF SECURITIES Securities will not be distributed pursuant to the Schemes where this would be prohibited by any applicable law or regulation, or so prohibited except after compliance with conditions or requirements that are unduly onerous. To the extent that such a prohibition applies, securities that would otherwise have been distributed to any relevant person pursuant to the Schemes will be sold and the net cash proceeds of such sale (after deduction of all applicable expenses and currency conversion costs) will be paid to that person in full satisfaction of his rights in respect of these securities under the relevant Scheme (provided that if the securities are not listed on a securities exchange Scheme Creditors and Bondholders will be entitled to receive a sum in cash that is substantially equivalent in value to such securities). In order to permit the distribution of securities pursuant to the Schemes, the Claim Form will require persons completing it (other than the Trustees), and the Account Holder Letter will require Account Holders, to confirm certain facts. For further information, see Section 2, Part C.9. Any persons who are in doubt as to how legal or regulatory restrictions may affect them in relation to the Schemes are strongly advised to consult their professional advisers.

POST RESTRUCTURING WORKING CAPITAL In order to support the Group's working capital requirements following the Restructuring, Corp and Marconi Bonding Limited have entered into the Performance Bonding Facility (a L50 million committed performance bonding facility provided by HSBC Bank plc and JPMorgan Chase Bank) and Marconi Communications, Inc. has entered into the Working Capital Facility (a US\$22.5 million revolving facility provided by Liberty Funding, L.L.C.). The Performance Bonding Facility is conditional on the Corp Scheme becoming effective. Further details of each of these facilities are set out in Section 2, Part D.4. Information on the Corp Group's financial objectives is set out in Section 2, Part A.7.

INTERIM SECURITY AND SUPPORT FOR THE RESTRUCTURING As part of the arrangements to effect the Restructuring, Corp agreed to provide interim security to its principal lenders, being the Syndicate Banks (in their capacities as Syndicate Banks, bilateral lenders to Corp and beneficiaries of guarantees from Corp (in such capacities, "BANK CREDITORS")), the holders of the Bonds from time to time (apart from plc's wholly owned subsidiary Ancrane) and the Trustees (together, the "SECURED BONDHOLDERS") and Barclays Bank PLC (as the only ESOP Derivative Bank which committed to support the Restructuring prior to 15 October 2002). The interim security was taken over cash held by Highrose Limited, a special purpose subsidiary of Corp and plc, in accounts held with third party banks (the "LOCKBOX ACCOUNTS"). These interim security arrangements took effect on 13 September 2002, on which

date the balance held in the Lockbox Accounts was approximately L866,000,000. The interim security arrangements were amended on 13 December 2002 and were further amended on 28 March 2003. As at 27 March 2003, the balance held in the Lockbox Accounts was approximately L770,700,000. Without this interim security, the Syndicate Banks (as comprised at the time) and the Informal Committee of Bondholders would not have been prepared to continue to support the Restructuring, and insolvency proceedings would have been the only practicable alternative. On 26 March 2003 and 24 March 2003 respectively the requisite majorities of the Syndicate Banks and the members of the Informal Committee of Bondholders agreed an extension of time in which to complete the Restructuring and a waiver of enforcement events which may then have existed in relation to the interim security. In addition, the requisite majorities of the Syndicate Banks and the members of the Informal Committee of Bondholders, in contemplation of the Restructuring: (a) consented, for the purposes of the undertakings given in favour of the Syndicate Banks and the Informal Committee of Bondholders, to the entry by Corp, plc and other Group companies into certain transactions (including those contemplated under the Scheme Implementation Deed) necessary to facilitate the Restructuring; and (b) agreed a number of additional carve-outs to those undertakings to permit Corp, plc and other Group Companies to enter into transactions contemplated in this document (provided that, subject to some exceptions, such transactions do not take effect until the Effective Date of the Corp Scheme).

28 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP -----

In addition, in connection with the ESOP Settlement Agreement referred to below, UBS AG, Citibank, N.A. and Barclays Bank PLC have each provided a voting undertaking in relation to the Corp Scheme and the plc Scheme (further details of which are set out in part I, Section 2, Part D.2). Provision has been made for the interim security to be released prior to the Corp Scheme Meeting in circumstances tied to the prospects of the Corp Scheme being successfully implemented (as described more fully in Section 2, Part D.1). If the interim security has not been released prior to the Corp Scheme Meeting neither Corp nor plc will proceed with their respective Schemes, and the interim security will remain in place in any subsequent insolvency proceedings, meaning that the Bank Creditors, Secured Bondholders and Barclays Bank PLC would rank ahead of all unsecured creditors of Corp with respect to the cash held in the Lockbox Accounts. If the interim security is released and the Corp Scheme Meeting proceeds, the choice facing all Corp Scheme Creditors will be the same; either the Corp Scheme will be approved and implemented, or the Corp Scheme will be rejected and in the inevitable insolvency proceeding which would follow such rejection the interim security would no longer be in place. The Syndicate Banks and the Informal Committee of Bondholders have indicated that they will not be prepared to release the interim security prior to the Corp Scheme Meeting unless, immediately before such release, Corp has confirmed to the Prospective Supervisors that Corp remains satisfied that the reserves built into the Corp Scheme are sufficient to meet distributions to all Corp Scheme Creditors and that Corp remains of the opinion that its statement as to the Corp Group's working capital contained in Section 2, Part D.21 remains valid, and the Prospective Supervisors have confirmed to Corp that they have no reason to disagree with Corp's view that the reserves built into the Corp Scheme are sufficient to meet distributions due to be made to all Corp Scheme Creditors. SETTLEMENT OF ESOP DERIVATIVE CLAIMS On 26 March 2003, Corp and plc entered into a definitive agreement with the Group's ESOP Derivative Banks for a settlement of their ESOP derivative related claims against the Group. Under the terms of the settlement, which is conditional upon the Corp Scheme becoming effective, Corp will pay a total of L35 million to the ESOP Derivative Banks in full and final settlement of their ESOP related claims against the Group. This settlement amount will be paid from a fund of up to L170 million which was to have been set aside by Corp, as part of the Restructuring, pending resolution of potential liabilities of Group companies to Barclays Bank PLC, Salomon Brothers International Limited and UBS AG in relation to the Group's ESOP derivative arrangements. The settlement has made available approximately L135 million in cash which forms part of the L340 million comprising the cash element of the Corp Scheme Consideration. Without the ESOP settlement, the L135 million sum would not have formed part of the Corp Scheme Consideration. The Boards of Corp and plc believe that the ESOP settlement is in the best interests of Corp and plc and their respective stakeholders as a whole. In reaching this conclusion, the Boards of Corp and plc have taken appropriate legal advice from leading counsel and considered a number of relevant factors, including the merits of the claims of the ESOP Derivative Banks, the desire to reduce the cost and expense of continuing litigation, the potential saving in the interest burden from which the Group will benefit by settling the ESOP derivative dispute, the benefits for the Schemes and certainty as to the amount of the Corp Scheme cash distribution that such a settlement brings. RISKS ASSOCIATED WITH THE

**TIMING OF THE RESTRUCTURING** When the Heads of Terms were announced in August 2002, plc indicated that the Restructuring was scheduled to be completed by 31 January 2003. This date was extended to 15 March 2003 in December 2002. As a result of the complexity of the Restructuring the Effective Date of the Schemes is now expected to be on or around 19 May 2003. The change to the timing of the Restructuring introduces risks associated with certain financial debt falling due in March 2003. In particular, the Bank Facility was due for repayment on 25 March 2003 and remains unpaid, an interest payment was due on the Yankee Bonds on 17 March 2003 and remains unpaid and an interest payment is due on the Eurobonds on 31 March 2003. In common with Corp's and plc's approach to other Scheme Claims, pending the outcome of the Schemes neither Corp nor plc intends to make payment in respect of such obligations, in whole or in part. Under the terms of the Bank Facility, unpaid amounts accrue interest at the 29 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP

----- default rates set out therein; namely LIBOR plus 3.25 per cent. per annum. For the purposes of participation in the Schemes, no such interest will accrue beyond the Record Date. The fact of the above mentioned payments falling due represents a risk to the Restructuring, due to consequential legal action which Syndicate Banks or Bondholders who are not supportive of the Restructuring process could take against Corp or plc. However, Corp and plc are of the view that, given the timing associated with any such legal action as well as the likely attitude of the English and New York Courts to a creditor seeking to frustrate the Restructuring (which is intended to be for the benefit of all Scheme Creditors), these risks should be manageable. This issue is discussed in more detail in Section 2, Part F: Risk Factors. **WHAT HAPPENS IF EITHER OR BOTH OF THE SCHEMES DO NOT BECOME EFFECTIVE?** The plc Scheme will not become effective unless the Corp Scheme becomes effective. Following the Corp Scheme being implemented, plc's assets available for distribution under the plc Scheme to the plc Scheme Creditors will principally comprise the assets received by it as a result of the repayment of capital by Ancrane. Ancrane, as a holder of Bonds issued by Corp and guaranteed by plc and pursuant to intra-group arrangements, will be entitled to its pro rata share of the Corp Scheme Consideration and the plc Scheme Consideration. Ancrane has been re-registered as an unlimited liability company to facilitate the transfer of its assets to plc by the repayment of capital in specie for distribution to plc Scheme Creditors under the plc Scheme. If the Corp Scheme does not become effective, the plc Scheme Consideration would be so significantly diminished that plc would not implement the plc Scheme and would be forced to commence an insolvency proceeding. If plc were subject to an insolvency proceeding, for the reasons set out under the heading "The alternative" below it is likely that there would be a lower rate of return for the plc Scheme Creditors as compared to their return if the plc Scheme became effective. Also, any return to plc creditors from an insolvency proceeding would be likely to be significantly delayed. The Corp Scheme is not conditional upon the plc Scheme becoming effective and Corp is satisfied that it will be able to implement the Corp Scheme whether or not the plc Scheme becomes effective. Corp is satisfied that, if the Corp Scheme is implemented, the Corp Group will be sufficiently ringfenced from plc that the Corp Group will be able to operate effectively, even if plc has been forced to commence an insolvency proceeding. **THE ALTERNATIVE** If the Corp Scheme becomes effective but the plc Scheme does not become effective, then plc would inevitably have to enter into some form of insolvency proceeding. If both of the Schemes do not become effective or are terminated before the First Initial Distribution, it is likely that Corp and plc would have to enter some form of insolvency proceedings. This is because, given the severity of the Group's financial position (including the fact that the Bank Facility was due for repayment on 25 March 2003 and remains unpaid, that an interest payment was due on the Yankee Bonds on 17 March 2003 and remains unpaid, and that an interest payment is due on the Eurobonds on 31 March 2003), the Board of the relevant Scheme Company would be likely to conclude that there was no reasonable prospect of avoiding an insolvency proceeding. The instigation of an insolvency proceeding in relation to Corp or both Corp and plc before either Scheme has become effective would be likely to result in insolvency proceedings for other principal Group companies. As referred to above, if the interim security has not been released prior to the Corp Scheme Meeting neither Corp nor plc will proceed with their respective Schemes. If the interim security is released and the Corp Scheme Meeting proceeds, the choice facing all Corp Scheme Creditors will be the same: either the Corp Scheme will be approved and implemented or the Corp Scheme will be rejected and in the inevitable insolvency proceeding which would follow such a rejection the interim security would no longer be in place. A detailed analysis of the position of Corp and plc should they be subject to insolvency proceedings (and the assumptions, caveats, limitations and uncertainties on which such analysis is based) is set out at Appendix 6. This analysis should be read

carefully, including the caveats, limitations and uncertainties. Corp and plc believe that the Schemes are more beneficial to Scheme Creditors than insolvency proceedings or the enforcement of security and should result in a better return, greater certainty and an immediate day one distribution to Scheme Creditors. None of these benefits would be possible under the insolvency alternatives.

**30 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP** ----- **BOARD COMPOSITION** With the exception of Derek Bonham, membership of the Boards of Corp and plc is identical. On 16 December 2002, I was appointed Chairman of plc's Board, in place of Derek Bonham, who will continue as a non-executive director of plc and chairman of its remuneration committee until implementation of the Restructuring, for continuity purposes. I chair plc's nomination committee. On the same date, Kent Atkinson and Werner Koepf were appointed as non-executive directors of plc. Kent Atkinson is chairman of plc's audit committee. The executive directors of plc are Michael Parton (Chief Executive Officer), Michael Donovan (Chief Operating Officer) and Christopher Holden (Interim Chief Financial Officer). Michael Parton (Chief Executive Officer), Michael Donovan (Chief Operating Officer) and Christopher Holden (Interim Chief Financial Officer) will continue as the executive directors of Corp. On 16 December 2002, I was appointed Chairman of the Corp Board and subsequently became chairman of Corp's nomination committee. On the same date, Kent Atkinson and Werner Koepf were appointed as non-executive directors of Corp. Mr. Atkinson chairs Corp's audit committee. On 14 March 2003, we announced that Kathleen Flaherty and Ian Clubb have agreed to join the Corp Board as non-executive directors with effect from Listing of the New Shares, the New Notes and the Warrants. Mr. Clubb will chair Corp's remuneration committee. Allen Thomas resigned from the Boards of plc and Corp on 14 March 2003.

**ACTION TO BE TAKEN SCHEME CREDITORS (OTHER THAN PERSONS WITH INTERESTS IN BONDS)** If you are a Scheme Creditor, I urge you to complete and return the Claim Form and Form of Proxy to KPMG as soon as possible and before the recommended deadline set out below. To help you in completing these documents detailed instructions have been included in Appendix 27 and each document contains further guidance. If you have any queries in connection with the Claim Form or Form of Proxy, please contact KPMG using the Helpline described at the front of this document.

**BONDHOLDERS** If you are a Bondholder, I urge you to contact your Account Holder (through any Intermediaries, if appropriate) to ensure that an Account Holder Letter is submitted in respect of your Bonds before the recommended deadline set out below. In order to vote at the Scheme Meetings, Bondholders will need to nominate a Definitive Holder (who may or may not be the Bondholder). This nomination must be made in the relevant Account Holder Letter. In order to do this your Account Holder will need instructions from you in relation to voting and the delivery of Scheme Consideration and will require certain securities laws confirmations. To help you in giving these instructions detailed guidance as to the various elections to be made and confirmations to be given has been included in Appendix 28. If you have any queries in this connection, please contact Bondholder Communications using the Helpline described at the front of this document.

**ACCOUNT HOLDERS** If you are an Account Holder, I urge you to immediately contact your Bondholders (through any Intermediaries, if appropriate) for instructions to enable you to complete and return the Account Holder Letter to Bondholder Communications as soon as possible and before the recommended deadline set out below. Where possible, I urge you to complete this document on-line as this will minimise clerical errors. To help you in completing these documents detailed instructions have been included in Appendix 28. If you have any queries in connection with the Account Holder Letter, please contact Bondholder Communications using the Helpline described at the front of this document.

**RECOMMENDED DEADLINE FOR ACTION TO BE TAKEN** It is recommended that Claim Forms and Forms of Proxy are submitted to KPMG before 5.00 p.m. (London time) on 17 April 2003 and that Account Holder Letters are submitted to Bondholder Communications before 5.00 p.m. (New York City time) on 17 April 2003. Forms of Proxy may be submitted to KPMG before 12 noon 31 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 1: LETTER FROM THE CHAIRMAN OF PLC AND OF CORP ----- (London time) on 24 April 2003. The Prospective Supervisors will undertake a review of all Claim Forms submitted prior to the Effective Date to determine whether the relevant Scheme Claims can be properly Admitted. No Scheme Claims submitted after the specified time on 17 April 2003 will be included in the First Initial Distribution Notice. Assuming that the Scheme Claims of the two Trustees are included in the First Initial Distribution Notice (which Corp and plc expect to be the case), no Designated Recipient named in an Account Holder Letter submitted after this date will receive the First Initial Distribution of Scheme Consideration. Submission of Forms of Proxy and Account Holder



Letters after the recommended deadline on 17 April 2003 will not preclude a Scheme Creditor (including any Definitive Holder) from voting at the Scheme Meetings provided that the Scheme Creditor or his proxy is able to establish his identity and entitlement to vote at the relevant Scheme Meeting. RECOMMENDATION Corp and plc believe that, given the Group's financial position, the proposed Restructuring is in the best interests of all stakeholders, including Scheme Creditors, Bondholders and plc Shareholders. If the Restructuring is not approved, the severity of the Group's financial position is such that Corp and plc would have no reasonable prospect of avoiding insolvency proceedings which would mean that there would be a lower return to Scheme Creditors, accompanied by uncertainty and delay, and no return whatsoever to plc Shareholders. ACCORDINGLY, CORP RECOMMENDS THAT CORP SCHEME CREDITORS (INCLUDING DEFINITIVE HOLDERS) VOTE IN FAVOUR OF THE CORP SCHEME AT THE CORP SCHEME MEETING AND PLC RECOMMENDS THAT PLC SCHEME CREDITORS (INCLUDING DEFINITIVE HOLDERS) VOTE IN FAVOUR OF THE PLC SCHEME AT THE PLC SCHEME MEETING. Yours sincerely, (-s- John Devaney) JOHN DEVANEY CHAIRMAN FOR AND ON BEHALF OF MARCONI PLC AND MARCONI CORPORATION PLC 32 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985)

----- SECTION 2 FURTHER EXPLANATION OF THE RESTRUCTURING A. BUSINESS OVERVIEW A.1 BACKGROUND The Group is a global vendor of telecommunications equipment and services. The Group's customers include many of the leading telecommunications operators throughout the world, with whom it has a large base of installed equipment. This document sets out proposals which, if implemented, will result in Corp becoming the new holding company of the Group. It is intended that all of plc's assets (which derive principally from the claim of plc's subsidiary Ancrane in the Corp Scheme in respect of its holding of Bonds and monies owed to it by Corp), net of a reserve in respect of plc's Ongoing Costs, will be distributed over time to the creditors of plc in accordance with the plc Scheme, following which it is intended that plc will be liquidated or dissolved. It is intended that, between the time of the Corp Scheme becoming effective and the listing of the New Shares, the New Notes and the Warrants, the plc Shares will be delisted from the Official List and cease trading on the London Stock Exchange's market for listed securities. Unless the context otherwise requires, this Part A assumes that the Schemes will be implemented in accordance with their terms and that the Group is the Corp Group. A.2 HISTORY OF THE MARCONI GROUP AND THE RESTRUCTURING EARLY HISTORY Corp, previously called the General Electric Company, p.l.c. ("GEC") and which is currently (but, on the implementation of the Corp Scheme, will cease to be) a wholly-owned subsidiary of plc, was incorporated as a private limited company in England in 1900 under the name The General Electric Company (1900) Limited and can trace its origins back to 1886. GEC originally operated in the electrical industry. The more significant events in the development of the Group are as follows: a. 1960s: significant expansion in the electrical industry through acquisitions b. 1970s and 1980s: acquisition of Videojet Systems International Inc. (data systems business), Picker International Holdings Inc. (medical systems business) and Gilbarco Inc. (commerce systems business); formation of GEC Plessey Telecommunications Holdings Limited ("GPT"), a 50 per cent. joint venture with The Plessey Company plc, subsequently increasing its stake to 60 per cent.; formation of two 50 per cent. joint ventures, GEC Alstom N.V. with Alcatel S.A., and General Domestic Appliances Ltd (now known as General Domestic Appliances Holdings Ltd) with the General Electric Company of the United States; and c. 1990s: reduction of the stake in the GEC Alstom joint venture to a 24 per cent. shareholding in Alstom S.A.; acquisition of the minority 40 per cent. stake in GPT and formation of Marconi Communications, combining the GPT business with the Marconi telecommunications operations in Italy, Hong Kong and South Africa under the same management structure. d. 1999: GEC separated the Marconi Electronic Systems business ("MES"), its international aerospace, naval shipbuilding, defence electronics and defence systems business, which merged with British Aerospace plc (now known as BAE SYSTEMS plc ("BAE")). GEC's remaining businesses were reorganised under plc, with GEC becoming a wholly-owned subsidiary of plc. Shareholders of GEC became shareholders in plc. MODERN HISTORY Following the separation of MES, the Group focused its strategy on communications technology and services. From 1999 through to 30 September 2002, the more significant events in the Group's history include: a. Year ended 31 March 2000: acquisition of RELTEC Corporation, FORE Systems, the business of RDC Communications Ltd, Nokia's transmission equipment business, the public networks business of Bosch, the Australian communications solutions business of Scitec and acquisition of 33 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- 27 per cent. of Atlantic Telecom (which was diluted in June 2000 to a 19.7 per cent. interest as a result of Atlantic Telecom's acquisition of First Telecom. Atlantic Telecom is now in liquidation); b. Year ended 31 March 2001: acquisition of Metapath Software International Inc. ("MSI"), Systems Management Specialist, Inc., Albany Partnership Limited and Mariposa Technology, Inc; c. Year ended 31 March 2002: acquisition of a 71.9 per cent. economic interest (49.9 per cent. of voting share capital) in Easynet Group plc ("Easynet") and disposal of its 92 per cent. interest in ipsaris Limited as part of the same transaction in July 2001; disposals of the remaining 24 per cent. interest in Alstom S.A. in February and June 2001, the remaining 1.49 per cent. interest in Lagardere SCA in September 2001, Marconi Medical Systems Group in October 2001, a 6.5 per cent. interest in Lottomatica SpA in November 2001 and February 2002, Marconi Commerce Systems Group in February 2002, the Marconi Optical Components business in exchange for a 9 per cent. interest in Bookham Technology p.l.c. in February 2002 (pursuant to a subsequent agreement between Bookham Technology p.l.c. and Nortel Networks Corporation, Corp now owns approximately 6 per cent. of Bookham Technology p.l.c.), Marconi Data Systems Group in February 2002 and the 50 per cent. interest in General Domestic Appliances Holdings Limited in March 2002; and d. Six months ended 30 September 2002: disposal of the Group's Applied Technologies division in July 2002 and the Group's strategic communications business (Mobile) in August 2002.

**RECENT DEVELOPMENTS** On 19 December 2002, plc announced that Corp had reached agreement with RT Group plc (in members' voluntary liquidation) and its subsidiary RT Group Telecom Services Limited ("RTSL"), on a return of capital from Ultramast Limited ("Ultramast"), a joint venture set up in December 2000. The agreement provides for Corp and RTSL to waive all outstanding litigation relating to Ultramast. The Court approved this reduction of capital and accordingly RTSL has assumed full control of Ultramast. The Group has received approximately L41 million in cash, which includes approximately L19 million which was paid into Court by Corp pending the outcome of a lawsuit between the parties in August 2002. On 5 March 2003, plc announced that it had completed the disposal of two businesses from its Capital portfolio. The Group sold OTE SpA (its private mobile networks division, also known as TETRA) to Finmeccanica SpA for L2 million in cash, L4.8 million in assumed financial debt, and L8.2 million in assumed OTE debt to suppliers. Finmeccanica SpA has also agreed to release approximately L2.5 million to the Group from escrow relating to the August 2002 sale of Mobile (the Group's strategic communications business). On the same date, plc announced that it had completed the sale of Marconi Online to Coca Cola Amatil (N.Z.) Limited for NZ\$2.95 million (over L1 million). On 26 March 2003, Corp and plc entered into a definitive agreement with the Group's ESOP Derivative Banks for a settlement of their ESOP derivative related claims against the Group. Under the terms of the settlement, which is conditional upon the Corp Scheme becoming effective, Corp will pay a total of L35 million to the ESOP Derivative Banks in full and final settlement of their ESOP related claims against the Group. This settlement amount will be paid from the fund of up to L170 million which was to have been set aside by Corp, as part of the Restructuring, pending resolution of potential liabilities of Group companies to Barclays Bank PLC, Salomon Brothers International Limited and UBS AG in relation to the Group's ESOP derivative arrangements. The settlement has made available approximately L135 million in cash which forms part of the L340 million comprising the cash element of the Corp Scheme Consideration. Without the ESOP settlement, the L135 million sum would not have formed part of the Corp Scheme Consideration. Further information relating to "Modern history" and "Recent developments" is set out in Appendix 5.

**BUSINESS REORGANISATION** Following a profits warning announced on 4 July 2001, the Group undertook an operational review of its activities. The results of the operational review were announced in September 2001 and included a change of 34 I.

**EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985)**

**SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A**

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management with the appointment of a new Chief Executive Officer and an interim Chairman. It also covered the Group's markets, its operations and scope of business and focused on adapting the Group to the changed circumstances of the telecommunications market during the substantial decline in market demand for the Group's products and services. As a consequence of the review, the Group streamlined its activities and disposed of a number of businesses during the period ended 30 September 2002 (as further described under "Modern history" above). For the purposes of financial reporting, with effect from 1 April 2002, the Group divided its continuing operations into two segments: Core and Capital. The Group divides its Core activities (for the purposes of financial reporting) into two main business types: Network Equipment, comprising Optical Networks, Broadband Routing and Switching ("BBRS"), European Access, North American Access, Outside

Plant and Power ("OPP") and Other Network Equipment; and Network Services, comprising Installation, Commissioning and Maintenance ("IC&M") and Value Added Services ("VAS"). The Group's Capital activities comprise certain non-core businesses that the Group manages for value and ultimately for disposal. Activities in Capital include the Group's holding in Easynet Group Plc as well as a number of minor activities, assets and investments. Following the Restructuring, it is intended that the Group will segment its business along geographic lines and report its US Businesses separately from its businesses based in Europe and the rest of the world. The US Businesses will comprise the BBRs, OPP and North American Access Businesses and related Network Services activities. European and the rest of the world based businesses will comprise the Optical Networks, European Access, Other Network Equipment and the rest of the Network Services activities.

**BACKGROUND TO THE RESTRUCTURING** The Group has faced difficult trading conditions for some time. The impact of a period of rapid and unprecedented deterioration in the global telecommunications market has been compounded for the Group by the costs of a number of acquisitions made since 1998. These acquisitions, which were primarily for cash consideration, resulted in a substantial part of the debt burden being carried by the Group and, in the light of reduced market demand for the Group's products and services, the trading and cash flow performances of the acquired businesses have been running at levels well below those that were anticipated at the time of acquisition. The Board of plc announced its intention, at its Annual General Meeting in July 2001, to initiate an operational review of the Group's business. The results of this review were announced in September 2001, along with the appointments of Michael Parton as Chief Executive Officer of plc, Derek Bonham as Interim Chairman of plc, Michael Donovan as Chief Operating Officer of plc as well as the management appointments of Neil Sutcliffe as chief executive officer of Marconi Capital and Geoffrey Doy as chief executive officer of sales and marketing of plc. Against a background of further market deterioration early in 2002, plc announced on 22 March 2002 that Corp and plc had decided not to enter into new banking facilities to refinance Corp's then existing syndicated bank facilities. Following this decision, Corp and plc agreed to cancel the undrawn commitments under the existing facilities and agreed that the drawn portion under the Bank Facility (which was due for repayment on 25 March 2003) would be repayable on demand. Following the decision not to refinance the then existing syndicated bank facilities the Business Plan was prepared. This Business Plan was presented to the Co-ordination Committee and the Informal Committee of Bondholders and was used by Corp and plc as a basis for formulating the Heads of Terms for the Restructuring. The Business Plan assumed that recovery in the Group's markets would not commence until the end of the calendar year 2003. A set of sensitivities were applied to reflect the scenario of more difficult market conditions, and in particular a delay in market recovery beyond the end of 2003. Given continuing uncertainty in market conditions, further revisions have been made to the Business Plan. In proposing the Restructuring, Corp and plc have assessed the proposed capital structure of Corp against the scenario of a delay in market recovery and are confident that the proposed capital structure of Corp is appropriate in circumstances where such a delay occurs. However, the Group cannot predict with any level of certainty the occurrence, timing or extent of any market recovery.

**35 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A**

----- On 29 August 2002, plc announced that Corp and plc had concluded Heads of Terms with the Co-ordination Committee and the Informal Committee of Bondholders for the financial restructuring of the Group. On 13 September 2002, the Group announced that, in accordance with the Heads of Terms, interim security over the balance of the Lockbox Accounts established in April 2002 had been granted in favour of the Bank Creditors, the Secured Bondholders and Barclays Bank PLC (as the only ESOP Derivative Bank which committed to support the Restructuring prior to 15 October 2002). On 16 December 2002, the Group announced amendments to the terms of that interim security. Further details are set out in Parts D.1 and D.2. On 16 December 2002, plc also announced modifications to the Heads of Terms by way of an addendum. On 7 February 2003, plc announced that Corp and plc had reached agreement in principle with the Group's ESOP Derivative Banks for a settlement of their ESOP derivative related claims against the Group. On 18 March 2003 plc announced that documentation in relation to the proposed Restructuring had been filed with the Court and provided an update on certain aspects of the proposed Restructuring. On 26 March 2003 and 24 March 2003 respectively the required consents were received to certain pre-completion steps for the Restructuring from the requisite majorities of the Syndicate Banks and the members of the Informal Committee of Bondholders. Corp and plc do not currently anticipate that the Corp Group's day to day operations, in particular supplies to customers and the payment of

suppliers and employees, will be significantly affected by the proposed capital structure of Corp following the Restructuring. Further information relating to the Restructuring is set out in Part C of this Section and a discussion of the risk factors arising from implementation of the Restructuring is set out in Part F.2 of this Section.

**RESTRUCTURING** Taking into account the cash to be distributed as part of the Restructuring and approximately L40 million of subsidiary-level bilateral loans and finance leases, the net indebtedness of the Corp Group immediately following the Corp Scheme becoming effective is expected to be approximately L117 million. The Corp Group is expected to retain approximately L602 million of cash immediately following the Corp Scheme becoming effective, of which approximately L167 million is expected to be restricted cash (see Part D.4 of this Section for further information about retained cash). These estimates assume that the Corp Scheme becomes effective on or around 19 May 2003 and that there is no increase in the cash element of the Corp Scheme Consideration (and consequential decrease in the amount of Junior Notes issued) as a result of any asset disposal prior to 1 May 2003. Assuming the Corp Scheme is implemented in accordance with its terms, Corp Scheme Creditors will receive in aggregate: a. **CASH:** L340 million cash; b. **NEW SENIOR NOTES:** the euro equivalent (calculated at the Currency Rate) of L450 million in aggregate principal amount of new guaranteed senior secured notes due April 2008 to be issued by Corp denominated in euro and/or US dollars, subject to elections made in Claim Forms and Account Holder Letters, with interest payable quarterly in cash at a rate of 8 per cent. per annum; c. **NEW JUNIOR NOTES:** the sum of US\$300 million plus the US dollar equivalent (calculated at the Currency Rate) of L117.27 million in aggregate principal amount of new guaranteed junior secured notes due October 2008 to be issued by Corp denominated in US dollars with interest payable quarterly in cash at a rate of 10 per cent. per annum or, at Corp's option, in kind (by issuing additional New Junior Notes) at a rate of 12 per cent. per annum; and d. **NEW SHARES:** 995,000,000 ordinary shares, representing 99.5 per cent. of the issued ordinary share capital of Corp immediately following the implementation of the Restructuring. The cash element of the distribution will be increased by the net proceeds of any asset disposals, other than L82 million of excluded asset disposal proceeds, received on or after 1 December 2002 and before 1 May 2003, and the aggregate principal amount of the New Junior Notes will be decreased by 10/11ths of the sterling amount 36 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- by which the cash element is increased (such calculation to reduce the L117.27 million figure referred to in c. above). The New Notes may be redeemed at Corp's option in whole, but not in part, at any time at a redemption price equal to the greater of (i) 110 per cent. of their principal amount, and (ii) a make-whole amount equal to the sum of the present values of remaining scheduled payments of principal and interest, using a discount rate that is 50 basis points above the yield on US treasuries of similar maturity to the New Senior Notes and New Junior Notes, as applicable, plus, in each case, accrued interest. Under the terms of the New Notes, Net Proceeds of non-exempt asset disposals must be applied to redeem first the New Junior Notes and then, under certain circumstances, the New Senior Notes. For further information, see Part C.3 of this Section and Appendix 8. In order to support the Group's working capital requirements following the Restructuring, Corp and Marconi Bonding Limited have entered into the Performance Bonding Facility (a L50 million committed performance bonding facility provided by HSBC Bank plc and JPMorgan Chase Bank) and Marconi Communications, Inc. has entered into the Working Capital Facility (a US\$22.5 million revolving facility provided by Liberty Funding L.L.C.). The Performance Bonding Facility is conditional on the Corp Scheme becoming effective. A brief description of the terms and conditions of the Performance Bonding Facility and the Working Capital Facility is set out in Part D.4 of this Section. Certain risks associated with working capital are set out in Part F of this Section. The Corp Scheme is not conditional upon the plc Scheme becoming effective and Corp is satisfied that it will be able to implement the Corp Scheme whether or not the plc Scheme becomes effective. Corp is satisfied that, if the Corp Scheme is implemented, the Corp Group will be sufficiently ringfenced from plc that the Corp Group will be able to operate effectively, even if plc has been forced to commence an insolvency proceeding. **RINGFENCING OF US ASSETS** As part of the Restructuring, it is proposed that Corp's US Businesses, namely the North American Access Business, BBRs Business and OPP Business, be contractually separated or ringfenced from the rest of the Group (the "US RINGFENCING"). Specific details of the US Ringfencing include: a. Marconi Communications, Inc. and its subsidiaries which contain the North American Access Business, BBRs Business and OPP Business will constitute the Ringfenced Entities that are contractually separated from the Non-Ringfenced Entities. While the business units involved are located predominantly in the United States, the Ringfenced Entities will not be limited to subsidiaries

that are organised or incorporated under the laws of the United States, the states thereof or the District of Columbia and will also include subsidiaries owned by Marconi Communications, Inc. that are organised and incorporated under the laws of other jurisdictions including Ireland, Mexico and Switzerland; b. the covenants in the indentures governing the New Notes will significantly restrict the type of financial, operational and other dealings that the Non-Ringfenced Entities can have with the Ringfenced Entities. The covenants in the New Notes will also require Corp to separate the North American Access Business, BBRs Business and OPP Business into separate subsidiaries (or groups of subsidiaries) within the US Ringfencing no later than the second anniversary of the issue date of the New Notes. Moreover, the Non-Ringfenced Entities will generally be prohibited from providing funding for any of the Ringfenced Entities and, following the separation of the three principal businesses within the US Ringfencing, the North American Access Business, BBRs Business and OPP Business will generally be prohibited from providing funding to each other; c. the Ringfenced Entities will enter into various agreements with the Non-Ringfenced Entities necessary to ensure that from the Effective Date those dealings that are permitted with each other will be provided in the ordinary course of business on an arm's length basis or otherwise as required or permitted by the covenants in the indentures governing the New Notes. A discussion of risk factors associated with the US Ringfencing is set out in Part F of this Section.

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----- A.3 MARKET ENVIRONMENT AND BUSINESS STRATEGY MARKET ENVIRONMENT The late 1990s saw unprecedented growth in capital expenditure on telecommunications equipment as established and new operators invested in increased capacity to meet expected growth in both data and mobile traffic. Although data and mobile traffic has grown it has not grown as strongly as expected and operators' turnover has not matched the investment in capacity; both new and incumbent carriers have become overextended financially and capital spending has been dramatically curtailed. In this environment, telecommunications equipment vendors, like the Group, have experienced substantial declines in turnover. The speed of this decline has been far greater than anticipated and, in this environment, the Group, along with its major competitors, has been unable to reduce the cost base of the business at the same rate and consequently has experienced a significant decline in business performance. Corp and plc consider that the slowdown in network equipment sales has been driven primarily by oversupply rather than reduced demand in the end-user telecommunications services markets. Underlying data and mobile traffic growth, driven by broadband, data and mobile services, remains quite strong and, as this absorbs installed over-capacity, Corp and plc believe carriers will invest in additional infrastructure. BUSINESS STRATEGY As a provider of networking technology and services that enables telecommunications operators to evolve narrowband networks to next generation broadband and mobile networks, the Group is now focusing its strategy around: a. nurturing pre-existing relationships with its customers in current generation technologies (for example Synchronous Digital Hierarchy ("SDH") and then evolving these customer networks over time to the next generation Dense Wavelength Division Multiplexing ("DWDM") optical networks); b. development and effective marketing of genuine "best in class" solutions; and c. developing and enhancing the services offered to existing and new customers. The Group has taken extensive action to reduce the scope of its activities and to rationalise or curtail non-core areas. The Group's near-term objective is to restore its Core businesses to operating profitability (before goodwill, amortisation and exceptional items) and generate positive operating cashflow (before exceptional cash costs). In the longer term, the Group aims to develop and expand its product portfolio and markets on a basis that is consistent with its business strategy. The Group considers that partnerships, where research and development and routes to the market are shared for mutual benefit, will be an increasingly important factor in the industry and expects the Group to be an active participant in such partnerships. Business positioning Development of the Optical Networks business is a strategic priority for the Group. The Group's objective is to maintain a leading position in the European optical networking markets and to build market share in Central and Latin America as well as the Asia Pacific region. Development of the Network Services businesses is the Group's other key strategic objective with the aim of increasing its turnover derived from such services activities. The Group is also seeking to increase market share in selected product and geographic markets where it has strong customer relationships. Accordingly, the Group will deploy resources in developing its portfolio of fixed wireless transmission and access products as well as its Access Hub multi-service access node. The Group believes that it has a number of developing or newly developed products which are potentially "best in class" where it has yet to penetrate major new telecommunications company customers. In particular, the

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----- Group is focused on developing the North American market for its leading-edge range of multi-service switches and the UK market for its unique class 5 Softswitch solution. The Group's OPP and North American Access Businesses are being managed for value and ultimately for disposal. The proceeds of these disposals will be used to repay part of the New Junior Notes. The North American Access Business may be sold prior to 1 May 2003, in which event the net proceeds of the disposal will be applied to increase the cash element of the Corp Scheme Consideration (and the aggregate principal amount of the New Junior Notes will be decreased by 10/11ths of that amount). Organisational efficiency and effectiveness Since September 2001, the Group has embarked on a sequence of substantial cost reduction programmes to reduce sales and marketing, general and administrative and research and development overheads. These programmes remain in place and continue to deliver cost reductions. Organisationally, extensive rationalisation will continue to be an important part of the Group's strategy in order to reduce costs in all areas of production and overhead. In particular, the supply chain will continue to be restructured to remove excess capacity and reduce break-even points. As part of this strategy, the Group will retain control of functions only where it possesses key competencies. Other functions, such as the manufacturing of non-complex products, will continue to be outsourced and the supply chain cost base will be rationalised to a level more in line with expected sales volumes.

A.4 GROUP'S PRINCIPAL ACTIVITIES plc is the holding company of the Group, and was incorporated as a public limited company in England in 1999. It conducts its commercial activities primarily through Corp and Corp's subsidiaries. Both Corp and plc are subject to the requirements of the Act and the Companies Act 1989. The Group is headquartered in London with principal operating sites in Coventry, Beeston, Chorley, Camberley, Liverpool, London, Stafford and Wellingborough (UK); Florida, Pennsylvania, Ontario, Georgia, Mississippi, North Carolina, Illinois, Texas and Montreal (US and Canada); Genoa, Marcianise and Pisa (Italy); Backnang, Offenburg, Frankfurt and Radeberg (Germany); Madrid (Spain); Melbourne and Sydney (Australia); Beijing, Guilin and Hong Kong (China); Darulam and Kuala Lumpur (Malaysia); Auckland (New Zealand); New Delhi (India); Riyadh (Saudi Arabia); Dubai (United Arab Emirates); Springs (South Africa); Sao Paulo and Votorantim (Brazil); and Naucalpan de Juarez and Huixquilucan Edo de Mexico (Mexico). For the purposes of financial reporting, with effect from 31 March 2002, the Group divides its continuing operations into two segments: Core and Capital.

CORE BUSINESSES For the purposes of financial reporting, the Group divides its Core activities into two main business types: Network Equipment, comprising Optical Networks, BBRs, European Access, North American Access, OPP and other Network Equipment; and Network Services, comprising IC&M and VAS. The Group's customer base includes telecommunications companies and providers of internet services for their public networks, and certain large corporations, government departments and agencies, utilities and educational institutions for their private networks. Sales, marketing and distribution The Group sells its network equipment and network services using its direct sales force as well as indirect channels such as local partners and distribution partners. The Group's sales activities include sales and marketing organisations in all major geographic regions. There are specialised product marketing groups which support these organisations internally and a central marketing staff which provides strategic direction and customer and market communications support for these organisations externally. Each of these regional organisations has responsibility for account management, sales, technical support and contract negotiation.

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----- The Group's distribution partners include Ericsson, Italtel, Nokia and Siemens. A seven-year agreement with Ericsson was signed in July 1999 that allows Ericsson to market the full range of the Group's SDH equipment throughout the world. In June 2002, the Group announced an additional seven-year agreement enabling Ericsson to source its range of next-generation DWDM optical networking equipment as well as encompassing the existing 1999 agreement on SDH equipment. The Group also entered into a five-year agreement with Nokia in November 1999 to market the Group's SDH and DWDM systems. Customers The Group benefits from the continued support of its strong customer base which comprises mainly well-established incumbent telecommunications operators and government agencies. The main customers of the Group's network equipment and services include BT, the Metro City Carriers in Germany, Telecom Italia, the UK Government and Vodafone Group in Europe; BellSouth, Qwest, SBC, the US Federal Government and Verizon in the United States; China Railcom, China Telecom, China Unicom, Telkom Malaysia and Telstra in the Asia-Pacific region; and Brasil

Telecom, Telecentro Oeste, Telcel, Telefonica and Telmex in Central and Latin America. These customers accounted for 51 per cent. of the turnover of the Core businesses during the six months ended 30 September 2002. Customers of the Group's Optical Networks and European Access Businesses are predominantly based in Europe as well as in Asia-Pacific and Central and Latin America. Customers of the Group's BBRS, OPP and North American Access Businesses products and services are predominantly based in the Americas. In addition, the Group provides network services to a number of customers in the transportation and utility sectors, mainly in Europe. Except for BT, each of the Group's customers accounted for less than 5 per cent. of the Group's total turnover and Core turnover for the financial year ended 31 March 2002. For the same period, BT accounted for approximately 9 per cent. of the Group's total turnover and 14 per cent. of the turnover of its Core businesses. During the six months ended 30 September 2002, BT accounted for 15 per cent. of the Group's total turnover and 17 per cent. of the turnover of its Core business. A discussion of certain risks associated with the Group's reliance on a relatively small number of customers is set out in Part F of this Section. The Group has entered into frame contracts with most of its major customers. While the terms of the frame contracts vary from customer to customer, such contracts generally set out the terms and conditions (including pricing) on which the Group will supply a customer with products and services. The length of frame contracts varies from customer to customer and can range from 12 months to five years. Some of the frame contracts establish price and volume expectations which provide the Group with some visibility of expected sales during the terms of the contracts. However the frame contracts do not typically guarantee the volume or value of products or services actually supplied by the Group, which remain at the discretion of the relevant customer. Near the end of their term, some frame contracts impose an obligation on the parties to negotiate in good faith to agree an extension of the contract. In some cases, frame contracts contain change of control clauses which may give rise to a termination right as a result of the Restructuring. In any event, customers are not normally contractually bound under their frame contracts to purchase products or services solely from the Group. Customers also often have the right to terminate a frame contract after a specified notice period. Notwithstanding the flexibility customers have in terms of the volume and value of the orders they place and whether they place those orders with the Group or one of its competitors, customers will often have a commercial incentive to continue to purchase all of their requirements for certain types of products and services from (and to have those parts of their networks serviced by) the Group. A discussion of certain risks associated with termination rights triggered as a result of the Restructuring is set out in Part F of this Section.

**NETWORK EQUIPMENT** The Group designs and supplies communications systems that transmit and switch voice, data and video traffic predominantly in public networks. The Group's Network Equipment products include optical networking 40 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- systems, broadband and narrowband switches, routers and aggregation devices, wireless transmission systems and software management systems. In addition, the Group sells outside plant and power products for use in communications networks. Aggregate sales for the Group's Network Equipment businesses for the financial year ended 31 March 2002 were L1,804 million (39.5 per cent. of total Group sales) compared to L3,359 million (48.4 per cent. of total Group sales) in the year ended 31 March 2001 and L2,583 million (45.1 per cent. of total Group sales) in the year ended 31 March 2000. Aggregate sales for the Group's Network Equipment businesses for the six months ended 30 September 2002 were L600 million (54.2 per cent. of total Group sales). Overview of the public network market Historically, government-owned or government-regulated monopolies have operated public networks, which traditionally transmitted voice calls between users. Privatisation and deregulation of public networks contributed to the entry of a large number of new companies into the public network market, offering new voice, data and video services. The public network markets in which the Group operates are highly competitive. The Group's principal competitors include Alcatel, Cisco Systems, Ericsson, Fujitsu, Lucent Technologies, Nortel Networks and Siemens. The primary method of competition in the public network market is the widespread use of open bids for equipment purchases. Buyers use a combination of factors to evaluate bids, including price, technical compliance, ability to deliver in the required timescale and provide after-sales support, financial stability and long-term viability. A number of competitors have substantial technological and financial resources (including research and development resources) and operate in all significant market segments of the industry. As the public network and private network markets converge, other specialist companies in the information technology sector may also emerge as strong competitors. In addition, competitors may emerge in rapidly developing telecommunications markets such as China. A description of risk factors relating to the Group's ability to

remain competitive through R&D investment is set out in Part F of this section. A typical public network can be portrayed as comprising three high level layers. These are the service, switching and transport layers. Traffic in the network is moved around the network by equipment in the transport layer and routed to different points in the network by equipment in the switching layer. Equipment in the services layer defines and makes available the service associated with each particular class of network traffic, for example voice, data or video services. Public networks, which comprise the three layers above, can typically be either access, metro or core networks, depending on the connections they establish. The access network typically connects an end user of a service to a network operator's local exchange (where switches are located). The core network usually connects an operator's major points of presence, for example, the routes between two cities. The metro network typically provides connections between the access and core networks - for example, between a major city and the various local exchanges or points of presence within a particular geographic region. The Group's equipment can be found in most parts of the typical public network with its optical products predominantly operating in the transport layer, its multi-service switches and Softswitch in the switching layer and its range of access products found in most layers of the access network. Optical Networks Communications service providers primarily use three technology standards, SDH, SONET and DWDM, to transmit voice, data and video traffic over fibre optic communications networks. DWDM is a relatively new transmission standard that is used worldwide. SDH is the digital transmission standard that is used in most regions except North America and Japan, where SONET is the predominant standard that is used. In June 2002, the Group announced that it was ceasing development of its SONET products because of continuing weak market conditions. The Group has not made material sales of SONET products. The Group's Optical Networks products contributed 16.1 per cent. of total Group sales in the year ended 31 March 2002 and 21.9 per cent. in the six months ended 30 September 2002. During the latter period, sales were predominantly in Europe and Asia, with the remainder from the Americas. 41 I.

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----- The Group has focused its development on a comprehensive range of optical transmission equipment based on SDH and, more recently, DWDM. A discussion of the risks associated with the telecommunications market is set out in Part F of this Section. a. Synchronous Digital Hierarchy: The Group was a pioneer of SDH technology following its introduction in the early 1990s, and has continued to introduce next generation SDH products. The Group is a leading supplier of SDH transmission equipment within Europe and has a tenable position in other markets including the Asia-Pacific market. SDH contributed approximately 85 per cent. of the Optical Networks Business's sales in the year ended 31 March 2002 and approximately 80 per cent. in the six months ended 30 September 2002. The Group's add-drop multiplexers transport voice, data and video traffic streams over ring-based optical fibre networks to provide protection against network failures. The Group's line systems transport high-capacity voice, data and video traffic streams between major traffic centres. The Group also supplies cross-connects to provide points of flexibility and restoration within an SDH network and to switch traffic streams from one transmission line to another. Over the next twelve months, the Group intends to launch a number of more cost effective next generation SDH products with greater functionality, for use both in core networks and for connecting residential and business customers to the core network, such as its SMA Series 4 range of add-drop multiplexers and the MSH range of cross-connects announced in September 2002. b. Dense Wavelength-Division Multiplexing: DWDM is the transmission of closely spaced signals through a single optical fibre using wavelengths, each of which functions as a separate, independent signal, and allows the capacity of installed optical fibre to be increased substantially to meet future growth in demand for voice, data and video traffic capacity. The Group's DWDM equipment is complementary to the Group's SDH equipment and enables service providers to increase significantly the bandwidth of installed fibre optic cabling and still use the existing network infrastructure. Over the past few years, the Group's share of the next generation DWDM market in Europe has grown significantly. The Group has already established a tenable market position with its photonic line system ("PLx"). The Group has recently launched a soliton-based, ultra-long-haul photonic line system ("UPLx") that extends the distance that traffic can be transported before regeneration of the signal is required. The Group is developing this product specifically for ultra and extended long-haul DWDM networks which will have much higher per fibre capacity than SDH or SONET networks. The Group has announced its first order for this product in Australia. In 2000 the Group launched a remotely re-configurable photonic add-drop multiplexer ("PMA"). This product allows traffic streams to be inserted and removed from a transmission ring without disturbing other traffic streams. The Group has also



developed a range of point-to-point and ring-based Metro products ("PMM"). DWDM contributed approximately 15 per cent. of the Optical Networks Business's sales in the year ended 31 March 2002, and approximately 15 per cent. in the six months ended 30 September 2002. The Group's DWDM equipment is complementary to the Group's SDH equipment and the Group intends to take advantage of its positions in the SDH markets of Europe, Central and Latin America and Asia Pacific to sell its DWDM products to its existing SDH customer base as well as to new customers wishing to make a cost effective and simple increase in their available bandwidth. The Group's transmission equipment is managed by its network management system (ServiceOn). ServiceOn provides a broad range of management functions required by a network operator. It can be used by service providers to remotely re-configure their networks in accordance with changing traffic patterns. ServiceOn also provides network performance information and has fault detection capability to support the day-to-day operation of the network. The Group's broad portfolio of Optical Networks products, coupled with scalability and ease of upgrade, enables it to sell optical networks to its customers which optimise network design and cost for those customers. The Group's focus on overall optical networks solutions, rather than single product solutions, enables it to design

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----- more cost effective networks and to integrate future product offerings over the life of frame contracts. The Group believes that its installed base of SDH equipment, deep customer relationships, superior knowledge of the incumbent network design, and interoperability of its products with that installed base of SDH equipment, are an important competitive advantage for both the existing and new SDH and DWDM product ranges. The Group's objective is to maintain a leading position in the European optical networking markets and to build market share in the Asia Pacific region as well as Central and Latin America.

**Broadband Routing and Switching** In 2001, the Group refocused its technical and commercial resources in the BBR Business towards customers requiring more resilient networking platforms of the sort found in carrier class networks, namely government and military agencies, selected telecommunications service providers and other large corporations. BBR also continues to provide support services to its approximately 1,000 US Federal Government service provider and enterprise customers. The Group's single largest customer of BBR products is the US Federal Government with whom the Group has enjoyed a long relationship. To date, this has resulted in an installed base of BBR products in US Federal Government communications networks of approximately US\$1.3 billion in value. The BBR Business contributed 4.6 per cent. to the Group's sales in the year ended 31 March 2002 and 6.6 per cent. in the six months ended 30 September 2002. The BBR Business' sales are made predominantly in the North American market and these sales accounted for 4.3 per cent. of total Group sales in the latter period. The Group's products address the three principal packet-oriented protocols in use today: asynchronous transfer mode ("ATM"); internet protocol ("IP"), and multi-protocol label switching ("MPLS"), an emerging standard which provides greater predictability, Quality of Service ("QoS") and differentiated service levels for IP-based data, voice and video communications when compared with services available over traditional, connectionless IP networks. The Group's principal products comprise a range of multi-service switch-router devices that both establish the physical communication links between end points, as well as determine the optimal route across the network. In addition, the Group also develops and sells a range of integrated access devices ("IADs") which are cost-effective solutions supporting converged voice, data and video transmissions over a single circuit. The Group has focused on the sale and support of its ASX-200BX, ASX-1000 and ASX-4000 range of multi-service switches, while continuing the development of its recently-launched next generation BXR-48000, which the Group believes provides the highest capacity of any multi-service switch currently available in the telecommunications industry. The Group's switch-router product platforms, such as the ASX-4000 and BXR-48000 are designed to support communications traffic transmitted by ATM, IP and MPLS protocols. They are designed to enable operators to build on their existing switching and routing infrastructure to continue to support their legacy services while offering the flexibility and scalability to roll-out next generation IP, wireless and packet voice services. They are also designed to enable operators to reduce their capital investment and operating costs. The ASX-4000 can switch at transmission speeds ranging from 10 to 40 gigabits per second ("Gbps") and can be positioned either within the core, or at the edge, of service provider networks or high-capacity private networks. Recent developments of the ASX-4000 switch include applications to allow service providers to transport voice traffic over packet switched infrastructures such as ATM ("VoA") or IP ("VoIP"). The BXR-48000 can operate at transmission speeds ranging from 40 Gbps to 480 Gbps. It

can be configured as a very high capacity router or a very high capacity switch. Routers function in the IP ("packet") networking domain, while switches typically operate in the traditional voice, Frame Relay and ATM domains. In March 2002, following technical trials on the first BXR-48000 unit, the US Department of Defense's Naval Research Laboratory ("NRL") demonstrated the high performance, high security, speed, reliability and functionality of this product and subsequently, in September 2002, the US Department of Defense placed a firm order for the product. The military-grade capabilities demonstrated by the BXR-48000 are equally applicable for the voice, video, data and multiservice networks of service providers and large non-military institutions. In December 2002, the Group announced a further sale of the BXR-48000 to a leading European financial institution. 43 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- The Group also provides support services to customers of its BBRs products. The Group reports these revenues within its Network Services segment. The BBRs Business service offerings range from routine technical support and assistance for its switch-routers, to dedicated, on-site project and programme support for complex network environments. Within the broadband switching and routing market, the Group believes that the IP router market will be a significant source of potential growth in the longer term due to the continued growth in IP traffic and the launch of new services such as VoIP. It should be noted, however, that the introduction of these new services is dependent on the development of technologies that permit the "toll-grade" transmission, over IP, of voice and real-time multimedia services. In the meantime, concern from carriers and security sensitive private network operators over the security and reliability of their networks are expected to lead to continued growth in the ATM market. Consequently, the Group intends to continue to focus its research and development on the further development of its multi-service products which support ATM, IP and MPLS protocols. In particular, the Group's BBRs equipment is designed to enable carrier operators to address the divergent demands of today's difficult market environment. The market demands continued support for the ATM networks that transport today's services as well as providing a safe and viable migration path for the convergence of these networks with data oriented IP networks. The BXR-48000 is a key strategic platform through which the Group aims to deploy further its range of BBRs products into the networks of large telecommunications providers. As part of the Restructuring, it is proposed that the BBRs Business be contractually separated or ringfenced from the rest of the Group. European Access Access equipment connects the end user to a service provider's switch or local exchange across what has been traditionally known as the "last mile" or "local loop". This is the physical wire, fibre or wireless link that runs from a subscriber's telephone set or other communications device to the service provider's local exchange. The Group designs, manufactures, sells and supports a range of access equipment which maximises the capabilities of physical transport media, including copper telephone lines, fibre optics, and both licensed and unlicensed wireless spectra. The Group's access systems activities have undergone significant rationalisation and are now focused on leveraging the Group's reputation and relationships in Europe to continue penetration of key customers with fixed wireless, Access Hub and voice software systems. The European Access Business contributed 8.4 per cent. of total Group sales in the year ended 31 March 2002 and 11.6 per cent. in the six months ended 30 September 2002. During the latter period, approximately 85 per cent. of the European Access Business sales were in Europe, 12 per cent. in Asia Pacific, with the remainder in Central and Latin America. The principal access systems products are: a. Digital Subscriber Line Access Multiplexers ("DSLAMs"): These products are typically located within an operator's local exchange on one end of the subscriber loop providing broadband internet/DSL data services. The Group's Access Hub, which can be configured as an advanced high density DSLAM also incorporates integrated ATM edge switching and IP multi-casting functionality, enabling it to perform as a broadband aggregator for multiple applications including voice, video and data services as well as providing conventional DSLAM functionality, such as asymmetric digital subscriber line (ADSL) capabilities. This next generation product offers one of the highest port densities available in the industry and is optimised for ease of configuration and management. The Group launched its Access Hub platform in 2001 and has already won two major frame contracts with Telecom Italia and Telkom (South Africa). Other customers include Wind (Italy). b. Fixed Wireless: The Group's Skyband MDRS product family encompasses the Group's point-to-point ("PtP") portfolio which offers long and short haul SDH transmission for services ranging from trunk networking, local access bypass and mobile network feeder applications. The Group's Skyband MDMS point-to-multi-point ("PtMP") portfolio offers cost-effective broadband wireless solutions ranging from 2.4 Ghz to 32 Ghz, depending on the country's frequency 44 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH

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supports subscriber voice and broadband data, using both standards-based and optimised techniques. The Group's radio planning and installation services enhance the Group's ability to offer customised, cost-effective solutions for network operators and service providers. The main customers of the Group's range of fixed wireless access products include mmO(2) (Germany), and E-plus (Germany). c. Voice Systems: The Group provides switching hardware and software to telecommunications and media carriers in both legacy narrowband and next generation networks. The three main activities are: (i) Narrowband Switch Support: The Group continues to supply upgrades and extensions to its significant installed base of narrowband voice telephony systems (System X). The majority of this installed base is in the UK. Upgrades and extensions have been driven by the need for operators to adapt their networks to changing traffic patterns, predominantly caused by the growth in Internet traffic. (ii) Softswitch: This next generation product is a system which builds on many of the features of the narrowband switch allowing network operators to combine their traditional telephony services with broadband multimedia and high-speed data services across a single broadband packet switched network. The Group's Softswitch is currently one of only a limited number of products, offering full class 5 capability available in the market. It can therefore address both public and private network applications and has been designed to allow customers significantly to reduce the cost of operating their networks. The Group's Softswitch has been installed in the Dubai Marina project where it is currently delivering voice and multimedia services and is undergoing trials with a number of customers in the United Kingdom. In December 2002, the Group announced the sale of its Softswitch system to support Jersey Telecom's roll out of a suite of commercial and residential broadband services. (iii) Intelligent Networks: As legacy narrowband services have evolved, operators have experienced an increasing need to provide additional value added services that can be billed to individual subscribers. Corp and plc believe that the Group's Intelligent Networks products are amongst the leading products in the UK market in the provision of hardware and software for fixed networks that allows carriers to offer a range of enhanced voice services, beyond those contained in existing narrowband switching products. These services, such as 0800 numbers, voicemail, call waiting and ringback, can be controlled from a small number of service points where data and applications can be stored and updated centrally. Intelligent Network products also work with switches from other manufacturers, increasing their attractiveness to operators whose systems contain a range of products. The services offered by these products provide differentiating capability for the Group's customers. The Group therefore undertakes directly customer funded developments as well as Group-funded research and development. The Voice Systems activities' primary geographical market is the UK where the Group has a strong position in the UK circuit switching market, and the Group is an equipment supplier to customers such as BT, Cable and Wireless, NTL and Telewest, each of whom relies on the Group for upgrades and care and maintenance of installed equipment. The Group's narrowband switching products are deployed in approximately 70 per cent. of BT's local telephone exchanges and are central to the UK public service telephone network ("PSTN"). The Group's initial market entry for its new Softswitch product is seen as the confluence of the growth in IP Voice, IP managed VPN, and the growth of DSL. This creates an opportunity to develop a new range of cost-effective services for corporations, by extending the reach of their private networks to smaller locations and, through DSL connectivity, uniquely to home workers. Initially, establishing the Softswitch as a major supplier in this sector will provide the foundation for further expansion into small to medium sized enterprises and then pure residential services (as opposed to corporate home worker). 45 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- d. Other Access Products: The Group has a range of other access products that are deployed in its customers' networks, including its Deep Fiber DMP product. This product brings the high bandwidth of the core fibre network into the access network. North American Access The Group designs, sells and supports a range of copper and fibre based access platforms for markets that use North American communications standards. The Group's largest customers are BellSouth and Sprint and the Group is one of the main suppliers of digital loop carrier systems by market share in North America. The North American Access Business contributed approximately 5 per cent. of total Group sales in the six months ended 30 September 2002. The Dutch Link Control (DLC) DISC\*S(R) family of products provide copper based access for voice and data services. The Group has provided over ten million lines of digital local loop equipment based on the DISC\*S(R) platform throughout the United States, and has recently introduced a smaller footprint broadband high density version of the

platform. The Group's fibre to the curb solutions support a mix of voice, broadband data and video services to each customer. They deploy fibre all the way to a curbside pedestal and utilise copper or coax cables only for the short final drop to the customer's premises. As part of Restructuring, it is proposed that the North American Access Business be contractually separated or ringfenced from the rest of the Group. The North American Access Business has undergone significant rationalisation and is being managed for value and ultimately for disposal. The proceeds of this disposal will be used to repay part of the New Junior Notes. The North American Access Business may be sold prior to 1 May 2003, in which event the net proceeds of the disposal will be applied to increase the cash element of the Corp Scheme Consideration (and the aggregate principal amount of the New Junior Notes will be decreased by 10/11ths of that amount). Outside Plant and Power The Group is one of the major providers of OPP products and services in North America. The Group is one of the major suppliers to Qwest, Verizon, BellSouth, SBC, Sprint, AT&T and WorldCom. In addition, the Group is a supplier to AT&T, Verizon, Cingular, Telcel and US Cellular. The Group currently has contracts to provide services to Bechtel in the building of wireless networks for AT&T and Cingular. The OPP Business contributed 5.4 per cent. of total Group sales in the year ended 31 March 2002, and 7.2 per cent. in the six months ended 30 September 2002. The OPP Business has three primary product lines: a. Outside Plant supplies connection, protection and enclosure products for the local loop, and is a supplier in enclosure design such as thermal management and analysis, water and dust intrusion, equipment packaging techniques and corrosion resistance. Although these are primarily passive hardware products, the trend of placing sensitive electronics outside the local exchange and closer to the subscriber requires increasingly sophisticated enclosures and static protection. The connection and protection products include distribution pedestals, building entrance terminals, cross connect terminals, cable television enclosure products, fibre optic splice enclosures, large electronic configuration cabinets, central office main distribution frames, heat management systems, power surge protection devices and connection blocks and terminals. The enclosure products are metal and plastic cabinets that house equipment such as power supplies, connection products, and digital and wireless transmission equipment. b. Power supplies power systems to service providers and telecommunications equipment manufacturers for the local loop, local exchange switching, wireless sites and other customer equipment such as computer networks. The Group's power products and systems include large power systems for local exchange applications, smaller cabinet power systems with "plug and play" flexibility, modular power systems, custom power subsystems sold to OEMs, DC distribution 46 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- and DC-DC conversion systems and traditional ringing and signalling equipment. The Group's family of power products is marketed under Vortex(R), Lorain(R) and other brand names and is based on a single integrated platform suitable for multiple wireline and wireless applications. This microprocessor-based "plug and play" architecture allows for software-based configuration, management, monitoring and local and remote power system access that is easily expanded for system configuration and control. c. Services provides customers with software that allows for remote monitoring and control of power systems as well as complete programme management support for communications systems deployment. Additionally, the Group provides a range of customer services, including site contract maintenance and breakdown service, spare parts provisioning, equipment depot repair, and training. The OPP Business' principal geographic markets are in North America and Central and Latin America. As part of the Restructuring, it is proposed that the OPP Business be contractually separated or ringfenced from the rest of the Group. OPP is being managed for value and ultimately for disposal. The proceeds of this disposal will be used to repay part of the New Junior Notes. Other Network Equipment businesses Other Network Equipment businesses contributed 2.6 per cent. of total Group sales in the year ended 31 March 2002, and 2.6 per cent. in the six months ended 30 September 2002. These comprise mainly the following businesses: a. Marconi Interactive Systems ("MIS"): MIS manufactures payphones and multimedia terminals which range from an indoor "desk top" phone through to sophisticated street multimedia terminals which have voice telephony and internet access capability. The business is predominantly UK-based and sells primarily to the major public network customers such as BT, Telecom Italia, Singtel, Telenor, Teledanmark and, through Loxley Business Information Technology Company Limited, TelecomAsia. b. Network Equipment -- South Africa: The Group's operations in South Africa include the design, manufacture and supply of a range of terminal products including telephones, PABX key-systems and public payphones. On 23 December 2002, the Group disposed of its 51 per cent. interest in its optic fibre cable and copper cable business (ATC (Proprietary) Limited). NETWORK SERVICES The

Group's Network Services activities comprise a broad range of support services to telecommunications operators and other providers of communication networks. The Group supports both its own products as well as those of other vendors of network equipment. Aggregate sales of all Network Services activities for the financial year ended 31 March 2002 were L969 million, (21.2 per cent. of total Group sales), compared to L1,016 million (14.6 per cent. of total Group sales) in the year ended 31 March 2001 and L543 million (9.5 per cent. of total Group sales) in the year ended 31 March 2000. Aggregate sales in the six months ended 30 September 2002 were L392 million (35.4 per cent. of total Group sales). Overview of the Network Services market The substantial reduction in sales of network equipment has led to corresponding reductions in the network planning, installation and commissioning services associated with the sales of new products. However, as network operators have sought to reduce expenditures to cope with excess capacity, the requirements for maintenance and support have continued and in some cases new opportunities have emerged as operators have sought to consolidate vendors and outsource additional services. Corp and plc believe this is a trend that is expected to continue and to mitigate, to some extent, the decline in sales of services related to new products sales.

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The fragmented nature of the network support services market means there are no dominant competitors in the provision of services to the public network market. However, major telecommunications vendors, such as Alcatel, Cisco Systems, Ericsson and Lucent Technologies are extending their service capabilities to offer total solutions in direct competition to the Group. Major information technology and systems integrators, such as CSC, EDS and IBM, are now offering telecommunications solutions to their customers. Furthermore, independent service and support organisations such as Dimension Data and Telindus offer a broad portfolio of services. The principal method of competition in this market is through open bidding. Services may also be sold as a part of, or linked to, equipment sales. Service offerings The Group provides plan, build and operate support services to both fixed line and wireless network operators in many countries around the world. The Group targets customers in the service provider, large scale "carrier class" markets and in the government, transport and utilities sector. The services segment has two main sub-groupings: Installation, Commissioning and Maintenance comprises the following activities: a. Customer Fulfilment provides project management, installation and commissioning, field engineering support and customer training. The main markets are the UK, North America, Germany and Italy. The North American activities are associated with the OPP Business and will be included in the Ringfenced Entities post-Restructuring. b. Managed Services supports the installed base of the Group's equipment worldwide through technical support, on-site maintenance and spares & repairs management. Managed Services also remotely monitors, manages and supports customers' live networks. Services are provided from a global network of technical assistance centres ("TACs"), stock hubs and network operation centres ("NOCs"). The Group operates thirteen TACs (five in the US, two in the UK, two in the rest of Europe, two in Canada and one in each of Japan and Australia) offering around-the-clock telephone assistance to customers. It also has five NOCs (one in each of Australia, Germany, Italy, the UK and the US) for remote monitoring, fault diagnosis and network repair. The Group can support its own product range as well as products supplied by other communication equipment companies. c. Operational Support Systems provides the software systems and systems integration services that enable operators to maximise the efficiency of their networks and the quality of the services they provide to customers. The bulk of these services are related to the sale of the Group's products, although there is also considerable experience of working with equipment from other vendors. Value-Added Services comprise the following activities: a. Integrated Systems provides plan, build and operate services on major complex projects for non-telecommunications businesses in market sectors such as transportation and government. The projects involve planning, building, operating and supporting carrier class telecommunications infrastructure and are generally long-term. The principal geographical markets are the UK, Germany and the Middle East. b. Wireless Services provides radio frequency consulting services to both wireless and wireline network operators. These are primarily consulting and contractual services for site acquisition, mast design and construction, radio frequency cell site planning and network optimisation. The Group's radio planning and installation services enhance the Group's ability to offer customised, cost-effective solutions for network operators and service providers. In North America the primary focus is on radio cell site planning and network optimisation. In Europe, the Middle East and Africa (EMEA), the principal geographical markets are the UK, Saudi Arabia, the Netherlands and Germany.

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RESTRUCTURING -- PART A ----- c. Managed Services provides customer support services associated with the Group's BBRS equipment. These will be included in the Ringfenced Entities post-Restructuring. The services businesses have developed within the Group over a number of years. In EMEA, installation and commissioning services were necessary to support equipment sales to service providers. In North America, the business developed through supporting the data networking and power markets. The Integrated Systems activities have developed organically to support complex mission critical network projects for large enterprises. Wireless Services evolved from the acquisition of APT in the UK, TI Projekts in Germany and MSI. The Group intends to continue to drive process and efficiency improvements throughout Network Services' operations to reduce costs, improve customer satisfaction and increase both revenues and margins. In addition, the Group intends to increase the proportion of equipment sales that include support contracts and more cross-selling of existing services across markets and customers. Within Integrated Systems, the key initiative is to expand out of the strong UK base into carefully selected overseas markets (primarily Germany and Austria) through a combination of skills transfers and working with selected partners. The Group intends to grow the Wireless Services business by targeting mobile network operators operating 2G networks and planning 3G networks and equipment vendors providing turnkey projects to the mobile network operators who require service partners.

**CAPITAL BUSINESSES** The Group's Capital Businesses comprise certain non-core businesses that the Group manages to create value and ultimately for disposal. Activities in Capital include the Group's holdings in: a. Easynet Group Plc: On 26 July 2001, the Group merged its 92 per cent. interest in ipsaris Limited into Easynet Group Plc ("Easynet"), a UK registered company listed on the London Stock Exchange, acquiring 71.9 per cent. of the issued share capital of Easynet and control of 49.9 per cent. of Easynet's issued voting capital. Easynet's share capital comprises voting ordinary shares and non-voting convertible shares. The closing of the Ultramast Limited capital reduction on 24 February 2003 and the settlement of the litigation associated with Ultramast Limited provided for the Group to acquire approximately a further 1.3 million ordinary shares in Easynet; certain of these shares will convert into convertible ordinary shares so that the Group will not own more than 49.9 per cent. of the voting ordinary shares. Easynet operates an internet network and data centre infrastructures. In the UK, Easynet has a national broadband network. Easynet is accounted for as an associate in the Group's consolidated accounts. b. Bookham Technology plc: On 17 December 2001, the Group sold its optical components business to Bookham Technology plc ("Bookham") in exchange for 9 per cent. of the issued ordinary shares of Bookham. Bookham is a provider of optical components to the Group and other network equipment vendors. Pursuant to a subsequent agreement between Bookham and Nortel Networks Corporation, Corp now owns approximately 6 per cent. of Bookham. c. Capital also includes the Group's Italian-based Public Mobile Radio Networks business, which develops base stations and controllers for 3G networks. Other activities in Capital include a number of minor activities, investments and assets.

**RESEARCH AND DEVELOPMENT** The Group expended approximately L486 million, or 17.7 per cent. of total Core sales, on research and development ("R&D") in its Core businesses in the financial year ended 31 March 2002 (year ended 31 March 2001: L469 million). All of this amount was funded by the Group. During the six months ended 30 September 2002, the Group expended approximately L163 million, or 16.4 per cent. of total Core sales on R&D in its Core businesses. 49 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- The Group intends to continue to provide a competitive product portfolio building on existing market leading characteristics across its core product areas despite this reduction in expenditure. As revenues stabilise, the Group intends that R&D expenditure will amount to approximately 10 per cent. of expected Core sales. Optical Networks accounts for the Group's largest product portfolio and generates the largest revenue base. Optical Networks R&D expenditure reflects this representation and accounted for almost 40 per cent. of the total R&D expenditure in the Group's Core businesses during the six months ended 30 September 2002 (six months ended 30 September 2001: 30 per cent.). The current R&D projects have been selected on the basis that they are expected to yield a higher overall return for the Group. The Group is maintaining continued investment in next generation SDH products, in particular its recently launched Series 4 product range which has been designed to be more cost effective and offer service providers greater functionality than previous generations of the product. It is also focusing on the development of its next generation optical cross connect, the MSH range, its Metro product range, which is designed for metropolitan applications, as well as its long-haul DWDM products and further upgrades to the Group's network management software with the creation of elements to allow

new product network integration and the development of a network control layer. Investment in network management should ensure that the Group's customers will retain a full optical network solution, which evolves along with individual product developments. The BBRs Business accounted for 23 per cent. of R&D expenditure in the Group's Core businesses in the six months ended 30 September 2002 (six months ended 30 September 2001: 21 per cent.). Over half of this expenditure was focused on the development of the Group's new multi-service core switch, the BXR-48000. In November 2002, the Group demonstrated its ability to support the transport of encrypted high speed data and high definition videos streams over the BXR-48000 using its newly developed 10 Gbps OC-192c ATM interface card. Ongoing initiatives on the BXR-48000 are focused on enhancing the product's IP functionality. Other ongoing programmes include the further development of the ASX-4000 switch to incorporate applications which will allow customers to transport voice traffic over ATM and IP infrastructures. R&D expenditure across the Group's European Access and North America Access Businesses combined, accounted for 25 per cent. of total R&D in the Group's Core businesses in the six months ended 30 September 2002 (six months ended 30 September 2001: 35 per cent.). During the first calendar quarter of 2002, the Group carried out an in-depth review of its complete portfolio of access solutions. This review was based on an evaluation of the forecast levels and timing of returns on investment and the cash generation potential of each product line. Following the review, the Group streamlined its portfolio of access technologies and refocused its R&D expenditure. In Europe, investment now only occurs in products that meet European Technology Standard Institute (ETSI) requirements and that will build on current market and customer positions. Consequently, R&D is being targeted on three key product ranges: the Access Hub platform, the Skyband fixed wireless access products and the Softswitch. Planned future developments of these products include the ability to aggregate traffic from 3G mobile base stations into the Access Hub, the addition of further frequency bands and voice and video functionality in the design of the fixed wireless products and the addition of further features and functionality to the Softswitch. R&D investment in North American access products has been significantly reduced and the Group has announced that while continuing to pursue sales opportunities and offer full support, care and maintenance for its existing copper and first generation fibre access products, it will not undertake further investment to develop next generation upgrades. In particular, the Group has discontinued investment in its next generation Fiber-to-the-Home solutions. Ongoing R&D efforts are focused on reducing the costs of existing products. The remaining R&D investment in the six months ended 30 September 2002 related mainly to outside plant and power products and wireless software. The Group is currently focusing its R&D efforts in the OPP Business towards the completion of its next generation power platform and web-based monitoring system. Smaller projects are also under way to develop customer specific products as well as redesigning the current product portfolio to reduce costs. The Group's wireless R&D efforts are focused on two product streams, OSS solutions and Wireless Network Planning solutions. A discussion of certain risks associated with the Group's R&D is set out in Part F of this section. 50 I.

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----- A.5 INTELLECTUAL PROPERTY

**BACKGROUND** The Group owns a number of Intellectual Property rights including Patents, trade marks and registered designs throughout the world. The Group has a number of patent and know-how (and other) licences from third parties relating to products and methods of manufacturing products. The Group has also granted Patent, software, know-how and other licences to third parties. Because the Group has previously developed some of its technologies through customer-funded research, it may not always retain proprietary rights to the products it develops. The Group relies on Patents, trade marks, trade secrets, design rights, copyrights, confidentiality provisions and licensing agreements to establish and protect its proprietary technology and to protect against claims from others. Infringement claims have been and may continue to be asserted against the Group or against its customers in connection with their use of the Group's systems and products. The Group cannot ensure the outcome of any such claims and, should litigation arise, such litigation could be costly and time-consuming to resolve and could result in the suspension of the manufacture of the products utilising the relevant Intellectual Property. In each case, the Group's operating results and financial condition could be materially affected. See Appendix 20 for a discussion of significant legal proceedings. The "Marconi" trade mark used by many of the Group's businesses is identified with and important to the sale of the Group's products and services. It is either registered or the subject of an application for registration in approximately 120 territories, including all of those territories which the Group currently views as being its major trading territories. A discussion of certain risks associated with Intellectual Property rights is set out in Part F of this Section. PATENTS

OWNED BY UK IP OPCOS AND US IP OPCOS As part of the security arrangements in relation to the New Notes to be implemented as part of the Restructuring all legal and beneficial title to Patents owned by the UK IP Opcos and US IP Opcos will be assigned to three SPVs, UK IPR Co, Ringfenced IPR Co and US IPR Co, which have been formed for the purpose of owning, maintaining and licensing the Patents assigned to them and all future Patent rights of Corp Group companies in the UK and US. UK IPR Co will be incorporated in England and Wales and Ringfenced IPR Co and US IPR Co will be incorporated in the State of Delaware, USA. US IP Opcos will grant security over all Intellectual Property prior to executing the assignments referred to in this paragraph. Further details are set out in Appendix 10. Ringfenced IPR Co will be a wholly-owned subsidiary of Marconi Communications, Inc. US IPR Co will be a wholly-owned subsidiary of Marconi Inc. UK IPR Co will be a wholly-owned subsidiary of Marconi Communications Limited. Ringfenced IPR Co will have assigned to it the Patents relating to the North American Access, BBRS and OPP Businesses operated by US IP Opcos. US IPR Co will have assigned to it the Patents owned by US IP Opcos that do not relate to North American Access, BBRS and OPP Businesses. UK IPR Co will have assigned to it the Patents owned by UK IP Opcos. Assignment to each SPV will be effected under an umbrella assignment. Each UK IP Opco and US IP Opco will be a party to the relevant assignment. The SPVs will not transfer, dispose of or grant any exclusive licence under any Patent, whether to another Corp Group company or a third party, other than: a. to another Corp Group company in the context of infringement proceedings against a third party where, absent such assignment, substantial damages would be irrecoverable (and in which case the Patent or Patents shall be reassigned to the relevant SPV as soon as such condition no longer prevails); 51 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- b. to a third party or a subsidiary of Corp, in each case in connection with any disposal (which is otherwise permitted by the applicable indenture pursuant to which the New Notes will be issued) of a Corp Group company or of all or substantially all of its assets, property or rights; or c. to a customer of Corp or any of its subsidiaries where the technology has been commissioned by that customer and developed by a Corp Group company (whether alone or jointly with the customer) for such customer's exclusive use pursuant to a development agreement. UK IPR Co will grant a non-exclusive licence to Marconi Communications Limited of all Patents assigned to it by UK IP Opcos. Ringfenced IPR Co will grant a non-exclusive licence to Marconi Communications, Inc. of all Patents assigned to it by US IP Opcos. US IPR Co will grant a non-exclusive licence to Marconi Inc. of all Patents assigned to it by US IP Opcos. All the licences will permit sub-licences to be granted subject to the provisions on Important Transactions described below. The management and maintenance of the UK and US owned Patents respectively will remain primarily with Marconi Communications Limited, Marconi Inc. and Marconi Communications, Inc. However, Important Transactions will require SPV approval. There will be three special categories of Important Transactions: a. granting sub-licences to third parties; b. pursuing/abandoning patent applications; and c. pursuing infringers. All Important Transactions will require the approval of the SPV but the SPV shall delegate that consent authority to Corp (which will act through Marconi Intellectual Property (divisional group)). This will ensure that the decisions regarding any Important Transaction are made with the interests of the entire Corp Group in mind (or at a minimum for any Patent, the interests of every other licensee within the Corp Group). At the same time, the decision could be taken expeditiously because it would be exercised by Corp and not a non-operating SPV. The approval requirements may not be waived or amended. New applications for Patents will be filed in the name of Marconi Communications, Inc., Marconi Inc. or Marconi Communications Limited (as appropriate) and assigned to the respective SPV. This will be achieved via a covenant in the indentures governing the New Notes on Corp to procure the assignment by Corp or a subsidiary of Corp organised in the UK or under US law of the Patent application from Marconi Communications, Inc., Marconi Inc. or Marconi Communications Limited to the relevant SPV. In the UK the application may be filed in the name of UK IPR Co at the outset. Each of the SPVs will grant security over its assets in favour of the Security Trustee, and the shares in the SPVs will be charged or pledged, as applicable, in favour of the Security Trustee on behalf of the holders of the New Notes and the banks providing the Performance Bonding Facility. Further details are set out in Appendix 10. In those cases (as set out in Appendix 10) where Guarantors grant floating charges (or equivalent security over all their assets) this will include such Intellectual Property as those Guarantors own. In some cases the Guarantors are required to grant a fixed charge or equivalent security over specified Intellectual Property in the future so far as such Intellectual Property is material and the security is legally permissible. OTHER INTELLECTUAL PROPERTY OF THE GUARANTORS As part of



the security arrangements in relation to the New Notes, Intellectual Property owned by or registered in the name of Marconi Communications GmbH will be assigned to a Bank Trustee Company in Germany by way of security. The Bank Trustee Company will grant a licence to Marconi Communications GmbH. OTHER INTRA-GROUP LICENCES In consideration of the Parties sharing the costs incurred for research and development under the existing Research and Development Cost Sharing Agreement (RDCSA), each Party grants to the other Parties a royalty-free licence of Patents and technology developed by a Party under the RDCSA. Subject to the following 52 I.

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----- amendments listed below (and any further consequent changes that may be required as a result of the arrangements set out herein), the existing RDCSA will remain in force: a. the RDCSA will be varied/amended to allow Parties to sub-license Patents, subject to the procedure concerning Important Transactions described above; b. Marconi Communications, Inc. will withdraw from the RDCSA. This is because Marconi Communications, Inc. remains potentially liable for cost sharing under the RDCSA but accrues no commercial benefit through use of other Parties' Intellectual Property; c. the RDCSA will also be amended to confirm that the Parties to the RDCSA contract on behalf of themselves and their subsidiaries and related companies within their territory. Such subsidiaries and related companies will be entitled to claim the benefit of the provisions of the amended RDCSA; and d. the termination provisions of the RDCSA will be amended to state that the insolvency of any Party or its related companies and subsidiaries will not affect the rights enjoyed by those entities benefiting under a licence granted pursuant to the RDCSA. The SPVs will not be parties to the RDCSA. All Corp Group companies will enter into a Group Licence Agreement which will provide that each company grants a non-exclusive licence to the operating companies in the Corp Group of any Intellectual Property (other than trade marks and service marks) used in such other company's business to the extent that such use is not already authorised by the RDCSA or otherwise formally authorised in a written licence agreement. This Group Licence Agreement will only govern actual use by one Corp Group company of another Corp Group company's Intellectual Property. Each licensee Corp Group company shall pay a royalty (determined on an arm's length basis) to the licensor Corp Group company. The payment of that royalty shall become effective on a declaration of use by either the licensee or licensor and all royalties due from the date of the Group Licence Agreement shall immediately be payable by the licensee on the declaration of use being given or received, as the case may be. The Group Licence Agreement will have full effect to the extent that any operating company in the Corp Group lacks sufficient authorisation under the RDCSA. To the extent required, a licensee under the Group Licence Agreement will be permitted to grant sub-licences (subject, insofar as is necessary, to the provisions on Important Transactions described above). The Group Licence Agreement may not be varied or terminated so as to deprive a Corp Group company of the benefit enjoyed under such licence so long as it remains a part of the Corp Group. All future intra-Corp Group use of Intellectual Property (other than trade marks or service marks) which is not otherwise governed by the RDCSA or the Group Licence Agreement will be recorded in a written licence agreement. This will be achieved via a covenant in the indentures governing the New Notes on Corp to procure the execution of such agreements between the relevant operating companies in the Corp Group. A.6 DIVIDEND POLICY Under English law a company may only pay dividends out of profits available for distribution. Corp intends to apply to court to cancel its Non-Voting Deferred Shares and its share premium account (including the share premium account arising on the issue of the New Shares to be allotted pursuant to the Corp Scheme) to create a reserve which will be applied in writing off accumulated losses on its profit and loss reserve. It is anticipated that this Capital Reduction will become effective shortly after the Effective Date of the Corp Scheme, although no assurance can be given that the application will be successful. Further information concerning the Capital Reduction is set out in Part D.9 of this Section. Although the future ability of Corp to pay a dividend will be facilitated if the Capital Reduction is effected, Corp will be restricted from paying dividends under the terms of the indentures governing the New Notes (see Part C.3 of this Section and Appendix 8). Accordingly, Corp does not expect to pay a dividend in the foreseeable future. A discussion of certain risks associated with the dividend policy is set out in Part F: Risk Factors. A.7 FINANCIAL OBJECTIVES Upon completion of the Restructuring, the Group expects to be better positioned to compete effectively in the areas of the telecommunications market on which it has chosen to focus. Although the Group's principal markets 53 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A ----- remain difficult, they are expected, at

some stage, to recover as customers continue to evolve existing narrowband networks to broadband data and next generation mobile networks. In due course, this should allow the Group once again to grow profitably, assuming the telecommunications market improves. In the near-term the Group's financial strategy is to continue to reduce its total costs base to levels at which it can generate operating profit (before goodwill, amortisation and exceptional items) and to manage its capital expenditure and working capital in order to convert operating profit to positive operating cash inflows (before exceptional cash costs). The Group does not expect to rely on market recovery in order to achieve its target gross margin during the financial year ending 31 March 2004. The achievement of the Group's longer-term objectives is, however, dependent on an increase in sales following the expected improvement in the market for the Group's products and services. Further information in relation to the Group's financial objectives is contained in Appendix 5. A discussion of certain risk factors that could affect the Group's expectations with respect to the Group's return to operating profitability and ability to generate positive operating cash flow is set out in Part F of this Section.

**GROSS MARGIN IMPROVEMENT** The Group expects to achieve a gross margin run-rate in the range of 24 to 27 per cent. of sales in the Core businesses during the financial year ending 31 March 2004. Of this, the Group expects that the Group's US businesses would contribute a gross margin run-rate in the range of 33 to 35 per cent. of sales while its businesses in Europe and the rest of the world would contribute a gross margin run-rate in the range of 23 to 26 per cent. of sales. The run-rate for the US Businesses has not been adjusted to take into account the disposal of any of the US Businesses. The Group aims to drive future gross margin improvement through focusing on sales of higher margin products and services, further supply chain rationalisation and additional planned product cost reductions (being materials and engineering cost reductions). In the longer-term, assuming the market recovers, a gross margin run-rate in excess of 30 per cent. is expected to be achievable. The Group will need to benefit from increased sales volumes over time in order to achieve this level of gross margin. When setting this longer-term target, the Group has assumed it will continue to be able to achieve annual product cost savings at least equal to the level of expected annual price reductions.

**OPERATING COST REDUCTION** The Group's aim is to reduce operating overheads, comprising research and development, sales, marketing, general and administrative costs but excluding goodwill amortisation and exceptional items for the Core businesses, including OPP and North American Access to a run-rate of below L450 million during the financial year ending 31 March 2004. The Group aims to achieve an operating expenditure run-rate for the Core businesses in the range of 21 to 24 per cent. of sales during the financial year ending 31 March 2004. Of this, the Group expects that its US businesses would contribute an operating expenditure run-rate in the range of 29 to 33 per cent. of sales, while its businesses in Europe and the rest of the world would contribute an operating expenditure run-rate in the range of 20 to 23 per cent. of sales. The run-rate for the US Businesses has not been adjusted to take into account the disposal of any of the US Businesses. Once the Core businesses' operating expenditure target is achieved, the level of the Core businesses' sales at which the Group expects to be able to break even at an operating profit/(loss) level will be reduced to below L1.7 billion per annum. The Group expects the main driver of these targeted operating cost savings to be further planned reductions in its workforce resulting from further rationalisation of its activities, as well as natural attrition. Reduced spending on marketing initiatives and professional fees are also expected to contribute to operating cost savings.

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----- Headcount in the Core businesses has been reduced by approximately 3,000 since the end of September 2002 and at the end of December 2002, was approximately 16,000. At that time, a further 1,400 leavers had been identified and announcements made in this respect, giving an identified headcount target for the Core businesses of around 14,600. Once the L450 million operating cost target has been achieved and the Group's headcount reduction plans have been completed, the Group expects to employ approximately 14,000 employees in its Core businesses.

**CASH** Cash generation will continue to be one of the Group's key business priorities post-Restructuring. In particular, the Group is targeting (i) to reach operating cash breakeven before exceptional cash costs during the financial year ending 31 March 2004, and (ii) to generate sufficient total cash in order to pay down 30 per cent. of the New Junior Notes within 12 to 24 months following implementation of the Restructuring, to pay down 50 per cent. of the New Junior Notes within 15 to 27 months following implementation of the Restructuring and to pay down 100 per cent. of the New Junior Notes within 18 to 30 months following implementation of the Restructuring. The Group expects to retain a total cash balance of approximately L602 million upon completion of the Restructuring. Of this amount, approximately L96 million will represent net cash outflows to

break even, approximately L112 million will be trapped cash, approximately L197 million is expected to be available to the Group to fund its normal working capital needs, approximately L30 million will represent cash in transit and approximately L167 million is expected to be retained for the cash collateralisation of performance bonds. See Part D.4 of this Section for more details on post-Restructuring retained cash. Cash to Breakeven and Operating Cash Flow

The funds expected to be available to the Group include an amount derived from the approximately L96 million projected net cash outflow to allow the Group to fund the business to the point at which it reaches operating cash breakeven before exceptional cash costs. This net outflow includes approximately L27 million of cash which the Group expects to generate from disposals of certain non-core assets. Approximately L55 million has already been received by the Group (including proceeds from Ultrast Limited (L41 million), the sale of the Group's Italian-based private mobile network business, OTE SpA, also known as TETRA (L2 million) and other disposals totalling L12 million) which, under the terms of the Corp Scheme and the New Notes, will be available to fund its working capital requirements. The Group also intends to continue to improve management of the working capital cycle. Specific programmes are already in place to minimise the time during which cash is tied up in work in progress, to improve utilisation of inventory by better aligning the purchase of new inventory with forecast sales demand and to focus on debtor collection and overdue debts. Once the Group completes its on-going operational restructuring initiatives, including its headcount reduction plans, the Group expects the level of exceptional restructuring cash costs to reduce significantly. Paydown of New Junior Notes The Group expects to generate cash to pay down the New Junior Notes primarily from the proceeds of the disposal of OPP and North American Access, and other asset disposals not allocated to working capital requirements, as described above, as well as from the release of restricted cash balances relating to performance bonding. The North American Access Business may be sold prior to 1 May 2003, in which event, the net proceeds of the disposal will be applied to increase the cash element of the Corp Scheme Consideration (and the aggregate principal amount of the New Junior Notes will be decreased by 10/11ths of that amount).

**SITE RATIONALISATION AND CLOSURES** Since March 2002, the Group has further rationalised its remaining supply chain facilities in the UK, US, Germany and Italy.

**55 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A -----** It has also closed its outsourced printed circuit board (PCB) assembly and manufacturing facility in Liverpool and merged these activities with the facility managed by Jabil Circuit, Inc. (Jabil) in Coventry, and closed its facility in Ireland and transferred these manufacturing operations to Pittsburgh (US). In addition, Marconi has closed its SONET manufacturing facility in Montreal (Canada) as a result of the Group's decision to cease further development of this technology, and has reduced the number of production facilities for its outside plant and power equipment from nine to seven with the closure of two plants in Wisconsin and Illinois (US). In total, these site rationalisations and closures have resulted in a total reduction of 6,305 employees from the Core businesses between April and November 2002 as the businesses have been reduced/adjusted to align cost with the current and expected business volumes. Today, the Group's principal operating sites are Coventry, Beeston, Chorley, Camberley, Liverpool, London, Stafford and Wellingborough (UK); Florida, Pennsylvania, Ontario, Georgia, Mississippi, North Carolina, Illinois, Texas and Montreal (US & Canada); Genoa, Marcianise and Pisa (Italy); Backnang, Offenburg, Frankfurt and Radeberg (Germany); Madrid (Spain); Melbourne and Sydney (Australia); Beijing, Guilin and Hong Kong (China); Darulam and Kuala Lumpur (Malaysia); Auckland (New Zealand); New Delhi (India); Riyadh (Saudi Arabia); Dubai (United Arab Emirates); Springs (South Africa); Sao Paulo and Votorantim (Brazil); and Naucalpan de Juarez and Huixquilucan Edo de Mexico (Mexico).

**OUTSOURCING** Marconi Communications and Jabil Circuit, Inc. (Jabil) entered into an agreement on 11 January 2001 to transfer certain manufacturing operations to Jabil. The transfer was completed in the UK, Italy and the US during 2001. The planned transfer of the Group's facility in Offenburg (Germany) did not proceed. Under the terms of the agreement, approximately 1,800 Group employees in Bedford, Texas (US), Liverpool and Coventry (UK) and Marcianise (Italy) transferred to Jabil. Following the business transfers, Jabil and its subsidiaries entered into agreements with Marconi Communications and other members of the Group to provide electronics manufacturing and repairs services until June 2005 on an exclusive basis. The operations outsourced under this agreement comprise the assembly and manufacture of PCBs used in the production of the Group's optical networking and broadband access equipment. The Group continues to perform the final assembly stages where the optical layer and power supply are applied to the PCBs. It also configures and tests the products according to the customers' specification and then packages and delivers the products to customers. The majority of

the Group's PCB assembly and manufacture for its broadband switching and routing equipment is already outsourced to Jabil (Florida) and Solectron (Texas). The Group has retained control of the manufacture of its fixed wireless access equipment in Germany. Since the outsourcing to Jabil was implemented, Marconi Communications and Jabil have regularly reviewed their arrangements with a view to improving the efficiency of their respective operations. For example, the transferred plant at Bedford, Texas (US) was closed during 2002. On 22 January 2003, Marconi Communications and Jabil agreed to a further rationalisation of Jabil's UK operations which is intended to deliver improved pricing for the Group. The Group will contribute towards the costs of securing these improvements. As part of these arrangements, Marconi Communications and Jabil have entered into new agreements governing the provision of electronics manufacturing and repair services by Jabil, which will provide for more flexible and competitive pricing and are currently expected to take effect from June 2003. Under these new agreements, Jabil will continue to provide services to the Group until at least June 2005 (the expiry date of the original service agreements), and to June 2007 for certain repair services. Jabil will continue, subject to meeting certain performance and capacity requirements, as the exclusive supplier for products and services covered by the agreements. Marconi Communications and Jabil will continue to review their arrangements from time to time and, where further improvement plans are agreed, Marconi Communications may contribute to the costs of securing those improvements.

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----- In addition to the arrangements with Jabil, Marconi Communications has established strategic relationships with a number of contract electronic manufacturers (CEMs), OEMs and component commodity suppliers. Examples of CEMs with whom Marconi Communications has established strategic relationships include Solectron Corporation, Sanmina/SCI and Teradyne. Examples of the OEMs include Hewlett-Packard, Siemens, Paradyne Corporation and Avaya. Finally, examples of component commodity suppliers include Bookham Technology, Corning Incorporated, Highwave, Intel Corporation, Molex, Motorola, NEC Electronics and Toshiba. As part of the Group's overall manufacturing strategy, the Group is currently considering further potential outsourcing opportunities in its supply chain, logistics organisations and in the field of information technology. The Group intends to retain control of functions only where it possesses key competencies. Other functions, such as the manufacturing of non-complex products, will continue to be outsourced where suitable partners can be identified. A discussion of certain risks associated with outsourcing is set out in Part F of this document.

A.8 CURRENT APPLICATION OF CRITICAL ACCOUNTING POLICIES Corp and plc prepare their financial statements and accompanying notes in accordance with UK GAAP. One of the notes to the financial statements included in this document describes the significant accounting policies used in their preparation. The preparation of such financial statements requires Corp and plc to make estimates, judgements, and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Corp and plc base their estimates on historical experience and various other assumptions that they believe are reasonable under the circumstances, the results of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Corp and plc believe that the following are some of the more critical judgement areas in the application of their accounting policies that currently affect their financial position and results of operations. The development and selection of these critical accounting estimates has been discussed with Corp's and plc's audit committees.

REVENUE RECOGNITION Revenue is recognised when all of the following conditions are satisfied: (i) there is persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the fee is fixed or determinable; and (iv) it is probable that the debtor will be converted into cash. It is common for the Group's sales agreements to cover the delivery of several products and/or services. These range from arrangements where a contract covers the delivery and installation of equipment to more complex arrangements, which also include training of customer personnel, sale of software and other support services. Revenue from contracts with multiple element arrangements, such as those including installation and commissioning services, is recognised as each element is earned based on objective evidence of the relative fair values of each element and when there are no undelivered elements that are essential to the functionality of the delivered elements. Revenues and estimated profits on long-term contracts are recognised under the percentage-of-completion method of accounting using a cost-to-cost methodology. Significant judgement is required in determining progress toward completion and in estimating revenues and costs. Profit estimates are revised periodically based on changes in facts in

the underlying contract. When estimates of total contract revenues and costs indicate a loss, a provision for the entire amount of the contract loss is recognised in the period in which the loss becomes foreseeable. Advance payments received from contracts are recorded as a liability unless there is a right of set-off against the value of work undertaken.

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----- IMPAIRMENT OF LONG-LIVED ASSETS The Group reviews the carrying value of other fixed assets and assets to be disposed of, including other intangible assets, whenever indicators of impairment exist. Indicators of impairment include (but are not limited to): a. a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; b. a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; and c. a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. These tests for impairment require significant judgements in determining estimates of future cash flows and the resulting value in use of the relevant fixed asset. Estimations of the present value of future cash flows contain inherent uncertainty and include estimates of market size and market share information, growth rates, product demand and technological development, costs of labour and supplier purchases, working capital requirements, and discount rates to be applied to future cash flows. If the carrying value of a fixed asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the fixed asset exceeds the higher of its net realisable value or its value-in-use. Changes in estimates of future cash flows can affect the determination of the net realisable value or its value-in-use of the relevant fixed asset.

CONTINGENT LIABILITIES Corp and plc are subject to legal proceedings and other claims arising in the ordinary course of business. Various claims and proceedings have been or may be instituted or asserted against Corp and plc relating to class shareholder actions and the conduct of their businesses, including those pertaining to patents, environmental, safety and health, employment and contract matters. Corp and plc are required to assess the likelihood of any adverse judgements or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is based on a careful analysis of each individual issue with, where appropriate, the assistance of outside legal counsel to formulate best estimates of the expected outcome and settlement. The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavourably compared to the amounts estimated.

PENSION AND OTHER POST-RETIREMENT BENEFITS Pension and other post-retirement benefits' costs and obligations are dependent on actuarial assumptions used in calculating such amounts. These assumptions include discount rates, health care cost trend rates, benefits earned, interest cost, expected return on plan assets, mortality rates, and other factors. While Corp and plc believe that the assumptions used are appropriate, the assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of future pension or post retirement benefits expense and the resulting liability.

PRODUCT WARRANTIES Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information on the nature, frequency, and average cost of warranty claims. The Group actively studies trends of warranty claims and takes action to improve equipment quality and minimise warranty claims. Actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. If Corp and plc were to experience an increase in warranty claims compared with their historical experience, or if costs of servicing warranty claims were greater than the expectations on which the accrual had been based, the Groups' gross margins could be adversely affected.

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----- A.9 CURRENT TRADING AND PROSPECTS

CURRENT TRADING Overall conditions in the telecommunications market remained tough during the third quarter of the financial year ending 31 March 2003. Trading levels in EMEA in the third quarter remained stable despite the continuing difficult market environment. The Group is now beginning to observe some slowing of business in the Middle East as a result of the current political environment. The North American market continues to be characterised by further tightening of capital expenditure by a number of large telecommunications operators, particularly towards the end of their financial years in December 2002. In Central and Latin America (CALA), the market was relatively

stable during the quarter although capital expenditure amongst major operators in the region remained at a low level. In Asia-Pacific (APAC), while the market remains buoyant in Australia, conditions in the Chinese market are more difficult as a result of delays in capital expenditure due to the reorganisation of key customers, delay to the roll-out of certain network build projects and increased pricing pressure on new business. Despite the difficult market environment, the Group continued to make significant progress during the third quarter of the financial year ending 31 March 2003 towards its targets to improve operating performance in the Core business. In particular compared to the previous quarter, further cost savings achieved during the period led to an approximate 0.5 percentage point increase in Core gross margin (before exceptional items) to 22.1 per cent. and an approximate L85 million deduction in Core operating cost run-rate (before goodwill amortisation and exceptional items) to around L550 million at 31 December 2002. Headcount reductions are a major driver of the Group's cost reduction initiatives. At 31 December 2002, the Group had just over 16,000 employees in its Core business, down from just over 19,000 at 30 September 2002. The Group's improved operating performance combined with further progress in all areas of working capital management, led to a significant improvement in adjusted operating cash flow, with the Group recording an operating cash inflow (before exceptional items) of L72 million during the quarter. Non-operating and exceptional cash outflows (excluding tax) of L88 million relating mainly to the Group's ongoing operational and financial restructuring processes and interest paid were partially offset by a net L45 million tax repayment received during the period. In total during the third quarter, the Group generated cash of L29 million before use of liquid resources and financing. The Group was awarded a number of important business wins during the period. These included the first European sale of the Group's BXR-48000 multi-service switch-router to a large financial institution and the first sale of the Group's recently launched Softswitch to Jersey Telecom. In addition, since the beginning of the new calendar year 2003, the Group has announced two major new business wins from Telecom Italia: a euro 80 million (approximately L50 million) frame contract for the supply of the Access Hub and a new 2-year frame contract estimated at approximately euro 15 million (approximately L10 million) to build an optical backbone network architecture based on the Group's next generation digital cross-connect, the MSH2K. PROSPECTS Upon completion of the Restructuring, Corp and plc expect the Group to be better-positioned to compete effectively in the areas of the broader telecommunications equipment market on which it has chosen to focus. The market for telecommunications equipment and services remains difficult. During the first three quarters of the financial year ending 31 March 2003 the annualised rate of Core sales has declined by around 10 per cent. from approximately L2 billion in the first quarter to approximately L1.8 billion in the third quarter. Corp and plc do not expect that the Group will benefit from a seasonal uplift in Core sales during the fourth quarter of the financial year compared to the level recorded in the third quarter (L456 million), contrary to the seasonal pattern of customer demand in previous years. Despite this difficult business environment Corp and plc believe that the previously announced cost reduction initiatives currently being implemented will enable the Group to make further progress during the final quarter of the financial year ending 31 March 2003 towards its near term financial objectives to reduce costs and to achieve operating cash breakeven before exceptional cash costs.

Furthermore, Corp and plc believe that market volumes are likely to contract further during the financial year ending 31 March 2004 and do not expect to benefit from significant market share gains. As a result, the Group 59 I.

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----- believes that Core sales could decline by up to a further 5 per cent. during the financial year ending 31 March 2004 compared to the annualised third quarter trading levels (L1.8 billion). In December 2002, the Group outlined its Core operating model and confirmed its targets to achieve a gross margin run-rate in the range of at least 24 to 27 per cent. of Core sales and an operating expenditure run-rate in the range of 21 to 24 per cent. of Core sales during the financial year ending 31 March 2004. The Group now believes that it will be able to reduce the Core operating cost base to an annual run rate below L450 million during the next financial year ending 31 March 2004 and thereby reduce its breakeven level of sales to below L1.7 billion per annum. An illustration of the effect of the Corp Scheme and the Capital Reduction on the 30 September 2002 consolidated balance sheet of Corp is contained in Appendix 2. Although the Group's principal markets remain difficult, Corp and plc expect them to recover, at some stage, as end customer demand for fixed or mobile broadband services increases. While Corp and plc cannot predict with any level of certainty the occurrence, timing or extent of any recovery, they believe that the favourable longer-term dynamics of the telecommunications market should enable the Group to improve margin and grow profitably. A.10 DIRECTORS, SENIOR MANAGEMENT AND

EMPLOYEES DIRECTORS OF CORP The current members of the Board are: Name Position Age ---- ----- ---  
 John Francis Devaney Chairman 56 Michael William John Parton Chief Executive Officer 48 Michael John Donovan  
 Chief Operating Officer 49 Christopher Charles Holden Interim Chief Financial Officer 54 Michael Kent Atkinson  
 Non-Executive Director 57 Werner Karl Koepf Non-Executive Director 61 The following individuals have agreed to  
 become members of the Board on Listing of the New Shares, the New Notes and the Warrants: Name Position Age  
 ---- ----- --- Ian McMaster Clubb Non-Executive Director 62 Kathleen Ruth Flaherty Non-Executive Director 51

DIRECTORS OF PLC The current members of the Board are: Name Position Age ---- ----- --- John Francis  
 Devaney Chairman 56 Michael William John Parton Chief Executive Officer 48 Michael John Donovan Chief  
 Operating Officer 49 Christopher Charles Holden Interim Chief Financial Officer 54 Michael Kent Atkinson  
 Non-Executive Director 57 Derek Charles Bonham Non-Executive Director 59 Werner Karl Koepf Non-Executive  
 Director 61 60 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE  
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----- FURTHER PARTICULARS OF THE  
 DIRECTORS OF CORP AND PLC AND OF THE INDIVIDUALS WHO HAVE AGREED TO BECOME  
 DIRECTORS OF CORP John Francis Devaney was appointed Chairman of the board of directors of Corp and plc on  
 16 December 2002. He is also chairman of the nomination committee. He stepped down in September 2002 as  
 chairman of EXEL plc, and was a non-executive director of HSBC Bank plc from 1994 to 2000 and British Steel (now  
 known as Corus UK Limited) from 1998 to 1999. He was executive chairman of Eastern Electricity Ltd (now known  
 as Eastern Energy Management Ltd) until 1998 and prior to that executive chairman of Kelsey-Hayes Corporation. Mr  
 Devaney was until recently, chairman of Liberata plc, and is founder and chairman of BizzEnergy Ltd. He is also a  
 director and past chairman of EA Technology Limited. Michael William John Parton was appointed to the board of  
 directors of plc in January 2000 and became a director of Corp in November 2001. Mr Parton was appointed Chief  
 Executive Officer of plc in September 2001. He has held a number of finance appointments in ICL plc (1977 to 1980),  
 GEC-Marconi Ltd (1980 to 1986) and STC Telecommunications Ltd (1986 to 1991). He joined GEC in 1991 as  
 Finance Director of GPT (now known as Marconi Communications Limited), GEC's telecommunications joint venture  
 with Siemens, and was appointed Managing Director of GPT's public networks group in 1995, Managing Director of  
 GEC's industrial group in 1997 and Chief Executive Officer of Marconi Communications in July 1998. Michael John  
 Donovan was appointed to the board of directors of plc in January 2000 and became a director of Corp in November  
 2001. Mr Donovan was Chief Executive Officer of Marconi Systems and Marconi Capital and in September 2001 was  
 appointed Chief Operating Officer of plc. He previously held a number of executive management positions in the  
 Rover Group (1976 to 1991), Vickers plc (1991 to 1994) and British Aerospace Plc (now known as BAE SYSTEMS  
 plc) (1994 to 1998). Mr Donovan became Chief Executive Officer of GEC's industrial electronics group in 1998 and is  
 based in the US. Christopher Charles Holden was appointed to the board of plc and Corp in November 2002. Mr  
 Holden was appointed Group Financial Controller in the summer of 2002 and as interim Chief Financial Officer of  
 Corp and plc in November 2002. He became a partner with Arthur Andersen's auditing practice in 1983, having joined  
 the firm in 1971. During his period with the firm, he held a number of senior international roles. He holds a BSc (Eng)  
 in Metallurgical Engineering from Imperial College of Science and Technology, University of London, and is a  
 Fellow of the Institute of Chartered Accountants of England and Wales. Michael Kent Atkinson was appointed  
 non-executive director of Corp and plc in December 2002. He is also chairman of the audit committee. Previously he  
 served as group finance director at Lloyds TSB Group plc between 1994 and June 2002, and remains on that board as  
 a non-executive director. Mr Atkinson spent his early career in Latin America and the Middle East and held various  
 senior management roles internationally and in the UK for 24 years before becoming Lloyds TSB Group plc's finance  
 director. Mr Atkinson is also the senior non- executive director of Coca-Cola HBC S.A. (Athens) and chairman of its  
 audit committee and will join the board of Cookson Group plc on 1 April 2003 as a non-executive director and  
 chairman of its audit committee. Derek Charles Bonham was appointed to the Board of plc in April 2001. Mr Bonham  
 was appointed interim Chairman of plc in September 2001. He stood down from the chairmanship of plc on 16  
 December 2002 and remains a non-executive director of plc. He is currently chairman of Cadbury Schweppes plc,  
 CamAxys Group Plc and Imperial Tobacco Group plc and was chief executive (from 1992) and deputy chairman  
 (from 1993) of Hanson plc until 1997. He is a past member of the Financial Accounting Standards Advisory Council  
 (USA) and served on the Accounting Standards Committee (UK). Werner Karl Koepf was appointed as a  
 non-executive director of Corp and plc in December 2002. He was CEO of Compaq Computer Corporation for the

EMEA region until 2002 and is a director of PXP Software AG (formerly Pixelpark CEE Holding AG) as well as an adviser to venture capital company Techno Venture Management GmbH. He has held a range of senior management positions with some of the world's leading technology companies, including Texas Instruments, Siemens and European Silicon Structures S.A. Ian McMaster Clubb has over 25 years experience in a range of senior financial and management roles. He is chairman of First Choice plc, Shanks Group plc and Platinum Investment Trust plc. He is also a non-executive director of oil industry services company, Expro International plc. He was group finance director at BOC Group 61 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- plc (1991-1994) and deputy chief executive and group finance director at British Satellite Broadcasting Ltd (1989-1991). Kathleen Ruth Flaherty is a US based global telecommunications executive with over twenty years' experience in the communications industry. She has spent seventeen years with MCI Communications Corporation, latterly as senior vice president, global product architecture and engineering. Previously (1995-1997) she spent two years on secondment from MCI to BT, during which time she was BT's marketing director for National Business Communications. Between 1998 and 2001, she was in Brussels and New York as president and chief operating officer of Winstar International, a fixed wireless communications company. SENIOR MANAGEMENT In addition to the Executive Directors, the current members of the senior executive management team are: Name Position Age ---- ----- --- David Clive Beck Director of Communications 40 Geoffrey William Doy Chief Executive Officer, Sales and 54 Marketing Mary Angela Skelly Company Secretary and Head of Legal 42 Damian Hugh Reid Chief Strategy Officer 40 Neil David Sutcliffe Chief Human Resources Officer 41 Michael Francis Surrey EVP Finance, Operations and Group 36 Contoller Patricia Dooley EVP Product Engineering 32 All members of the senior executive management team are employees of Corp save for Geoffrey Doy, who is employed by MCI. David Clive Beck was appointed Director of Communications of plc in February 2002 having previously been Managing Director of Bell Pottinger Financial, part of the Chime Communications Group, where he held a number of positions over 15 years. Geoffrey William Doy was appointed Chief Executive Officer, Sales and Marketing of plc in September 2001. He was appointed Chief Executive Officer of Marconi Wireless in April 2001. He held a number of positions in the IT and communications industries with Software Sciences Limited from 1983 to 1988, Artemis International from 1988 to 1993 and Gemini Consulting Inc. from 1995 to 1998 before joining Metapath Software International Inc. in August 1998. Mary Angela Skelly was appointed Company Secretary in July 2002. She was formerly a director and group company secretary of The Albert Fisher Group plc (in administrative receivership). Damian Hugh Reid was appointed Chief Strategy Officer of plc in September 2001 having previously served as Senior Vice President, Corporate Finance of plc. He joined GEC in 1998. Mr. Reid is a non-executive director of Atlantic Telecom Group PLC (in liquidation). Neil David Sutcliffe was appointed Chief Human Resources Officer of plc in March 2002, in addition to his appointment in September 2001 as Chief Executive Officer of Marconi Capital. He was previously Chief Executive Officer of Marconi Services and has held a number of senior appointments in Marconi Communications and GPT Ltd. Prior to his joining GPT Ltd in 1992, he was a manufacturing consultant at Coopers and Lybrand from 1988 to 1992 and a systems engineer with British Aerospace plc (now known as BAE SYSTEMS plc) from 1984 to 1988. Michael Francis Surrey was appointed EVP Finance -- Operations and Group Contoller for plc in November 2002 with responsibility for all aspects of the Group's performance monitoring and management reporting systems. He joined GEC in 1992 and has held a broad range of financial management positions with the Group. Mr Surrey holds a degree in accounting and economics from the University of Manchester and is a member of the Institute of Chartered Accountants of England and Wales. Patricia Dooley was appointed as EVP Product Engineering for Marconi's European portfolio in October 2002 with responsibility for product line management, technical product strategy and product development. The 62 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART A

----- portfolio covers Optical Networks, ETSI Access, Fixed Wireless and Voice Switching products. She joined GEC in 1987 as an engineering apprentice and has held a number of management and senior management positions in the Group. She holds an Ordinary National Diploma and Higher National Diploma in telecommunications and electrical engineering and post-graduate certificate in software engineering. EMPLOYEES The table below sets out the average number of people (full time equivalents) employed by the Group in the previous three financial years and the six months ended 30 September 2002: 30 September 2000





publication of the Higgs "Review of the Role and Effectiveness of Non-Executive Directors" and the Smith Report "Audit Committees -- Combined Code Guidance", Corp intends to review those areas of its corporate governance which are impacted by the Review and the Report. This will include the structures and terms of reference of its committees, in order to ensure the Corp's continued future compliance with the requirements of the Combined Code. In particular, Corp believes that it should move to a position where the majority of its Board are independent Non-Executive Directors. Although Corp does not envisage that any further non-executives will be appointed to the Board before the Listing of the New Shares, the New Notes and the Warrants, Corp will continue to look for suitable candidates to join the Board as independent Non-Executive Directors, where they can bring appropriate experience or industry knowledge. A process is already in place to identify further suitable candidates. Following a further appointment which it expects will be made within three months of the Effective Date, Corp will at all times strive to ensure that it maintains a majority of independent Non-Executive Directors on its Board by within 64 I.

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----- three months of ceasing to have such a majority, appointing additional independent Non-Executive Directors or reducing the size of the Board. Corp's executive committee comprises such Executive Directors and senior executives of the Corp Group as the Chief Executive Officer recommends and the Board approves. The committee normally meets monthly and is chaired by Michael Parton. Its other members are Michael Donovan, Christopher Holden, David Beck, Geoffrey Doy, Mary Skelly, Damian Reid, Neil Sutcliffe, Michael Surrey and Patricia Dooley. The committee approves the Corp Group's business plan, budget and strategies in areas including technology, people, information technology and corporate communications prior to submission to the Board for approval. It also approves day-to-day matters of a routine nature. The business risk sub-committee of the executive committee comprises the members of the executive committee and meets at least four times a year. It establishes and monitors risk management goals and objectives, embeds a risk monitoring and assessment process throughout the Corp Group and regularly reports on the same to the Board. The sub-committee also liaises with the audit committee to ensure a sound system of internal control and reports to the audit committee, at least annually, with an update on the Corp Group's risk management system. Corp will also be subject to applicable corporate governance requirements under US law (including the Sarbanes-Oxley Act of 2002 and regulations adopted by the SEC thereunder) and, after the listing of its ADRs becomes effective, NASDAQ rules.

A.11 FINANCIAL INFORMATION AND CORP'S DISCUSSION AND ANALYSIS OF ITS FINANCIAL CONDITION AND RESULTS OF OPERATIONS Financial information for the three years and six months ended 30 September 2002 in relation to Corp is set out in Appendix 1. An unaudited pro forma consolidated balance sheet in relation to Corp is set out in Appendix 2, showing figures as at 30 September 2002 to illustrate the position as if the Restructuring and the Capital Reduction had then taken place, based on certain assumptions set out in that Appendix. Financial information for the two years and six months ended 30 September 2002 in relation to plc is set out in Appendix 3. plc's quarterly report for the three months ended 31 December 2002 was published on 18 March 2003. That report, which is unaudited, is set out in Part A of Appendix 4. An illustrative financial analysis with respect to the year ending 31 March 2005 and information on cash to be retained by the Group immediately following the Restructuring were also published on 18 March 2003. These are set out in Part B of Appendix 4. A discussion of the Corp Group's financial condition and results of operations for the three years and six months ended 30 September 2002 is at Appendix 5. 65 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART B

----- B. BACKGROUND TO AND REASONS FOR THE RESTRUCTURING The trading statement made by plc on 17 May 2001 in relation to the Group's results for the year ended 31 March 2001 highlighted the fact that conditions in the telecommunications equipment sector had experienced a downturn since the end of 2000. On 4 July 2001, plc issued a profits warning noting that market conditions during the three months to June 2001 had been much tougher than expected, and that there had been a marked deterioration in the short-term outlook for the Group (in particular, that sales were expected to be down by 15 per cent. and operating profit before exceptional items by 50 per cent. compared with the previous financial year). Immediately prior to the announcement, plc suspended trading in its shares for a day. On 6 July 2001, plc announced the resignation of John Mayo as Deputy Chief Executive of plc. An operational review of the Group was commenced shortly thereafter, the outcome of which included sharper focus on the Core carrier-class network communications

business and a disposal programme in relation to certain non-Core businesses and assets. plc issued a second profits warning on 4 September 2001. The 4 September 2001 trading statement, which indicated that a first half operating loss of L227 million was expected, also announced a change in senior management (namely the resignations of Sir Roger Hurn and Lord Simpson as Chairman and Chief Executive respectively of plc, and the appointment of Derek Bonham as interim Chairman and Michael Parton as Chief Executive), a decision to halt dividend payments for the financial year ending 31 March 2002 and the implementation of further cost reduction measures. In October 2001, in view of the deterioration in the Group's financial condition and the need to procure medium term financing for the Group, Corp and plc entered into negotiations with the Syndicate Banks for the refinancing of Corp's then existing E4.5 billion and (undrawn) E3 billion revolving credit facilities (due to mature in March 2003 and May 2002 respectively) (referred to in this Part B as the "EXISTING SYNDICATED FACILITIES"). By mid-March 2002, Corp and plc had largely agreed the terms of a L1.95 billion facility agreement with the then Syndicate Banks in order to refinance the existing syndicated facilities. However, market conditions had continued to deteriorate and, following further reviews of the Group's then business plan in the second half of March 2002, the boards of Corp and plc reached the view that the refinancing proposal would no longer provide the Group with an appropriate capital structure and, accordingly, that they were unable to enter into the proposed new L1.95 billion facility. On 22 March 2002, plc made an announcement to this effect and announced also that Corp and plc had agreed to cancel the undrawn commitments under the existing syndicated facilities (as the E3 billion facility was undrawn, this resulted in the complete cancellation of this facility) and to place on demand the drawn portion of the E4.5 billion facility (approximately L2.2 billion). Over subsequent weeks, the Group developed a revised Business Plan, which was then presented to representatives of the Syndicate Banks and to the Informal Committee of Bondholders. In parallel, Corp and plc commenced tripartite discussions with those representatives with a view to Corp and plc formulating a Restructuring proposal. As part of that negotiation process, in April/May 2002 Corp and plc agreed to certain restrictions on financial and corporate activities during the Restructuring process, in the form of undertakings given by Corp and plc (in relation to each member of the Group) in favour of the Syndicate Banks and members of the Informal Committee of Bondholders respectively. These undertakings, which were modified and renewed on 28 March 2003, are aimed at preservation of the "status quo" over the period of the Restructuring negotiations and while the Schemes are pending. The undertakings contain a number of carve outs designed to preserve operational (but not strategic) flexibility and to facilitate the implementation of the Restructuring. The undertakings will terminate automatically on the Effective Date of the Corp Scheme. With effect from 1 April 2002, and also as part of the undertakings, Corp agreed to increase the margin above LIBOR on Corp's drawings under the Bank Facility to 2.25 per cent. per annum. As part of the undertakings, Corp agreed to deposit L850 million of the Group's cash balance into certain accounts held with banks independent of the Syndicate Banks, and agreed to restrictions on withdrawals of cash from those accounts. The Lockbox Accounts, into which the L850 million was deposited on 3 May 2002, are held in the name of Highrose Limited, a special purpose subsidiary of Corp.

66 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART B ----- On 29 August 2002, the Group announced that following good faith negotiations with the Co-ordination Committee and the Informal Committee of Bondholders, it had concluded non-binding indicative Heads of Terms setting out principles for the Restructuring of Corp and plc. On 13 September 2002, as detailed further in Part D.1 of this Section, the Group announced the grant of interim security over the Lockbox Accounts, in favour of the Group's Bank Creditors and Secured Bondholders and Barclays Bank PLC, as the only ESOP Derivative Bank which committed to support the Restructuring prior to 15 October 2002. Although withdrawals from the Lockbox Accounts to fund the Group's working capital requirements since May 2002 have reduced the balance of the Lockbox Accounts, significant disposal proceeds have been paid into the Lockbox Accounts, as required under the undertakings. At the date of the granting of the interim security, the balance held in the Lockbox Accounts was approximately L866 million. As at 27 March 2003, the balance held in the Lockbox Accounts was approximately L770.7 million. On 16 December 2002, plc announced modifications to the non-binding indicative Heads of Terms and amendments to the interim security over the Lockbox Accounts. The interim security was further amended on 28 March 2003 (see Part D.1 of this Section). Provision has been made for the interim security to be released prior to the Corp Scheme Meeting (in circumstances tied to the prospects of the Corp Scheme being successfully implemented (as described more fully in Part D.1 of this Section)). If the interim security has not been released prior to the Corp Scheme Meeting, neither Corp nor plc will

proceed with their respective Schemes and the interim security will remain in place in any subsequent insolvency proceedings, meaning that the Bank Creditors, Secured Bondholders and Barclays Bank PLC (as the only ESOP Derivative Bank that committed to support the Restructuring prior to 15 October 2002) would rank ahead of all unsecured creditors of Corp with respect to the cash held in the Lockbox Accounts. If the interim security is released and the Corp Scheme Meeting proceeds, the choice facing all Corp Scheme Creditors will be the same: either the Corp Scheme will be approved and implemented, or the Corp Scheme will be rejected and in the inevitable insolvency proceeding which would follow such rejection the interim security would no longer be in place. The Syndicate Banks and the Informal Committee of Bondholders have indicated that they will not be prepared to release the interim security prior to the Corp Scheme Meeting unless, immediately before such release, Corp has confirmed to the Prospective Supervisors that Corp remains satisfied that the reserves built into the Corp Scheme are sufficient to meet distributions to all Corp Scheme Creditors and that Corp remains of the opinion that its statement as to the Corp Group's working capital contained in Part D.21 of this Section remains valid, and the Prospective Supervisors have confirmed to Corp that they have no reason to disagree with Corp's view that the reserves built into the Corp Scheme are sufficient to meet distributions due to be made to all Corp Scheme Creditors. On 18 March 2003, plc announced that documentation in relation to the proposed Restructuring had been filed with the Court and provided an update on certain aspects of the Restructuring. On 26 March 2003 and 24 March 2003 respectively the required consents were received to certain pre-completion steps for the Restructuring from the requisite majorities of the Syndicate Banks and the members of the Informal Committee of Bondholders. On 26 March 2003, Corp and plc entered into a definitive agreement with the Group's ESOP Derivative Banks for a settlement of their ESOP derivative related claims against the Group. Under the terms of the settlement, which is conditional upon the Corp Scheme becoming effective, Corp will pay a total of L35 million to the ESOP Derivative Banks in full and final settlement of their ESOP related claims against the Group. On 28 March 2003, the undertakings agreed by Corp and plc in April and May 2002 were renewed and modified. As a result of that modification, on the release of the interim security the "Lockbox" provisions of the undertakings will govern withdrawals of cash from the Lockbox Accounts (see Part D.1 of this Section). 67 I.

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----- Since August 2001, in view of the deterioration in the Group's financial condition, there have been the following credit rating downgrades in respect of the Group: Standard & Poor's 6 August 2001, BBB+ to BBB- 5 September 2001, BBB- to BB 21 Jan 2002, BB to B+ 22 March 2002, B+ to B- 4 April 2002, B- to CC Moody's 10 August 2001, A3 to Baa2 7 September 2001, Baa2 to Ba1 15 October 2001, Ba1 to Ba3 15 January 2002, Ba3 to B1 26 March 2002, B1 to Caa3 Corp and plc believe that there are only two possible outcomes of the Group's current financial difficulties, which are the reorganisation of their liabilities through the proposed Schemes or the placing of the companies into administration or liquidation. As discussed in Part C.10 of this Section, Appendix 6 contains an insolvency analysis providing a detailed analysis of the position of Corp and plc should they be subject to insolvency proceedings (and the assumptions, caveats, limitations and uncertainties on which such analysis is based). 68 I.

EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- C. PROPOSED RESTRUCTURING C.1

OVERVIEW The Restructuring will be effected through two schemes of arrangement under the Act. A scheme of arrangement is a court-supervised procedure under English law through which a company may enter into a compromise or arrangement with its creditors to effect a restructuring of its financial obligations. The Corp scheme of arrangement will involve all creditors of Corp at the Record Date, excluding certain categories of creditors, but including the Syndicate Banks and Bondholders to whom the Group's primary financial indebtedness is owed. The plc scheme of arrangement will involve all creditors of plc at the Record Date, excluding certain categories of creditors, the liabilities to some of which are to be novated to Corp (with effect from the Effective Date of the Corp Scheme), but including the Syndicate Banks and Bondholders. Creditors whose claims are to be compromised through the Schemes are referred to as "SCHEME CREDITORS" (but see "Definitions and Interpretation" on page 12 for a further explanation of this term) and the claims of these creditors are referred to as "SCHEME CLAIMS". Assuming the English Court makes an order sanctioning the Schemes, Corp and plc will apply, before the Schemes become effective, for permanent injunction orders under Section 304 of the US Bankruptcy Code (the "BANKRUPTCY CODE") to give effect to their respective Schemes. Through the Restructuring, Corp will become the new parent

holding company of the Group. All of plc's assets (net of a reserve to meet plc's Ongoing Costs) will be distributed to its creditors over time in accordance with the plc Scheme, following which it is intended that plc will be liquidated or dissolved.

**C.2 TERMS OF THE RESTRUCTURING CORP SCHEME** The Corp Scheme will compromise approximately L4.0 billion of externally held financial indebtedness, comprising principally the Bank Facility and the Bonds. In addition, the Corp Scheme will compromise certain other claims and contingent claims, including those discussed under "Summary of key actual and contingent claims" below. In exchange for the compromise of their Scheme Claims, Corp's Scheme Creditors will receive a distribution, pro rata in proportion to their Admitted Scheme Claims, of a package of cash and new equity and debt securities issued by Corp. This package of cash and securities is referred to as the "SCHEME CONSIDERATION". The Corp Scheme Consideration is to comprise the following: a. CASH: L340 million cash; b. NEW SENIOR NOTES: the euro equivalent (calculated at the Currency Rate) of L450 million in aggregate principal amount of new guaranteed senior secured notes due April 2008 to be issued by Corp denominated in euro and/or US dollars, subject to elections made in Claim Forms and Account Holder Letters, with interest payable quarterly in cash at a rate of 8 per cent. per annum; c. NEW JUNIOR NOTES: the sum of US\$300 million plus the US dollar equivalent (calculated at the Currency Rate) of L117.27 million in aggregate principal amount of new guaranteed junior secured notes due October 2008 to be issued by Corp denominated in US dollars, with interest payable quarterly in cash at a rate of 10 per cent. per annum or, at Corp's option, in kind (by issuing additional New Junior Notes) at a rate of 12 per cent. per annum; and d. NEW SHARES: 995,000,000 ordinary shares, representing 99.5 per cent. of Corp's issued ordinary share capital immediately following implementation of the Restructuring. Elections may be made in Claim Forms and Account Holder Letters to have all or any portion of the New Shares deliverable pursuant to the Schemes delivered in the form of ADRs. The cash element of the distribution to Corp's Scheme Creditors will be increased by the net proceeds of any asset disposals, other than L82 million of excluded asset disposal proceeds, received on or after 1 December 2002 and before 1 May 2003, and the aggregate principal amount of the New Junior Notes will be decreased by 69 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- 10/11ths of the sterling amount by which the cash element is increased (such calculation to reduce the L117.27 figure referred to in c. above). PLC SCHEME The plc Scheme will compromise approximately L3.9 billion of externally held liabilities of plc as guarantor in respect of financial indebtedness, comprising principally the Bank Facility and the Bonds. In addition, the plc Scheme will compromise other claims and contingent claims, including those discussed under "Summary of key actual and contingent claims" below. In exchange for the compromise of their Scheme Claims, plc's Scheme Creditors will receive a distribution, pro rata to their Admitted Scheme Claims, of all plc's assets (net of a reserve for plc's Ongoing Costs). These assets will principally comprise a portion of the Scheme Consideration to be distributed by Corp pursuant to the Corp Scheme, which plc will receive as a result of a repayment of capital in specie by plc's wholly-owned subsidiary Ancrane, one of the Scheme Creditors of Corp.

**ELECTION TO RECEIVE AMERICAN DEPOSITARY RECEIPTS** Elections may be made in Claim Forms and Account Holder Letters to have all or any portion of the New Shares deliverable pursuant to the Schemes delivered in the form of ADRs. Any person who elects to receive New Shares in the form of ADRs will receive all future distributions of New Shares to which such person may be entitled pursuant to the Schemes in the form of ADRs. As described below, no depositary fees will be payable at any time in connection with the initial issuance of ADRs pursuant to the Schemes and any UK stamp duty or SDRT payable in this respect will be met by Corp. ADRs will be issued pursuant to the Schemes in reliance on the exemption from Securities Act registration provided by Section 3(a)(10) thereof (or, in the case of plc Shareholders, in transactions not subject to such registration). Following their initial issuance, such ADRs may be sold in ordinary secondary market transactions without restriction under the Securities Act (subject to the restrictions applicable to "affiliates" described in Part D.16 of this Section). In addition, a registration statement on Form F-6 will be filed with the SEC in relation to the ADRs. It is currently expected that this registration statement will be effective prior to the Effective Date of the Corp Scheme. Once this registration statement is effective, outstanding Corp Shares may be deposited into the ADR programme in exchange for ADRs. Such ADRs may then be sold in ordinary secondary market transactions without restriction under the Securities Act. Corp will apply to list the ADRs on NASDAQ and will use its reasonable endeavours to effect this NASDAQ listing as soon as practicable following the Effective Date of the Corp Scheme. It is currently expected that the NASDAQ listing will become effective during the third calendar

quarter of 2003. Persons who are considering making an election to receive New Shares in the form of ADRs should note that, unless and until the NASDAQ listing becomes effective, although ADRs will be free to trade over-the-counter, development of a liquid trading market for the ADRs will be inhibited, which is likely to have a material adverse effect on the value of the ADRs. A summary of the material terms of the ADRs is set out in Appendix 16. Information as to responsibility for fees and taxes in connection with ADRs is contained in Part D.15 of this Section. **NEW SHARES AND WARRANTS TO BE ISSUED TO PLC SHAREHOLDERS** As part of the Restructuring, plc Shareholders on the register as at the plc Shareholders Record Time will receive 5 million New Shares, representing 0.5 per cent. of Corp's issued ordinary share capital immediately following implementation of the Restructuring, along with up to 50 million Warrants to subscribe for additional shares equal to an aggregate of up to 5 per cent. of Corp's issued ordinary share capital at that date. Each existing plc Shareholder will receive at least one New Share. Warrant entitlements will be rounded down to the nearest whole Warrant and each Warrant will entitle its holder to subscribe one Corp Share (subject to adjustment in the event of certain corporate actions). The exercise price of the Warrants will be 150p per share (again subject to adjustment in the event of certain corporate actions). An ordinary share price of 150p implies a post Restructuring market capitalisation of Corp of approximately L1.5 billion. The Warrants will expire four years 70 I. **EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C** ----- after the Restructuring becomes effective if not exercised. The conditions of the Warrants are set out in Appendix 12. New Shares and Warrants will be given to plc Shareholders under the Corp Scheme. The New Shares are to be issued in return for the compromise and release of Scheme Claims against Corp by the Corp Scheme Creditors. The New Shares and Warrants to be given to plc Shareholders who hold their plc Shares in CREST will be credited to the same CREST accounts. plc Shareholders who hold a plc share certificate, are aged under 18 or have a registered address outside the UK, Channel Islands, Isle of Man or Ireland will receive a certificate in respect of their New Shares and, if applicable, Warrants. The New Shares and, if applicable, Warrants to be given to plc Shareholders who hold a plc share certificate, are aged under 18 or have a registered address outside the UK, Channel Islands, Isle of Man or Ireland will be held in a nominee account on their behalf operated by Corp's registrars. Pursuant to the Corp Scheme, New Shares will be issued to The Bank of New York, as depositary (the "PLC ADR DEPOSITARY") in respect of the existing American depositary receipt programme relating to the plc Shares (the "PLC ADR PROGRAMME"), in common with other plc Shareholders. In accordance with the deposit agreement for the plc ADR programme, plc and the plc ADR Depositary have consulted with respect to these New Shares, and have agreed that the plc ADR Depositary will arrange for persons who hold plc Shares in the form of American depositary receipts ("PLC ADRS") to receive their interest in respect of this distribution in the form of ADRs representing Corp Shares. No depositary fees will be payable in connection with the initial issuance of these ADRs. SDRT, however, will be payable in this connection at a rate of 1.5 per cent. of the market value of the New Shares deposited into the Corp ADR programme. The plc ADR Depositary will, on behalf of the holders of plc ADRs, sell any New Shares relating to their fractional ADR entitlements together with such number of additional New Shares to which they would be entitled as may be necessary to cover the amount of SDRT that is due. A summary of the material terms of the ADRs is set out in Appendix 16. Also pursuant to the Corp Scheme, Warrants will be issued to the plc ADR Depositary in common with other plc Shareholders. In accordance with the deposit agreement for the plc ADR programme, plc and the plc ADR Depositary have consulted with respect to these Warrants, and have determined that it is unlikely that a liquid market for Warrants will develop in the United States, and that it would be unreasonably costly to seek to distribute Warrants directly to holders of plc ADRs. Accordingly, at an appropriate time, the plc ADR Depositary will sell any such Warrants it has received and will distribute the net proceeds of such sale to holders of plc ADRs, all in accordance with the deposit agreement for the plc ADR programme. **C.3 TERMS OF THE NEW SENIOR NOTES AND THE NEW JUNIOR NOTES** Set out below is a summary of the principal terms of the New Notes comprising part of the Scheme Consideration. See Appendix 8 for the detailed terms of the New Notes and for definitions of terms used in this Part C.3 that are not otherwise defined in part V. **Principal Amount and Currency** The New Senior Notes will have an aggregate principal amount of the equivalent (calculated at the Currency Rate) of L450 million. Elections may be made in Claim Forms delivered under each Scheme and in Account Holder Letters to elect for all, but not part of, the New Senior Notes to be received by Scheme Creditors and Designated Recipients to be denominated in euros or US dollars. No New Senior Notes denominated in US dollars will be issued unless, based on all Claim Forms received before 5:00 p.m. (London time)

on 17 April 2003 and all Account Holder Letters delivered before 5:00 p.m. (New York City time) on 17 April 2003, elections have been made which would, if both Schemes become effective, result in an aggregate of at least the US dollar equivalent (calculated at the Currency Rate) of euro 250 million (less the Relevant Deduction) of New Senior Notes denominated in US dollars being required to be issued in the First Initial Distribution under both Schemes. No New Senior Notes denominated in euro will be issued unless, based on all Claim Forms received before 5:00 p.m.

(London time) on 17 April 2003 and all Account 71 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C -----

Holder Letters delivered before 5:00 p.m. (New York City time) on 17 April 2003, elections have been made which would, if both Schemes become effective, result in an aggregate of at least euro 250 million (less the Relevant Deduction) of New Senior Notes denominated in euro being required to be issued in the First Initial Distribution under both Schemes. The New Junior Notes will have an initial aggregate principal amount equal to the sum of US\$300 million plus the US dollar equivalent (calculated at the Currency Rate) of L117.27 million, unless the cash element of the distribution to Corp Scheme Creditors is increased by the net proceeds of any asset disposals (in which event, the initial aggregate principal amount of the New Junior Notes will be decreased by 10/11ths of the sterling amount by which the cash element is increased (such calculation to reduce the L117.27 million figure referred to above)). The New Junior Notes will be denominated in US dollars. Interest The New Senior Notes will bear interest from their issue date at a per annum rate of 8 per cent. payable quarterly in cash on each 15 January, 15 April, 15 July and 15 October, commencing 15 July 2003. On the first interest payment date for the New Senior Notes, Corp will pay, in addition to accrued interest on the outstanding principal amount of the New Senior Notes, an amount per New Senior Note equal to the amount of interest that would have accrued on such New Senior Note if such New Senior Note had been outstanding for the period from 1 May 2003 to the issue date of the New Notes. The New Junior Notes will bear interest from their issue date at a per annum rate of 10 per cent. payable quarterly in cash or, at Corp's option, at a per annum rate of 12 per cent. payable quarterly in kind (by issuing additional New Junior Notes to the holders of New Junior Notes) on each 31 January, 30 April, 31 July and 31 October, commencing 31 July 2003. On the first interest payment date for the New Junior Notes, Corp will pay, in addition to accrued interest on the outstanding principal amount of the New Junior Notes, an amount per New Junior Note equal to the amount of interest that would have accrued on such New Junior Note if such New Junior Note had been outstanding for the period from 1 May 2003 to the issue date of the New Notes. Maturity The New Senior Notes will mature on 30 April 2008. The New Junior Notes will mature on 31 October 2008. Optional Redemption All of the outstanding New Notes may be redeemed at Corp's option in whole, but not in part, at any time at a redemption price in cash equal to the greater of (i) 110 per cent. of their principal amount, and (ii) a make-whole amount equal to the sum of the present values of remaining scheduled payments of principal and interest, using a discount rate that is 50 basis points above the yield on US treasuries of similar maturity to the New Senior Notes and New Junior Notes, as applicable, plus, in each case, accrued and unpaid interest. Mandatory Redemption The New Notes are subject to mandatory early redemption in certain circumstances. The New Notes must be redeemed prior to their stated maturity in whole or in part using the proceeds from the Mandatory Redemption Escrow Account, which is an escrow account to be established for redemption of the New Notes into which Corp will be required to deposit, from time to time: 72 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- releases to, or upon the order or instructions of, Corp or its subsidiaries of certain cash collateral security for performance bonding (as described in more detail in Part D.4 of this Section); and - all net proceeds of asset sales received on or after 1 May 2003, other than up to L82 million of net proceeds from disposals of certain exempt specified assets and, if there are no New Junior Notes outstanding, proceeds reinvested in the non-US core business within specified time periods. Corp will apply amounts in the Mandatory Redemption Escrow Account to redeem first the New Junior Notes and then, under certain circumstances, the New Senior Notes, in each case at a redemption price in cash of 110 per cent. of their principal amount plus accrued and unpaid interest. In addition, in the event of either a Change of Control of Corp or the merger, consolidation or sale of all or substantially all the assets of Corp and its subsidiaries, taken as a whole, all of the New Notes must be redeemed in whole, but not in part, at a redemption price in cash equal to the greater of (i) 110 per cent. of their principal amount, and (ii) a make-whole amount equal to the sum of the present values of remaining scheduled

payments of principal and interest, using a discount rate that is 50 basis points above the yield on US treasuries of similar maturity to the New Senior Notes and New Junior Notes, as applicable, plus, in each case, accrued and unpaid interest. Covenants The New Senior Notes and the New Junior Notes will be issued under indentures that will contain certain restrictive covenants. The restrictive covenants will include, among other things: - restrictions on indebtedness, guarantees, sale and leaseback transactions and the issuance of preferred stock; - restrictions on dividends, distributions, investments and other restricted payments; - restrictions on acquisitions; - restrictions on liens; - restrictions on derivative transactions; - restrictions on transactions with affiliates (including Ringfenced Entities); - restrictions on the issuance and sale of equity interests in Corp's subsidiaries; - restrictions on asset sales; and - restrictions on mergers, consolidations and sales of all or substantially all assets. Each of the covenants will be subject to exceptions and qualifications. In addition, under the indenture governing the New Senior Notes (but not the New Junior Notes), beginning as of 30 September 2005 the Group will be required to meet financial covenants with respect to a minimum ratio of consolidated EBITDA to consolidated finance charges and a maximum ratio of consolidated indebtedness to consolidated EBITDA, in each case 73 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- calculated with respect to the consolidated Group (but excluding the Ringfenced Entities if any New Junior Notes are outstanding). The indentures will provide for customary grace periods and remedies. When the New Senior Notes and the New Junior Notes are simultaneously outstanding, however, the indentures will provide for longer grace periods and require a larger percentage of the noteholders to take enforcement action in the case of certain non-payment covenant defaults. Purchase of New Notes The indentures governing the New Notes will provide that Corp and its subsidiaries may purchase outstanding New Notes only after the second scheduled Senior Note Interest Payment Date or Junior Note Interest Payment Date, as the case may be, and then only if (a) no Default or Event of Default under the New Senior Note indenture (in the case of the New Senior Notes) or the New Junior Note indenture (in the case of the New Junior Notes) has occurred and is continuing; (b) interest on the immediately two preceding Junior Note Interest Payment Dates was paid in cash (rather than in kind); and (c) Corp has not given notice of an intention to pay interest on the next Junior Note Interest Payment Date in kind. US Ringfencing The covenants in the indentures governing the New Notes will restrict the financial, operational and other dealings that the Non-Ringfenced Entities can have with the Ringfenced Entities. The covenants for the New Notes will also require Corp to separate the North American Access Business, BBRs Business and OPP Business into separate subsidiaries (or groups of subsidiaries) within the US Ringfencing no later than the second anniversary of the issue date of the New Notes. Moreover, the Non-Ringfenced Entities will generally be prohibited from providing funding for any of the Ringfenced Entities and, following the separation of the three principal businesses within the US Ringfence, the North American Access Business, BBRs Business and OPP Business will generally be prohibited from providing funding to each other. See Part A.2 of this Section for a description of the US Ringfencing. Guarantees and Security Corp's obligations under the New Notes will be guaranteed by, inter alios, Corp's principal operating subsidiaries. With limited exceptions, the Guarantor coverage must include on an ongoing basis (i) subsidiaries that together account for at least 80 per cent. and (ii) each subsidiary that individually accounts for more than 5 per cent., in each case, of the total assets, total external assets, total external sales and (commencing as of 31 March 2005) EBITDA of Corp and its subsidiaries. Corp and the Guarantors will, with limited exceptions, grant security over substantially all of their respective assets to secure their respective obligations under the New Notes and the guarantees thereof as well as the Performance Bonding Facility. Payment Priorities Corp, the Guarantors and the trustees for the New Notes, among others, will enter into a Security Trust and Intercreditor Deed that will establish the relative priorities among the New Senior Notes, New Junior Notes, the Performance Bonding Facility and certain intra-Group liabilities with respect to the obligations of Corp and the Guarantors. Following the occurrence of a payment Default and/or an acceleration of the maturity of the New Senior Notes, all proceeds from enforcement of the security granted by Corp and the Guarantors (where such Guarantors 74 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- are providers of security) to secure their respective obligations under the New Notes and the guarantees thereof and the Performance Bonding Facility will be applied as follows: - first, to the fees and expenses of the trustees and other agents; - second, to the lenders providing the Performance Bonding Facility; - third, to the repayment of the New Senior Notes; and - fourth, to the repayment of the



New Junior Notes. Payment and Security Enforcement Blocks Under the terms of the Security Trust and Intercreditor Deed and the indentures for the New Notes, no payments may be made on the New Junior Notes (other than payments of interest in kind) and no redemptions of the New Junior Notes from amounts contained in the Mandatory Redemption Escrow Account may be made (subject to limited exceptions) (i) upon the occurrence of a Default under the New Senior Notes and the delivery of notice of such Default by the Senior Note Trustee to the Security Trustee for a period lasting until the earlier of (a) the expiration of 179 days after the date of such notice, (b) the date on which such Default is no longer continuing, (c) the date on which the holders of a majority of the principal amount of the New Senior Notes consent, or (d) the payment in full of all obligations under the New Senior Notes and the New Senior Note indenture, or (ii) upon the occurrence of a payment Default or acceleration of the New Senior Notes following an Event of Default under the New Senior Notes or the New Senior Note indenture until the earlier of (a) the date on which the payment Default has been remedied or waived and, if the New Senior Notes have been accelerated, the acceleration has been rescinded, (b) the date on which the holders of a majority of the principal amount of the New Senior Notes consent, or (c) the payment in full of all obligations under the New Senior Notes and the New Senior Note indenture. The Security Trust and Intercreditor Deed further provides that in the event of a default under the New Senior Notes, the holders of the New Junior Notes may not accelerate the New Junior Notes during the 179-day or shorter period referred to in clause (i) of the previous sentence. In addition, under the terms of the Security Trust and Intercreditor Deed, the holders of the New Junior Notes may not take enforcement action against any security securing the New Junior Notes without the consent of the holders of the New Senior Notes or unless all liabilities arising under the New Senior Notes have been discharged in full. The Security Trust and Intercreditor Deed further provides that if a payment default occurs under the Performance Bonding Facility, the lenders thereunder may require the obligors to provide full cash collateral to cover all outstanding liabilities but may not accelerate the liabilities under the Performance Bonding Facility or take the other enforcement action for 180 days unless the New Senior Notes have been accelerated. Security Numbers The CUSIP for the New Senior Notes denominated in euro (if any are issued) will be G58129AB6. The CUSIP for the New Senior Notes denominated in US dollars (if any are issued) will be G58129AA8. The CUSIP for the New Junior Notes will be G58129AD2. Further details of the security and intercreditor arrangements affecting the New Notes are set out in Appendix 10. 75 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- C.4 SUMMARY OF KEY ACTUAL AND CONTINGENT CLAIMS Schedule 3 to the Corp Scheme in part II contains a list of Scheme Creditors who may have a Scheme Claim. The aggregate amount (in sterling) of claims listed in Schedule 3 in part II is approximately L5.193 billion. The fact that a claim is listed in Schedule 3 at a certain amount does not mean that the particular claim will be Admitted at that, or any other, amount. There are three principal areas of actual and contingent claims listed in Schedule 3 to the Corp Scheme: a. BANK FACILITY AND BOND DEBT: Corp is indebted as at the Record Date to: (i) the Syndicate Banks pursuant to the terms of the Bank Facility in the principal sums of US\$2,226,600,000 and L650,000,000, together with accrued but unpaid interest of US\$40,271,358 and L18,199,947; (ii) the relevant Bondholders pursuant to the terms of the 2005 Eurobonds in the principal sum of E500,000,000 together with accrued but unpaid interest of E12,559,932; (iii) the relevant Bondholders pursuant to the terms of the 2010 Eurobonds in the principal sum of E1,000,000,000 together with accrued but unpaid interest of E28,469,178; (iv) the relevant Bondholders pursuant to the terms of the 2010 Yankee Bonds in the principal sum of US\$900,000,000 together with accrued but unpaid interest of US\$31,687,500; and (v) the relevant Bondholders pursuant to the terms of the 2030 Yankee Bonds in the principal sum of US\$900,000,000 together with accrued but unpaid interest of US\$34,218,750; b. INDIRECT CLAIMS BY PLC: these comprise claims under inter-company loan balances and through ownership (via Ancrane) of some of the indebtedness listed in (ii) to (v) above (E324,603,000 and US\$261,101,000 of the principal sum is owed to Ancrane). Corp and plc currently anticipate that these claims (inclusive of accrued but unpaid interest) will amount to approximately L776 million in aggregate; and c. OTHER THIRD-PARTY AND ASSOCIATED COMPANY CLAIMS: these are expected to include claims under various loans, guarantees, and a US class action and other lawsuits, as well as other potential claims. In light of the detailed due diligence that has been undertaken in relation to its financial indebtedness, Corp acknowledges that the principal amount of the claims of the Syndicate Banks and the claims in respect of the Bonds set out in a. above are due and owing and anticipates that these claims, in each case together with interest accruing pursuant to the terms of the Bank Facility or the terms of the

relevant Bonds, as appropriate, for the period up to, and including, the Record Date, will be Admitted in the amounts set out in Schedule 3 to the Corp Scheme in part II. Schedule 3 to the plc Scheme in part III contains a list of Scheme Creditors who may have a Scheme Claim. The aggregate amount (in sterling) of claims listed in Schedule 3 in part III is approximately L4.68 billion. The fact that a claim is listed in Schedule 3 at a certain amount does not mean that the particular claim will be Admitted at that, or any other, amount. There are two principal areas of actual and contingent claims listed in Schedule 3 to the plc Scheme: a. GUARANTEES OF CORP'S BANK FACILITY AND BOND DEBT: plc has guaranteed the indebtedness of Corp listed in paragraph a. above; and b. OTHER THIRD-PARTY CLAIMS: these are expected to include claims under various loans, guarantees, and a US class action and other lawsuits, as well as other potential claims. In light of the detailed due diligence that has been undertaken in relation to its financial indebtedness, plc acknowledges that the principal amount of the claims of the Syndicate Banks and the claims in respect of the Bonds under the guarantees referred to in a. above are due and owing and anticipates that these claims, in each case together with interest accruing pursuant to the terms of the Bank Facility or the terms of the relevant Bonds, 76 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- as appropriate, for the period up to, and including, the Record Date, will be Admitted in the amounts set out in Schedule 3 to the plc Scheme in part III. Claims that would be barred by statute or claims that are otherwise unenforceable in England and Wales or which arise under a contract which is void or, being voidable, has duly been avoided, are not liabilities for the purposes of the Schemes. C.5 COMPLETION OF THE RESTRUCTURING As discussed in more detail in Part B of this Section, if the interim security is not released prior to the Corp Scheme Meeting, neither Corp nor plc will proceed with its respective Scheme (see Part D.1 of this Section for further detail on the circumstances in which the interim security is expected to be released). Each of the Schemes becoming effective will be dependent on, among other things, securing the necessary support of the Scheme Creditors in the relevant Scheme Meeting to be held as part of the scheme of arrangement process, as well as the sanction of the English Court and the granting of a permanent injunction order by the US Bankruptcy Court. No assurance can be given that Corp and plc will be able to satisfy the conditions to completion of the Restructuring (described in more detail below), or that circumstances will not arise that otherwise make it impossible to proceed with the Restructuring. Certain risks related to a failure to implement or a delay in implementing the Restructuring, risks arising from implementation of the Restructuring, operating risks and risks related to ownership of the New Shares, the New Notes and the Warrants are set out in Part F of this Section, Risk Factors. While the Corp Scheme will not be conditional upon the plc Scheme becoming effective, the plc Scheme will be conditional on the Corp Scheme becoming effective. Any order approving the plc Scheme will not be delivered to the Registrar of Companies (which delivery would make the plc Scheme effective) until an order approving the Corp Scheme has been similarly delivered. The Schemes will not be conditional on the Listing of the New Shares, the New Notes and/or the Warrants. However, it is expected that the New Shares, New Notes and Warrants will be listed on the Effective Date of the Corp Scheme. Corp will use its reasonable endeavours to effect the Listing of the New Shares, the New Notes and the Warrants as soon as possible on or after the Effective Date of the Corp Scheme. (See details of risks arising from implementation of the Restructuring in Part F.2). The Schemes will not be conditional on the approval of plc Shareholders. The Co-ordination Committee and the Informal Committee of Bondholders with whom Corp and plc negotiated the Heads of Terms indicated that they would not be prepared to support a Restructuring that requires plc Shareholder approval on the grounds that, considering the financial condition of the Group and the economic interest of plc Shareholders, such a vote would be inappropriate. Corp and plc believe that if the Syndicate Banks and the Informal Committee of Bondholders withdraw their support for the Restructuring, Corp and plc will be forced to commence insolvency proceedings. On this basis, Corp and plc approached the UKLA for a waiver of the requirement to seek plc Shareholder approval in connection with the Restructuring. The UKLA has granted this waiver. The New Shares to be allotted pursuant to the Corp Scheme will be paid up by the release of, or agreement not to commence or continue prohibited proceedings in respect of, both liquidated and unliquidated Scheme Claims. The Act requires the consideration for an allotment of shares partly paid up by the release of liabilities for unliquidated sums to be independently valued prior to allotment, and accordingly Corp has engaged BDO Stoy Hayward to prepare and deliver a report complying with the provisions of the Act before the New Shares are allotted. CONDITIONS TO EFFECTIVENESS OF THE SCHEMES In order to ensure that certain conditions are satisfied before the Schemes can come into effect, Corp and plc will not deliver a copy of any Court order sanctioning the Schemes for registration

to the Registrar of Companies in England and Wales until the relevant conditions are satisfied. Corp will not take the necessary steps to make the Corp Scheme effective unless and until: (a) Corp has, following the passing of a unanimous Board resolution to approve the same, provided confirmation in writing to 77 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- the Prospective Supervisors (for the sole benefit of the Prospective Supervisors) prior to each of (i) the release of the interim security granted by Corp through its special purpose subsidiary Highrose Limited, (ii) the Corp Scheme Meeting, (iii) the hearing to sanction the Corp Scheme and (iv) the Effective Date, to the effect that Corp remains satisfied that the reserves built into the Corp scheme are sufficient to ensure the same level of distribution will be made to all Corp Scheme Creditors and that Corp remains of the opinion that its statement as to the Corp Group's working capital contained in Part D.21 of this Section remains valid; (b) the Prospective Supervisors of the Corp Scheme have provided confirmation in writing to Corp (for Corp's sole benefit) on the day of, but prior to, each of events (i) to (iv) above to the effect that they have no reason to disagree with Corp's view that the reserves built into the Corp Scheme are sufficient to meet distributions due to be made to all Corp Scheme Creditors; (c) a permanent injunction order of the US Bankruptcy Court under Section 304 of the Bankruptcy Code has been granted in respect of the Corp Scheme; and (d) all conditions precedent (other than those relating to the Corp Scheme becoming effective) set out in the Working Capital Facility and the Performance Bonding Facility are satisfied or waived by the facility agents. Corp will undertake to the Court to file the Court order approving the Corp Scheme with the Registrar of Companies as soon as the conditions set out above are satisfied provided such conditions are satisfied on or before 19 June 2003. plc will not take the necessary steps to make the plc Scheme effective unless and until: (a) plc has, following the passing of a unanimous Board resolution to approve the same, provided confirmation in writing to the Prospective Supervisors (for the sole benefit of the Prospective Supervisors) prior to each of (i) the release of the interim security granted by Corp through its special purpose subsidiary Highrose Limited, (ii) the plc Scheme Meeting, (iii) the hearing to sanction the plc Scheme and (iv) the Effective Date, to the effect that plc remains satisfied that the reserves built into the plc Scheme are sufficient to ensure the same level of distribution will be made to all plc Scheme Creditors; (b) the Prospective Supervisors of the plc Scheme have provided confirmation in writing to plc (for plc's sole benefit) on the day of, but prior to, each of events (i) to (iv) above to the effect that they have no reason to disagree with plc's view that the reserves built into the plc Scheme are sufficient to meet distributions due to be made to all plc Scheme Creditors; (c) a permanent injunction order of the US Bankruptcy Court under Section 304 of the Bankruptcy Code is granted in respect of the plc Scheme; and (d) a copy of the Court's order sanctioning the Corp Scheme has been delivered for registration to the Registrar of Companies in England and Wales. plc will undertake to the Court to file the Court order approving the plc Scheme with the Registrar of Companies as soon as the conditions set out above are satisfied provided such conditions are satisfied on or before 19 June 2003. Corp will not pursue a permanent injunction order of the US Bankruptcy Court unless the English Court makes an order sanctioning the Corp Scheme. plc will not pursue a permanent injunction order of the US Bankruptcy Court unless the English Court makes orders sanctioning both the Corp Scheme and the plc Scheme. If a Scheme has not been made effective on or before 19 June 2003, the Scheme will be withdrawn and not made effective. WITHDRAWAL OF SCHEMES As a result of the extensive due diligence undertaken by Corp and plc and having taken account of the results of the advertising process, Corp and plc are satisfied that the Reserve Claims Segment in respect of each of the Corp and plc Schemes will be sufficient to ensure the same level of distribution will be made to all plc Scheme Creditors. In addition the Prospective Supervisors have confirmed that they have no reason to disagree with that view. In order for the Schemes to proceed the Scheme Companies must indicate that they remain satisfied that the Reserve Claim Segment under each Scheme will be sufficient to meet distributions due to be made in respect of Reserve Claims in accordance with the terms of the Schemes. If each Scheme Company remains so satisfied, each Scheme Company will give written confirmations on certain key dates set out below. 78 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- Board meetings of each Scheme Company will be held at 5.00 pm on the calendar day before each of the following key dates: a. the Release Date; b. the date of the Scheme Meetings; c. the date of the commencement of the Court sanction hearing; and d. the Effective Date, (each of a. to d. above being a "CONFIRMATION DATE"). The Board meetings will consider whether the Board can pass the

Confirmatory Resolution and whether the relevant Scheme Company is able to deliver the Scheme Company Confirmation to the Prospective Supervisors confirming that the relevant Scheme Company remains satisfied that the level of reserves built into each of the Schemes will be sufficient to ensure the same level of distribution will be made to all relevant Scheme Creditors and, in the case of Corp, that the statement as to the Corp Group's working capital contained in Part D.21 of this Section remains valid. On receipt of the Scheme Company Confirmation, the Prospective Supervisors will be required to consider whether, based on the information available to them at that time, they are able to confirm in writing that they have no reason to disagree with the relevant Scheme Company's view that the level of reserves built into each of the Schemes will be sufficient to ensure the same level of distribution will be made to all relevant Scheme Creditors by delivering the Supervisor's Confirmation to the relevant Scheme Company by 7.00 a.m. on each Confirmation Date. Unless the relevant Scheme Company receives the Prospective Supervisor's Confirmation by 7.00 a.m. on each Confirmation Date, the relevant Scheme Company will not proceed with the proposed Scheme and the relevant Scheme will be withdrawn. If the Corp Scheme is withdrawn then the plc Scheme will also be withdrawn, but the Corp Scheme will not be withdrawn only because the plc Scheme is withdrawn.

**C.6 MECHANICS OF THE RESTRUCTURING OVERVIEW OF THE SCHEMES** As mentioned above, the Schemes are Court sanctioned compromises under section 425 of the Act between each of Corp and plc and their respective Scheme Creditors. These creditors comprise all of the creditors of Corp and plc with the exception of certain "Excluded Creditors" (the identity of the Excluded Creditors and the basis upon which their claims are to be excluded are set out in Appendix 9). No allotment and issue or transfer of securities (or the cash proceeds of sale thereof) or cash will be made to any person where prohibited by any applicable law or regulation. The Court gave directions on 24 March 2003 for Scheme Meetings of Scheme Creditors of Corp and plc to be convened respectively for 10.00 a.m. and 10.15 a.m. (or as soon as possible thereafter following the conclusion or adjournment of the first meeting) on 25 April 2003. Notices convening the Scheme Meetings for these times are set out in part VI, Sections A and B of this document. The Scheme Meetings will take place at the Institute of Civil Engineers, 1 Great George Street, London SW1. To become effective, the Schemes must be approved by Scheme Creditors at a Scheme Meeting. The Schemes each require the approval of a majority in number representing three-fourths in value of the Scheme Creditors present and voting (in person or by proxy) at each Scheme Meeting. The Schemes must then receive the sanction of the Court. It is currently anticipated that the Court hearing to sanction the Schemes will take place on 12 to 13 May 2003. The Schemes are set out in full in parts II and III of this document.

**VOTING ON THE SCHEMES** Scheme Creditors are entitled to attend and vote at the Scheme Meetings either in person or by proxy. Although the Eurobond Trustee and The Bank of New York are both Corp Scheme Creditors and the Eurobond Trustee and 79 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- the Yankee Bond Trustee are both plc Scheme Creditors, none of them has any economic interest in the Bonds in respect of which they are the trustee or the depositary, as the case may be. Bondholders in respect of Eurobonds and Yankee Bonds represented by a global Eurobond or a global Yankee Bond, as the case may be, are not Scheme Creditors. Accordingly, certain creditors have requested Corp to exchange the global Yankee Bonds for definitive Yankee Bonds and the global Eurobonds for individual global Eurobonds, in each case with a view to ensuring that Definitive Holders in whose names Yankee Bonds are registered or who become the bearers by attornment of the Eurobonds after such exchange can attend and vote at the Corp Scheme Meeting, and have requested plc to extend the benefit of its guarantees of the Eurobonds and the Yankee Bonds to the Definitive Holders of such Bonds with a view to ensuring that the Definitive Holders can attend and vote at the plc Scheme Meeting in respect of such Bonds. Corp, plc and, in the case of the request to exchange Eurobonds, the Eurobond Trustee, have each agreed to these requests. Definitive Holders of Bonds who wish to attend and/or vote at the Scheme Meetings must ensure that this is specified in the Account Holder Letter delivered by their Account Holder. Further instructions are set out in Appendix 28. Only the votes of Scheme Creditors voting at the Scheme Meetings in person or by proxy can be taken into account for the purpose of establishing whether the requisite approval for the Schemes has been obtained. In order to attend and vote at the Scheme Meetings Scheme Creditors (other than Definitive Holders) must complete and lodge a Form of Proxy (as summarised below). Further instructions are set out in Appendix 27. Definitive Holders may arrange for forms of proxy to be completed on their behalf by Bondholder Communications by ensuring that their Account Holder gives appropriate instructions on their behalf in the Account Holder Letter. Further instructions are set out in Appendix 28.

VOTING BY PROXY Scheme Creditors (other than Definitive Holders) Set out at Appendix 29 is a form of Form of Proxy for use by Scheme Creditors (other than Definitive Holders) in voting on the Schemes. The relevant Form of Proxy should be completed in accordance with the instructions set out on it, indicating the value of the Scheme Claim, including interest accruing on it, if any, for the period up to and including the Record Date. See below for an explanation of the value of a Scheme Creditors' Claim for voting purposes. Corp and plc may require details of any Scheme Creditors' entitlement to Scheme Claims in order to establish their entitlement to vote. Instructions to this effect are set out on the Forms of Proxy. Scheme Creditors (other than Definitive Holders) are requested to complete the relevant Form of Proxy in accordance with the instructions set out on it and return it to KPMG LLP, 8 Salisbury Square, London EC4Y 8BB, England, UK, for the attention of Philip Wallace, by 12 noon (London time) on 24 April 2003 (although it is recommended that they be received by 5.00 p.m. (London time) on 17 April 2003). If for any reason this cannot be done, Forms of Proxy may be handed in at the registration desk at the relevant Scheme Meeting and Scheme Creditors are urged to do so no later than one hour before the scheduled time of the relevant Scheme Meeting. Thereafter Scheme Creditors (other than Definitive Holders) may lodge completed Forms of Proxy with the chairman of the relevant Scheme Meeting at that Scheme Meeting. Forms of Proxy may be returned by fax (to fax number +44 (0)20 7694 3011 marked for the attention of Philip Wallace and Richard Heis). The lodging of a Form of Proxy in advance of the Scheme Meeting does not prevent a Scheme Creditor from revoking such proxy and delivering a new Form of Proxy on the date of the Scheme Meeting or revoking such proxy and attending in person. Please read the instructions on the Forms of Proxy carefully before completing it. Failure to complete the Form of Proxy in accordance with those instructions may result in your vote being disallowed.

80 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- Definitive Holders Each Definitive Holder who wishes authority to be given to Bondholder Communications to appoint a proxy to attend a Scheme Meeting on his behalf will be required to ensure that his Account Holder gives the appropriate instructions in the Account Holder Letter on his behalf. Account Holder Letters should be returned to Bondholder Communications by 5:00 p.m. (New York City time) on 17 April 2003. Failure to deliver an Account Holder Letter to Bondholder Communications by the time and date specified above does not preclude the relevant Definitive Holder from voting at the Scheme Meetings provided that the Definitive Holder or his proxy can establish his entitlement by producing a copy of the Account Holder Letter or form of proxy (which should be obtained from Bondholder Communications), as the case may be, to the registration desk or the chairman of the relevant Scheme Meeting. Detailed instructions explaining the action to be taken by persons with interests in Bonds are set out in Appendix 28 of this document.

SCHEME MEETINGS AND COURT HEARING An opportunity will be given at the Scheme Meetings for Scheme Creditors (including Definitive Holders) to ask any questions and to raise any issues they may have in relation to the Schemes. Provided that the Schemes are approved by the Scheme Creditors at the Scheme Meetings by the requisite statutory majority, Scheme Creditors are also entitled to attend the hearing of the Scheme Companies' applications to the Court to sanction the Schemes which is expected to be heard on 12 to 13 May 2003. Scheme Creditors will be notified of the precise dates of the subsequent steps at the Scheme Meetings to the extent they are then known, and notice of the hearing will be published in certain national daily newspapers, which are expected to be The Times and the international editions of the Wall Street Journal, the Financial Times and the International Herald Tribune. Scheme Creditors who wish to raise any issues in advance of the Scheme Meetings or the Court hearing are encouraged to contact KPMG whose details are set out in Appendix 23.

VALUE OF A SCHEME CREDITOR'S SCHEME CLAIM FOR VOTING PURPOSES For the purpose of valuing a Scheme Claim for voting purposes, all Scheme Claims will be converted to sterling at the Voting Rate (which should not be confused with the Scheme Rate, which is used for valuing Scheme Claims to be Admitted under the Schemes). The amount of the Scheme Claim admitted by the relevant Scheme Company for voting purposes does not (of itself) constitute an admission of the existence or amount of any liability of the relevant Scheme Company, and will not bind the relevant Scheme Company, the Supervisors or Scheme Creditors. The value of a Scheme Claim for voting purposes will be taken net of any applicable set-off or cross-claim. The chairman of each Scheme Meeting may, for voting purposes only, reject a Scheme Claim in whole or in part if he considers that it does not constitute a fair and reasonable assessment of the relevant sums owed to the relevant Scheme Creditor by the relevant Scheme Company or if the relevant creditor has not complied with the voting procedures described above. If a claim is for an unliquidated amount or for an amount the quantum of which has not been ascertained and the

chairman is able to place a minimum value on a Scheme Claim he will admit it at that value. If a Scheme Claim is disputed in its entirety, whether it is liquidated or unliquidated, the chairman will not admit it. The chairman's decision will be final. The chairman will, however, advise the relevant Scheme Creditor of his decision to reject such Scheme Creditor's claim for voting purposes before the Scheme Meeting if he considers it to be practicable and, in any event, at or after the Scheme Meeting, and report his decision to the Court. The Corp Scheme Meeting will be chaired by Corp's Chairman, John Devaney. Corp's Chief Executive Officer, Michael Parton, will act as his deputy chairman. The plc Scheme Meeting will be chaired by plc's Chairman, John Devaney. plc's Chief Executive Officer, Michael Parton, will act as his deputy chairman.

81 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- C.7 SCHEME CLAIMS AND DISTRIBUTION MECHANICS SCHEME CLAIMS

The Schemes will apply to all Liabilities of Corp and plc as at the Record Date other than the Excluded Claims. In the context of making Scheme Claims, the term "SCHEME CREDITOR" in so far as the Bonds are concerned means only the Eurobond Trustee and the Yankee Bond Trustee and does not include any other person with an interest in Bonds. No assignment or transfer of a Scheme Claim (which, in this context in relation to the Bonds, means the claims of the Eurobond Trustee and the Yankee Bond Trustee only) after the Record Date will be recognised for the purposes of determining entitlements under the Schemes, provided that where Corp or plc has received from the relevant parties notice in writing of such assignment or transfer the Supervisors, may, in their sole discretion and subject to the production of such other evidence as they may require and to any other terms and conditions which they may consider necessary or desirable, agree to recognise such assignment or transfer for the purposes of determining entitlements under the Schemes or attendance at any meeting of Scheme Creditors convened after the Effective Date. No assignee or transferee of a Scheme Claim following the Record Date will be entitled to vote at the Scheme Meetings or, save as described above, participate in the relevant Scheme. This paragraph does not affect the trading of Bonds which may be freely traded in the period prior to the date at which Custody Instructions are issued in respect of the relevant Bonds (further details of which are set out in Appendix 28). Any assignor or transferor of a Scheme Claim should provide a copy of this document and any other document issued with or appended to it to any assignee or transferee before the relevant Scheme Claim is assigned or transferred to the assignee or transferee. Corp and plc placed advertisements in The Times and the international editions of the Financial Times, the Wall Street Journal and the International Herald Tribune on Thursday, 19 September 2002. These advertisements explained that Corp and plc proposed to restructure their debt through schemes of arrangement under section 425 of the Act and requested anyone who might have a claim against Corp or plc (or both) to contact KPMG by no later than 5.00 p.m. London time on Friday, 11 October 2002 with details of their claim (whether an actual claim or a contingent one). These advertisements were repeated on 30 January 2003 requesting anyone who might have a claim against Corp or plc (or both) to contact KPMG without delay with details of their claim (whether an actual claim or a contingent one). Corp and plc have written to those of their Known Creditors whose Scheme Claims will be compromised by the proposed schemes of arrangement, with the exception of certain financial creditors with Known Claims who have been represented in negotiations with Corp and plc regarding the development of the Restructuring, creditors for unclaimed interest and redemptions of loan notes issued by Corp whose potential claims are easily quantified and are provided for in full, and those whose addresses Corp and plc have been unable to ascertain. These letters requested the recipients to respond to KPMG within 21 days of the date of the letter submitting details of any claims (whether actual or contingent claims) that they have against Corp or plc or both. With the exception of two clearly frivolous claims, this process identified only one claim against plc, and no claims against Corp, in each case which had not previously been identified by the due diligence undertaken by Corp and plc. The one claim identified is disputed by plc, but is provided for in full in the plc Scheme.

EXCLUDED CREDITORS The Schemes provide for certain types of creditor to be excluded from the Schemes. These creditors will be unaffected by the Schemes and are expected to be paid in the ordinary course. FURTHER DETAILS OF THE TYPES OF CLAIMS BEING EXCLUDED FROM THE SCHEMES, AND THE REASONS WHY SUCH CLAIMS ARE BEING EXCLUDED, ARE SET OUT IN APPENDIX 9. The claims of certain creditors have been excluded from the Corp Scheme for a variety of reasons, as follows: a. that Corp will continue to carry on business as the holding company of a very substantial group of companies, comprising some 300 subsidiaries, with an aggregate turnover, in the six months ended 82 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- 31 December 2002, of approximately L1.5 billion and it is necessary to exclude such claims to ensure the continuing viability of the restructured Group -- those categories which are attributable (in whole or in part) to the continuation of the restructured Group are categories 1, 2, 3, 4, 5, 6, 7, 8, 11, 15 and 16; b. that the only type of scheme which Corp's principal financial creditors are prepared to support is a scheme which involves an immediate distribution calculated by reference to specific reserves; and an immediate distribution which consists of the whole amount to which, when calculated by reference to those specific reserves, an admitted scheme creditor is entitled -- the categories which are attributable (in whole or in part) to the nature of the proposed Scheme are categories 2, 3, 4, 5, 9, 17 and 18; c. that certain claims would be preferential if Corp were to be wound up -- the categories which are attributable (in whole or in part) to the preferential nature of the claims comprised in them are categories 1, 2 and 10; d. that certain claims would, or might, be incapable of being compromised by means of a scheme -- the category which is attributable (in whole or in part) to the inability to compromise obligations is category 2; e. that certain claims would, unless excluded, form a separate class which it would be impractical to consult on that basis -- the categories which are attributable (in whole or in part) to impractical class problems are categories 9 and 14; f. that there are certain claims which it would be uneconomic to include -- the categories which are attributable (in whole or in part) to the costs of including them are categories 13 and 14; and g. that certain claims relate to parties who are assisting in the consideration, negotiation and/or implementation of the Corp Scheme -- the category which is attributable (in whole or in part) to the implementation of the Corp Scheme is category 12. The plc Scheme seeks to exclude the following types of claim: a. contracts that will be novated to Corp or claims that will be settled -- the categories which are attributable (in whole or in part) to this are categories 1 and 9; b. claims that would be preferential if plc were to be wound up -- the categories which are attributable (in whole or in part) to the preferential nature of the claims comprised in them are categories 2 and 3; c. claims that would, or might, be incapable of being compromised by means of a scheme -- the category which is in part attributable to this being incapable of compromise is category 2; d. claims that would, unless excluded, form a separate class which it would be impractical to consult on that basis -- the category which is attributable to impractical class problems is category 4; e. claims which it would be uneconomic to include -- the category which is attributable to the cost of including them is category 8; and f. claims that relate to parties who are assisting in the consideration, negotiation and/or implementation of the plc Scheme -- the categories which are attributable (in whole or in part) to assisting in the implementation of the plc Scheme are categories 5, 6, 7 and 9. (Further explanation of the reasons for excluding these categories of claims is set out in Appendix 9). The following obligations of plc have been novated to Corp (conditionally upon the Corp Scheme becoming effective) and will be excluded from the Corp Scheme: a. a guarantee provided to Finmeccanica SpA as the purchaser of certain Italian subsidiaries sold by the Group in 2002; 83 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- b. certain agreements between plc and BAE in respect of the merger of the Group's former defence business with BAE; and c. a licence agreement dated 1 December 1999 between Lemelson Medical, Education and Research Foundation, Limited Partnership and plc. In addition, the service contracts and letters relating to retirement benefits (including FURBS) of Michael Parton and Michael Donovan have been novated to Corp unconditionally. These obligations will also be excluded from the compromise to be effected by the Corp Scheme and will therefore be unaffected by the Corp Scheme. CLAIMS WHICH HAVE THE BENEFIT (IN WHOLE OR IN PART) OF INSURANCE Corp Scheme The Corp Scheme excludes liabilities of Corp to third parties which are covered by a Corp Insurance Policy or which would be covered by a Corp Insurance Policy but for: a. any excess, deductible or limit of liability applicable under any Corp Insurance Policy to any such liability; or b. any insurer failing to satisfy any Corp Insurance Policy claim in full when payable when the insurer is in liquidation or provisional liquidation or administration under the Insolvency Act 1986 or subject to any scheme of arrangement entered into by it under section 425 of the Act (or any equivalent or analogous proceeding or arrangement in any other jurisdiction, including any proceeding under chapter 11 of the Bankruptcy Code); or c. the Corp Insurance Policy or any claim under it being void or avoided by any insurer, being liabilities of Corp in respect of which the third party would have rights against the insurer under that insurance by virtue of Section 1 of the 1930 Act in the event that any of the events set out in section 1(1)(b) of the 1930 Act occurred with respect to Corp. For further details see Appendix 9. ANY CREDITOR WHO IS IN ANY DOUBT AS TO WHETHER THEIR CLAIM MAY BE EXCLUDED UNDER THIS CATEGORY SHOULD SUBMIT A CLAIM FORM IN THE CORP

SCHEME WITHOUT DELAY. plc Scheme Liabilities of plc to third parties which are covered by any contract of liability insurance will be treated as a Scheme Claim. However, in the circumstances explained in the next paragraph, such a Scheme Claim may be partially (or wholly) covered by a contract of liability insurance and plc may recover sums from its insurers (or from a compensation scheme which makes a payment to plc where the relevant insurer has become insolvent) in respect of all or part of that claim. Any such sums recovered will be held on trust for the relevant plc Scheme Creditor. The right to receive such sums recovered by plc applies in circumstances in which, and to the extent that, plc's rights against the insurer in respect of the liability constituted by the Scheme Claim would be transferred to and vest in the Insured Scheme Creditor pursuant to the 1930 Act in the event of a winding up order against plc. The rationale for treating these claims in this way is that the liabilities are covered (in whole or in part) by a third party insurer in circumstances where plc's rights against the insurer in respect of its liability to the third party concerned would be transferred in whole or part to, and vest in, the third party by virtue of the 1930 Act if plc were to enter into an insolvency proceeding under the Insolvency Act 1986. Rights equivalent to those which third parties would have under the 1930 Act are provided in the Scheme in order to ensure that creditors who would be protected by the 1930 Act would not be better off by plc entering into an insolvency proceeding under the Insolvency Act 1986 and so constitute a separate class of creditors. 84 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- The only claim of which plc is currently aware and which is covered by insurance in circumstances in which an additional payment might potentially become payable would be any liability that plc may be held to have in respect of the Tri-Star Claim. If liability in respect of the relevant Scheme Claim is established and such liability appears to the Supervisors to be wholly or partly covered by a plc Insurance Policy, the Supervisors will: a. notify the relevant Scheme Creditor of the extent to which it appears that the claim is covered by a plc Insurance Policy (an "Insured Scheme Claim"); and b. at the expense of the relevant Scheme Creditor, use reasonable endeavours to enforce for the benefit of the relevant Scheme Creditor all rights of recovery against an insurer in relation to that Insured Scheme Claim. A Distribution of Scheme Consideration in respect of that Insured Scheme Claim will only be payable once the outcome of such enforcement is known and only to the extent that the net proceeds of enforcement against the insurer held on trust for the relevant Scheme Creditor are less than the amount which appears to the Supervisors to be an Insured Scheme Claim. FOR THE AVOIDANCE OF DOUBT CREDITORS OF PLC WHO MAY HAVE RIGHTS UNDER THE 1930 ACT SHOULD SUBMIT A CLAIM FORM FOR THE FULL AMOUNT OF THEIR CLAIM WITHOUT DELAY. KNOWN CLAIMS AND RESERVE CLAIMS During the Restructuring negotiations it became clear that the principal financial creditors of Corp and plc would only support schemes of arrangement that established a first fixed dividend to be payable to all Scheme Creditors by way of an Initial Distribution on the Effective Date of the Schemes. In order to set the level of that Initial Distribution, Corp and plc have undertaken extensive due diligence to identify all creditors of Corp and plc. The advertising process undertaken by Corp and plc before launching the Schemes sought to ensure that as far as possible all Scheme Creditors were identified and have been included in the schedule of all Known Claims. The provisions set out in the schedule of Known Claims have been set at 100 per cent. or, where the extent of the liability is unclear, on an estimated worst-case scenario basis. In addition to the Known Claims both Schemes include reserves that the Scheme Companies are satisfied will cover any other Scheme Claims that had not been identified by the Record Date (the "RESERVE CLAIMS") and the Prospective Supervisors have confirmed that they have no reason to disagree with this view. However, as outlined above, neither Scheme Company will proceed with its Scheme if either: a. the relevant Scheme Company does not deliver the Scheme Company Confirmation to the Prospective Supervisors on the calendar day prior to each Confirmation Date confirming that the relevant Scheme Company remains satisfied that the level of reserves will be sufficient to ensure the same level of distribution will be made to all relevant Scheme Creditors and, in the case of Corp, that its statement as to the Corp Group's working capital contained in Part D.21 of this Section remains valid; or b. the relevant Scheme Company does not receive the Prospective Supervisor's Confirmation by 7:00 a.m. on each Confirmation Date. The Known Claims against Corp and plc as at the Record Date are listed in Schedule 3 to the Corp Scheme and Schedule 3 to the plc Scheme respectively, set out in parts II and III of this document respectively. The fact that a claim has been provided for in the list of Known Claims at a certain amount does not mean that the particular claim will be Admitted as a Scheme Claim at that, or any other, amount. In particular, where the claim is currently in dispute or the subject of litigation proceedings, the amount included in the Schedules only represents what the relevant Scheme Company



considers to be the maximum amount of the claim, which may be disputed in whole or in part and in no way constitutes any admission by the Scheme Company, the Prospective Supervisors, the Supervisors or KPMG that a person with such a claim is a Scheme Creditor or that a liability is owed to any person in respect of any claim or right.

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----- At the Court hearing to sanction the relevant Scheme, the relevant Scheme Company will present to the Court a schedule of Scheme Claims compiled by the Prospective Supervisors which will set out the details of the Scheme Creditors with Known Claims which are proposed to be Admitted by the Supervisors on the Effective Date and which, in accordance with the terms of the relevant Scheme, will receive their Initial Distribution through the First Initial Distribution. THE KNOWN CLAIMS SEGMENT AND THE RESERVE CLAIMS SEGMENT In relation to each of the Corp and plc Schemes a portion of the Scheme Consideration (the "KNOWN CLAIMS SEGMENT") will initially be set aside to meet the Initial Distribution payable to the Known Creditors in respect of Admitted Known Claims. The remaining portion of the Scheme Consideration (the "RESERVE CLAIMS SEGMENT") will initially be set aside to meet the Initial Distribution payable to the Reserve Creditors in respect of Admitted Reserve Claims. Save as set out below, Reserve Creditors will not be entitled to participate in the distribution to be made out of the Known Claims Segment and will only be entitled to be paid their entitlement to the Scheme Consideration out of the Reserve Claims Segment. The quantum of Reserve Claims that could be met out of the Reserve Claims Segment in each of the Corp Scheme and the plc Scheme is greater than the actual quantum of Known Claims that are expected to be Admitted in that Scheme after deducting or discounting Known Claims in respect of: a. financial creditors; b. landlords; c. intra-group creditors; and d. one disputed claim for a large but unspecified amount that has already been tried by a judge in the US and ruled against on all counts, but is pending appeal. Given the level of due diligence that has been undertaken, Corp and plc are satisfied that they have identified the claims of all financial creditors, landlords and intra-group claims and all disputed claims which have no merit. Accordingly, the level of the reserves would be sufficient to cover more than a 100 per cent. increase in the level of other claims against each Scheme Company. It is currently anticipated that the Known Claims Segment and the Reserve Claims Segment for each of the Schemes will, at the Effective Date, comprise the elements of Scheme Consideration as set out in the tables below (assuming no increase in the cash element of the Corp Scheme Consideration but that the plc Scheme becomes effective on the same day as the Corp Scheme). These figures, which are for illustrative purposes only, assume that each of the Known Claims is Admitted to the relevant Scheme in the full sterling amount listed in Schedule 3 to the relevant Scheme, calculated by applying, where necessary for currency conversion, the Voting Rate. CORP SCHEME Known Reserve Claims Claims Segment Segment ----- Cash L 333,360,148 L 8,024,527 Principal amount of New Senior Notes (sterling equivalent) L 441,505,803 L 10,627,771 Principal amount of New Junior Notes (sterling equivalent) L 302,103,439 L 7,272,127 Number of New Shares available for Corp Scheme Creditors 976,218,386 23,499,184 86 I.

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----- PLC SCHEME Known Reserve Claims Claims Segment Segment ----- Cash L44,235,292 L2,361,519 Principal amount of New Senior Notes (sterling equivalent) L68,159,845 L3,638,741 Principal amount of New Junior Notes (sterling equivalent) L46,638,851 L2,489,834 Number of New Shares available for plc Scheme Creditors 150,708,991 8,045,661 For the purposes of calculating the above table Known Claims that are denominated in a currency other than sterling and New Junior Notes that will be issued by reference to a US dollar amount have been converted at the Voting Rate. The final calculations as to Known Claims will be made at the Scheme Rate (which will be set five Business Days before the Effective Date). The final calculations as to the principal amounts of the New Senior Notes and the New Junior Notes will be made at the Currency Rate (which will be set the Business Day before the Corp Scheme Meeting). The calculation of the Known Claims Segment and the Reserve Claims Segment under the plc Scheme is based upon Ancrane's aggregate claims under the Corp Scheme of approximately L776 million being Admitted (which is expected to occur) and the sum of L7,000,000 being set aside from the cash element of the Corp Scheme Consideration received via Ancrane on account of plc's Ongoing Costs. If a Known Claim is rejected or reduced by the Supervisors in either Scheme then that portion of the Known Claims Segment that would have been used to satisfy that Known Claim (or part thereof) had it been Admitted will be added to the Reserve Claims Segment, unless (in the case of the

Corp Scheme only) that Known Claim (or part thereof) is greater than £250,000,000, in which case the relevant portion of the Known Claims Segment will be distributed promptly to all Admitted Scheme Creditors. If a Known Claim is Admitted in an amount higher than the amount set out in Schedule 3 to the Corp Scheme or the plc Scheme set out in parts II and III of this document respectively, the excess over the amount set out in the Schedules to the Corp Scheme and plc Scheme set out in parts II and III of this document respectively will be treated as an Admitted Reserve Claim. THE WAITING PERIOD The segregation of the Known Claims Segment and the Reserve Claims Segment will continue for a period of twelve months from the Effective Date or such shorter period as the Supervisors may determine in accordance with the terms of the Schemes, known as the "WAITING PERIOD". On the expiry of the Waiting Period, all Scheme Consideration remaining in both the Known Claims Segment and the Reserve Claims Segment that has not been distributed to satisfy Known Claims or Reserve Claims (as the case may be) will be held by the Supervisors to meet any Scheme Claims which have not been Admitted or to make Further Distributions to all Scheme Creditors as described below. Accordingly, only Scheme Claims which are Admitted during the Waiting Period will be met out of either the Known Claims Segment or the Reserve Claims Segment (as the case may be). If at any stage after the Effective Date the Supervisors receive notice of a Reserve Claim which: a. if it is immediately Admitted in whole or in part would result in the Supervisors considering that the Reserve Claims Segment of the relevant Scheme will not be sufficient to meet the distributions that are likely to be payable to all Reserve Creditors in respect of Admitted Reserve Claims of that Scheme; and b. the Supervisors cannot immediately determine whether or not, or the extent to which, that Reserve Claim should be Admitted, the Supervisors may consider that Reserve Claim for a period of up to 30 Business Days from the date on which that claim is submitted. On, or prior to, the expiry of this period, the Supervisors will confirm to the relevant Scheme Company and the Creditors' Committee constituted under the terms of the relevant Scheme whether or 87 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- not they consider

that the Reserve Claims Segment will not be sufficient to ensure that all Reserve Creditors receive the same level of distribution as those creditors participating in the First Initial Distribution in respect of Admitted Reserve Claims of that Scheme. If, after such consideration, the Supervisors are not satisfied that the Reserve Claims Segment will be sufficient to meet distributions that are likely to be payable to all Reserve Creditors in respect of Admitted Reserve Claims of that Scheme, the Supervisors will be required to bring the Waiting Period to an end. No distributions will be made under the relevant Scheme whilst such a Reserve Claim is being considered by the Supervisors. Following the expiry or termination of the Waiting Period all remaining Scheme Consideration will be held by the Supervisors: a. to make pro rata distributions in accordance with normal English liquidation principles to all Admitted Scheme Creditors who had not received their Initial Distribution at the time that the Waiting Period terminated until they have received the same rateable distribution which other Admitted Scheme Creditors have already received; and b. to make Further Distributions to all Scheme Creditors with Admitted Scheme Claims in accordance with normal English liquidation principles. THE INITIAL DISTRIBUTION In relation to each of the Schemes each Admitted Scheme Creditor will be entitled to receive a proportion of the Scheme Consideration by way of an Initial Distribution calculated in accordance with the following formula:  $AC \div X \times KCS$  where  $KC \div AC =$  the quantum of the relevant Scheme Creditors' Admitted Scheme Claim in the relevant Scheme.  $KC =$  the aggregate quantum of the Known Claims of the relevant Scheme.  $KCS =$  the elements of Scheme Consideration forming the Known Claims Segment of the relevant Scheme. Subject to the expiry or earlier termination of the relevant Waiting Period, Known Claims will be paid out of the Known Claims Segment and Reserve Claims will be paid out of the Reserve Claims Segment of the relevant Scheme. Any Scheme Claim which at the Record Date is not immediately due and payable but would be legally due and payable on an insolvent liquidation of the relevant Scheme Company shall be treated for the purposes of Distributions under the Schemes as immediately due and payable as at the Record Date (and hence not a debt payable at a future time). Any Scheme Claim that is denominated in a currency other than sterling will be converted into sterling at the Scheme Rate. WORKED EXAMPLES CORP SCHEME Accordingly, a Scheme Creditor with an Admitted Scheme Claim of £1,000,000 against Corp would be entitled to receive (assuming no increase in the cash element but that the plc Scheme becomes effective on the same day as the Corp Scheme) an Initial Distribution out of the Known Claims Segment (or the Reserve Claims Segment, as appropriate) in the Corp Scheme of approximately:  $1,000,000 \div X \times KCS$  5,192,831,052 = 0.000192573 X KCS 88 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE

RESTRUCTURING -- PART C ----- Rounding down fractional entitlements, the Corp Scheme Creditor would be entitled to receive: 0.000192573 X L333,360,148 cash = L64,196 cash 0.000192573 X L441,505,803\* New Senior Notes = L85,022\* New Senior Notes 0.000192573 X L302,103,439\* New Junior Notes = L58,177\* New Junior Notes 0.000192573 X 976,218,386 New Shares = 187,993 New Shares \* equivalent principal amount If the plc Scheme does not become effective on the same day as the Corp Scheme (or at all) the Corp/plc distribution model described under the Heading "Circulation of Scheme Consideration and payments on a modelled basis" below will not have been applied, and accordingly each of the numbers set out above will be reduced by between approximately 0.41 per cent. and 0.47 per cent. For the purposes of calculating the above table Known Claims that are denominated in a currency other than sterling and New Junior Notes that will be issued by reference to a US dollar amount have been converted at the Voting Rate. The final calculations as to Known Claims will be made at the Scheme Rate (which will be set five Business Days before the Effective Date). The final calculations as to the principal amounts of the New Senior Notes and the New Junior Notes will be made at the Currency Rate (which will be set the Business Day before the Corp Scheme Meeting). PLC SCHEME Similarly, a Scheme Creditor with an Admitted Scheme Claim of L1,000,000 against plc would be entitled to receive (assuming no increase in the cash element of the Corp Scheme Consideration but that the plc Scheme becomes effective on the same day as the Corp Scheme) an Initial Distribution out of the Known Claims Segment (or the Reserve Claims Segment, as appropriate) in the plc Scheme of: 1,000,000 = ----- X KCS 4,682,928,026 = 0.000213542 X KCS Rounding down fractional entitlements, the plc Scheme Creditor would be entitled to receive approximately: 0.000213542 X L44,235,292 cash = L9,446 cash 0.000213542 X L68,159,845\* New Senior Notes = L14,554\* New Senior Notes 0.000213542 X L46,638,851\* New Junior Notes = L9,959\* New Junior Notes 0.000213542 X 150,708,991 New Shares = 32,182 New Shares ----- \* equivalent principal amount If the plc Scheme does not become effective on the same day as the Corp Scheme the Corp/plc distribution model described under the heading "Circulation of Scheme Consideration and payments on a modelled basis" below will not have been applied, and accordingly each of the numbers set out above will be reduced by approximately 8.51 per cent. For the purposes of the above calculations, Known Claims that are denominated in a currency other than sterling and the New Junior Notes that will be issued by reference to a US dollar amount, have been converted at the Voting Rate. The final calculations as to Known Claims will be made at the Scheme Rate (which will be set five Business Days before the Effective Date). The final calculations as to the principal amounts of the New Senior Notes and the New Junior Notes will be made at the Currency Rate (which will be set the Business Day before the Corp Scheme Meeting). 89 I.

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----- The First Initial Distribution The Corp Scheme provides for a First Initial Distribution to be made on the Effective Date to all Scheme Creditors whose Scheme Claims have been submitted to the Prospective Supervisors by the First Claim Date and whose claims have been approved to be Admitted by the Prospective Supervisors by 8.00 a.m. on the first day of the Court hearing to sanction the Corp Scheme. At the time of making the First Initial Distribution in respect of Known Claims the Supervisors will set aside from the Known Claims Segment the proportion of the Scheme Consideration that would be payable to Known Creditors in respect of which a Claim Form either has not been Submitted or where a Claim Form has been Submitted but which has not been Admitted by the Supervisors by the date of the First Initial Distribution. Similarly, at the time of making the First Initial Distribution in respect of Reserve Claims the Supervisors will set aside from the Reserve Claims Segment the proportion of the Scheme Consideration that would be payable to Reserve Creditors in respect of which a Claim Form has been Submitted but which has not been Admitted by the Supervisors by the date of the First Initial Distribution. If such claims are subsequently Admitted, in whole or in part, the relevant Scheme Creditors will receive the portion of the Scheme Consideration held on account of their claims by way of an Initial Distribution as soon as practicable after the Scheme Claim is Admitted. If a Known Claim is rejected or reduced by the Supervisors in either Scheme then that portion of the Known Claims Segment that would have been used to satisfy that Known Claim (or part thereof) had it been Admitted will be added to the Reserve Claims Segment, unless (in the case of the Corp Scheme only) that Known Claim (or part thereof) is greater than L250,000,000, in which case the relevant portion of the Known Claims Segment will be distributed to all Admitted Scheme Creditors pro rata to their entitlements under the Corp Scheme, all in accordance with the terms of the Corp Scheme. SCHEME CREDITORS WILL NOT BE ENTITLED TO DISTURB ANY PREVIOUS DISTRIBUTION FOR ANY REASON, INCLUDING

BY REASON THAT SUCH SCHEME CREDITORS HAVE NOT PARTICIPATED IN IT. As mentioned above, if, contrary to expectations, at any time after the First Initial Distribution the Supervisors are no longer satisfied that the Reserve Claims Segment will be sufficient to meet the distributions to be made to all Reserve Creditors, then the Waiting Period for that Scheme will be brought to an end and all Further Distributions to Scheme Creditors will be made on a strictly pari passu basis. ADMISSION AND COMPROMISE OF SCHEME CLAIMS In order to claim their entitlement to Scheme Consideration, Scheme Creditors will be required to submit a duly completed Claim Form. A form of Claim Form is set out in Appendix 30. The relevant Claim Form should be completed in accordance with the instructions set out in Appendix 27. No person (other than the Trustees) with an interest in Bonds is required to submit Claim Forms but Account Holders will be required to deliver Account Holder Letters to Bondholder Communications before 5.00 p.m. (New York City time) on 17 April 2003 in accordance with the instructions set out in Appendix 28 so that Scheme Consideration (other than cash comprised in the First Initial Distribution and attributable to Bondholders in respect of Eurobonds) can be distributed to Designated Recipients in the First Initial Distribution. The Claim Forms in respect of the Bonds will be submitted by the respective Trustees. Once completed the relevant Claim Form should be submitted to the Prospective Supervisors, 8 Salisbury Square, London EC4Y 8BB, England, UK, for the attention of Philip Wallace and Richard Heis, or, following the Effective Date, to the Supervisors (at the address shown in Appendix 23). Scheme Creditors are encouraged to submit their Claim Forms as soon as possible (ideally, Claim Forms should be submitted at the same time as Forms of Proxy). Once a Scheme Creditor has submitted a duly completed Claim Form the Claim Form will be reviewed by the Prospective Supervisors and, subject to the relevant Scheme becoming effective, its claim will be adjudicated by the Supervisors (see "Procedure for the admission and rejection of claims" below). Provided the relevant Scheme becomes effective all Scheme Claims will be fully and completely released on the earlier of the date on which a Scheme Claim is Admitted and is the subject of a Distribution Notice, the Final Distribution Date and the Termination Date. In consideration of the release of its Scheme Claim the relevant

90 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- Scheme Creditor will become entitled to be paid and issued with its entitlement to Scheme Consideration in accordance with the terms of the relevant Scheme. The claims of Bondholders will be dependent upon the relevant Trustee submitting a Claim Form to the Supervisors in respect of the relevant Bond issue and the Supervisors Admitting that Claim.

SUPERVISORS The Schemes provide for the appointment of Supervisors who will be responsible for evaluating the claims of Scheme Creditors and generally administering the Schemes. The Supervisors must be individuals qualified to act as insolvency practitioners within the meaning of the Insolvency Act 1986. The Supervisors are entitled to exercise their functions and powers jointly and severally. In carrying out their functions and exercising their powers, under the Schemes, the Supervisors will be entitled to consult with the Creditors' Committee. Prior to the Schemes becoming effective, the Prospective Supervisors have undertaken to use reasonable endeavours to determine promptly whether and if so, the extent to which, a Scheme Claim which has been submitted in a duly completed Claim Form will be listed in the Prospective First Initial Distribution Notice. On a Scheme becoming effective Scheme Claims listed in the Prospective First Initial Distribution Notice for that Scheme will be Admitted by the Supervisors, giving rise to an entitlement to a First Initial Distribution. More detail concerning the procedure for admitting Scheme Claims is set out below under the heading "Procedure for the admission and rejection of claims". The Schemes require the Supervisors, on and from the Effective Date, to use reasonable endeavours to determine promptly whether and if so, the extent to which, a Submitted Scheme Claim will be Admitted and, if so, to promptly Admit that Scheme Claim.

Corp and plc have entered into a letter agreement appointing Philip Wallace and Richard Heis as the first Supervisors in accordance with the terms of the Schemes. The curricula vitae of the Supervisors appear in Appendix 23. The terms of the letter agreement are summarised in Appendix 24. The material interests of the Supervisors are set out in Appendix 23. PROCEDURE FOR THE ADMISSION AND REJECTION OF CLAIMS The Supervisors will adjudicate Scheme Claims to decide whether or not they should be Admitted. If and to the extent that the Supervisors are satisfied with the information provided by a Scheme Creditor on a Claim Form the Supervisors will admit the Scheme Claim as an Admitted Scheme Claim and notify the Scheme Creditor accordingly. If the Supervisors are not satisfied with the information provided by a Scheme Creditor on a Claim Form the Supervisors are entitled to call for additional evidence to be provided in support of the Scheme Claim. Creditors with disputed Scheme Claims will receive their entitlement to the Scheme Consideration to the extent and in the amount that the dispute is resolved in

their favour and their Scheme Claim is Admitted. If and to the extent that the Supervisors are not satisfied that the Scheme Claim should be Admitted they will reject the Scheme Claim and notify the Scheme Creditor accordingly. If a Scheme Creditor is dissatisfied with the decision of the Supervisors with respect to its Scheme Claim it may either commence or continue proceedings against the relevant Scheme Company to secure the determination of the quantum of its Scheme Claim or elect by notice in writing to the Supervisors that the existence or quantum of its Scheme Claim be referred for adjudication to an independent third party. If such proceedings have not previously been commenced, any proceedings to determine the amount of a Scheme Claim must be commenced or a notice to elect for adjudication made within 40 Business Days following receipt by the Scheme Creditor of the notice of rejection. If no such proceedings are commenced or election for adjudication made within that 40 Business Day period, the relevant Scheme Company will be released from all liability in relation to that Scheme Claim (or part thereof) which has been rejected and no further proceedings in relation to that Scheme Claim will be permitted. The Schemes do not affect the right of a Scheme Creditor to bring proceedings against Corp or plc only to establish the existence or amount of his Scheme Claim, as appropriate, in the courts of any jurisdiction or according to any law (subject to any other provisions determining governing law and jurisdiction, whether contained in any contract between either Corp and/or plc and the Scheme Creditor or otherwise) provided that the 91 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- Scheme Creditor has first given the Supervisors five Business Days' prior notice in writing of its intention to bring proceedings and, if the Scheme Creditor wishes to bring proceedings upon receipt of a notice from the Supervisors rejecting its Scheme Claim, those proceedings must be brought within 40 Business Days following receipt by the Scheme Creditor of the notice of rejection. The exercise of all other rights and remedies of Scheme Creditors against the relevant Scheme Companies in respect of Scheme Claims are prohibited by the Schemes. The Prospective Supervisors will undertake a review of all Claim Forms submitted prior to the Effective Date to determine whether the Scheme Claims can be properly Admitted on the Effective Date and, provided the relevant Claim Form was submitted prior to the First Claim Date, whether the relevant Scheme Claim will be included in the First Initial Distribution. THE ESCROW TRUSTEE AND THE DISTRIBUTION AGENT The Schemes also provide for the appointment of an Escrow Trustee who will hold the Scheme Consideration on trust for the Scheme Creditors and a Distribution Agent who will be responsible for the distribution of the Scheme Consideration to the Scheme Creditors with Admitted Scheme Claims. Corp and plc have entered into an agreement appointing Corp SPV as the first Escrow Trustee and The Bank of New York as the first Distribution Agent in accordance with the terms of the Schemes and subject to the relevant Scheme becoming effective. A copy of the agreement is set out in Appendix 7. On the issue by the Supervisors of the notice in respect of the First Initial Distribution, Corp will transfer, issue and allot the Scheme Consideration together with the plc Shareholder Stock to or to the order of the Escrow Trustee to be held on trust for the Corp Scheme Creditors and the plc Shareholders respectively. The Distribution Agent will hold the New Notes and any cash comprised in the Scheme Consideration as custodian for the Escrow Trustee. The New Shares will be registered in the name of the Escrow Trustee or its nominee. The Scheme Consideration (together with any income accrued on it in accordance with the Escrow and Distribution Agreement) will be distributed by the Distribution Agent (acting on the instructions of the Supervisors and the Escrow Trustee) to, and at the direction of, the Scheme Creditors with Admitted Scheme Claims (taking into consideration the cost of making the distribution and the amount of Scheme Consideration to be distributed) as soon as practicable after the relevant Scheme Claim has been Admitted, together with any interest accrued and principal repaid on New Notes, any interest accrued on any cash balances and dividends paid on New Shares in respect of that portion of Scheme Consideration. The Escrow and Distribution Agreement contains a direction by the Eurobond Trustee and the Yankee Bond Trustee to the effect that any Scheme Consideration attributable to the Bonds should be distributed in accordance with the directions contained in the Account Holder Letters to be submitted to Bondholder Communications by Account Holders. To the extent that Account Holder Letters are not received by 5.00 p.m. (New York City time) on 17 April 2003 and accordingly any Scheme Consideration attributable to the Scheme Claims made by the Trustees is not distributed in the First Initial Distribution, the Escrow Trustee will continue to hold such undistributed Scheme Consideration in accordance with the directions of the relevant Trustee. The Eurobond Trustee has directed that any Scheme Consideration attributable to its Scheme Claim which has not been distributed by the end of the Waiting Period should be held by the Escrow

Trustee pending the Eurobond Trustee obtaining instructions from the holders of the relevant Eurobonds (by way of an Extraordinary Resolution) or, if appropriate, directions from the Court. The Escrow Trustee has undertaken not to exercise any voting rights attaching to the New Shares or the New Notes while they are held in escrow as referred to above. The arrangements under which the Escrow Trustee holds the Scheme Consideration on trust for Scheme Creditors are expected to constitute a bare trust, in which case the Escrow Trustee will be required to deduct tax at the basic rate (currently 22 per cent.) from any interest or dividends received in respect of the Scheme Consideration before paying the remainder to Scheme Creditors as part of their distribution. If the arrangements are, for any reason, held not to constitute a bare trust, there may be additional taxes payable by the Escrow Trustee in respect of the Scheme Consideration that does not form part of the First Initial Distribution. Corp has agreed to set aside certain amounts to be paid towards any tax liability of the Escrow Trustee. Any additional amounts will, in the first instance, be met out of the Reserve Claims Segment or, after the expiry of the Waiting 92 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- Period, out of the combined Reserve Claims Segment and Known Claims Segment. If the Supervisors terminate the Waiting Period on the grounds that the Reserve Claims Segment may not be sufficient to meet the claims of all Reserve Creditors, any tax costs will cease to be met out of the Reserve Claims Segment, and any distributions made thereafter will be made subject to a withholding on account of all taxes which would be payable by the Escrow Trustee in respect of that distribution. Corp has agreed to indemnify the Escrow Trustee against any tax liability which cannot be met as described above. The Escrow Trustee has agreed to seek confirmation from the Inland Revenue (as soon as reasonably practicable after the Effective Date of the Corp Scheme and, in any event, before the end of the Waiting Period) that the arrangements will be taxed as a bare trust. Pending any confirmation from the Inland Revenue to the contrary, or any indication by the Inland Revenue that such confirmation will not be given until a later date (such as the submission of a tax return by the Escrow Trustee), the Escrow Trustee will operate the arrangements on the basis that they constitute a bare trust. CIRCULATION OF SCHEME CONSIDERATION AND PAYMENTS ON A MODELLED BASIS Corp has the benefit of a Scheme Claim of L146,587,439 against plc. Accordingly, Corp will submit a Claim Form pursuant to the plc Scheme and, if the plc Scheme becomes effective and Corp's claim is Admitted (which Corp expects to be the case), Corp will become entitled to receive its pro rata entitlement in respect of its Admitted Scheme Claim in the First Initial Distribution under the plc Scheme. Corp has agreed to distribute its entitlement to receive Scheme Consideration under the plc Scheme (or, should the plc Scheme not become effective, its entitlement to any sum of money or property to which it becomes entitled to as a result of its claim against plc) to Corp Scheme Creditors by way of additional Corp Scheme Consideration. Similarly plc has agreed to distribute any of this additional Scheme Consideration it would be entitled to receive from Corp via Ancrane to all plc Scheme Creditors (which will in turn include Corp). To prevent the continued circulation of an ever decreasing amount of additional Scheme Consideration, Ancrane and the Prospective Supervisors of both Schemes (in each case the same two persons) have agreed that, if both Schemes become effective and, as anticipated, the First Initial Distributions under the Schemes are payable on the same date, the Supervisors will agree a distribution model (the "CORP/PLC MODEL") simulating successive distributions under the Corp Scheme and the plc Scheme of amounts distributed to Corp out of the plc Scheme in order to produce a net amount of additional Scheme Consideration available for distribution to Admitted Scheme Creditors under the Corp Scheme and the plc Scheme respectively. For this purpose, no Scheme Consideration will be paid from Corp to Ancrane and arrangements will be made for all Bonds held by Ancrane to be blocked. It is currently anticipated that the amount of any additional Scheme Consideration payable to Admitted Scheme Creditors as a result of this circulation of Scheme Consideration will be paid to Admitted Scheme Creditors when they receive their Initial Distribution. Similar provisions may apply for any Further Distributions made at the same time under each of the Schemes. For example, this may occur at the end of the Waiting Period. The ability of Ancrane to make a repayment of capital in specie to plc has been facilitated by Ancrane having become an unlimited company on 25 March, 2003. Pursuant to the terms of the Scheme Implementation Deed, prior to the Corp Scheme Meeting, Ancrane will effect a reduction of its existing share capital (including its share premium account) and will make a repayment of capital in specie to plc of its assets (other than L100), including any receipt of, or right that it may have to receive, any Corp Scheme Consideration and any plc Scheme Consideration. TREATMENT OF DE MINIMIS CLAIMS The Schemes provide for the claims of all Scheme Creditors who are owed in aggregate less than L5,000 to be excluded from the

Schemes. Accordingly it is expected that all such creditors will be paid in full if and when such claims arise. As indicated above, in the context of submitting Scheme Claims the only Scheme Creditors that will be recognised in relation to the Bonds are the two Trustees. Accordingly Account Holders who hold less than L5,000 in principal amount of the Bonds of any series for any Bondholder should still submit an Account Holder Letter in respect of that holding. 93 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- C.8 MEETINGS, FINAL TERMINATION, RELEASE AND GOVERNING LAW CREDITORS' COMMITTEE AND FURTHER MEETINGS OF SCHEME CREDITORS Each of the Schemes provides for a Creditors' Committee of representatives of the Scheme Creditors (which expression, in this context, includes Definitive Holders) to be appointed to monitor the implementation of the relevant Scheme, the actions of the Supervisors and the calling of meetings of Scheme Creditors. Each Creditors' Committee will comprise a minimum of three and a maximum of seven members. The members of the Creditors' Committee will be appointed as described below. The Creditors' Committee will meet at least once every 12 months during the continuation of the Schemes and will receive a report on the progress of the relevant Scheme from the Supervisors. A Scheme Creditor or Definitive Holder who is willing to act as a member of the Creditors' Committee may propose itself to act as a member of the Creditors' Committee by ensuring that the appropriate box on the Claim Form or Account Holder Letter, as the case may be, is ticked. On the Effective Date, the Supervisors will, to the extent possible, appoint up to seven members of the Creditors' Committee selected from those Scheme Creditors and Definitive Holders who have proposed themselves to act, representing a proper balance of interests of Scheme Creditors as a whole. If fewer than three Scheme Creditors and Definitive Holders propose themselves to act as a member of the Creditors' Committee, then on and from the Effective Date the Creditors' Committee will consist of as many members as have proposed themselves to act. In accordance with the terms of the Scheme those members, if any, will endeavour to fill the vacancy or vacancies to ensure that the Creditors' Committee has a minimum of three members within 28 days of the Effective Date. If those members do not succeed in appointing the necessary number of further members of the Creditors' Committee, resulting in a Creditors' Committee consisting of fewer than three members by 28 days after the Effective Date, the Supervisors will thereafter use reasonable endeavours to appoint the necessary number of further members within the following 14 days as interim committee members to serve on the Creditors' Committee until the necessary number of further permanent members are appointed. Meetings of Scheme Creditors will be held at least once every 12 months during the continuation of the Schemes unless the Supervisors and the Creditors' Committee otherwise agree. The Supervisors can call a meeting of Scheme Creditors for any purpose they think necessary in order to keep Scheme Creditors informed about the progress of the Schemes or to obtain their input as regards the function of the Schemes. The Creditors' Committee may convene a meeting of Scheme Creditors to remove or appoint either or both Supervisors or for any other purpose they think fit. In addition, five Scheme Creditors with Scheme Claims in aggregate in excess of fifteen per cent. of all Scheme Claims, or any 20 or more Scheme Creditors may convene a meeting of Scheme Creditors. FINAL TERMINATION PROVISIONS As soon as reasonably practical after the making of the final distributions under each of the Schemes or the Supervisors' determination that any further distribution of Scheme Consideration would be uneconomic (i.e. if the costs of making the distribution would exceed the value of the Scheme Consideration to be distributed (or the proceeds of sale of that Scheme Consideration)), the relevant Supervisors will serve a termination notice on the relevant Scheme Company and the members of the relevant Creditors' Committee. With effect from the date of the termination notice, a. Scheme Creditors, the Creditor's Committee, the relevant Scheme Company, the Supervisors, the Eurobond Trustee, the Yankee Bond Trustee, the Escrow Trustee, the Distribution Agent, the Registrars and Bondholder Communications will have no further rights or obligations under the Scheme except that the compromise of Scheme Claims pursuant to the terms of the Scheme will continue to have effect; and b. the Supervisors (and any former Supervisors) and the members of the Creditors' Committee (and any former members) will be discharged from any liability for their respective acts, omissions and conduct pursuant to or under the Schemes other than any liability arising from their respective 94 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- misfeasance, breach of duty or wilful default or, in the case of the Supervisors, their negligence or that of a partner in or employee of KPMG. RELEASE OF CO-ORDINATION COMMITTEE AND THE INFORMAL COMMITTEE OF BONDHOLDERS Under the Corp

Scheme and the plc Scheme the Co-ordination Committee, the Informal Committee of Bondholders and their past and present members and their legal and financial advisers will be released from any Liability which they or any of them may have to a Scheme Creditor, Corp, plc, the Supervisors, the Escrow Trustee, the Distribution Agent, the Eurobond Trustee, the Yankee Bond Trustee, Bondholder Communications and the ESOP Derivative Banks. GOVERNING LAW AND JURISDICTION The Schemes will be governed by and construed in accordance with English law. The Court will have exclusive jurisdiction to hear and determine any suit, action or proceeding and to settle any dispute which may arise out of the Explanatory Statement or any provision of the Schemes, or any action taken or omitted to be taken under the Schemes or in connection with the administration of the Schemes. For such purposes, Scheme Creditors irrevocably submit to the jurisdiction of the Court, subject to the proviso that in relation to the determination of any Scheme Claim the validity of other provisions determining governing law and jurisdiction as between either Corp and/or plc and any of its Scheme Creditors, whether contained in any contract or otherwise, will not be affected.

C.9 EFFECT OF SECURITIES LAW RESTRICTIONS UNDER THE SCHEMES GENERAL PRINCIPLES OF THE SCHEMES Securities will not be distributed pursuant to the Schemes to or to the order, or for the account or benefit, of any person where such distribution would be prohibited by any applicable law or regulation, or so prohibited except after compliance with conditions or requirements that are unduly onerous. Where any determination is (or has been) required as to whether any such conditions or requirements are "unduly onerous", such determination will be (or has been) made by Corp (in connection with distributions pursuant to the Corp Scheme) or plc (in connection with distributions pursuant to the plc Scheme), as the case may be, with the advice of legal counsel and having due regard for the number of Scheme Creditors, Bondholders and/or plc Shareholders that are or may be located in the relevant jurisdiction, the value of the securities to which such persons are or may be entitled pursuant to the Schemes, the extent to which the requirements of the laws and regulations of such jurisdiction as applied to the Schemes are uncertain, the nature and extent of the risks or penalties associated with any violation of those legal or regulatory requirements and the costs, administrative burden and timing implications of taking such action (if any) as might permit distributions of securities to be made in that jurisdiction (including pursuant to any available exemptions) in accordance with applicable legal and regulatory requirements. Any reference in the discussion that follows to whether distribution of securities would be prohibited except after compliance with conditions or requirements that are "unduly onerous" should be construed accordingly. To the extent that securities that would otherwise be deliverable pursuant to the Schemes cannot be delivered because of a legal or regulatory prohibition described above, the persons that would otherwise be entitled to receive such securities will receive cash instead, as follows: a. in the case of Scheme Creditors (other than the Trustees) and Designated Recipients, the Distribution Agent will sell or procure the sale of such securities on the best terms reasonably obtainable at the time of sale and will pay the net cash proceeds of such sale (after deduction of all applicable expenses including any currency conversion costs) to the relevant person in full satisfaction of such person's rights in respect of such securities under the relevant Scheme. Any such sale will be deemed to have been undertaken at the request of the relevant person, and none of Corp, plc, the Escrow Trustee, the Distribution Agent, the Registrars, the Supervisors or any other person will be responsible for any loss arising from the terms or the timing of such sale. If the relevant securities are not listed on a securities exchange, however, the relevant person will receive a sum in cash which is substantially equivalent in value to such securities, such sum to be 95 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C ----- determined by agreement between Corp or plc, as the case may be, and the Supervisors or by adjudication in accordance with the provisions of the relevant Scheme; and b. in the case of plc Shareholders, the Registrars will use reasonable endeavours to sell or procure the sale of such securities on the best terms reasonably obtainable at the time of sale and will pay the net cash proceeds of such sale (if any) to the relevant plc Shareholder in sterling (after deduction of all applicable expenses including any currency conversion costs) in full satisfaction of the rights of such plc Shareholder in respect of such securities under the Corp Scheme. Any such sale will be deemed to have been undertaken at the request of the relevant person, and none of Corp, plc, the Escrow Trustee, the Distribution Agent, the Registrars, the Supervisors or any other person will be responsible for any loss arising from the terms or the timing of such sale or any failure to procure a purchaser for such securities. Any determination made by Corp or plc with respect to legal or regulatory prohibitions on the distribution of securities pursuant to the Schemes will be (or has been) made solely with regard to such laws and regulations as are generally applicable to persons located in the relevant jurisdiction. Such determinations will not take



account of any legal or regulatory restrictions that may be applicable to a particular Scheme Creditor, Bondholder, Designated Recipient or plc Shareholder by virtue of any business or other activity conducted by such person in such jurisdiction, or the regulatory status or other relevant legal attributes of such person. Scheme Creditors, Bondholders, Designated Recipients and plc Shareholders are strongly advised to consult their professional advisers as to whether any laws or regulations which may be applicable to them may give rise to any liability or penalty, or require them to obtain any government or other consents or to pay any taxes or duties, as a result of the implementation of the Schemes. None of Corp, plc, the Escrow Trustee, the Distribution Agent, the Supervisors, Bondholder Communications, the Registrars, the Informal Committee of Bondholders, the Co-ordination Committee, their respective directors or any other parties involved in the Restructuring accept any responsibility for any liabilities (including but not limited to consequential liabilities) incurred by Scheme Creditors, Bondholders, Designated Recipients or plc Shareholders as a result of the implementation of the Schemes in respect of laws or regulations applicable to them (except that UK stamp duty or SDRT payable in connection with the issuance of ADRs will be met by Corp to the extent described herein). JURISDICTIONS IN WHICH DISTRIBUTION OF SECURITIES IS NOT RESTRICTED Corp and plc have determined that the distribution of securities pursuant to the Schemes in the following jurisdictions is not currently prohibited by any applicable law or regulation requiring compliance with conditions or requirements that are unduly onerous: a. United Kingdom; b. Bahamas; c. British Virgin Islands; d. Canada (provinces of Alberta, British Columbia, Ontario and Quebec); e. Cayman Islands; f. Guernsey; g. Jersey; h. Netherlands Antilles; and i. United States (with respect to federal securities law and, except as described below, with respect to state securities law). The above-mentioned jurisdictions are sometimes referred to collectively in the discussion that follows as "UNRESTRICTED JURISDICTIONS." 96 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- The Schemes will provide that persons located in Unrestricted Jurisdictions will not be prohibited from receiving distributions of securities pursuant to the Schemes by virtue of any legal or regulatory prohibition of general application under the laws or regulations of such jurisdictions. Notwithstanding the foregoing, securities will not be distributed pursuant to the Schemes to or to the order, or for the account or benefit, of any person in any Unrestricted Jurisdiction if at any time there has been a change of law or regulation since 27 March 2003 (the latest practicable date prior to the date of this document) in such jurisdiction, such that distribution of securities pursuant to the Schemes to a person in such jurisdiction would be prohibited, or so prohibited except after compliance with conditions or requirements that are unduly onerous. JURISDICTIONS IN WHICH DISTRIBUTION OF SECURITIES IS RESTRICTED Corp and plc have determined that the distribution of securities pursuant to the Schemes in the following jurisdictions would be prohibited by applicable law or regulation, or so prohibited except after compliance with conditions or requirements that are unduly onerous, unless the conditions of one or more applicable exemptions from such laws or regulations can be met: a. France; b. Italy; and c. the US states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont. Accordingly, the Schemes will provide that persons located in the above jurisdictions will be prohibited from receiving distributions of securities pursuant to the Schemes, and will receive cash instead as described above, unless the conditions for reliance on an available exemption have been met. Details with respect to certain relevant exemptions covering institutional or professional investors and certain other persons are set out in Part D.16 and Part D.17 of this Section. In addition, Corp and plc have determined that any distribution of securities pursuant to the Schemes to persons in Malaysia is currently prohibited by applicable securities laws or regulations requiring compliance with conditions or requirements that are unduly onerous, and that no exemption from this prohibition will be available. Accordingly, persons located in Malaysia will be prohibited from receiving distributions of securities pursuant to the Schemes, and will receive cash instead as described above. France, Italy, Malaysia and the above-mentioned US states are sometimes referred to collectively in the discussion that follows as "RESTRICTED JURISDICTIONS." Notwithstanding the foregoing, the restrictions on the distribution of securities pursuant to the Schemes with respect to any Restricted Jurisdiction will cease to apply if at any time there has been a change of law or regulation since 27 March 2003 (the latest practicable date prior to the date of this document) in such jurisdiction, such that delivery of securities pursuant to the Schemes to a person in such jurisdiction would no longer be prohibited, or so prohibited except after compliance with conditions or requirements that are unduly onerous. Any such change will not affect the rights of any person that has previously received cash instead of securities pursuant to the Schemes, as described above. In addition, notwithstanding the

foregoing, distributions of New Shares and Warrants to plc Shareholders in Restricted Jurisdictions will be restricted only to the extent described below under "Treatment of plc Shareholders in Restricted Jurisdictions." OTHER JURISDICTIONS With respect to any jurisdiction other than an Unrestricted Jurisdiction or a Restricted Jurisdiction named above, the general principles of the Schemes will apply as described above. Accordingly, securities will not be distributed pursuant to the Schemes to or to the order, or for the account or benefit, of any person located in a jurisdiction other than an Unrestricted Jurisdiction or a Restricted Jurisdiction if it should come to the attention of Corp or plc (as the case may be) that such distribution would be prohibited by any applicable law or regulation, or so prohibited except after compliance with conditions or requirements that are unduly onerous. Neither Corp 97 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- nor plc is currently aware of any such prohibition in any jurisdiction (other than as described above with respect to Restricted Jurisdictions). SECURITIES LAW CONFIRMATIONS IN CLAIM FORM In connection with the legal and regulatory restrictions referred to above and in order to establish the conditions for reliance on certain relevant exemptions from these restrictions, the Claim Form will require the person completing it (other than the Trustees) to confirm that it is not submitting such Claim Form on behalf of, or requesting delivery of any securities to or for the benefit of, any person that is located in: a. France (other than a "qualified investor" as defined in Article L.411-2 of the French Monetary and Financial Code); b. Italy (other than a "professional investor" as defined in the Consolidated Financial Act Article 30, paragraph II and in CONSOB Regulation 11522/1998 Article 31, paragraph II); c. Malaysia; d. the US states of Arizona, California, Colorado, Connecticut, Illinois, Ohio or Vermont (other than a person that is eligible to receive the securities under a relevant exemption as described in Part D.16 of this Section). Persons completing a Claim Form (other than the Trustees) should refer to Part D.17 of this Section (with respect to France, Italy and Malaysia) and to Part D.16 of this Section (with respect to Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont) for information as to the circumstances under which they would be regarded as located in one of these jurisdictions for these purposes, and for details with respect to the various categories of eligible recipients in such jurisdictions under the exemptions referred to above and other relevant information. Such persons should also carefully consider the terms of the confirmations included in the Claim Form set out in Appendix 30. SECURITIES LAW CONFIRMATIONS IN ACCOUNT HOLDER LETTER In connection with the legal and regulatory restrictions referred to above and in order to establish the conditions for reliance on certain relevant exemptions from these restrictions, the Account Holder Letter will require each relevant Account Holder to confirm that it is not submitting such Account Holder Letter on behalf of, or requesting delivery of any securities to or for the benefit of, any person that is located in: a. France (other than a "qualified investor" as defined in Article L.411-2 of the French Monetary and Financial Code); b. Italy (other than, with respect to the plc Scheme, a "professional investor" as defined in the Consolidated Financial Act Article 30, paragraph II and in CONSOB Regulation 11522/1998 Article 31, paragraph II); c. Malaysia; or d. the US states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont (other than a person that is eligible to receive the securities under a relevant exemption as described in Part D.16 of this Section). Account Holders, Bondholders and Designated Recipients should refer to Part D.17 of this Section (with respect to France, Italy and Malaysia) and to Part D.16 of this Section (with respect to Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont) for information as to the circumstances under which they would be regarded as located in one of these jurisdictions for these purposes, and for details with respect to the various categories of eligible recipients in such jurisdictions under the exemptions referred to above and other relevant information. Such persons should also carefully consider the terms of the confirmations included in the Account Holder Letter set out in Appendix 28. 98 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- EFFECT OF SECURITIES LAW CONFIRMATIONS UNDER THE SCHEMES The Schemes will provide that if the required confirmations are given in the form requested in a Claim Form or Account Holder Letter then, except as described below, distribution of the New Shares and New Notes to which such Claim Form or Account Holder Letter (as the case may be) relates will not be prohibited on the basis of any legal or regulatory prohibition of general application under the laws or regulations of any Restricted Jurisdiction. Notwithstanding the foregoing, if it appears from the relevant Claim Form or Account Holder Letter that such confirmations have been given inappropriately then, except as described below with respect to

Italy, New Shares and New Notes will not be distributed in respect of such Claim Form or Account Holder Letter, in which case the relevant person or persons will receive cash instead as described above. Confirmations will be deemed to have been given inappropriately if (i) information provided in or in connection with the transmittal of the Claim Form or Account Holder Letter indicates that such Claim Form has been submitted by, or such Account Holder Letter has been delivered on behalf of, or delivery of securities is being requested to or for the account or benefit of, a person that is located in a Restricted Jurisdiction and that could not be eligible to receive the securities under any relevant exemption described in this document or (ii) Corp or plc (as the case may be) obtains actual knowledge that such confirmations are false. Corp and plc reserve the right, in their sole discretion, to investigate in relation to any Claim Form or Account Holder Letter the facts relevant to the confirmations included therein. The determination as to whether confirmations have been appropriately given will be made by Corp (in connection with distributions pursuant to the Corp Scheme) or plc (in connection with distributions pursuant to the plc Scheme), as the case may be. Except as described below with respect to Italy, if the required confirmations are not given in the form requested in a Claim Form or Account Holder Letter, then New Shares and New Notes will not be distributed in respect of such Claim Form or Account Holder Letter, in which case the relevant person or persons will receive cash instead as described above. Notwithstanding the foregoing, to the extent that Corp or plc determines that the exemptions applicable with respect to distributions of securities to limited numbers of persons are available in Italy, securities will be distributed to the relevant persons without regard to the confirmations given in any relevant Claim Form or Account Holder Letter. Details with respect to this exemption are set out in Part D.17 of this Section. With respect to any jurisdiction other than an Unrestricted Jurisdiction or a Restricted Jurisdiction, the general principles of the Schemes will apply (as described under "Other jurisdictions" above) notwithstanding the confirmations given in any relevant Claim Form or Account Holder Letter. TREATMENT OF PLC SHAREHOLDERS IN RESTRICTED JURISDICTIONS Corp has determined that distribution of securities to plc Shareholders pursuant to the Corp Scheme is currently prohibited by applicable securities laws or regulations requiring compliance with conditions or requirements that are unduly onerous (i) in Malaysia (with respect to New Shares and Warrants) and (ii) unless the exemption applicable with respect to distributions of securities to limited numbers of persons is available, in Italy (with respect to Warrants). plc Shareholders with registered addresses in Malaysia will be prohibited from receiving distributions of New Shares and Warrants pursuant to the Corp Scheme, and will receive cash instead as described above. plc Shareholders with registered addresses in Italy will be prohibited from receiving distributions of Warrants pursuant to the Corp Scheme, and will receive cash instead as described above, unless Corp determines that the above-mentioned exemption is available. Details with respect to this exemption are set out in Part D.17 of this Section. C.10 INSOLVENCY ANALYSIS Corp and plc believe that there are only two possible outcomes of the Group's current financial difficulties, which are the reorganisation of their liabilities through the proposed Schemes or the placing of the companies into administration or liquidation. Whilst Corp and plc believe that the Schemes are more beneficial to Scheme 99 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART C

----- Creditors than insolvency proceedings, Corp and plc believe that in the event of insolvency a more advantageous realisation of Corp's and plc's assets would be effected on an administration rather than a liquidation. Appendix 6 sets out a comparison between the position under the proposed Schemes and the hypothetical position that would be likely to face Scheme Creditors if plc and Corp were to go into administration as at 30 April 2003. The purpose of the insolvency analysis at Appendix 6 is to assist Scheme Creditors in determining whether to accept the proposals set out in this document. Scheme Creditors should read carefully the caveats, limitations and uncertainties set out in the analysis. Corp and plc believe that the Schemes give greater certainty overall and that the certainty of the day one distribution of cash, New Notes and New Shares is a major benefit to Scheme Creditors. This certainty would not be available under insolvency proceedings or on the enforcement of security. 100 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- D. GENERAL MATTERS RELATING TO THE RESTRUCTURING D.1 LOCKBOX ACCOUNT AND INTERIM SECURITY ARRANGEMENTS

BACKGROUND As part of the arrangements to effect the Restructuring, Corp agreed to provide interim security (over the cash held by Highrose Limited (a special purpose subsidiary of Corp) in the Lockbox Accounts) to the Group's Syndicate Banks (in their capacities as Syndicate Banks, bilateral lenders to Corp and beneficiaries of

guarantees from Corp (in such capacities "BANK CREDITORS"), the holders of the Bonds from time to time (apart from plc's wholly owned subsidiary Ancrane) and the Trustees (together the "SECURED BONDHOLDERS") and Barclays, as the only ESOP Derivative Bank which committed to support the Restructuring prior to 15 October 2002. These interim security arrangements took effect on 13 September 2002, on which date the balance in the Lockbox Accounts was approximately L866 million. The interim security arrangements were amended on 13 December 2002 and were further amended on 28 March 2003. The interim security has been provided to the Bank Creditors and Secured Bondholders on a pari passu basis, subject to the arrangements in favour of the participating ESOP Derivative Banks (see further details in Part D.2 of this Section). As at 27 March 2003, the balance held in the Lockbox Accounts was approximately L770.7 million. The 13 December 2002 amendments to the interim security, among other things: - removed a provision requiring the interim security to be released if a specified percentage of Bank Creditors and Secured Bondholders had not entered into written agreements to vote in favour of the Schemes on or before 15 business days after the date on which the originating application for the Corp Scheme was filed with the Court; and - released the undertakings which had been given on 13 September 2002 by members of the Informal Committee of Bondholders to enter into such written agreements. These amendments were agreed in consideration of an extension of time (until 15 March 2003) to complete the Restructuring and the waiver by the Bank Creditors and Informal Committee of Bondholders of any enforcement event which may have then existed in relation to the interim security as a result of the probable inability to complete the Restructuring by 31 January 2003. At the same time and as part of the amendment of the interim security, each of the then members of the Informal Committee of Bondholders and certain members of the current Co-ordination Committee provided letters of current intention to support the Restructuring and to vote in favour of the Schemes (which are detailed in Appendix 19 and are among the documents available for inspection). Corp and plc have not been notified of any changes in those intentions since that date. Further amendments were made to the interim security on 28 March 2003. These amendments, among other things, removed the provision requiring the interim security to be released at any time should any Bank Creditor (or any of its affiliates) precipitate an insolvency event with respect to any material Group Company. These amendments were agreed in consideration of an extension of time (until 30 June 2003) to complete the Restructuring and the waiver by the majority Bank Creditors and the majority members of the Informal Committee of Bondholders of certain enforcement events that may then have existed in relation to the interim security as a result, among other things, of the inability to complete the Restructuring by 15 March 2003. In addition to the extension of time to complete the Restructuring and waiver of enforcement events discussed above, on 26 March 2003 and 24 March 2003 respectively the requisite majorities of the Syndicate Banks and the members of the Informal Committee of Bondholders: (a) consented, for the purpose of the undertakings given in favour of the Syndicate Banks and the Informal Committee of Bondholders, to the entry by Corp, plc and other Group Companies into certain transactions (including those contemplated under the Scheme Implementation Deed) necessary to facilitate the Restructuring; and (b) agreed a number of additional carve-outs to those undertakings to permit Corp, plc and other Group Companies to enter into transactions contemplated in this document (provided that, subject to some exceptions, such transactions do not take effect until on or after the Effective Date of the Corp Scheme).

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----- ENFORCEMENT EVENTS The interim security will become enforceable on the occurrence of an enforcement event. These events include: - material breach or termination of the undertakings described in Part B of this Section; - the commencement of formal insolvency proceedings in relation to a material Group Company (as listed in the interim security); - failure to achieve the Restructuring on the basis stated in the Heads of Terms (as varied in the manner announced on 18 March 2003) within the proposed timetable (or the likelihood of the same becoming evident); - failure to meet the sensitised Business Plan, if such failure would have a material and adverse effect on the interests of the beneficiaries of the interim security (or the likelihood of the same becoming evident); - that the post-Restructuring balance sheet is likely to be materially worse than contemplated by the sensitised Business Plan; or - that the Group is unlikely to have sufficient working capital post-Restructuring, if such event would have a material and adverse effect on the interests of the beneficiaries of the interim security. The occurrence of an enforcement event may materially prejudice the ability of Corp and plc to complete the Restructuring successfully. If the interim security were to be enforced, neither Corp nor plc would have any reasonable prospect of avoiding an insolvency proceeding.

RELEASE OF INTERIM SECURITY The interim

security is due to be released on 24 April 2003 ("RELEASE DATE"), being the date (as notified by HSBC, as trustee in respect of the interim security) falling one business day prior to the date on which the Corp Scheme Meeting will be held, unless on or within five business days prior to the Release Date, the Co-ordination Committee certifies that Bank Creditors and Secured Bondholders representing a majority in principal amount of the debt outstanding under the Bank Facility, bilateral facilities provided by Bank Creditors to Corp, bilateral guarantees given by Corp in favour of Bank Creditors and the Bonds do not believe that the requisite majority (being a majority in number representing 75 per cent. in value of Corp Scheme Creditors present and voting either in person or by proxy at the Creditors' Meeting in respect of the Corp Scheme) will approve the Restructuring. In light of discussions with the Syndicate Banks and the Informal Committee of Bondholders during the course of the Restructuring, Corp and plc currently believe that the interim security will be released on the Release Date. If the interim security has not been released prior to the Corp Scheme Meeting neither Corp nor plc will proceed with their respective Schemes and the interim security will remain in place in any subsequent insolvency proceedings, meaning that the Bank Creditors, Secured Bondholders and Barclays Bank PLC (as the only ESOP Derivative Bank which committed to support the Restructuring prior to 15 October 2002), would rank ahead of all unsecured creditors of Corp with respect to the cash held in the Lockbox Accounts. If the interim security is released and the Corp Scheme Meeting proceeds, the choice facing all Corp Scheme Creditors will be the same: either the Corp Scheme will be approved and implemented or the Corp Scheme will be rejected and in the inevitable insolvency proceeding which would follow such rejection the interim security would no longer be in place. The Syndicate Banks and the Informal Committee of Bondholders have indicated that they will not be prepared to release the interim security prior to the Corp Scheme Meeting unless, immediately before such release, Corp has confirmed to the Prospective Supervisors that Corp remains satisfied that the reserves built into the Corp Scheme are sufficient to meet distributions to all Corp Scheme Creditors and that Corp remains of the opinion that its statement as to the Corp Group's working capital contained in Part D.21 of this Section remains valid, and the Prospective Supervisors have confirmed to Corp that they have no reason to disagree with Corp's view that the reserves built into the Corp Scheme are sufficient to meet distributions due to be made to all Corp Scheme Creditors.

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----- WITHDRAWALS Prior to release of the interim security (and in the absence of any enforcement event), and after the release of the interim security (in accordance with the lockbox arrangements set out in the undertakings in favour of the Syndicate Banks and members of the Informal Committee of Bondholders (as modified and renewed)), withdrawals from the Lockbox Accounts are to be approved, in order for the Group to meet its cash flow requirements, in accordance with an agreed cash flow forecast for the period from and including March 2003 to 30 June 2003. D.2 ARRANGEMENTS WITH ESOP DERIVATIVE BANKS BACKGROUND As part of the demerger of the Group's defence business at the end of 1999 involving the listing of plc as the new parent company of the Group, it was necessary to reorganise the incentive schemes to reflect the new Group structure, and a number of employee share option plans (the "ESOPs") were put in place (and detailed in the listing particulars of plc). The ESOPs entitle participating employees of certain Group Companies ("Opcos") in certain circumstances to call for shares in plc at specified exercise prices. Marconi Employee Trust was established by a trust deed in 1999 as a vehicle for acquiring and holding plc shares to be delivered when options were exercised under the ESOPs. MET was managed by an independent trustee, Bedell Cristin Trustees Limited. plc wrote to various Opcos whose employees were to participate in the ESOPs requesting that each confirm that it would bear the costs associated with the participation by its employees in the ESOPs (such letters, "Funding Letters"). In order to hedge some of the potential cost of acquiring shares to satisfy the Group's obligation under the ESOPs, BCTL entered into three ISDA master swap agreements ("ESOP Agreements") with the ESOP Derivative Banks (Salomon Brothers International Limited, Barclays Bank PLC and UBS AG) as counterparties. Under the ESOP Agreements, BCTL entered into certain equity swaps (as detailed in Appendix 11) which provided that in certain circumstances BCTL would be obliged to purchase plc shares in the future at prices which were fixed at the date of the contracts, and were in the region of 900 pence per share ("ESOP Derivative Transactions"). The obligations of BCTL under the ESOP Derivative Transactions were guaranteed by plc and were limited in recourse to the assets of MET held on trust by BCTL. As the market price of the Group's shares fell, certain of the ESOP Derivative Banks exercised their rights to call for cash collateral under the ESOP Derivative Transactions. BCTL needed to be put in funds in order to satisfy its obligation to provide such cash collateral. At the request of plc, Corp made available a credit facility (the "ESOP

Collateral Loan") to BCTL for the purpose of providing cash collateral to the relevant ESOP Derivative Banks. The UBS ESOP Derivative Transaction has been terminated consensually. SBIL has purported to terminate its ESOP Derivative Transaction. The Barclays ESOP Derivative Transaction has not been terminated. plc's total current exposure under the ESOP Derivative Transactions is approximately L389 million. However, approximately L214 million, being the maximum amount of collateral payable under the ESOP Derivative Transactions, has been paid. A remaining amount of approximately L175 million remains due. During the course of the Restructuring negotiations the ESOP Derivative Banks asserted that they may have claims against the Opcos (in addition to plc) in respect of the ESOP Derivative Transactions, such claims arising from the Funding Letter arrangements. MOBILE ESCROW On 2 August 2002, Marconi Bruton Street Limited, a subsidiary of Corp, disposed of its entire shareholding in Marconi Mobile Holdings S.p.A. to Finmeccanica S.p.A. for approximately E571 million. The employees of Mobile and certain of its subsidiaries had participated in the ESOPs and certain members of the Mobile group ("Mobile Opcos") had countersigned Funding Letters. In order to ensure that the sale of Mobile was not delayed whilst the efficacy of the claims of the ESOP Derivative Banks was determined, approximately L25 million of the sale proceeds was placed in an escrow 103 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- account subject to the terms of an escrow agreement between, inter alia, the ESOP Derivative Banks, HSBC Bank plc, Corp and plc, pending resolution of the dispute or a court order. That sum reflected the L18 million maximum estimated potential liability of the Mobile Opcos (prior to the release of the relevant Funding Letters required in order to implement the sale of Mobile) arising from the participation of their employees in the ESOPs plus additional headroom. Given that the investigations into the merits of the arguments were at an early stage, the additional headroom was approximately L7 million. ESOP TERM SHEET The fact that the ESOP Derivative Banks asserted claims against Opcos made it necessary to devise a mechanism so that the ESOP dispute was ringfenced and could not jeopardise the Corp Group once the Restructuring contemplated by the Corp Scheme had become effective. On 28 August 2002, as part of the negotiations in connection with the Restructuring, a non-binding indicative ESOP Term Sheet providing for the creation of escrow accounts pending determination of the claims of the ESOP Derivative Banks was initialled by plc, Corp, representatives of the Co-ordination Committee, the Informal Committee of Bondholders and Barclays. The ESOP Term Sheet set out the manner in which the ESOP Derivative Banks, in exchange for agreeing prior to 15 October 2002 to support the Restructuring of Corp and plc, could take the benefit of the interim security and certain pre and post-Restructuring escrow arrangements. Up to L170 million (including the L25 million set aside under the Mobile Escrow Agreement) was to be set aside in escrow, on the Effective Date of the Corp Scheme, pending determination of the potential liabilities of Group companies to the participating ESOP Derivative Banks (those who had undertaken to support the Schemes) in relation to the ESOP Derivative Transactions. Only Barclays elected to participate in these arrangements and on 13 September 2002 Barclays, Corp and plc entered into a restructuring undertaking agreement under which Barclays undertook, subject to certain termination events, to vote in favour of the Schemes. The terms of the Barclays restructuring undertaking agreement are described in more detail in Appendix 19. ESOP ESCROW AGREEMENT A definitive agreement implementing the terms of the ESOP Term Sheet was entered into between plc, Corp, HSBC Bank plc and Barclays on 13 December 2002, the principal terms of which are summarised below: a. No Restructuring (i) If, prior to the Effective Date of the Corp Scheme, the Bank Creditors and Secured Bondholders appropriate the cash in the secured Lockbox Accounts as a result of the enforcement of the interim security, a proportionate part of the secured cash will be placed into an escrow account. This proportion will be calculated on the basis of  $((83.49)/(100) \times 145/850 \times \text{the credit balance of the secured cash at the time of enforcement})$ . (ii) In the event of an enforcement, Barclays will first have to litigate with reasonable diligence against the Opcos to determine its rights (if any) under the Funding Letters. Barclays is then entitled to abandon or settle the litigation and, following agreement or a determination by the court or arbitral tribunal as to their rights against the secured escrow cash under the terms of the ESOP Escrow Agreement, recover such amounts from the secured escrow cash on that basis. b. Post-Restructuring If any Opcos are sold prior to the Restructuring becoming effective ("Subsequently Sold Opcos"), an amount to cover potential claims of Barclays against the Subsequently Sold Opcos will be paid into an account subject to separate arrangements similar to the Mobile Escrow Agreement. To date two such escrow agreements have been entered into in relation to Subsequently Sold Opcos, the amount of each being less than L1 million. The terms of the ESOP Escrow Agreement will continue to apply until Corp pays the Settlement Amount referred to below to the

ESOP Derivative Banks and the escrow cash held under the terms of the Mobile Escrow Agreement and any Subsequently 104 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- Sold Opco escrow agreements has been paid to Corp. Thus, the terms of the ESOP Escrow Agreement relating to the escrow to be established post-Restructuring are now in practical terms superfluous. The terms relating to the charged escrow cash may be relied upon if the Settlement Amount is not paid by Corp to the ESOP Derivative Banks. ESOP SETTLEMENT On 26 March 2003, Corp and plc reached definitive agreement with all the ESOP Derivative Banks to settle their ESOP derivative related claims against the Group (the "ESOP Settlement Agreement"). Under the terms of the settlement, which is conditional upon the Corp Scheme becoming effective, Corp will pay a total of L35 million to the ESOP Derivative Banks in full and final settlement of their respective ESOP related claims against the Group. The Settlement Amount will be paid from the fund of up to L170 million which was to have been set aside by Corp under the ESOP Escrow Agreement and the Mobile Escrow Agreement. The settlement has made available approximately L135 million in cash which forms part of the L340 million comprising the cash element of the Corp Scheme Consideration. Without the ESOP settlement, the L135 million sum would not have formed part of the Corp Scheme Consideration. The Boards of Corp and plc believe that the ESOP settlement was in the best interests of Corp and plc and their respective stakeholders as a whole. In reaching this conclusion, the Boards of Corp and plc took appropriate legal advice and considered a number of relevant factors, including the merits of the claims of the ESOP Derivative Banks, the desire to reduce the cost and expense of continuing litigation, the potential saving in the interest burden from which the Group will benefit by settling the ESOP derivative dispute, the benefits for the Schemes and certainty as to the amount of the Corp Scheme cash distribution that such a settlement brings. The principal terms of the ESOP Settlement Agreement are as follows:

- Corp will pay the Settlement Amount to the ESOP Derivative Banks (in the agreed proportions) on the Effective Date of the Corp Scheme (provided such date is on or before 31 December 2003);
- When each ESOP Derivative Bank has received its share of the Settlement Amount: -- plc will release and waive any and all claims against the Opco's under or in relation to the Funding Letters; -- each ESOP Derivative Bank will release and waive any and all claims against BCTL, plc and each Opco (and their respective directors and officers) under or in relation to the Funding Letters (including releases by plc thereof), the ESOP Derivative Transactions and the plc guarantee of the ESOP Derivative Transactions; -- BCTL will release and waive any and all claims against each ESOP Derivative Bank, plc and each Opco (and their respective directors and officers) under or in relation to the Funding Letters (including releases by plc thereof), the ESOP Derivative Transactions and the plc guarantee of the ESOP Derivative Transactions; and -- plc will release and waive any and all claims against any ESOP Derivative Bank (and their respective directors and officers) under or in relation to Funding Letters (including releases by plc thereof), the ESOP Derivative Transactions and the plc guarantee of the ESOP Derivative Transactions;
- The ESOP Escrow Agreement, the Mobile Escrow Agreement and any Subsequently Sold Opco's escrow agreements shall terminate and the escrow cash held under the terms of the Mobile Escrow Agreement and Subsequently Sold Opco escrow agreements shall be paid to Corp;
- The current litigation by SBIL against plc in connection with the SBIL ESOP Agreement will be discontinued with no order as to costs;
- Until the Effective Date of the Corp Scheme, the ESOP Derivative Banks may not commence or further any claims or proceedings against BCTL, plc or any Opco (or their respective directors and officers) under the Funding Letters (including releases thereof), the ESOP Derivative Transactions or 105 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- the plc guarantee of the ESOP Derivative Transactions. This standstill terminates on the occurrence of certain events set out in the ESOP Settlement Agreement, including (a) the release of Funding Letters in certain circumstances; (b) the enforcement of the interim security; (c) the Corp Scheme not obtaining the requisite approval at the Corp Scheme Meeting; (d) the Court sanction for the Corp Scheme not being obtained; (e) a demand being made for the repayment of the Bank Facility; (f) an insolvency event occurring in relation to Corp or, subject to certain limitations, plc; or (g) the Effective Date for the Corp Scheme not having occurred on or before 31 December 2003; and - The ESOP Derivative Banks will not, subject to limited exceptions, transfer, sell or assign their rights arising from plc's guarantee of the ESOP Derivative Transactions. If the Corp Scheme does not become effective, Corp will not be required to pay the Settlement Amount and the ESOP Escrow Agreement, the Mobile Escrow Agreements and the Subsequently Sold Opco escrow agreements will

continue to apply. All claims of the ESOP Derivative Banks under the plc guarantee of the ESOP Derivative Transactions are excluded from the plc Scheme and no distribution from the plc Scheme will be made in respect of them. On 26 March 2003, UBS and Citibank N.A. (as the Syndicate Bank affiliate of SBIL) entered into undertakings to exercise in certain circumstances all votes relating to certain debt claims against Corp and plc in favour of the Schemes (as detailed further in Appendix 19). The non-ESOP related debt is transferrable without restrictions. At the same time, the Barclays restructuring undertaking agreement (dated 13 September 2003) was amended to bring the transferability provisions into line with those applying to UBS and Citibank.

**D.3 ARRANGEMENTS TO PRESERVE RIGHTS AT PLC LEVEL** Various concerns were raised by either or both of the Informal Committee of Bondholders and the Co-ordination Committee during the course of the Restructuring discussions concerning the maintenance of guarantee claims against plc and arrangements were put in place in order to deal with these concerns. Details of the concerns and the arrangements which were put in place are set below. In making its decision to approve these arrangements, plc took into consideration that it was correct in principle that the rights should be preserved, in order to put the creditors concerned in the same position as if both companies had been wound up.

**PRESERVING RIGHTS UNDER THE SCHEMES IN THE EVENT THAT BOTH SCHEMES ARE SUCCESSFUL** plc has guaranteed the repayment of certain primary debt obligations of Corp. In order to preserve the recoveries of creditors of Corp, who may also have the benefit of a plc guarantee ("GUARANTEE CREDITORS"): a. the Corp Scheme provides that no Scheme Claim under the Corp Scheme would be reduced, or in any way affected, by the compromise of any claims of that Scheme Creditor against plc pursuant to the terms of the plc Scheme; and b. a corresponding provision appears in the plc Scheme.

**THESE PROVISIONS ARE OF GENERAL APPLICATION TO THE EXTENT THAT A CREDITOR OF ONE COMPANY HAS A GUARANTEE CLAIM IN RESPECT OF THAT CLAIM AGAINST THE OTHER COMPANY.**

**PRESERVING RIGHTS IN THE EVENT THAT THE CORP SCHEME IS SUCCESSFUL BUT THE PLC SCHEME FAILS** In addition, the Informal Committee of Bondholders and the Co-ordination Committee indicated that they were concerned to ensure that, even if the plc Scheme failed but the Corp Scheme was successful, guarantee creditors could maintain the ability to claim 100 per cent. of their claim in respect of the plc guarantee against plc. The concern arose because, if the plc Scheme were to fail, plc would be placed into liquidation. In the event that a distribution was made under the Corp Scheme before a proof of debt could be submitted in a subsequent liquidation of plc, the guarantee creditors would have to give credit to the liquidator of plc for their recoveries under the Corp Scheme.

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The Informal Committee of Bondholders and the Co-ordination Committee indicated on a number of occasions that it was central to their support of the Restructuring that guarantee creditors be entitled to prove for the full amount of their debt in any subsequent liquidation of plc should the plc Scheme fail. In order to preserve the ability of guarantee creditors to claim the full amount of their claim against plc in these circumstances the Informal Committee of Bondholders and the Co-ordination Committee required plc to enter into a deed poll on terms proposed by the Informal Committee of Bondholders and the Co-ordination Committee. It is open to any creditor with a guarantee claim to have the benefit of the deed poll. The deed poll requires that in the event that any guarantee creditor is required to give credit to plc in a liquidation for any recoveries made under the Corp Scheme, plc will pay a further sum equal to the amount of the distribution that the relevant creditor received in the Corp scheme i.e. it is intended that a new debt obligation of plc will be created. The deed poll does not have the effect of permitting a creditor to receive more than a 100 per cent. recovery in respect of the underlying claim.

**PRESERVATION OF THE BOND GUARANTEE** Clause 4.9 of the Trust Deed provides that the guarantee given by plc in respect of the Eurobonds will terminate when Corp delivers to the Eurobond Trustee a certificate to the effect that plc has been released from its guarantees in respect of certain bank debt. Section 12.03 of the Yankee Bond Indenture states that the plc guarantee will terminate on the date that plc is released from its guarantees in respect of certain bank debt and the Eurobonds. In order to preserve the guarantee claim of the Trustees, Corp and plc entered into a Bondholder Confirmation Letter which provided that notwithstanding the provisions of Clause 4.9 of the Trust Deed and Section 12.03 of the Yankee Bond Indenture or the receipt of a Distribution under the Corp Scheme or the cancellation of the Bonds, the guarantee of plc remains in full force and effect and is extended for the benefit of all Definitive Holders.

**D.4 WORKING CAPITAL RETAINED CASH** The Group is expected to retain approximately L602 million of cash following the Restructuring, comprising approximately: a. L167 million of restricted cash; b. L112 million of trapped cash; c. L197 million retained for normal



working capital needs; d. L96 million representing net cash outflow to cash break even; and e. L30 million representing cash in transit and therefore not available for distribution. "Restricted cash" is cash employed as collateral or available to be granted as collateral in connection with performance bonding arrangements. Any cash collateral releases from existing performance bonds, and any balance remaining in the Existing Performance Bond Escrow Account on the first anniversary of the Effective Date for the Corp Scheme, in an amount (when aggregated with cash collateral releases made to the security trustee under the Performance Bonding Facility between the Issue Date and the first anniversary of the Effective Date of the Corp Scheme, together with interest thereon) not exceeding the lesser of L25 million or 50 per cent. of the amount of the Performance Bonding Facility, if Corp should cancel a portion of that facility, will be transferred to the security trustee under the Performance Bonding Facility, to collateralise performance bonds and similar instruments issued under that facility. Any excess amount will be paid into the Mandatory Redemption Escrow Account to be applied in redemption of the New Junior Notes and, once all New Junior Notes have been repaid, the New Senior Notes. On the termination or cancellation of the Performance Bonding Facility, all released collateral (other than that required to support long-dated performance bonds) will be paid into the Mandatory Redemption Escrow Account to be applied in redemption of the New Junior Notes and, once all New 107 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- Junior Notes have been repaid, the New Senior Notes (as described further below). See Appendix 8 for further information on the circumstances in which restricted cash will be released. "Trapped cash" includes (a) cash held in relation to existing insurance liabilities, (b) cash held as collateral under existing local bilateral debt facilities, (c) part of the proceeds from the disposal of Mobile in August 2002 to be held in escrow until August 2004 and (d) cash held in accounts in various jurisdictions to meet local working capital requirements (where such cash is not, for local regulatory or other reasons, easily accessible to meet wider Group working capital needs). The "net cash outflows to cash break even" figure represents cash to be retained by the Group (net of permitted remaining disposal proceeds) needed to fund the Group through to cash break even.

**WORKING CAPITAL FACILITIES** Performance Bonding Facility In order to ensure that the Group has sufficient bonding facilities available to it following the Effective Date of the Corp Scheme HSBC Bank plc and JP Morgan Chase Bank have agreed to provide a L50 million committed revolving facility for the issuance of Performance Bonds at the request of Marconi Bonding Limited, for the purpose of supporting (directly or indirectly) obligations of members of the Group to third parties incurred in the ordinary course of the Group's trade or business. The Performance Bonding Facility is also available for the purpose of supporting any financing facilities which have been provided to members of the Group for the purpose of supporting directly obligations of members of the Group incurred in the ordinary course of the Group's trade or business (other than obligations in respect of financial indebtedness) (for example, in connection with supporting a bonding facility in a foreign currency where bonds denominated in such foreign currency are not available under the Performance Bonding Facility). The Performance Bonding Facility will permit the issue, on behalf of Corp, of a letter of credit (with a face value of up to L2 million) in favor of the plc Scheme Supervisors from time to time to support plc's Ongoing Costs (within the L50 million commitment). The Performance Bonding Facility may be utilised at any time during the period from the Effective Date of the Corp Scheme to the date falling 18 months thereafter. Marconi Bonding Limited has the right to request an extension to such availability period (to a date falling no later than 30 months after the Effective Date of the Corp Scheme (but without the participating banks having any obligation to agree such extension)). Performance Bonds may be issued in sterling, US dollars, Euro or (with the approval of the relevant issuing bank) any other readily available currency freely convertible into sterling. The form of the Performance Bond and identity of the beneficiary must be approved by the relevant issuing bank (having regard to that issuing bank's formal internal policies at the relevant time, and to all relevant legal and regulatory restrictions). In the case of Performance Bonds with an expiry date falling after 31 December 2010, the approval of the relevant issuing bank and the approval of the relevant banks providing the Performance Bonding Facility is required. In addition to an issuance fee of L1,000 for each Performance Bond, a bonding fee equal to 0.50 per cent. per annum of the outstanding amount of each Performance Bond is payable quarterly in advance, for the account of the participating banks. A fronting fee equal to 0.10 per cent. per annum of the outstanding amount of each issued Performance Bond (less the issuing bank's own proportion) is payable quarterly in advance, for the account of the relevant issuing bank. An arrangement fee of L1,000,000 was payable on the date of the Performance Bonding Facility to the facility agent for distribution to the banks participating

in the Performance Bonding Facility. The obligations of each obligor under the Performance Bonding Facility are irrevocably and unconditionally guaranteed by Corp. The Performance Bonding Facility is secured by, inter alia, a charge over cash contained in certain blocked deposit accounts (the "Secured Accounts") between Marconi Bonding Limited and HSBC Bank plc as security trustee. Marconi Bonding Limited will be required, on the date of issuance of a Performance Bond, to deposit (in the currency of the relevant Performance Bond or, where such Performance Bond is issued in a currency other than sterling or Euros, US dollars) an amount equal to 50 per cent. of the maximum face value of such Performance Bond into such Secured Accounts. As further security for the obligations of Marconi Bonding Limited under the Performance Bonding Facility, Marconi Bonding Limited will ensure that additional amounts are deposited into the Secured Accounts in accordance with the terms of the New Notes. The Performance

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----- Bonding Facility contains certain events of default after the occurrence of which the agent is permitted to cancel the total commitments under the Performance Bonding Facility and/or to declare that full cash collateral in respect of each Performance Bond is immediately due and payable (including events of default relating to non-payment, failure to comply with security undertakings, failure to comply with other obligations, misrepresentation, cross default, insolvency, unlawfulness and repudiation of the Performance Bonding Facility documents). In accordance with the Security Trust and Intercreditor Deed, the banks providing the Performance Bonding Facility will rank ahead of the Noteholders in any enforcement of the Security. The Security Trust and Intercreditor Deed also provides that the security trustee under the Performance Bonding Facility and the banks may not take action to enforce the obligations of the obligors under the Performance Bonding Facility following a payment event of default thereunder until the earlier of (i) 180 days after notice to the Security Trustee under the Security Trust and Intercreditor Deed of the occurrence of such payment event of default or (ii) the acceleration of the New Senior Notes (see Appendix 10 for further details). US Working Capital Facility In order to ensure that Marconi Communications, Inc. has sufficient working capital post-Restructuring, MCI has entered into a working capital facility agreement with Liberty Funding, L.L.C., pursuant to which Liberty will provide a US\$22,500,000 revolving credit facility to MCI. The Working Capital Facility is secured by a first mortgage lien on a parcel of MCI's real property (including buildings, improvements, building materials and fixtures) located in Warrendale, Pennsylvania, USA ("Property"). The Working Capital Facility is subject to a fixed interest rate of 15 per cent. per annum (payable monthly) and will mature on 26 November 2004. It will be used by MCI for working capital and general corporate purposes. Liberty's fees and costs include an arrangement fee of 6 per cent. of the facility amount, an unused commitment fee of 1 per cent. per annum on any undrawn portion, and a 5 per cent. late charge for payments overdue by more than ten days. In addition to the mortgage over the Property, all of MCI's right, title and interest in and to all leases of all or any part of the Property (including any rents) will be assigned to Liberty, and MCI will provide assurances and indemnities to Liberty relating to environmental matters affecting the Property, and financing statements for perfecting security interest in the fixtures. A second mortgage lien on the Property (and assignments of related leases and rents) will be granted in favour of, inter alia, the providers of the Performance Bonding Facility and the Noteholders and, consequently, an intercreditor agreement will be entered into between Liberty and the Security Trustee. See Appendix 10 for further details of this intercreditor agreement. Covenants contained in the Working Capital Facility Agreement include indemnification from MCI in favour of Liberty in relation to liabilities and claims relating to the Property, MCI's pledge to keep the buildings, structures, improvements and fixtures insured and MCI's covenant not to dissolve, merge or consolidate with any other person (other than an affiliate of MCI) or dispose of all or a substantial portion of its assets relating to its BBRs Business. Although the obligations of MCI in respect of this facility are limited recourse, there are exceptions for, inter alia, failure to maintain insurance coverage, fees and costs incurred in enforcing/collecting sums due and MCI's environmental indemnity obligations, for which MCI has full liability. The Working Capital Facility Agreement contains certain events of default the occurrence of which would permit Liberty to cease making further advances, terminate its commitment and/or accelerate repayment of the Working Capital Facility. Intra-Group funding There are currently a significant number of intra-Group lending arrangements in place between members of the Wider Corp Group. These comprise loans from Corp to its Affiliates, loans from Corp's Affiliates to Corp and loans between Corp's Affiliates. Any intra-Group loan claims of Corp's Affiliates against Corp will be Excluded Claims for the purposes of the Corp Scheme and will therefore remain in place following the implementation of the Corp Scheme (See Part C.7 of this Section and Appendix 9 for further

details on Excluded Claims). Following the Effective Date of the Corp Scheme, the Wider Corp Group will be subject to the intra-Group lending restrictions contained in the indentures governing the New Notes. The scope of those restrictions will depend on whether the relevant debtor or creditor is a Guarantor or a non-Guarantor. The restrictions are 109 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- described more fully in Appendix 8. The Security Trust and Intercreditor Deed also contains provisions regulating certain intra-Group loans and actions in respect thereof, which are described more fully in Appendix 10. COLLATERAL FOR EXISTING PERFORMANCE BONDS General On the Effective Date of the Corp Scheme, Corp will deposit approximately L43.5 million of the L167 million of restricted cash attributable to performance bonding collateral into the Existing Performance Bond Escrow Account. Withdrawals from that account will be made to satisfy valid and enforceable cash collateral demands made by banks, insurance companies or other financial institutions who have issued performance bonds ("Existing Performance Bonds") on behalf of members of the Group prior to the Effective Date, upon certification by Corp to the Escrow Trustee. Cash collateral releases from Existing Performance Bonds, and any balance remaining in the Existing Performance Bond Escrow Account on the first anniversary of the Effective Date for the Corp Scheme in an amount (when aggregated with cash collateral releases made to the security trustee under the Performance Bonding Facility between the Issue Date and the first anniversary of the Effective Date for the Corp Scheme, together with interest thereon) not exceeding the lesser of L25 million or 50 per cent. of the amount of the Performance Bonding Facility, if Corp should cancel a portion of that facility, will be transferred to the security trustee under the Performance Bonding Facility. Any excess amount will be deposited into the Mandatory Redemption Escrow Account to be applied to redeem the New Junior Notes and, once all New Junior Notes have been repaid, the New Senior Notes. On the termination or cancellation of the Performance Bonding Facility, all released collateral (other than that required to support long-dated performance bonds) will be paid into the Mandatory Redemption Escrow Account to be applied to redeem the New Junior Notes and, once all New Junior Notes have been repaid, the New Senior Notes (as described further below). Determination of bonding collateral requirements As part of its determination of the post-Restructuring working capital requirements of the Group, Corp sought to ascertain an appropriate level of provision to be made for potential cash collateral calls in respect of Existing Performance Bonds (other than those Existing Performance Bonds which are already fully collateralised). That determination was made on the basis of Corp's assessment of the risk of individual issuers of Existing Performance Bonds calling for cash collateral against their outstanding exposure, based on an analysis of the rights which such issuers may have to make cash collateral calls. Specific provision has been made by Corp for all Existing Performance Bonds where the issuers of such bonds have unconditional rights to call for cash collateral at any time or have conditional rights to call for cash collateral where those conditions will be triggered by the Restructuring. With respect to issuers of Existing Performance Bonds that have conditional rights to call for cash collateral (where such conditions will not be triggered by the Restructuring per se), Corp has allocated a higher provision to those where it considers the conditions have been, or are more likely to be, triggered and a lower (or zero) provision where it considers that the conditions are unlikely to be triggered. Corp has made no provision in respect of issuers which it considers have no rights to call for cash collateral. Under the Heads of Terms, it was agreed that Corp would place up to L55 million in the Existing Performance Bond Escrow Account to be used for cash collateral calls in respect of Existing Performance Bonds. Corp had previously assessed that a provision of a higher amount would be an adequate provision in respect of potential cash collateral calls for Existing Performance Bonds. In order to be satisfied that the L55 million deposit which was permitted to be made into the Existing Performance Bond Escrow Account by Corp on the Effective Date would be an adequate reserve in respect of Existing Performance Bonds, Corp entered into arrangements with certain (current and former) Syndicate Bank issuers of Existing Performance Bonds during February and March 2003. Corp agreed to provide each participating Syndicate Bank with collateral (in the form of a cash-backed letter of credit) for 50 per cent. of the principal amount of the outstanding uncollateralised Existing Performance Bonds issued by it. In return for that provision of collateral, each of those Syndicate Banks agreed to waive all of its rights to demand cash collateral in respect of Existing Performance Bonds issued by it (except in the case of insolvency of Corp or the relevant Subsidiary, a demand by the beneficiary under the relevant Existing 110 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- Performance Bonds, or acceleration under the New Notes). Because this arrangement was agreed with the Syndicate Banks on a collective basis (which Corp considered to be necessary to preserve stability amongst the Syndicate Banks), collateral (of approximately L1.13 million in aggregate) was provided to two Syndicate Banks (whose Existing Performance Bonds exposure totals approximately L2.27 million) in respect of which Corp would not otherwise have made cash collateral provision (on the basis that Corp considers that those issuers have no rights, ambiguous rights or conditional rights to call for cash collateral which are unlikely to be triggered). However, as at 27 March 2003, on a collective basis, arrangements had been entered into to provide approximately L11.50 million of collateral in return for a waiver of rights to call for cash collateral of approximately L19.03 million in respect of Existing Performance Bonds with a face value of approximately L21.30 million. In the absence of this arrangement Corp may have been required to make a cash collateral provision of approximately L19.03 million in respect of such bonds. One of the participating Syndicate Banks (in respect of which Corp would otherwise have been required to make 100 per cent. cash collateral provision) was provided with collateral for approximately 61 per cent. of the principal amount of the outstanding uncollateralised Existing Performance Bonds issued by it. This resulted from certain bonds issued by that Syndicate Bank expiring between the time that Corp agreed the 50 per cent. collateral figure with that bank and the time at which the arrangements with the Syndicate Bank issuers were implemented. Similar arrangements may be entered into (in the period up to the date of the Scheme Meeting in respect of the Corp Scheme) with other (current and former) Syndicate Bank issuers of Existing Performance Bonds. Such arrangements, if entered into, are expected to result in the provision of collateral with a value of less than L3 million. Prior to the Scheme Meeting in respect of the Corp Scheme, alternative arrangements may be entered into with one other Syndicate Bank issuer of uncollateralised Existing Performance Bonds which did not take part in the above arrangements. Under such alternative arrangements, this bank would agree to release collateral (in the form of a cash backed letter of credit) totalling approximately E10.23 million which it already holds against certain liabilities of a former Subsidiary of Corp (and which it is entitled to retain against such liabilities) in consideration for the issue of a new cash-backed letter of credit (with a face value of approximately E9.85 million) to collateralise Existing Performance Bonds issued by it (totalling approximately E9.85 million).

**D.5 SCHEME IMPLEMENTATION DEED** The Scheme Implementation Deed (the "DEED") was entered into between Corp, plc, E-A Continental Limited, Ancrane, Marconi Nominees Limited, British Sealed Beams Limited and various other Group companies on 27 March 2003. The primary purpose of the Deed was to ensure that legally binding arrangements were in place to govern the rights and obligations between, inter alia, Corp and plc in implementing the Restructuring. Pursuant to the Deed, Corp, plc, E-A Continental Limited, Ancrane, Marconi Nominees Limited, British Sealed Beams Limited and various other Group companies have agreed to perform certain obligations and undertaken not to do certain acts including, but not limited to, approving all shareholder resolutions necessary or desirable to give effect to the Corp Scheme, assigning or novating certain guarantee obligations and/or licence agreements, providing all reasonable assistance and information and undertaking all reasonable acts and deeds to give effect to the assignment of certain Intellectual Property, making certain intra-group tax loss and group relief surrenders and providing certain tax indemnities. Ancrane has agreed to make a repayment of capital in specie to plc of all of its assets, other than L100. Corp has also agreed to procure the issue of a letter of credit (under the Performance Bonding Facility) in an amount of L2 million in favour of the plc Scheme Supervisors from time to time for them to draw on in relation to plc's Ongoing Costs. In the event that Corp is unable to procure the issue of such letter of credit, it has undertaken to provide the sum of L2 million for the plc Scheme Supervisors to draw on in relation to plc's Ongoing Costs on similar terms to those set out in the Scheme Implementation Deed and the Performance Bonding Facility Agreement in relation to the letter of credit. Certain obligations and undertakings of the parties to the Deed (including Corp's obligation to procure a letter of credit for plc's Ongoing Costs) are conditional upon and subject to the Corp Scheme becoming effective and will, in part, give effect to the implementation of the Corp Scheme upon it becoming effective. Brief particulars of the Scheme Implementation Deed are contained in Appendix 18.

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----- **D.6 STATEMENT AND WAIVER OF INTER-COMPANY BALANCES** In order to facilitate the effective implementation of the Schemes, and in particular to effect a clean up of existing inter-company claims owed to or by Corp and plc, Corp and plc have entered into a statement and waiver of intercompany balances agreement (the "Statement and Waiver Agreement") with certain other

Group companies. The effect of the Statement and Waiver Agreement is to preserve all known and stated claims existing between (A) Corp or plc and (B) the participating Group companies, and to waive all other claims which arise by reference to circumstances existing prior to the Effective Date of the Corp Scheme. In this sense there will be more certainty as to the level of any claims owed to or by Corp and plc after the Effective Date of the Corp Scheme. In so far as it involves plc, the Statement and Waiver Agreement has limited effect in that all known claims against plc will be schemed under the plc Scheme (and will receive a distribution from the plc Scheme) and all known claims of plc against Corp and its subsidiaries have been transferred to Corp prior to the Record Date (in consideration for a reduction in the amount of the Corp's existing claim against plc). Under the Statement and Waiver Agreement the following intra-group claims will be preserved as between (a) Corp and plc and (b) the participating Group companies: - disclosed intra-group loan balances in existence as at 31 December 2002 (plus interest accrued at such applicable commercial rate of interest as agreed between the parties to the respective loan); - any intra-group loan made on or after 1 January 2003 in the ordinary and usual course of business or with certain previously agreed creditor consent, including interest accrued at such applicable commercial rate of interest as agreed between the parties to the respective loan; - any trading and current account liabilities in existence as at 31 March 2002 (in the case of any participating Group company which is a trading or an active non-trading company) or 30 September 2002 (in the case of any dormant participating Group company). Such liabilities are determined by reference to the management accounts upon which the audited consolidated financial accounts of plc, as at 31 March 2002 or 30 September 2002 (as applicable) were prepared; - any trading and current account liabilities incurred in the ordinary and usual course of business after 31 March 2002 between (a) Corp and/or plc, and (b) any participating Group company which is a trading or an active non-trading company; - any counter indemnity or equivalent reimbursement obligation (which is written or is implied by law and whether or not contingent) arising under any financial guarantee or indemnity (which is written or is implied by law) and is: (a) in favour of any third party which is not a member of the Group (including the issuer of any performance bond, bank guarantee or similar instrument), and (b) in respect of any contractual obligations of the provider of the counter indemnity or equivalent; provided that where any payment has been made under such a guarantee or indemnity on or before 31 March 2002, the resultant counter indemnity shall not be preserved; - any counter indemnity or equivalent reimbursement obligation (which is written or is implied by law and whether or not contingent) arising under any written non-financial guarantee or indemnity (which is written or implied by law) and is: (a) in favour of any person which is not a member of the Group, and (b) in respect of any contractual or implied by law obligations of the provider of the counter indemnity or equivalent and (c) disclosed in a schedule to the Statement and Waiver Agreement; provided that where any payment has been made under such a guarantee or indemnity on or before 31 March 2002, the resultant counter indemnity shall not be preserved; and - any other specified claims. All other claims of Corp or plc against each participating Group company and all other claims of each participating Group company against Corp or plc, will be released with effect from the Effective Date of the Corp Scheme. The Statement and Waiver Agreement does not affect claims which arise out of or in relation to any matter or circumstance arising after the Effective Date of the Corp Scheme. 112 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- A list of Group companies that have already agreed to participate in the Statement and Waiver Agreement is contained at paragraph 2.2 of Appendix 19. Other Group companies may be added prior to the Effective Date of the Corp Scheme. D.7 RECAPITALISATION OF GUARANTORS In order to facilitate the giving of the Guarantees as part of the new security package to support the New Notes (see Appendix 10 for further details), certain of the Guarantors will need to be recapitalised. Most of these recapitalisations are intended to be effected one or two Business Days prior to the Effective Date of the Corp Scheme, although some may need to be effected before then. In conjunction with the recapitalisations, it is also intended to unwind or formalise certain intra-group financing arrangements. The recapitalisations and ancillary transactions will involve the direct and indirect parent companies of the relevant Guarantors, as well as certain other Group companies or entities that owe or are owed intra-group balances by the relevant Guarantors. Each recapitalisation is intended to be effected by a number of sequential intra-group transactions which may include: the restatement of terms of intra-group debt; injections of equity by parent companies into subsidiaries; repayments, assignments, novation or release of existing intra-group claims; and the issue of equity by subsidiary companies in return for (a) assignments of intra-group claims or (b) reductions in intra-group balances owed to their parent companies. For those transactions

which require actual cashflow, the relevant series of intra-group transactions will involve the "round-tripping" of cash, commencing and ending in each case with Corp (as the ultimate holding company of the Guarantors). D.8 WAIVER OF PLC SHAREHOLDER VOTE As referred to in Part C.5 of this Section, the UKLA has granted a waiver of the provision in the Listing Rules which would otherwise require the consent of the shareholders of plc to the issue of the New Shares pursuant to the Corp Scheme. Accordingly, the effectiveness of the Schemes is not conditional on the approval of the shareholders of plc. D.9 CAPITAL REDUCTION As part of the Restructuring, Corp will apply to the Court for the purpose of implementing the Capital Reduction pursuant to section 135 of the Act. The Capital Reduction will involve the cancellation of the Non-Voting Deferred Shares arising on the conversion of the existing issued ordinary shares in the capital of Corp held by plc and Marconi Nominees Limited and the cancellation of Corp's share premium account (including that arising on the issue of New Shares), to create a reserve which it is expected will eliminate the deficit on the profit and loss account that would otherwise be shown on Corp's balance sheet as at 31 March 2003. As can be seen from note g. iii) to the Corp unaudited pro forma consolidated balance sheet in Appendix 2, the unaudited deficit on Corp's profit and loss account in its own unaudited balance sheet as at 30 September 2002 was approximately L2,767 million. The cancellation of the Non-Voting Deferred Shares and Corp's existing share premium account would reduce this by approximately L843 million, but approximately L3,306 million of share premium account is expected to arise on the issue of the New Shares so the reserve arising on the Capital Reduction is expected to exceed the 30 September 2002 deficit on Corp's profit and loss account by L1,382 million. The excess of the reserve over the 31 March 2003 deficit on Corp's profit and loss account will initially constitute Corp's special reserve referred to below. Prior to confirming the Capital Reduction, the Court will require Corp to give an undertaking designed to protect persons who are creditors of Corp on the date the Capital Reduction becomes effective. This undertaking will require the maintenance by Corp and its subsidiaries of special reserves, which will not be distributable to shareholders of Corp until the creditors of Corp to be protected have been paid off or the Court has agreed otherwise. It is anticipated that the Capital Reduction will become effective shortly after the Effective Date of the Corp Scheme. Although Corp cannot guarantee that the Capital Reduction will become effective, it will not affect the effectiveness of the Schemes in any event. 113 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- D.10 SHARE

INCENTIVE PLANS INTRODUCTION The Group currently operates the share incentive plans set out in the table below. The Plans were designed to incentivise participating Group employees, directors and consultants as part of their remuneration arrangements. Under these Plans, Participants were given rights to acquire plc Shares either at a specified price or, where certain objectives were achieved, at no cost (the latter are known as nil-cost options). Certain options, including some of the nil-cost options are already exercisable. These optionholders can acquire plc Shares prior to the plc Shareholders Record Time. As a result of the Restructuring, more of the options will become exercisable. However, this will be after the plc Shareholders Record Time when plc Shares will have no value. Due to plc's current share price the majority of options granted to Participants under the Plans are now underwater (that is, shares in plc are worth less than the Participants would have to pay to acquire them). It is assumed that holders of those options which are currently exercisable will not exercise them. Of those options where the plc Shares subject to them are worth more than the price that Participants must pay for them, it is only those optionholders who can and do exercise their options prior to the plc Shareholder Record Time who will receive New Shares and Warrants. After implementation of the Restructuring, all remaining options will be valueless. As at 28 February 2003, options over approximately 149.6 million plc Shares are outstanding. This represents approximately 5.4 per cent. of plc's current total issued share capital. plc has also granted 47.3 million phantom options in respect of which, on exercise, Participants ordinarily receive cash rather than shares (if a gain has been made). Number of shares over which options Range of Name of plan are outstanding option prices ----- The GEC 1984 Managers' Share Option Scheme 671,044 183-266p ----- The GEC Employee 1992 Savings-related Share Option Scheme 1,985,076 203-273p ----- The GEC 1997 Executive Share Option Scheme 7,959,308 311-385p ----- The Marconi UK Sharesave Plan 2,297,688 538-748p ----- The Marconi International Sharesave Plan 1,342,615 737p The Marconi Launch Share Plan 19,620,228 Nil-cost The Marconi 1999 Stock Option Plan 98,449,888 35-1030p The Metapath Software Corporation 1995 Stock Option Plan 144,164 3-274p The Metapath Software International Inc. 1999 Stock Option Plan 2,386,061 212-957p The Mariposa Technology Inc. 1998 Employee Incentive Plan 320,684 9-56p The Marconi Restricted Share Plan

1,795,184 Nil-cost-947p The Marconi Welcome Plan 2,642,687 Nil-cost The Marconi Long Term Incentive Plan 629,559 Nil-cost The Northwood Technologies Inc. Share Option Plan 65,827 139-245p The Mobile Systems International Share Option Plan 694,790 212p Marconi and GEC Phantom Option Schemes (converted into options over plc Shares) 8,595,663 17-1134p In recent weeks, plc Shares have traded at around 1.5-2.5 pence per share. On this basis it might appear that nil cost options are in the money. However, except for those which are currently exercisable, this is not the case. Some optionholders holding nil cost options which are not currently exercisable will become entitled to exercise their options when the Restructuring takes effect, because Corp will cease to be a subsidiary of plc, and other such optionholders will become so entitled if plc goes into liquidation. However, neither event will take place until after the Corp Scheme has become effective, by which time plc Shares will have no value.

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----- Optionholders currently entitled to exercise their nil cost options who do so in time to receive plc Shares before the plc Shareholders Record Time will qualify to receive New Shares and Warrants if the Corp Scheme becomes effective. Only these options can be described as in the money. The only two alternatives for plc are a restructuring under which all its assets are distributed to its creditors or an insolvent administration or liquidation. The reason why plc Shares are trading between 1.5-2.5 pence per share is that only 0.5 per cent. of the New Shares that are to be issued (assuming the Corp Scheme becomes effective and the First Initial Distribution takes place), are being made available to the plc Shareholders as at the plc Shareholders Record Time.

THE RETENTION AND EMERGENCE PLAN In order to retain key employees during the restructuring of the Group, a Retention and Emergence plan (the "R&E Plan") was implemented in May 2002 for sixty-three employees. Corp was not a party to any of the documents. Of the sixty-three individuals, Marconi Communications Limited is the responsible Group company for thirty-seven, Marconi Communications, Inc. for seventeen, plc for two (one in Australia and one in Hong Kong), Marconi Communications GmbH for four and Marconi Communications SpA for three. The obligations of plc are to be transferred to Marconi Communications Limited in relation to the two employees whose promise refers to plc. The R&E Plan promises four equal payments to the employees if they are still employed and not working their notices on each payment date. Two of the payment dates have passed and the remaining dates are (i) seven working days after plc completes its refinancing negotiations (with a long stop date of 31 March 2003) and (ii) three months after the third payment date. The aggregate of the payments in each case is based on a percentage of the employee's salary, with the range of percentages varying from 30 per cent. to 150 per cent., depending on the employee's seniority. Those employees who are signing new service agreements and who are in the Management Plan (as defined below) are to waive the last payment due under the R&E Plan.

IMPACT OF THE PROPOSED RESTRUCTURING: Nil-cost Option Plans The Marconi Launch Share Plan Options were granted to Participants of this plan as nil cost options. If not currently exercisable, they will become exercisable on a solvent liquidation of plc. At that time Participants will be deemed to have exercised options to acquire the number of plc Shares the plc Board determines. It is anticipated that, due to the Group's financial position, the plc Board will decide that no options should become exercisable. These options will lapse on the tenth anniversary of their date of grant. The Marconi Welcome Plan Options were granted to Participants of this Plan as nil cost options. If not currently exercisable, they will become exercisable on a solvent liquidation of plc. At that time Participants will be deemed to have exercised options to acquire the number of plc Shares the plc Board determines. It is anticipated that, due to the Group's financial position, the plc Board will decide that no options should become exercisable. These options will lapse on the tenth anniversary of their date of grant. The Long Term Incentive Plan (the "LTIP") Nil-cost share options granted under the LTIP which are not currently exercisable will become exercisable when Corp ceases to be a subsidiary of plc. The remuneration committee also has discretion to decide to what extent grants of further nil-cost options should be made at that point. It is anticipated that, given the Group's financial position, the remuneration committee will decide that no further options should be granted. The remuneration committee also has discretion to decide when options, if not exercised, should lapse.

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----- The Restricted Share Plan (the "RSP") Participants may acquire plc Shares that will be awarded to them when Corp ceases to be a subsidiary of plc. Participants will have six months to call for the shares before the awards lapse. Under the "nil cost" plans, options are currently exercisable

or may ordinarily become exercisable before the plc Shareholders Record Time over the following number of plc Shares: Plan Approximate No. of plc Shares ----- Launch Plan 0 Welcome Plan 0 LTIP 480,000 RSP 910,000 ----- 1,390,000 ===== As pointed out above, by the time that the remaining outstanding "nil cost" options become exercisable, the shares in plc will have ceased to be of any value. The MET currently holds in the region of 1,208,545 plc Shares and approximately L4,544.58 in cash. The GEC Employee Share Trust currently holds in the region of 1,135,644 plc Shares and approximately L937.45 in cash. Underwater Option Plans The GEC Managers' 1984 Share Option Scheme All outstanding options will become exercisable when the court sanctions the plc Scheme and lapse six months later. The GEC Employee 1992 Savings Related Share Option Scheme All outstanding options will become exercisable when the court sanctions the plc Scheme and lapse six months later. The Marconi 1999 Stock Option Plan Option holders may exercise their options within a period of six months from when Corp ceases to be a Subsidiary of plc at the end of which time unexercised options will lapse. The Marconi UK Sharesave Plan All outstanding options will become exercisable when the court sanctions the plc Scheme and lapse six months later. The Marconi International Sharesave Plan All outstanding options will become exercisable when the court sanctions the plc Scheme and lapse six months later. The GEC 1997 Executive Share Option Scheme Option holders may exercise options within a period of six months from when Corp ceases to be a Subsidiary of plc at the end of which time unexercised options will lapse. The Mobile Systems International Share Option Plan All outstanding options will become exercisable when the court sanctions the plc Scheme and lapse six months later. Metapath Software Corporation 1995 Stock Option Plan Option holders may exercise their options to the extent that performance criteria have been met when the proposal for the solvent liquidation of plc is adopted. Metapath Software International Inc. 1999 Stock Option Plan Option holders may be given the opportunity to exercise vested and non-vested options until five days before a liquidation. All unexercised options will lapse immediately before a liquidation. Mariposa Technology Inc 1998 Employee Incentive Plan All outstanding options held by employees, directors and consultants will become exercisable before an event such as a liquidation and, if not exercised will lapse before such an event. Northwood Technologies Inc. Share Option Plan All outstanding options will remain unaffected by the plc Scheme and will lapse in due case. 116 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- The Marconi Phantom Option Scheme Options will lapse and cease to be exercisable when Corp ceases to be a Subsidiary of plc. The GEC Phantom Option Scheme Options will lapse and cease to be exercisable when Corp ceases to be a Subsidiary of plc. The Marconi Employee Stock Purchase Plan for Employees in North America This plan has been suspended. There are no outstanding options or awards under it. EMPLOYEE INCENTIVE PLANS POST RESTRUCTURING Conditionally on the later of the First Initial Distribution under the Corp Scheme being initiated and the Effective Date (for the purpose of this Part D.10, the "Plans Start Date"), Corp has adopted an option plan known as the Corp Senior Management Share Option Plan (the "Management Plan") and a broadly based employee share option plan known as the Corp Employee Share Option Plan (the "Employee Plan"). The Plans are summarised below. Other than the Group's existing bonus plan arrangements, which cover the financial year to 31 March 2003, and the third payment under the R&E Plan (described above), prior to the Plans Start Date, the Group will not establish any bonus arrangement or scheme or any long term incentive scheme covering those persons (other than those persons who are eligible to receive commission and/or bonus payments that relate to sales) who have been invited to participate in the Management Plan. Further, as set out in Appendix 14, paragraph g (iv), Corp's Articles provide that participants in the Management Plan (other than those who are eligible to receive commission and/or bonus payments that relate to sales) will not be eligible to participate in any bonus or other long-term incentive arrangement until the date on which all the tranches in the initial grant under the Management Plan have either lapsed or become capable of exercise. The Corp Senior Management Share Option Plan Administration The Management Plan will be administered by the remuneration committee of Corp in accordance with the terms set out below. Eligibility Participation in the Management Plan is open to those employees and executive directors of Corp or any of its Subsidiaries selected by the remuneration committee. The remuneration committee intends to grant options under the Management Plan to up to 60 senior executives. Employees within two years of their normal retirement date may not participate in the Management Plan. Grant of options Options to acquire Corp shares under the Management Plan may be granted at any time prior to the Listing of the New Shares and, following Listing of the New Shares, may be granted in the periods of 42 days commencing on the Plans Start Date, the day immediately following announcement



by Corp of its results for any period, or a day on which the Board resolves that exceptional circumstances exist which justify the grant. Options will be granted by either Corp or the trustee of the proposed Corp employee benefit trust (the "Trust") summarised below. Options may be satisfied using newly issued or existing Corp Shares. The initial options will be granted in five tranches, each of which will be subject to different performance conditions as described below. Participation in the Management Plan will not form part of or affect a participant's right under the terms of his employment.

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----- Option exercise price Options granted under the Management Plan will be exercisable for a nominal payment, the amount of which will be determined by the remuneration committee. It is currently envisaged that the total amount payable on the exercise of an option, whether in whole or in part will be L1 per exercise irrespective of the number of New Shares the subject of an option exercise. Individual limit on participation There is no limit under the Management Plan on the aggregate maximum value of options which may be granted to a participant in any year or over the life of the Management Plan. Overall limit on Corp Shares to be made available under the Management Plan The number of Corp Shares, issued or unissued, that may be committed under the Management Plan is limited to 9 per cent. of the issued share capital of Corp immediately following the Plans Start Date. Corp Shares over which options have lapsed or been surrendered will not be included in calculating this limit. This number of shares will be reduced by the number of Corp Shares that are committed under the Employee Plan due to employees who would otherwise have been expected to participate in the Management Plan participating in the Employee Plan rather than the Management Plan because it is beneficial (for tax or similar reasons) for them to do so. Exercise of Options Options granted under the Management Plan will only become exercisable (vest) to the extent that the performance targets set out below have been satisfied. While the performance targets for the initial grant of options will be the same, two vesting schedules will apply; one schedule applicable to participants who have released their rights under the R&E Plan (described above) and the other schedule applicable to participants who did not have any rights under the R&E Plan. For subsequent grants, for example, to new employees or as a result of promotions or expanded roles or responsibilities, the remuneration committee will set performance targets which are appropriate in the circumstances and at least as challenging as those for the initial grant. Percentage of shares subject to option that vest (per cent.) ----- Participants who released R&E Other Tranche Condition Plan rights\* Participants -----

- 1. Repayment of 30 per cent. of the New 20 10 Junior Notes within 24 months after the Plans Start Date. No vesting before 12 months after the Plans Start Date.
- 2. Repayment of 50 per cent. of the New 10 10 Junior Notes within 27 months after the Plans Start Date. No vesting before 15 months after the Plans Start Date.
- 3. Repayment of 100 per cent. of the New 20 20 Junior Notes within 30 months after the Plans Start Date. No vesting before 18 months after the Plans Start Date.
- 4. Corp achieving a market capitalisation of 20 30 L1 billion and repayment of 100 per cent. of the New Junior Notes within 39 months after the Plans Start Date. No vesting before 27 months after the Plans Start Date.

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----- Percentage of shares subject to option that vest (per cent.) ----- Participants who released R&E Other Tranche Condition Plan rights\* Participants ----- 5. Corp achieving a market capitalisation of (within 51 months (within 51 months L1.5 billion and repayment of of the Plans Start of the Plans Start 100 per cent. of the New Junior Notes Date) Date) within 63 months after the Plans Start 30 30 Date. No vesting before 39 months after the Plans Start Date. (between 51 months and (between 51 months and 63 months of the Plans 63 months of the Plans Start Date) Start Date) 20 20 \* Participants in the R&E Plan will be required to waive the final payment under the R&E Plan in order to participate in the Management Plan. If any performance target is not satisfied within the stated period the tranche of the option subject to that performance target will lapse and cease to be capable of becoming exercisable. If the New Junior Notes are refinanced (rather than repaid), the conditions set out above will apply to the aggregate debt, representing what were the New Junior Notes, following the refinancing. In relation to tranches 4 and 5, the market capitalisation of Corp will be measured using its daily volume weighted average share price determined from prices quoted on the principal exchange on which Corp Shares are listed and the number of Corp Shares outstanding immediately following the Plans Start Date. In order to determine if the relevant condition is satisfied, the daily volume weighted average share price will be obtained for

each day of a rolling 90 day period and the average price over that 90 day period will be determined. If that average price when multiplied by the number of Corp Shares in issue on the Plans Start Date exceeds the relevant target market capitalisation, the applicable condition will have been satisfied. Taxation The exercise of an option may be made conditional on a participant agreeing to comply with any arrangements specified by Corp for the payment of taxation, social security contributions or any other deductions at source (including, as is likely to be the case, in respect of at least part of the relevant employing company's secondary class 1 National Insurance contributions liability arising on exercise) required or permitted in respect of an option. Termination of employment If a participant ceases employment with a member of the Corp Group voluntarily or he is dismissed for cause, his options will lapse on the date of cessation. However, where a participant ceases employment with the Group due to death, injury, disability, ill-health, redundancy, retirement or the sale of the business or subsidiary for which the participant works, or termination of employment by the employer without cause, his options will become vested to the extent the financial performance conditions have been satisfied at the date of cessation of employment (or, if terminated without full notice, to the extent the financial performance conditions have been satisfied on the date the notice would have expired) and will become exercisable at the time they would otherwise have been exercisable as set out in the table above for a period of 6 months (12 months in the case of death). The remuneration committee may decide whether a different proportion of an option should vest on the cessation of employment of any participant due to the sale of a business or subsidiary that was a key business or subsidiary. Following the expiry of the relevant period, all of a participant's unexercised options will lapse. 119 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D -----

Lapse of options Options will lapse in any event on the tenth anniversary of their grant and will lapse after a takeover or reconstruction when the specified time periods for exercise have passed as described below. Options will also lapse on the cessation of employment of a participant as described above. Options will also lapse to the extent that they cease to be capable of becoming exercisable due to failure to satisfy any of the performance targets within the specified time periods. Corp Shares over which options have lapsed or have been surrendered will be available, within the overall limit referred to above, to form the subject of further option grants to new participants in the Management Plan but not to existing participants unless the participant has been promoted or his/her role and/or responsibility has significantly expanded and the remuneration committee determines that such a grant is merited. Rights attaching to Corp Shares on the exercise of options Corp Shares allotted under the Management Plan will carry the same rights as all other issued Corp Shares. Application will be made for the Corp Shares to be admitted to trading on the London Stock Exchange. Participants will not qualify for any rights attaching to Corp Shares where the record date is before the date on which the option is exercised. Takeover, reconstruction or winding-up If any person obtains control of Corp as a result of making an offer to acquire the whole of the issued share capital of Corp (or, having such control, makes a general offer to acquire all the shares other than those already owned by that person) the first grant of options under the Management Plan will become exercisable to the extent that the financial performance conditions have been satisfied immediately prior to a change of control. A proportion of the remainder of any Corp Shares which are the subject of outstanding options under the initial grant will vest and become exercisable according to the following formula: market capitalisation on change of control (as evidenced by the value of the consideration paid by the acquirer and the number of Corp Shares in issue remainder of Corp Shares the subject of immediately following the Plans Start Date) ----- L1.5 billion The formula above assumes that a change of control occurs 63 months after the Plans Start Date. If a change of control occurs sooner, to reflect the benefit to shareholders of the early release of funds, the L1.5 billion figure will be reduced by L25m for each complete quarter between the change of control and the date which is 63 months after the Plans Start Date. Participants will have six months within which to exercise their options to the extent exercisable following the change of control (or general offer); thereafter, the options will lapse. The remuneration committee will determine the extent to which any subsequent options will vest in the event of a takeover, having regard to the performance targets to which those options are subject. If a person becomes bound or entitled to give notice to acquire Corp Shares under sections 428 to 430F of the Act, a participant may exercise his options to the extent exercisable as referred to above during the period that person remains so bound or entitled; thereafter, they will lapse. Participants may, in certain circumstances, be given the opportunity to exchange their options for options over ordinary shares in an acquiring company. If there is a reconstruction of Corp, the effect of which is that a person obtains control of Corp, other than as a result of making an

offer for its issued share capital, the provisions relating to a change of control following an offer (summarised above) shall apply. These provisions shall not apply if there is a reconstruction, the purpose and effect of which is to create a new holding company of Corp where such holding company has substantially the same shareholders and proportionate shareholdings as those of Corp immediately before the scheme of 120 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- arrangement. On the occurrence of such a reconstruction, the remuneration committee will use its best endeavours to ensure that any outstanding options are rolled-over so that they continue over shares in the new holding company. If there is no roll-over, options will continue unaffected by the scheme of arrangement. If there is any other reconstruction of Corp or Corp is wound-up, options will lapse on the reconstruction or winding-up taking effect. Adjustments of options If there is a variation in the share capital of Corp, including by way of a capitalisation, rights issue, consolidation, sub-division, reduction or any other variation or the implementation by Corp of a demerger or payment of a super-dividend which would materially affect the value of options under the Management Plan, the remuneration committee may (subject to the auditors' approval) make the adjustments it considers appropriate to the number of Corp shares under option.

Amending the Management Plan The rules of the Management Plan can be amended at any time by the Board, provided that no amendment to the Management Plan can be made without the prior approval of Corp in a general meeting of shareholders if the amendment relates to the provisions in the rules relating to eligibility, limits on the number of Corp Shares available for issue under the Management Plan, the basis for determining a participant's entitlement to Corp Shares and any adjustment in the event of a variation in the share capital of Corp. In addition, no amendment that would materially prejudice the interests of existing participants may be made without the prior consent of participants holding three-quarters of the aggregate number of shares subject to the outstanding options.

Participants in the United States For participants in the United States, the Management Plan will be structured as a conditional right to receive Corp Shares or ADRs (an "Award") rather than as an option, for tax purposes. No price will be payable by participants on the vesting of their Awards. Awards will not vest during a close or prohibited period. Awards will be subject to the same performance conditions and other terms set out above. General Participation in the Management Plan is not pensionable. Options granted under it are not transferable and may only be exercised by the person to whom they were granted or their personal representatives. No options can be granted under the Management Plan more than five years after the Plans Start Date. Summary of the Corp Employee Share Option Plan Administration The Employee Plan will be administered by the remuneration committee of Corp in accordance with the terms set out below. Eligibility Participation in the Employee Plan is open to those employees and executive directors of Corp or any of its Subsidiaries selected by the remuneration committee. Employees within two years of their normal retirement date may not participate in the Employee Plan. Employees who participate in the Management Plan cannot participate in the Employee Plan. Grant of options Options to acquire Corp Shares under the Employee Plan will be granted by either Corp or the trustee of the Trust. Options may be satisfied using newly issued or existing Corp Shares. Inland Revenue approved options and non-Inland Revenue approved options ("Unapproved Options") may be granted under the Employee Plan. 121 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- Following Listing of the New Shares options may be granted in the periods of 42 days commencing on the Plans Start Date, the day immediately following announcement by Corp of its results for any period, or a day on which the Board resolves that exceptional circumstances exist which justify the grants. The Corp Board will not grant any options under the Employee Plan until 30 business days after Listing of the New Shares. The exercise price for such initial grant of options shall be the average middle market quotation of a Corp Share for the five business days immediately prior to the date of grant. The initial options will be granted in five tranches, each of which will be subject to different performance conditions as described below. Participation in the Employee Plan will not form part of or affect a participant's rights under the terms of his employment. The following is a summary of the provisions which apply equally to Approved Options and Unapproved Options. Option exercise price The exercise price of options will be determined by the remuneration committee but will not be less than the middle market quotation of a Corp share as derived from the London Stock Exchange Daily Official List on a date (or dates in the case of an average quotation) not more than 30 days prior to the date of grant of the option (or such other period as the Inland Revenue may agree in

relation to Approved Options). Where an option is to subscribe for Corp Shares, the exercise price will not be less than the nominal value of a Corp Share. Individual Limit on participation There is no limit under the Employee Plan on the aggregate maximum value of options which may be granted to a participant in any year or in the life of the Employee Plan (subject, in the case of Approved Options, to the statutory limit described below). Overall limit on Corp Shares to be made available under the Employee Plan The number of Corp Shares, issued or unissued, that may be committed under the Employee Plan is limited to 5 per cent. of the issued share capital of Corp immediately following the Plans Start Date. The limit does not include share capital committed pursuant to any other employees' share plan previously adopted by Corp. This number of shares will be increased, with a corresponding reduction in the number of Corp Shares available to be committed under the Management Plan, if any employee who would otherwise have been expected to participate in the Management Plan participates in the Employee Plan rather than the Management Plan because it is beneficial (for tax or similar reasons) for them to do so. This 5 per cent. limit will only be available for use on the following basis:(i) 3 per cent. in the first 12 months following Listing of the New Shares; (ii) 1 per cent. in the second 12 months following Listing of the New Shares; and (iii) 1 per cent. in the third 12 months following Listing of the New Shares. Any unused part of this limit may be utilised in subsequent years during the life of the Employee Plan. Corp Shares over which options have lapsed or been surrendered will not be included in calculating this limit. 122 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- Exercise of Options Options granted under the Employee Plan will only become exercisable to the extent that the performance targets to which they are subject have been satisfied. The performance targets for the first grant of options are set out below. For subsequent grants, the remuneration committee will set performance targets which are appropriate in the circumstances and at least as challenging as those for the initial grant. Performance targets Percentage of shares subject Tranche Condition to option that vest (per cent.) ----- 1. Repayment of 30 per cent. of the New 10 Junior Notes within 24 months after the Plans Start Date. No vesting before 12 months after the Plans Start Date. 2. Repayment of 50 per cent. of the New 10 Junior Notes within 27 months after the Plans Start Date. No vesting before 15 months after the Plans Start Date. 3. Repayment of 100 per cent. of the New 20 Junior Notes within 30 months after the Plans Start Date. No vesting before 18 months after the Plans Start Date. 4. Corp achieving a market capitalisation 30 of L1 billion and repayment of 100 per cent. of the New Junior Notes within 39 months after the Plans Start Date. No vesting before 27 months after the Plans Start Date. 5. Corp achieving a market capitalisation (within 51 months of the Plans Start of L1.5 billion and repayment of 100 per Date) cent. of the New Junior Notes within 63 30 months after the Plans Start Date. No vesting before 39 months after the Plans (between 51 months and 63 months of the Start Date. Plans Start Date) 20 If any performance target is not satisfied within the stated period the tranche of the option subject to that performance target will lapse and cease to be capable of becoming exercisable. If the New Junior Notes are refinanced (rather than repaid), the conditions set out above will apply to the aggregate debt, representing what were the New Junior Notes, following the refinancing. In relation to tranches 4 and 5, the market capitalisation of Corp will be measured using its daily volume weighted average share price determined from prices quoted on the principal exchange on which Corp's Shares are listed and the number of Corp Shares outstanding immediately following the Plans Start Date. In order to determine if the relevant condition is satisfied, the daily volume weighted average share price will be obtained for each day of a rolling 90 day period and the average price over that 90 day period will be determined. If that average price when multiplied by the number of Corp Shares in issue on the Plans Start Date exceeds the relevant target market capitalisation the applicable condition will have been satisfied. Taxation The exercise of an Unapproved Option may be made conditional upon a participant agreeing to comply with any arrangements specified by Corp for the payment of taxation, social security contributions or any other deductions at source (including, as is likely to be the case, in respect of at least part of the relevant employing company's 123 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- secondary class 1 National Insurance contributions liability arising on exercise) required or permitted in respect of an option. Termination of employment If a participant ceases employment with a member of the Corp Group voluntarily or he is dismissed for cause, his unvested options will lapse on the date of cessation. However, where a participant ceases employment with the Corp Group due to death, injury, disability, ill-health, redundancy, retirement or the sale of the business or subsidiary for which the

participant works, or termination of employment by the employer without cause, his options will become vested to the extent the financial performance conditions have been satisfied at the date of cessation of employment (or, if terminated without full notice, to the extent the financial performance conditions have been satisfied on the date notice would have expired) and will become exercisable at the time they would otherwise have been exercisable as set out in the table above for a period of 6 months (12 months in the case of death). The remuneration committee may decide whether a different proportion of an option should vest on the cessation of employment of any participant due to the sale of a business or subsidiary that was a key business or subsidiary. Following the expiry of the relevant period, all of a participant's unexercised options will lapse. Lapse of options Options will lapse in any event on the tenth anniversary of their grant and will lapse after a takeover or reconstruction when the specified time periods for exercise have passed as described below. Options will also lapse on the cessation of employment of a participant as described above. Options will also lapse to the extent that they cease to be capable of becoming exercisable due to the failure to satisfy any of the performance targets within the specified time periods. Rights attaching to Corp Shares on the exercise of options Corp Shares allotted under the Employee Plan will carry the same rights as all other issued Corp Shares. Application will be made for the Corp Shares to be admitted to trading on the London Stock Exchange. Participants will not qualify for any rights attaching to Corp Shares where the record date is before the date on which the option is exercised. Takeover, reconstruction or winding-up If any person obtains control of Corp as a result of making an offer to acquire the whole of the issued share capital of Corp (or, having such control, makes a general offer to acquire all the shares other than those already owned by that person) the first grant of options under the Employee Plan will become exercisable to the extent that the financial performance conditions have been satisfied immediately prior to a change of control. A proportion of the remainder of any Corp Shares which are the subject of outstanding options will vest and become exercisable according to the following formula: market capitalisation on change of control (as evidenced by the value of the consideration paid by the acquirer and the number of Corp Shares in issue remainder of Corp Shares the subject of immediately following the Plans Start outstanding options x Date) ----- L1.5 billion The formula above assumes that a change of control occurs 63 months after the Plans Start Date. If a change of control occurs sooner, to reflect the benefit to shareholders of the early release of funds, the L1.5 billion figure will be reduced by L25m for each complete quarter between the change of control and the date which is 63 months after the Plans Start Date. Participants will have six months within which to exercise their options to the extent exercisable, following the change of control (or general offer); thereafter, the options will lapse. The remuneration committee will 124 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- determine the extent to which any subsequent options will vest in the event of a takeover, having regard to the performance targets to which those options are subject. If a person becomes bound or entitled to give notice to acquire Corp Shares under sections 428 to 430F of the Act, a Participant may exercise his options to the extent exercisable as referred to above during the period when that person remains so bound or entitled; thereafter, they will lapse. Participants may, in certain circumstances, be given the opportunity to exchange their options for options over ordinary shares in an acquiring company. If there is a reconstruction of Corp, the effect of which is that a person obtains control of Corp, other than as a result of making an offer for its issued share capital, the provisions relating to a change of control following an offer (summarised above) shall apply. These provisions shall not apply if there is a reconstruction, the purpose and effect of which is to create a new holding company of Corp where such holding company has substantially the same shareholders and proportionate shareholdings as those of Corp immediately before the scheme of arrangement. On the occurrence of such a reconstruction, the remuneration committee will use its best endeavours to ensure that any outstanding options are rolled-over so that they continue over shares in the new holding company. If there is no roll-over, options will continue unaffected by the scheme of arrangement. If there is any other reconstruction of Corp or Corp is wound-up, options will lapse on the reconstruction or winding-up taking effect. Adjustments of options If there is a variation in the share capital of Corp, including by way of a capitalisation, rights issue, consolidation, sub-division, reduction or any other variation or the implementation by Corp of a demerger or payment of a super-dividend which would materially affect the value of options under the Employee Plan, the remuneration committee may (subject to the auditors' approval and, in the case of Approved Options, to the approval of the Inland Revenue) make the adjustments it considers appropriate to the number of Corp Shares under option and the exercise price. Amending the Employee Plan The rules of the Employee Plan can be amended at any time by the

Board, provided that no amendment to the Employee Plan can be made without the prior approval of Corp in a general meeting of shareholders if the amendment relates to the provisions in the rules relating to eligibility, limits on the number of Corp Shares available for issue under the Employee Plan, the basis for determining a participant's entitlement to Corp Shares and any adjustment in the event of a variation in the share capital of Corp. In addition, no amendment that would materially prejudice the interests of existing participants may be made without the prior consent of participants holding three-quarters of the aggregate number of shares subject to outstanding options. For these purposes, the interests of the holders of Approved Options and Unapproved Options are separate. Participants in the United States For participants in the United States, the Employee Plan will be structured as a qualifying incentive stock option plan and a non-qualifying stock option plan over Corp Shares or ADRs. Options will be granted on the same terms and will be subject to the same performance conditions as described above, save any changes necessary to take account of the relevant United States legislation. General Additional schedules to the rules of the Employee Plan can be established to operate the Employee Plan in overseas countries. These schedules can vary the rules of the Employee Plan to take account of any securities, exchange control, or taxation laws or regulations for any participants or any company in the Group. Any Corp Shares issued under such schedules will count towards overall limits under the Employee Plan. Participation in the Employee Plan is not pensionable. Options granted under it are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

125 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- No options can be granted under the Employee Plan more than five years after the Plans Start Date. Provisions relating to Approved Options Approved Options are those options granted under the Employee Plan which satisfy the requirements of Schedule 9 to ICTA 1988 (or any replacement legislation). The main differences between Approved Options and Unapproved Options are that: (a) No Approved Option can be granted to a participant who is ineligible to participate in the Employee Plan by virtue of paragraph 8 of Schedule 9 (material interest in a close company) ICTA 1988 (or any replacement legislation). (b) An employee cannot be granted an Approved Option which would, at the time it is granted, enable the employee to acquire Corp shares under option schemes approved under Schedule 9 ICTA 1988 (or any replacement legislation) (which are not savings-related) having a value (calculated on the relevant date of grant) exceeding the Inland Revenue limit (currently L30,000). (c) Any amendment to the rules of the approved part of the Employee Plan requires the prior approval of the Inland Revenue. (d) There are circumstances (principally where a participant's employment ceases in compassionate circumstances) when the remuneration committee can extend the period in which Approved Options may be exercised in order that the Participant may qualify for tax relief on exercise of the Approved Option. Application will be made to the Inland Revenue for approval of that part of the Employee Plan under which Approved Options may be granted. Proposed Sharesave Plan Subject to obtaining the prior approval of Corp's shareholders, Corp intends to establish a sharesave plan (or a similar plan, taking into account any changes in market practice and the relevant legislation) at a later date. Such a plan will be varied for overseas participants to take account of local legislation. In the United States, the plan will be an approved stock purchase plan (or a similar plan, taking into account any changes in market practice and the relevant US legislation). The Trust The Trust will be established by a trust deed entered into between Corp and an independent trustee resident in Jersey. The Trust will be a discretionary trust for the benefit of employees and former employees (and their dependants) of the Corp Group (the "Beneficiaries"). Corp has the power to appoint and remove the Trustee. The Trustee will be entitled to subscribe for or otherwise acquire Corp Shares for the benefit of Beneficiaries and will be able to distribute these Corp Shares under the terms of the Trust either directly or in accordance with the rules of any employees' share schemes established by Corp. The Trustee will not be permitted to enter into any forward swap derivative arrangements. It is intended that the Trust may be funded by any person or company including Corp or any company in the Corp Group by means of gift, loan or otherwise. The limit on the number of Corp Shares which can be acquired by the Trustee (whether by market purchase or subscription) will be that set out in the rules of the relevant share incentive plan. It is intended that the terms of the Trust will be amended at the discretion of the Trustee and with the consent of Corp. Corp will not be entitled to consent to any amendment to the advantage of Beneficiaries without the prior approval of Corp in general meeting unless the amendment is minor to benefit the administration of the Trust, to take account of any changes in legislation or to obtain or to maintain favourable taxation, exchange control or regulatory treatment for any Beneficiary of Corp or any company in the Corp Group.

126 I. EXPLANATORY STATEMENT (IN COMPLIANCE

WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE  
 RESTRUCTURING -- PART D ----- ABI

GUIDELINES The extent to which the Plans comply with the ABI's published guidelines for share incentive plans (the "Guidelines") is summarised below. Overview: The Plans are not totally compliant with the Guidelines. The design of the Management Plan, which is the least compliant (while being the most important from Corp's perspective), has been driven by the importance of ensuring that the senior management team remains in place and is suitably incentivised. It is also designed to compensate for and replace existing bonus arrangements and amendments to individuals' terms of employment (as previously described above). The Scheme Creditors will also in effect, be asked to approve the arrangements as part of approving the Corp Scheme. The Principal Guidelines focus on: a. Performance conditions The ABI requires that performance conditions should emphasise the importance of linking remuneration to performance, align the interests of participating directors and senior executives with those of the shareholders, be demanding and stretching and relate to overall corporate performance. Performance conditions should also be demanding in the context of the prospects of the company and the prevailing economic climate in which the company operates. They should also be disclosed and transparent. The Guidelines also require that the greater the level of potential award, the more stretching and demanding the performance conditions should be. Corp believes that the proposed performance conditions for the discretionary plans are compliant with these requirements. The performance conditions chosen are demanding and are clearly linked to the achievement of enhanced shareholder value. The Guidelines also state that performance should be measured against a peer group or benchmark. Given the nature of the targets and the position of Corp, this is not practicable. b. Change of control provisions The Guidelines state that there should be no automatic waiver of performance conditions on a change of control. They also state that options should vest on a pro-rata basis taking into account the vesting period that elapsed at the time of the change of control though making due allowance for the reduction in value resulting from the reduced life of the option. Tranches of options will only vest if the financial performance conditions applicable to them have been satisfied. The level of additional vesting is dependent upon Corp's market capitalisation on change of control, as summarised above. In essence, therefore, Corp believes the Plans are compliant. c. Dilution limits The Guidelines provide that not more than 10 per cent. of the issued ordinary share capital of a company can be committed to be issued to satisfy share options/awards under all of its share plans in any rolling 10 year period. It is currently proposed that the number of unissued shares that may be committed to be issued in the 5 years following the Plans Start Date will be 9 per cent. of the issued share capital of Corp under the Management Plan and 5 per cent. under the Employee Plan. The Guidelines also encourage phased grants (generally on an annual basis to spread the dilution over the life of the plan). No requirement for phased granting is included in the Plans. The adoption of the Management Plan to incentivise management in these circumstances is very much regarded as a one-off arrangement. 127 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- d. Participation Participation in the Plans is limited to bona fide employees and executive directors. This is compliant with the Guidelines. However, there are no limits on individual participation. Corp considers this to be justifiable as option grants must be of a level to retain and motivate participants who are being asked in some cases, to waive existing entitlements to a bonus and amend the terms of their contracts of employments, as stated above. Participants who are granted an option under the Management Plan cannot participate in the Employee Plan. e. Exercise price The Guidelines state that options should not be granted at a discount. Under the Management Plan, only a nominal sum will be payable on the exercise of options. The Employee Plan will be compliant. As stated above, the Management Plan has been designed to ensure that senior management remains in place and suitably incentivised. In order to achieve this, the necessary levels of potential gain make it more efficient to grant options with an exercise price set at a discount rather than at the prevailing market value (on the day the options are granted) as fewer Corp Shares are required. f. Timing of grant The Plans are compliant with the Guidelines -- following Listing of the New Shares, grants can only normally be made within the 42 day period following the announcement of Corp's results. g. Life of Plans and incentive awards The Guidelines state that the life of plans should not exceed 10 years and that options should not be exercisable within 3 years of grant. The Plans have a five year life. Under the terms of the Management Plan and the Employee Plan, options may be exercised in part after 12, 15, 18, 27 and 39 months following the Plans Start Date. In accordance with the Guidelines, no option can be exercised more than 10 years following its grant. h. Retirement The Guidelines require that options should not be

granted to a participant within 6 months of his/her anticipated retirement date. The Management/Employee Plans will provide that options cannot be granted to a participant within 2 years of his/her anticipated retirement date. Where options are granted to a participant within 3 years of his/her anticipated retirement date, the remuneration committee will have regard to the executive's ability to contribute to the satisfaction of the performance conditions, in accordance with the Guidelines. i. Personal shareholding requirements The Guidelines require that the rules of incentive plans should incorporate the requirement to retain a significant proportion of the shares to which participants become entitled. The Guidelines state that this is particularly important in the case of awards where performance conditions apply principally at the point of grant of an option. Given the nature of the performance conditions which apply to the initial grants of options under the Management Plan and the Employee Plan and the fact that they must be satisfied prior to exercise, rather than grant, a personal shareholding requirement is not considered necessary. 128 I.

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----- j. Non-Executive Directors As described in Part E.1, in accordance with the Guidelines, the Non-Executive Directors (other than the Chairman) will acquire Corp Shares out of their net fees at a price equal to the prevailing market value on the date of acquisition. D.11 PENSIONS Claims under this section are excluded from the Corp Scheme and, to the extent that claims are preferential or otherwise incapable of being schemed, from the plc Scheme. Please refer to Appendix 9 for fuller details of the exclusions. UNITED KINGDOM PENSION SCHEMES Description of the main scheme The GEC 1972 Pension Plan (the "UK Plan") is the principal tax-exempt approved occupational pension scheme in the United Kingdom in respect of which Corp Group or any of its group companies has any liabilities (and the only one in respect of which Corp has any liabilities). Employee contributions are 3 per cent. of pensionable earnings with employers paying the balance of the cost. The UK Plan's principal employer is Corp but Group companies participate and are responsible for their own contributions. The executive directors of Corp and plc are members (or entitled to be members of) of the UK Plan. There are other UK pension arrangements and these are described below. Corp and the other group companies and the UK Plan trustee have complied with their legal obligations in respect of the UK Plan and the unapproved pension arrangements Corp is not aware of any current or threatened material claim against it, any member of the Group or the trustees in respect of the UK Plan or in relation to any benefits provided on retirement, death or termination of service. Funding of the UK Plan The scheme actuary has carried out the statutory, triennial Minimum Funding Requirement ("MFR") valuation (as at 5 April 2002) and on 6 February 2003 signed his report. The report states that the UK Plan was (as at the valuation date) between 115 and 120 per cent. funded on an MFR basis. This means that no statutory minimum company contributions are currently required to be paid. On the UK Plan's own ongoing funding basis, the report states that the UK Plan is 100 per cent. funded as at 5 April 2002. Please note that the funding level may have changed since 5 April 2002, particularly having regard to falls in equity markets and the UK Plan could currently be underfunded on an ongoing basis. Corp makes contributions at the rate of 8.2 per cent. of pensionable earnings (having started in November 2002). The contribution rate is expected to remain at 8.2 per cent. of pensionable earnings. The employee contribution rate will remain at 3 per cent. of pensionable earnings. The report states that if the UK Plan had been discontinued at the date of the valuation in April 2002 and wound up, there would have been insufficient assets (by a considerable margin) to provide accrued benefits by the purchase of annuity policies. Nevertheless, the valuation did not indicate that a statutory debt under section 75 of the Pensions Act 1995 would be placed on Corp if the UK Plan were wound up and the debt calculation performed as at that date. This position could alter if the debt calculation is carried out as at a later date, as a consequence of a number of factors, including a change in the Statement of Investment Principles of the UK Plan, the investment performance of its assets, the estimated cost of annuities and the level of retirements within the UK Plan. No winding up has so far been triggered in relation to the UK Plan. If a winding up of the UK Plan were to be triggered in the future, the UK Plan trustee would be able to determine the date on which any statutory debt would be calculated by the actuary to the UK Plan. The amount of any debt depends on a number of factors, including the investment strategy which has been adopted by the trustee in the UK Plan's statement of investment principles and the value of the assets and liabilities of the UK Plan at the date of the calculation. If a section 75 debt were to arise, the size of the debt (relative to Corp's assets) could have a materially detrimental effect on Corp's resources. The materiality of the detrimental effect on Corp's reserves is shown by the fact that the 129 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE



RESTRUCTURING -- PART D ----- actuarial valuation stated that (as at 5 April 2002) the UK Plan has assets of approximately L2.495 billion and liabilities (calculated on an ongoing basis) of approximately L2.494 billion. On the winding up of a pension plan, the applicable statute values the benefits of the members by reference to a stricter test than the MFR valuation (for example, pensioner liabilities are valued on a buy-out basis) and the sponsoring employer is liable to make good any deficit. There is no guarantee that the value of the UK Plan's assets will not deteriorate nor that legislation will not be introduced to oblige employers to make further contributions to pension plans which are not fully funded, in addition to current statutory obligations. The UK Government presented a Green Paper on pension reform on 17 December 2002 which could lead to further legislation on, amongst other issues, the obligations on employers to make good pension scheme deficits, principally by replacing the MFR with a scheme-specific minimum funding level. See below for the impact on funding if a lower than expected transfer amount is paid under an existing sale agreement. See also Part F.2: Risk Factors.

UNAPPROVED UK PENSION PLANS The only other UK retirement and death benefit arrangements in respect of which Corp has any liability in the UK are the following unapproved pension arrangements. a. Funded unapproved retirement benefit schemes for current employees ("FURBS") There are thirteen FURBS for each of thirteen current senior employees. FURBS are top-up pension plans funded in advance in respect of employees who are subject to the earnings cap. The earnings cap is a figure set by the Inland Revenue as the point at which tax relief on contributions ceases and above which benefits from the UK Plan cannot be provided (L97,200 for the 2002/2003 tax year). Ten of the thirteen FURBS are defined contribution arrangements, where the employer pays (depending on the employee/director) an amount equivalent to between 10 and 35 per cent. of earnings in respect of the employee's FURBS. Because an employer's contribution to a FURBS qualifies as a taxable benefit, the employer in fact pays 60 per cent. of its contribution described above to the FURBS and the balance of its contribution to the employee, to cover the extra tax burden. All contributions are up to date. The remaining three FURBS are defined benefit arrangements and they each have intended accrual rates of 3.33 per cent. depending on the value of retained benefits. Mr Donovan's defined benefit FURBS is described in Part E.1. All employees who have a FURBS also have additional life cover that is provided through an unapproved life assurance scheme, for which the employer pays the premium. b. Unfunded unapproved pensions ("UURBS") Corp is currently liable to pay a total annual pension contribution of currently L171,197 to Lady Weinstock under an UURBS established for the late Lord Weinstock. This pension is to increase annually in line with increases to pensions in payment under the UK Plan. Corp was the original promisor of an unfunded top-up pension in 1998 in favour of Anthony Cobbe. Mr Cobbe was promised a pension at age 62 of two-thirds his final pensionable salary, funded from the UK Plan, the GEC-USA Retirement Plan and by Corp itself. The pension is currently in payment but the unfunded element is in fact paid by Marconi Communications Limited, his actual former employer but no formal agreement documenting this arrangement has been made.

PENSION INDEMNITIES In sales of subsidiary companies and businesses in recent years, Corp has on some occasions given an indemnity for employer debts which could arise under section 75 of the Pensions Act 1995. If there were an MFR deficit at the point at which the subsidiary or buyer of assets ceased to participate in the UK Plan, section 75 would oblige the subsidiary or buyer to contribute to remedying the deficit. The section 75 indemnity has been given on very 130 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- few occasions and there is no indication that the funding of the UK Plan was below MFR levels at the relevant dates. Accordingly Corp believes that the indemnity is unlikely to be called upon. Following the sale of General Domestic Appliances Holdings Limited in 2001, the trustee of the UK Plan is to make a payment to the buyer's pension plan in respect of the accrued benefits of the employees who transfer to the buyer. Although a basis for calculation of the transfer amount was agreed in the sale agreement for the sale of GDA, the trustee of the UK Plan is not bound by this. Corp is responsible for 50 per cent. of any shortfall between the transfer amount agreed in the sale agreement and the amount actually paid by the trustee. Anticipating a shortfall at the time of the sale, an allowance of L3.255 million was made in the sale price. The information received by Corp to date is that the plan actuary intends to advise the trustee to calculate the transfer amount on the agreed basis, which could (apart from the allowance in the sale price) result in a liability to Corp under the shortfall obligation of approximately L1.47 million. Allowing for the price adjustment, Corp would on these figures be entitled to L1.785 million from the buyer. If the trustee does not follow the advice of the actuary or if the actuary changes his advice, Corp expects its maximum liability under the shortfall obligation to be approximately L14.665 million (or

L12.88 million if the net over-allowance by Corp is taken into account). The actuary is not bound by his representations and a final determination of the transfer amount is not likely until April or May, 2003. There can be no assurance that the trustee will not decide to follow a basis which results in greater liability for Corp than Corp currently expects, which could have a material adverse effect on the Group. Indeed, if the trustee refuses or fails to transfer the whole or any part of the agreed amount, Corp will be liable for 50 per cent. of the shortfall (less the buyer's prevailing rate of corporation tax), which could produce a significantly larger liability. If Corp is required to make a net payment of approximately L14.665 million (or L12.88 million if the net over-allowance by Corp is taken into account), the funding position of the UK Plan would improve considerably. This would be because the UK Plan had distributed a smaller than anticipated amount to the buyer's pension plan.

**UNITED STATES PENSION PLANS**

**Description of the main US plan** The principal pension plan in the United States is the Marconi USA Employees' Retirement Plan, which is a tax-qualified, funded defined benefit plan. The following additional plans are also maintained in the US: a. the RELTEC Corporation Retirement Plan, which is a tax-qualified, funded defined benefit plan (the "RELTEC PLAN"). The benefit accruals of participants in the RELTEC Plan were frozen, effective as of 31 December 1997; and b. the RELTEC Supplemental Executive Retirement Plan (the "SERP"), which is an unfunded, non-tax-qualified plan for a select group of management or highly compensated employees. There are approximately seven participants covered by the SERP as of 1 April 2002. The SERP was also frozen as of 31 December 1997. No benefits have accrued under the SERP since that date. Corp is not a sponsoring employer of the Marconi Plan or the RELTEC Plan but, because Corp and plc are part of the plan sponsor's "controlled group" under the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the Internal Revenue Code of 1986, as amended (the "CODE"), Corp and plc would each be jointly and severally liable under ERISA for any funding shortfall on termination of either plan (together with the US subsidiaries which are participating employers and other substantially owned US and non-US subsidiaries). The sponsor of the Marconi Plan and the RELTEC Plan is a US company, as are each of the participating employers. There is no formal or informal plan or commitment at this time to terminate either the Marconi Plan or the RELTEC Plan.

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Funded status of the US plans Corp and plc estimate as at 30 September 2002: a. on an ongoing basis and from an accounting perspective under US Financial Accounting Standard Statement 132, the Marconi Plan had assets with a value of US\$164,915,249 and was underfunded by US\$18,378,172; and b. on an ongoing basis and from an accounting perspective under US Financial Accounting Standard Statement 132, the RELTEC Plan had assets with a value of US\$47,345,086 and was underfunded by US\$15,812,831. This estimate is based on valuations prepared for the relevant plans as at 31 December 2001, adjusted for turnover in the first quarter of 2002 and a change in the discount rate from 7 1/4 per cent. to 6 1/2 per cent. and rolled forward to 30 September 2002. An actuarial report for the plans' status, as at 31 December 2002, is not expected to be completed for several months. Potential consequences of the underfunding of the US plans on Corp and plc If a sale of any of the US businesses which sponsor or participate in either of the defined benefit pension plans (or any subsidiary or division of those businesses) occurs, the portion of the assets and liabilities under any such plan pertaining to the employees (and, perhaps, retirees) of the entities being sold could either be transferred to the buyer's defined benefit plan or retained in the Marconi Plan or the RELTEC Plan, as applicable. If, at the time that assets and liabilities are to be transferred from the Marconi Plan or the RELTEC Plan, either of such plans were underfunded, the assets and liabilities transferred might have to be determined based on assumptions prescribed by the United States Pension Benefit Guaranty Corporation ("PBGC"). The PBGC is a US government agency established under ERISA to assure the payment of certain guaranteed levels of benefits under most defined benefit plans. When liabilities are determined on the basis of the fairly conservative PBGC assumptions they generally result in a greater liability than the liability as determined under applicable accounting standards for an ongoing plan or an amount an insurance company would charge to assume the liability. The PBGC has an early warning programme under which it scrutinises the financial soundness of the parties to a corporate transaction and the funding status of the relevant tax-qualified defined benefit pension plans. The PBGC has the authority under ERISA to terminate an underfunded plan, thereby triggering the required payment by the plan sponsor of any funding shortfall, if the PBGC determines that the proposed transaction could reasonably be expected to increase unreasonably its risk of possible long-term loss if the plan is not terminated. If a sale of a US business were to occur at a time when the Marconi Plan or the RELTEC Plan is underfunded, PBGC involvement is possible, depending upon the

circumstances then surrounding such potential sale. If the PBGC were to elect to become involved, such involvement could impede or delay any such proposed transaction, increase its cost or reduce the net sale proceeds depending upon what, if any, action might be required by the PBGC. The PBGC would also have the power to bring an action to terminate the Marconi Plan or the RELTEC Plan if, at any time, the participating employers were unable to contribute the annual amount required to satisfy minimum funding obligations under US law, the plans were unable to pay benefits when due, or certain so-called reportable events were to occur, and, in each case, the PBGC were to determine that its risk of possible long-term loss could reasonably be expected to increase unreasonably. The filing of this document with the Court constituted a reportable event and Corp and plc have notified the PBGC accordingly. In order to substantially reduce the uncertainty of the potential involvement of the PBGC, Corp and plc have entered into a legally binding memorandum of understanding with the PBGC under which the PBGC has agreed not to terminate the Marconi Plan or the RELTEC Plan solely as a result of the Restructuring nor make a claim under the plc Scheme, in exchange for which Corp has agreed to provide (i) certain guarantees to the PBGC relating to potential liabilities of its United States subsidiaries under the two plans, (ii) if Corp intends to sell any of its business units in the United States to a third-party purchaser whose debt immediately following the consummation of such transaction is not then rated investment grade, no proposed transfer of assets and liabilities of the Marconi Plan or the RELTEC Plan to a pension plan of the third-party purchaser will be made without the consent of the PBGC, (iii) a commitment to fund, from the proceeds of sale, any shortfall in the 132 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- Marconi Plan or RELTEC Plan, as applicable, which is attributable to any United States business unit being sold, with the amount to be funded based on then applicable PBGC safe harbour assumptions used for plan termination purposes, and (iv) accelerated funding of contributions beyond the minimum otherwise legally required. See Appendix 19 for a more detailed discussion of the memorandum of understanding with the PBGC.

**D.12 LISTING AND DEALING**

Application has been made to the UKLA for the New Shares, the New Notes and the Warrants to be admitted to the Official List of the UKLA and to the London Stock Exchange for the New Shares, the New Notes and the Warrants to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that Listing will become effective and dealings in the New Shares, the New Notes and the Warrants will commence at 8.00 a.m. (London time) on the Effective Date which is currently expected to be 19 May 2003, but the Corp Scheme is not conditional on Listing becoming effective and the New Shares, the New Notes and the Warrants may therefore be issued as unlisted securities. Corp will use its reasonable endeavours to effect the Listing of the New Shares, the New Notes and the Warrants as soon as possible on or after the Effective Date of the Corp Scheme. A document comprising a prospectus relating to Corp has been prepared in accordance with the Listing Rules made under section 74 of the FSMA and a copy of it will be delivered for registration to the Registrar of Companies in England and Wales pursuant to section 83 of the FSMA. Corp will apply to list the ADRs in respect of its shares on NASDAQ and will use its reasonable endeavours to effect this NASDAQ listing as soon as practicable following the Effective Date of the Corp Scheme. It is currently expected that the NASDAQ listing will become effective during the third calendar quarter of 2003. Please see Part F.2 of this Section: Risk factors for a discussion of certain risks relating to delay and potential delay in the listing of the New Shares, New Notes, Warrants and ADRs.

**D.13 REPORTING REQUIREMENTS AND ENTITLEMENT TO INFORMATION**

Corp files reports and other information with the SEC under the US Securities Exchange Act of 1934, as amended. Reports and other information filed with, or submitted to, the SEC by Corp can be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington D.C. 20549 and at the SEC's regional offices at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Reports and other information are also available to the public through the internet in the EDGAR database on the SEC's Web site at <http://www.sec.gov>. Pursuant to the terms of the indentures governing the New Notes, following the Restructuring Corp will begin to file annual, quarterly and periodic reports with the SEC on Form 10-K, Form 10-Q and Form 8-K, respectively, as if it were a US domestic issuer, subject to certain specified exceptions (as more particularly described in Appendix 8, under the caption "SEC Reports; Other Information"). (Corp will remain a foreign private issuer and as such will not be subject to and (except as described herein) does not intend to comply with US proxy rules or any other provision of the US securities laws from which foreign private issuers are exempted.) The first such filing will be a Form 10-Q quarterly report in respect of the quarter ending 30 September 2003. Prior to that time, Corp will file an annual report on Form 20-F for the year

ending 31 March 2003 within 90 days of the financial year end, and will submit a quarterly report in respect of the quarter ending 30 June 2003 under cover of Form 6-K within 60 days of the quarter end, in each case including financial statements in accordance with or reconciled to US GAAP and non-financial statement disclosures otherwise as required by Form 10-K or Form 10-Q, as the case may be, subject to certain specified exceptions (as more particularly described in Appendix 8, under the caption "SEC Reports; Other Information"). All of the above reports (regardless of the forms under which they are filed or submitted) will also include the certifications required with respect to filings by US domestic issuers on Form 10-K and Form 10-Q pursuant to the Sarbanes-Oxley Act of 2002 and SEC rules adopted thereunder. In addition, Corp will hold quarterly investor conference calls following the release of such reports. The specific reporting requirements described above will cease to apply once the New Notes are no longer outstanding. At any time thereafter, subject to the requirements of applicable law and regulation, Corp will be 133 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- free to discontinue filing SEC reports on the forms used by US domestic issuers, as well as the other reporting practices described in the previous paragraph. D.14 MEMORANDUM AND ARTICLES A summary of certain provisions of the Memorandum of Corp which has been amended, and the Articles of Corp which have been adopted, in each case conditionally on the allotment of the New Shares pursuant to the Corp Scheme, is in Appendix 14. D.15 AMERICAN DEPOSITARY RECEIPTS GENERAL Corp will establish an ADR programme in respect of the New Shares. Elections may be made in Claim Forms and Account Holder Letters to have all or any portion of the New Shares deliverable pursuant to the Schemes delivered in the form of ADRs. Any person who elects to receive New Shares in the form of ADRs also will receive all future distributions of New Shares to which such person may be entitled pursuant to the Schemes in the form of ADRs. As described below no depositary fees will be payable at any time in connection with the initial issuance of ADRs pursuant to the Schemes and any UK stamp duty or SDRT payable in this respect will be met by Corp. ADRs will be issued pursuant to the Schemes in reliance on the exemption from Securities Act registration provided by Section 3(a)(10) thereof (or, in the case of plc Shareholders, in transactions not subject to such registration). Following their initial issuance, such ADRs may be sold in ordinary secondary market transactions without restriction under the Securities Act (subject to the restrictions applicable to "affiliates" described in Part D.16 of this Section). In addition, a registration statement on Form F-6 will be filed with the SEC in relation to the ADRs. It is currently expected that this registration statement will be effective prior to the Effective Date of the Corp Scheme. Once this registration statement is effective, outstanding Corp Shares may be deposited into the ADR programme in exchange for ADRs. Such ADRs may then be sold in ordinary secondary market transactions without restriction under the Securities Act. Corp will apply to list the ADRs on NASDAQ and will use its reasonable endeavours to effect this NASDAQ listing as soon as practicable following the Effective Date of the Corp Scheme. It is currently expected that the NASDAQ listing will become effective during the third calendar quarter of 2003. Persons who are considering making an election to receive New Shares in the form of ADRs should note that, unless and until the NASDAQ listing becomes effective, development of a liquid trading market for the ADRs will be inhibited, which is likely to have a material adverse effect on their value. A summary of the material terms of the ADRs is set out in Appendix 16. RESPONSIBILITY FOR FEES AND TAXES IN CONNECTION WITH ADRS Persons electing to receive ADRs pursuant to the Schemes Scheme Creditors and Designated Recipients who receive New Shares in the form of ADRs pursuant to the Schemes at any time will not be responsible for any fees or expenses of The Bank of New York, as ADR depositary, or any UK stamp duty or SDRT, in respect of the initial issuance of such ADRs. The Bank of New York has agreed to waive its fees and expenses in this connection, and any such UK stamp duty or SDRT will be met by Corp. Such persons will, however, be responsible for any other taxes or charges arising in connection with such initial issuance of ADRs, as well as any fees, expenses, taxes or charges arising in connection with any subsequent transaction involving ADRs (except to the extent described below under "General fee holiday"). Persons electing to receive New Shares pursuant to the Schemes Subject to compliance with the procedures referred to below, Scheme Creditors and Designated Recipients who receive New Shares pursuant to the Schemes will not be responsible for any fees or expenses of The Bank of 134 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- New York in respect of the initial issuance of ADRs upon deposit of those New Shares (or an equivalent number of Corp Shares) in exchange for ADRs,

if such deposit is effected prior to the earlier of (x) the date falling two months after the effectiveness of the NASDAQ listing of the ADRs and (y) 30 September 2003. The Bank of New York has agreed to waive its fees and expenses in this connection. In addition, subject to compliance with the procedures referred to below, Scheme Creditors and Designated Recipients who receive New Shares pursuant to the Schemes will not be responsible for any UK stamp duty or SDRT arising in connection with the initial issuance of ADRs upon deposit of those New Shares (or an equivalent number of Corp Shares) in exchange for ADRs, if such deposit is effected prior to the date falling two months after the effectiveness of the NASDAQ listing of the ADRs. Any such UK stamp duty or SDRT will be met by Corp. To qualify for the treatment described above, Scheme Creditors and Designated Recipients must comply with certain procedures, including providing such certifications or other evidence as Corp and The Bank of New York may reasonably require in order to permit verification of the number of New Shares obtained by the depositor pursuant to the Schemes. For information with respect to the relevant procedures, Scheme Creditors and Designated Recipients should contact The Bank of New York's office in London on (attention Mr Peter Ridgwell), telephone +44 207 964 6168, facsimile +44 207 964 6043. Except insofar as these arrangements apply, Scheme Creditors and Designated Recipients will be responsible for all taxes or charges arising in connection with the initial issuance of ADRs as described above, as well as any fees, expenses, taxes or charges arising in connection with any subsequent issuance of or other transaction involving ADRs (except to the extent described below under "General fee holiday").

**GENERAL FEE HOLIDAY** The Bank of New York has agreed to waive any payment in respect of its fees and expenses that would otherwise be required under the Deposit Agreement in connection with any deposit of Corp Shares in exchange for ADRs that is effected prior to the date falling two months after the Effective Date of the Corp Scheme. This "fee holiday" will be implemented without regard to the special arrangements for Scheme Creditors and Designated Recipients described above. Persons depositing Corp Shares during this period (other than Scheme Creditors and Designated Recipients, to the extent described above) will, however, be responsible for any taxes or other charges (including UK stamp duty or SDRT) arising in connection with the issuance of ADRs.

**D.16 US SECURITIES LAW CONSIDERATIONS CONSIDERATIONS FOR SCHEME CREDITORS AND BONDHOLDERS** US federal securities laws The New Shares, ADRs and New Notes issued to Scheme Creditors and Bondholders pursuant to the Schemes will not be registered under the Securities Act in reliance on the exemption from registration provided by Section 3(a)(10) thereof, and will not be registered under the securities laws of any state of the US in reliance on exemptions provided under the securities laws of each state of the US in which Scheme Creditors and Bondholders are located. The issue of New Shares, ADRs and New Notes to Scheme Creditors and Bondholders located in the states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont will, however, be subject to the limitations described in "US state securities laws" below. Any Scheme Creditor or Bondholder that is not an affiliate, for purposes of the Securities Act, of Corp or plc prior to the implementation of the Schemes and is not an affiliate of Corp following implementation of the Schemes may sell New Shares, ADRs and New Notes received pursuant to the Schemes in ordinary secondary market transactions without restriction under the Securities Act. Any Scheme Creditor or Bondholder that is an affiliate of Corp or plc prior to the implementation of the Schemes and/or is or becomes an affiliate of Corp following implementation of the Schemes will be subject to restrictions on the sale of New Shares, ADRs and New Notes received pursuant to the Schemes pursuant to Rule 145(d) under the Securities Act.

**135 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D** ----- For purposes of the Securities Act, an "affiliate" of any person is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, that person. Scheme Creditors and Bondholders that believe they are or may be "affiliates" of Corp or plc for purposes of the Securities Act should consult their own legal advisers prior to any sale of New Shares, ADRs or New Notes received pursuant to the Schemes. US state securities laws Corp and plc have formed the view, based on the advice of US state securities law counsel, that the distributions of New Shares, ADRs and New Notes to Scheme Creditors and Bondholders in the United States would be prohibited except after compliance with unduly onerous conditions unless made pursuant to available exemptions from state securities registration requirements under applicable state law. Other than in the states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont, exemptions are available without regard to the identity or status of the persons to whom securities are issuable under the Schemes. In these seven states the scope of the available exemptions will not permit New Shares, ADRs and New Notes to be issued through the Schemes under all circumstances.

Accordingly Scheme Creditors and Bondholders in Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont will be eligible to receive New Shares, ADRs and New Notes pursuant to the Schemes only if they fall into one of the categories of persons described below, such that an applicable state-law exemption will be available. Bondholders in Colorado, Connecticut, Illinois and Vermont should note that they will be eligible to receive securities pursuant to the Corp Scheme under state-law exemptions applicable to transactions by an issuer with its existing security holders. The Claim Form will require each person who completes it (other than the Trustees), and the Account Holder Letter will require Account Holders, to confirm certain facts in connection with the US state securities law restrictions referred to above. To the extent that any person located in one of these states is not eligible to receive securities pursuant to the Schemes by virtue of these securities law restrictions, such person will receive cash instead. These matters are discussed in further detail in Part C.9 of this Section. SCHEME CREDITORS AND BONDHOLDERS IN ARIZONA, CALIFORNIA, COLORADO, CONNECTICUT, ILLINOIS, OHIO AND VERMONT SHOULD CAREFULLY CONSIDER THE ELIGIBILITY CRITERIA DESCRIBED BELOW, THE PROVISIONS OF THE SCHEMES WITH RESPECT TO LEGAL AND REGULATORY RESTRICTIONS GENERALLY AND THE CONTENTS OF THE CONFIRMATIONS TO BE INCLUDED IN THE CLAIM FORM AND ACCOUNT HOLDER LETTER AS DESCRIBED IN PART C.9 OF THIS SECTION. ANY SUCH PERSONS WHO ARE IN DOUBT AS TO HOW THESE RESTRICTIONS MAY AFFECT THEM ARE STRONGLY ADVISED TO CONSULT THEIR PROFESSIONAL ADVISERS. For these purposes, a Scheme Creditor or Bondholder will be deemed to be located in a state if such Scheme Creditor or Bondholder (or, in the case of a legal entity, the person acting on behalf of such Scheme Creditor or Bondholder) is physically present within that state at the time that (i) such person receives the Scheme Document, or any portion thereof or any information with respect thereto which results in a Claim Form or Account Holder Letter (as the case may be) being submitted by or on behalf of such person, or (ii) such person submits a Claim Form or transmits instructions with respect to submission of an Account Holder Letter (as the case may be). The categories of Scheme Creditors and Bondholders located in the states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont to or to the order of whom New Shares, ADRs and New Notes will be distributed through the Schemes are as follows: Arizona -- any bank, savings institution, trust company, insurance company, investment company as defined in the US Investment Company Act of 1940, a pension or profit sharing trust or other financial institution or institutional buyer, or a dealer, whether the person is acting for itself or in a fiduciary capacity. California -- any broker-dealer, bank, savings and loan association, trust company, insurance company, investment company registered under the US Investment Company Act of 1940, or pension or profit-sharing trust (other than a pension or profit-sharing trust of the issuer, a self-employed individual retirement plan or an individual retirement account); any organisation described in Section 501(c)(3) of the US Internal Revenue Code, as amended to 29 December 1981, which has total assets (including endowment, annuity and life income funds) 136 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- of not less than US\$5,000,000 according to its most recent audited financial statement; any corporation which has a net worth on a consolidated basis of not less than US\$14,000,000; any wholly-owned subsidiary of any of the foregoing institutional investors; or the US federal government, any agency or instrumentality of the US federal government, any corporation wholly-owned by the US federal government, any state, any city, city and county, or county, or any agency or instrumentality of a state, city, city and county, or county, or any state university or state college and any retirement system for the benefit of employees of any of the foregoing. Colorado -- with respect to the Corp Scheme, any Bondholder and, with respect to either Scheme, any broker-dealer, or a financial or institutional investor, whether the purchaser is acting for itself or in some fiduciary capacity. A financial or institutional investor includes: (a) a depository institution, which is defined as: (i) a person that is organised or chartered, or is doing business or holds an authorisation certificate, under the laws of a state or of the United States which authorises the person to receive deposits, including deposits in savings, share, certificate, or other deposit accounts, and that is supervised and examined for the protection of depositors by an official or agency of a state or the United States, or (ii) a trust company or other institution that is authorised by federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the comptroller of the currency and is supervised and examined by an official or agency of a state or the United States; (b) an insurance company; (c) a separate account of an insurance company; (d) an investment company registered under the US Investment Company Act of 1940; (e) a business development company as defined in the US

Investment Company Act of 1940; (f) any private business development company as defined in the US Investment Advisers Act of 1940; (g) an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of US\$5,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is a broker-dealer registered under the Exchange Act, an investment adviser registered or exempt from registration under the US Investment Advisers Act of 1940, a depository institution, or an insurance company; (h) an entity, but not an individual, a substantial part of whose business activities consist of investing, purchasing, selling, or trading in securities of more than one issuer and not of its own issue and that has total assets in excess of US\$5,000,000 as of the end of its latest fiscal year; (i) a small business investment company licensed by the US federal small business administration under the US Small Business Investment Act of 1958; and (j) any other institutional buyer. Connecticut -- with respect to the Corp Scheme, any Bondholder and, with respect to either Scheme, any state bank and trust company, national banking association, savings bank, savings and loan association, federal savings and loan association, credit union, federal credit union, trust company, insurance company, investment company as defined in the US Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or to a broker-dealer; whether the purchaser is acting for itself or in some fiduciary capacity. Illinois -- with respect to the Corp Scheme, any Bondholder and, with respect to either Scheme, any corporation, bank, savings bank, savings institution, savings and loan association, trust company, insurance company, building and loan association, or dealer; a pension fund or pension trust, employees' profit-sharing trust, other financial institution (including any manager of investment accounts on behalf of other than natural persons, who, with affiliates, exercises sole investment discretion with respect to such accounts and provided such accounts exceed ten in number and have a fair market value of not less than US\$10,000,000 at the end of the calendar month preceding the month during which the securities are sold) or institutional investor (including investment companies, universities and other organisations whose primary purpose is to invest its own assets or those held in trust by it for others, trust accounts and individual or group retirement accounts in which a bank, trust company, insurance company or savings and loan institution acts in a fiduciary capacity, and foundations and endowment funds exempt from taxation under the Code, a principal business function of which is to invest funds to produce income in order to carry out the purpose of the foundation or fund), or any government or political subdivision or instrumentality thereof, whether the purchaser is acting for itself or in some fiduciary capacity; any partnership or other association engaged as a substantial part of its business or operations in purchasing or holding securities; any trust in respect of which a bank or trust company is trustee or co-trustee; any entity in which at least 90 per cent. of the equity is owned by: (i) persons described in this paragraph, (ii) any partnership or other association or trader buying or selling fractional undivided interests in oil, gas or other mineral rights, in frequent operations, for its or his own account rather than for the account of customers, to such extent it or he may be said to be engaged in such activities as a trade or business, (iii) any natural person who has, or is reasonably believed 137 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- by the person offering the securities to have (a) a net worth or joint net worth with the person's spouse, at the time of the offer, sale or issuance of the securities, in excess of US\$1,000,000, or (b) an income or joint income with that person's spouse of US\$200,000 in each of the two most recent fiscal years and reasonably expects such an income in the current year, (iv) any person, not a natural person, 90 per cent. of the equity interest thereof is owned by persons described in (a) or (b) immediately above, or (v) any person who is, or is reasonably believed by the person offering the securities to be, a director, executive officer, or general partner of the issuer of the securities or any director, executive officer or general partner of a general partner of that issuer (executive officer shall mean the president, any vice president in charge of a principal business unit, division or function such as sales, administration or finance, or any other officer or other person who performs a policy-making function for the issuer); any employee benefit plan within the meaning of Title I of ERISA if (i) the investment decision is made by a plan fiduciary as defined in Section 3(21) of ERISA and such plan fiduciary is either a bank, insurance company, registered investment adviser or an investment adviser registered under the US Investment Advisers Act of 1940, or (ii) the plan has total assets in excess of US\$5,000,000, or (iii) in the case of a self-directed plan, investment decisions are made solely by persons that are described herein; any plan established and maintained by, and for the benefit of the employees of, any state or political subdivision or agency or instrumentality thereof if such plan has total assets in excess of US\$5,000,000; or any organisation described in Section 501(c)(3) of the Code, any Massachusetts or similar business trust, or any partnership, if such organisation, trust, or partnership has

total assets in excess of US\$5,000,000. Ohio -- any dealer, corporation, bank (which includes a trust company, savings and loan association, savings bank, or credit union that is incorporated or organised under the laws of the United States or of any state thereof, or of Canada or any province thereof, and subject to regulation or supervision by such country, state or province), insurance company, pension fund or trust, employees' profit-sharing fund or trust, any association engaged, as a substantial part of its business or operations, in purchasing or holding securities, any trust in respect of which a bank is trustee or co-trustee, or any Qualified Institutional Buyer as defined in Rule 144A under the Securities Act. Vermont -- with respect to the Corp Scheme, any Bondholder and, with respect to either Scheme, any financial or institutional investor, which means: (a) a depository institution, which includes: (i) a person that is organised, chartered, or holding an authorisation certificate under the laws of a state or of the United States which authorises the person to receive deposits, including a savings, share, certificate, or deposit account, and which is supervised and examined for the protection of depositors by an official or agency of a state or the United States, or (ii) a trust company or other institution that is authorised by a federal or state law to exercise fiduciary powers of the type a national bank is permitted to exercise under the authority of the comptroller of the currency and is supervised and examined by an official or agency of a state or the United States; (b) an insurance company; (c) a separate account of an insurance company; (d) an investment company as defined in the US Investment Company Act of 1940; (e) an employee pension, profit-sharing or benefit plan if the plan has total assets in excess of US\$5,000,000 or its investment decisions are made by a named fiduciary, as defined in ERISA, that is either a broker-dealer registered under the Exchange Act, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company; (f) any other financial or institutional buyer which qualifies as an accredited investor under the provisions of Regulation D as promulgated by the SEC under the Securities Act, as such provisions may be amended from time to time hereafter; (g) a broker-dealer; and (h) such other institutional buyers as the commissioner may add by rule or order; whether the purchaser is acting for itself or others in a fiduciary capacity.

**CONSIDERATIONS FOR PLC SHAREHOLDERS** The New Shares, ADRs and Warrants issuable to plc Shareholders pursuant to the Corp Scheme will be issued in transactions that are not subject to the registration requirements of the Securities Act or of the securities laws of any state of the US. Such plc Shareholders may sell the New Shares, ADRs and Warrants they receive pursuant to the Corp Scheme in ordinary secondary market transactions without restriction under the Securities Act. The additional Corp Shares issuable on exercise of Warrants will be issued pursuant to an effective registration statement under the Securities Act. Exercising holders will thus be able to sell the Corp Shares they receive on exercise of Warrants in ordinary secondary market transactions without restriction under the Securities Act. At an 138 I.

**EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D** ----- appropriate time, Corp will file a registration statement with the SEC to provide for the issue of Corp Shares from time to time upon exercise of Warrants. It is currently expected that this registration statement will become effective during the third calendar quarter of 2003. Warrants will not be exercisable by any person in the US prior to the effectiveness of this registration statement.

**D.17 SECURITIES LAW RESTRICTIONS IN FRANCE, ITALY AND MALAYSIA** This Part D.17 sets out information regarding securities law restrictions on the distribution of New Shares, New Notes and Warrants pursuant to the Schemes under the laws of France, Italy and Malaysia to persons located in those jurisdictions. **FRANCE** Corp and plc have formed the view, based on the advice of French legal counsel, that the distributions of New Shares and New Notes to Scheme Creditors, Bondholders and Designated Recipients in France would be prohibited except after compliance with unduly onerous conditions, unless made pursuant to an exemption from the provisions of French law relating to public offerings. Accordingly, New Shares and New Notes will be distributed pursuant to the Schemes to Scheme Creditors, Bondholders and Designated Recipients in France only in reliance on the exemption provided under Article L.411-2 of the French Monetary and Financial Code and Decree no. 98-880 dated 1 October 1998 to persons that are "qualified investors" as defined under such Article. The Claim Form will require each person who completes it (other than the Trustees), and the Account Holder Letter will require Account Holders, to confirm certain facts in connection with the French legal restrictions described above. To the extent that any person located in France is not eligible to receive securities pursuant to the Schemes by virtue of these restrictions, such person will receive cash instead. These matters are discussed in further detail in Part C.9 of this Section. For these purposes, a person will be deemed to be located in France if this Scheme Document, or notice that this Scheme Document is available, (i) is sent to him at an address (including the registered address for a company and



the branch address for a branch) in the Republic of France, or (ii) is made available to him by electronic means and such person (if a natural person) is a French national or (if a legal person) has its registered address in the Republic of France. SCHEME CREDITORS, BONDHOLDERS AND DESIGNATED RECIPIENTS LOCATED IN FRANCE SHOULD CAREFULLY CONSIDER THE ELIGIBILITY CRITERIA DESCRIBED ABOVE, THE PROVISIONS OF THE SCHEMES WITH RESPECT TO LEGAL AND REGULATORY RESTRICTIONS GENERALLY AND THE CONTENTS OF THE CONFIRMATIONS TO BE INCLUDED IN THE CLAIM FORM AND ACCOUNT HOLDER LETTER AS DESCRIBED IN PART C.9 OF THIS SECTION. ANY SUCH PERSONS WHO ARE IN DOUBT AS TO HOW THESE RESTRICTIONS MAY AFFECT THEM ARE STRONGLY ADVISED TO CONSULT THEIR PROFESSIONAL ADVISERS. Corp has formed the view, on the advice of French counsel, that the distribution of New Shares and Warrants pursuant to the Corp Scheme to plc Shareholders in France is not currently prohibited by French law or regulation. ITALY The distributions of the New Shares, New Notes and Warrants have not been approved by the Italian Securities Exchange Commission ("CONSOB") pursuant to Italian securities legislation. A formal request has been submitted to CONSOB seeking confirmation that the distributions of the securities under the Schemes do not constitute public offerings under such legislation. However, as of the date of this document, no such confirmation has yet been received. If CONSOB does not provide the requested confirmation, Corp and plc have formed the view, based on the advice of Italian legal counsel, that the distributions of New Shares and New Notes to Scheme Creditors and Bondholders, and of Warrants to plc Shareholders, in Italy would be prohibited except after compliance with unduly onerous conditions, unless made pursuant to an exemption from the provisions of Italian law relating to 139 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- public offerings. The following exemptions under Italian law are potentially applicable in connection with the various distributions to be made pursuant to the Schemes: - Corp Scheme -- Scheme Creditors: Except as described in the next paragraph, a Corp Scheme Creditor in Italy will be eligible to receive New Shares and New Notes pursuant to the Corp Scheme if (i) such person is a "professional investor" as defined in the Consolidated Financial Act Article 30, paragraph II and in CONSOB Regulation 11522/1998 Article 31, paragraph II or (ii) the number of all such persons that are not "professional investors" does not exceed 200; - Corp Scheme -- Bondholders: Bondholders in Italy will be eligible to receive New Shares and New Notes pursuant to the Corp Scheme only if the number of such persons does not exceed 200; - plc Scheme -- Scheme Creditors and Bondholders: plc Scheme Creditors and Bondholders in Italy will be eligible to receive New Shares and New Notes pursuant to the plc Scheme if (i) such persons are "professional investors" as defined in the Consolidated Financial Act Article 30, paragraph II and in CONSOB Regulation 11522/1998 Article 31, paragraph II or (ii) the number of all such persons that are not "professional investors" does not exceed 200; - Corp Scheme -- plc Shareholders: plc Shareholders in Italy will be eligible to receive Warrants pursuant to the Corp Scheme only if the number of such persons does not exceed 200. Based on the advice of Italian legal counsel and such information as is available to it, (i) Corp currently believes that the exemption with respect to distributions of securities to limited numbers of persons will not be available in connection with distributions in respect of claims by Bondholders located in Italy under the Corp Scheme, and (ii) Corp and plc, respectively, believe that there is significant doubt as to the availability of this exemption in connection with other distributions to Scheme Creditors under the Corp Scheme and in connection with distributions under the plc Scheme. The determination as to whether securities can be distributed in reliance on this exemption will be made by Corp or plc (as the case may be) in its sole discretion following the Effective Date of the relevant Scheme based on the advice of Italian legal counsel and such information as is available to it. The Claim Form will require each person who completes it (other than the Trustees), and the Account Holder Letter will require Account Holders, to confirm certain facts in connection with the Italian legal restrictions described above. To the extent that any person in Italy is not eligible to receive securities pursuant to the Schemes by virtue of these restrictions, such person will receive cash instead. These matters are discussed in further detail in Part C.9 of this Section. For these purposes, a person will be deemed to be located in Italy if such person (i) is a natural person and is resident or domiciled within the geographical territory of Italy or (ii) is a legal person and has its registered office (sede legale) within the geographical territory of Italy or (iii) is a legal person having any other office or conducting any business or other activities within the geographical territory of Italy as a result of which it is or is required to be registered in Italy. SCHEME CREDITORS, BONDHOLDERS AND PLC SHAREHOLDERS IN ITALY SHOULD CAREFULLY CONSIDER THE ELIGIBILITY CRITERIA DESCRIBED

ABOVE, THE PROVISIONS OF THE SCHEMES WITH RESPECT TO LEGAL AND REGULATORY RESTRICTIONS GENERALLY AND THE CONTENTS OF THE CONFIRMATIONS TO BE INCLUDED IN THE CLAIM FORM AND ACCOUNT HOLDER LETTER AS DESCRIBED IN PART C.9 OF THIS SECTION. ANY SUCH PERSONS WHO ARE IN DOUBT AS TO HOW THESE RESTRICTIONS MAY AFFECT THEM ARE STRONGLY ADVISED TO CONSULT THEIR PROFESSIONAL ADVISERS. Persons in Italy should note that New Shares, New Notes or Warrants received pursuant to an exemption may not be offered, sold or delivered nor may copies of this document or any other document relating to the New Shares, New Notes or Warrants be distributed in Italy except (i) pursuant to the exemptions under Legislative Decree No. 58 of 24 February 1998 and its implementing CONSOB Regulations, or (ii) to an Italian resident who submits an unsolicited offer to purchase such New Shares, New Notes or Warrants. Corp has formed the view, on the advice of Italian legal counsel, that the distribution of New Shares pursuant to the Corp Scheme to plc Shareholders in Italy is not currently prohibited by Italian law or regulation. 140 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- MALAYSIA Corp and plc have formed the view, on the advice of Malaysian legal counsel, that the issue and allotment of New Shares, New Notes or Warrants to Scheme Creditors, Bondholders, Designated Recipients or plc Shareholders located in Malaysia would be prohibited except after compliance with unduly onerous conditions. The Claim Form will require each person who completes it (other than the Trustees), and the Account Holder Letter will require Account Holders, to confirm certain facts in connection with these Malaysian legal and regulatory restrictions. Any person located in Malaysia will not be eligible to receive securities pursuant to the Schemes and will receive cash instead, as described in Part C.9 of this Section. For these purposes, a person will be deemed to be located in Malaysia if such person (i) is a natural person and is resident in Malaysia, or (ii) is a legal person and has its principal place of business in Malaysia, or (iii) is deemed to be resident in Malaysia for tax purposes pursuant to the Malaysian Income Tax Act 1967 or any other Malaysian tax legislation. SCHEME CREDITORS, BONDHOLDERS, DESIGNATED RECIPIENTS AND PLC SHAREHOLDERS LOCATED IN MALAYSIA SHOULD NOTE THAT THEY WILL RECEIVE CASH IN LIEU OF ANY SECURITIES TO WHICH THEY WOULD OTHERWISE BE ENTITLED UNDER THE SCHEMES, AND SHOULD CAREFULLY CONSIDER THE RELEVANT PROVISIONS OF THE SCHEMES AS DESCRIBED IN PART C.9 OF THIS SECTION. D.18 CERTAIN SECURITIES LAW DISCLOSURES This Part D.18 sets out certain disclosures in connection with the securities laws of various jurisdictions. No action has been taken by Corp or plc that would permit an offer or distribution of New Shares, New Notes or Warrants or possession or distribution of this document or any offer of publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom and as described below. AUSTRALIA This document has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document for the purpose of Australia's Corporations Act 2001. The New Shares, New Notes and Warrants that are the subject of this document will be distributed pursuant to exemptions from, or in transactions not subject to the disclosure requirements of Chapter 6D of the Australia's Corporations Act 2001, and may not be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for at least 12 months after their distribution, except in circumstances where disclosure to investors is not required under Chapter 6D of the Australia's Corporations Act 2001 or unless a compliant disclosure document is prepared and lodged with the Australian Securities and Investments Commission. LUXEMBOURG The New Shares, New Notes and Warrants that are subject to this document will be distributed pursuant to exemptions from or under a transaction not subject to Luxembourg public offering law requirements and may consequently not be offered or sold to the public in the Grand Duchy of Luxembourg, and neither this document nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in, or from or published in, the Grand Duchy of Luxembourg, except in circumstances which do not constitute a public offer of securities. THE NETHERLANDS The Prospectus together with the certificate of approval of the UKLA will be submitted to the Authority for the Financial Markets (Autoriteit voor de Financiële Markten) for mutual recognition (pursuant to section 3, paragraph 1 in conjunction with section 5, paragraph 2 of the Securities Transactions Supervision Decree 1995). Copies of the Prospectus will be available on request from Corp at its registered office address. 141 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- NEW ZEALAND

The offer (if any) and issue of New Shares, New Notes and Warrants is made in accordance with the laws of the United Kingdom. This document is not a prospectus registered under New Zealand law and does not contain all the information that a New Zealand registered prospectus is required to contain. Corp and plc may not be subject to New Zealand law and any instrument to be issued under the Restructuring in relation to the New Shares, New Notes and Warrants may not be enforceable in New Zealand courts.

**D.19 MATERIAL CONTRACTS** A summary of the principal contents of each material contract (not being a contract entered into in the ordinary course of business) entered into by Corp, plc or their subsidiaries within the two years immediately preceding the date of this document and those contracts entered into, or to be entered into by any member of the Group (not in the ordinary course of business) which contain any provision under which any member of the Group has, or will have, any obligation or entitlement which is material to the Group at the date of this document or on or about the date of implementation of the Restructuring appears in Appendix 19.

**D.20 LITIGATION** Except as set out in Appendix 20, no member of the Group is or has been engaged in nor, so far as Corp and plc are aware, has pending or threatened against it, any legal or arbitration proceedings which may have, or have had during the recent past (covering at least the 12 months preceding the date of this document), a significant effect on the Group's financial position. The UKLA has concluded its enquiries concerning plc's 4 September 2001 trading announcement and has not made any finding of breach of the Listing Rules in relation to it. Its enquiries concerning plc's 4 July 2001 trading announcement have not been concluded. If it is determined that there has been a breach of the Listing Rules, the UKLA may issue a public censure.

**D.21 CORP WORKING CAPITAL STATEMENT** In the opinion of Corp, having regard to the facilities which will be available to the Corp Group following the Effective Date, the working capital available to the Corp Group will be sufficient for the Corp Group's present requirements as from the Effective Date, that is from the Effective Date until 12 months following the date of this document.

**D.22 COSTS OF THE RESTRUCTURING** On the assumption that the Schemes are implemented on the timetable contemplated in this document, Corp and plc estimate that the total costs and expenses payable by the Group in relation to the Restructuring (including amounts payable to advisers in relation to the Restructuring but not in relation to disposal of businesses, litigation, general banking and derivatives advice and excluding amounts payable to current and former employees), in relation to the period from Corp and plc entering into negotiations with representatives of the Co-ordination Committee and the Informal Committee of Bondholders regarding the development of the Restructuring proposals of Corp and plc in March/April 2002 to the Effective Date of the Schemes, will be approximately L77,800,000 (excluding VAT). Corp estimates that the ongoing costs of the implementation of the Corp Scheme from the Effective Date, will be L6,500,000 (excluding VAT). This figure includes advisers' fees and expenses in relation to the administration of the Scheme including defending Allowed Proceedings, the remuneration and expenses of the Supervisors, the Escrow Trustee and the Distribution Agent (including their respective advisers' fees and expenses) and amounts payable to members of the Creditors' Committee (including in respect of permitted advisers' fees and expenses). The ongoing costs of the Corp Scheme are required to be met by Corp. If Corp fails to meet the ongoing costs of the Corp Scheme the Supervisors are entitled to have resort to any Corp Scheme Consideration that remains to be distributed (generally subject to the consent of the Creditor's Committee, not to be unreasonably withheld).

**142 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D** ----- The categories of the costs and expenses which plc anticipates will comprise its Ongoing Costs from the Record Date are summarised in the Chairman's letter in part I, Section 1 of this document. plc estimates that these will amount to no more than L11,300,000 (including VAT) plus an amount which will be covered by interest until the termination of the plc Scheme and the completion of a subsequent dissolution or liquidation of plc. The plc Scheme provides that plc will set aside the sum of L7,000,000 from the cash element of the Corp Scheme Consideration received via Ancrane which, together with plc's cash of approximately L2,300,000, interest on the aggregate of these two cash amounts and L2,000,000 available to be drawn (at Corp's request) under a letter of credit to be provided in favour of the plc Scheme Supervisors by HSBC Bank plc, will be available to meet plc's Ongoing Costs.

**D.23 PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS** The following table shows the principal subsidiary undertakings and other associated companies of Corp, being those which are considered by Corp to be likely to have a significant impact on the assessment of the assets and liabilities, the financial position and/or the profits and losses of Corp Group. Except where stated otherwise, the share capital is fully paid. Class of share Registered office or capital (issued and Company Name and principal place of fully paid, unless country of incorporation business otherwise stated) Proportion held

Nature of business ----- Marconi New Century Park, Ordinary L1 100 per cent. Manufacture, sales and Communications PO Box 53, service of Limited Coventry, telecommunications systems (UK) CV3 1HJ UK Marconi Via Ludovico Calda 5, Ordinary 15 Euros 100 per cent. Manufacture, sales and Communications S.p.A. 16153 Genoa, service of (Italy) Italy telecommunications systems Marconi 1000 Marconi Drive, Common Shares 100 per cent. Manufacture, sales and Communications, Inc. Warrendale, US\$0.01 service of, inter alia, (USA) Pennsylvania telecommunications systems 105086-7502 USA Marconi Gerberstrasse 33, No share capital -- 100 per cent. Manufacture, sales and Communications GmbH D71 522 Backnang, investment by way service of (Germany) Germany of capital telecommunications systems contribution Easynet Group plc 44 Whitfield Street, Ordinary 4p 71.63 per cent. Network based provider of (UK) London, W1P 5RF Convertible of the equity broadband services and UK ordinary 4p share capital internet solutions 49.56 per cent. of the voting share capital With the exception of Ancrane, which is discussed in Section 1 of this document, following the Corp Scheme becoming effective there will be no subsidiary undertakings or other associated companies of plc which are considered by plc to be likely to have a significant impact on the assessment of the assets and liabilities, the financial position and/or the profits and losses of plc Group as it will then be. 143 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- D.24 PRINCIPAL ESTABLISHMENTS Details of the principal establishments of the Corp Group are set out below. plc Group, excluding Corp Group, has no such principal establishments. If current leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) ----- AUSTRALIA Victory, Level 1, Leasehold L112,368 2006 1,873 607 St Kilda Road, Melbourne, Victoria, 3004 Australia Level 7, 9, & 13. Leasehold L492,000 2006 25,866 90 Arthur Street, North Sydney, New South Wales, 2060 Australia BRAZIL 1st Floor, Rua Verbo Leasehold L49,110 2005 2,691 Divino 1488, Edificio Central Transatlantico, Sao Paulo Brazil 5th Floor, Rua Verbo Leasehold L53,418 2005 8,676 Divino 1488, Edificio Central Transatlantico, Sao Paulo Brazil 6th Floor, Rua Verbo Leasehold L213,965 2005 34,703 Divino 1488, Edificio Central Transatlantico, Sao Paulo Brazil Avenida 31 de Marco 61 Leasehold L56,558 2003 28,438 -- Votorantim Brazil CANADA 122 Edward Street, Freehold Not applicable Not applicable 45,000 St Thomas, Ontario, N5P 1Z2 Canada 1135 Innovation Drive, Leasehold L1,361,000 2009 51,888 North Tech Campus, Kanata, Ontario, K2K 3G6 Canada 144 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- If current leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) ----- 1375 Trans-Canada Hwy, Leasehold L1,102,000 2005 71,307 Dorval Quebec, Montreal H9P 2W8 Canada CHINA Building 106, Leasehold L19,402 2003 4,511 Wangjing New Industrial Zone, Lizeyusan. Chao Yang District, Beijing China No. 98 Liu He Road, Leasehold L42,660 Indefinite 64,583 GuiLin, Guang Xi China 1708, Westlands Leasehold L24,844 2003 2,476 Central, 20 Westlands Road, Quarry Bay, Hong Kong China GERMANY Hueftelaecker 1 Freehold Not applicable Not applicable 8,762 71573 Allmersbach i. T Backnang Germany Gerberstrasse 33 Freehold Not applicable Not applicable 714,160 71522 Backnang Germany SCALA West Leasehold L1,570,000 2011 116,500 SolmsstraSse 83 60486 Frankfurt Germany Robert-Bosch Str. 10 Leasehold L441,044 Indefinite -- 64,335 01454 Radeberg 6 months' Germany notice Max-Planck Str. 1 Freehold Not applicable Not applicable 454,000 77656 Offenburg Germany INDIA 2nd Floor, Leasehold L61,320 2005 2,583 International Trade Tower, F Block, Nehru Place New Delhi 110019. India 145 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D ----- If current

leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) ----- ITALY MARA 1 S.P. Leasehold L104,692 2004 22,604 Casapuzzano Marcianise Italy MARA 2 S.P. Leasehold L90,553 2004 22,604 Casapuzzano Marcianise Italy MAIN SITE S.P. Freehold Not Applicable Not applicable 113,021 Casapuzzano Marcianise Italy Via Ambrogio Freehold Not Applicable Not Applicable 284,899 including Via Negrone 1/A Ludovico Calda 5. (excluded L1 floor) 16153 Genova Italy Via Ludovico Calda 5 Freehold, Finance lease payment Finance lease See Via Negrone above 16153 Genova finance lease L755,834 arrangement Italy ends January 2007, then freehold Via Alfieri 1 Pisa Leasehold L67,326

2003 5,382 Italy MALAYSIA Lot 24, Kumlim Leasehold No cost to Marconi 2046 348,483 Industrial Estate, Joint venture 00009, Kulm, Kedah, property Daralam Malaysia Bangunar Tabung Haji, Leasehold RM 718,272 2003 19,002 18th Level, 201 Jalan Tun Razak, 50400 Kuala Lumpur Malaysia MEXICO Ave. San Andres Atoto Leasehold L90,778 2004 56,058 165-D APARTADO PSTL 77-001 Mexico D.F. Naucalpan de Juarez, Mexico 53550 Mexico 146 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- If current leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) -----  
 ----- Ave. San Andres Atoto Leasehold L33,814 2004 10,764 165-A APARTADO PSTL 77-001 Mexico D.F. Naucalpan de Juarez, Mexico 53550 Mexico Ave. San Andres Atoto Leasehold L90,778 2004 56,058 165-B APARTADO PSTL 77-001 Mexico D.F. Naucalpan de Juarez, Mexico 53550 Mexico Plant 2, Calle 4 N01, Leasehold L193,321 2005 66,155 1A, 1C, 1D Fracc, Alc Blanco, Naucalpan de Juarez, Estada de Mexico, CP 53550 Mexico Metepec No. 110, Leasehold L40,577 2003 12,917 Mexico DF, Naucalpan de Juarez, Mexico 53550 Mexico No. 60 Parque Leasehold L11,796 2004 11,754 de Amargua, Col. Parques de la Herradura, Huixquilucan Edo de Mexico, CP52785 Mexico NEW ZEALAND 17 Shea Terrace, Leasehold L15,000 2003 1,238 Takapuna, North Shore City, Auckland New Zealand SAUDI ARABIA 19th & 20th Floors, Leasehold L314,026 2006 20,807 Al Faisaliah Building, PO Box 9985, Riyadh 11423 Saudi Arabia 147 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D -----

----- If current leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) -----  
 ----- Various residential Leasehold Variable Variable Variable Leases. Required as part of business contract. Saudi Arabia SOUTH AFRICA Iron Road, New Era, Freehold Not Applicable Not Applicable 318,289 Springs, Johannesburg 1560 South Africa SPAIN Building E, Miniparc Leasehold L360,531 2004 21,506 III, El Soto de la Moraleja, Alcobendas. Madrid Spain UNITED ARAB EMIRATES 37th Floor, Emirates Leasehold L186,004 2006 9,612 Towers, Sheik Zayed Highway, PO Box 71405, Dubai, UAE UNITED KINGDOM Siemens Technology Leasehold L967,900 (estimated 2005 65,326 House, at review April 2003) Technology Drive, Beeston, Nottingham, NG9 1LA UK 2B & Z Block, Siemens Leasehold L88,317 2003 17,663 Technology House, Technology Drive, Beeston, Nottingham, NG9 1LA UK Waters Edge, Leasehold L408,000 2014 28,653 Watchmoor Business Park, Camberley, Surrey, GU15 3PD UK 148 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- If current leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) -----  
 ----- Carr Lane, Chorley, Leasehold L135,000 2066 97,004 Lancs., PR7 3JP UK New Century Park, Leasehold L1,313,200 2021 618,924 PO Box 53, Coventry, CV3 1HJ UK New Horizon Park, Leasehold L645,579 2005 314,000 Waterman Road Coventry UK 13, Wilson Road, Leasehold L23,000 2076 105,497 Huyton, Liverpool, L36 6AE UK Edge Lane, Leasehold L1,454,000 2012 221,010 Liverpool, L7 9NW UK 4th Floor, Regent's Leasehold L660,000 Indefinite -- 7,104 Place, 3 months' 338 Euston Road, notice London, NW1 3BT UK Harbour Exchange, Leasehold L294,000 2008 15,252 12th Floor, Docklands, London UK Block A, The Hollies, Leasehold L97,700 2003 10,872 120 Newport Road. Stafford, ST16 1DA UK 18/20 Denington Road, Freehold Not applicable Not applicable 44,929 Wellingborough, Northants UK UNITED STATES Weston Corp. Centre, Leasehold L164,337 2006 9,375 2690 Weston Road, Weston, Florida 33331 USA Reltec Corporation, Freehold Not applicable Not applicable 172,004 104 Wiley Road, La Grange, Georgia 30240 USA 4350 Weaver Parkway Leasehold L438,773 2008 39,640 Warrenville Illinois 60555 USA 149 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D -----

----- If current leasehold, If leasehold, Approximate floor Location Tenure rent per annum expiry of term area (square feet) -----  
 ----- 956 North Broadway Freehold Not applicable Not applicable 126,416 Extended, Greenville, Mississippi, MS 38702 USA Evergood, 325 Welcome Freehold Not applicable Not applicable 158,000 Center Blvd. Welcome NC 27374 North Carolina USA 1000 Marconi Drive, Freehold Not applicable Not applicable 574,286 Warrendale, PA 15086 Pennsylvania USA 1755 North Collins Leasehold L389,995 2005 28,007 Boulevard,

Richardson, TEXAS 75080 Texas. USA D.25 CORP GROUP INDEBTEDNESS STATEMENT At the close of business on 21 February 2003, the total indebtedness of the Corp Group was as follows: L million ----- Secured loans 17 Unsecured loans 4,578 Unsecured overdrafts 1 Finance lease obligations 6 ----- 4,602 ===== Included within the indebtedness listed in the table above is L4,181 million that is guaranteed by plc. In addition, included within unsecured loans is L263 million relating to loan creditor balances with plc and fellow subsidiaries of plc outside the Corp Group. Save as disclosed above, and apart from intra-group liabilities and guarantees, the Corp Group did not have outstanding as at 21 February 2003 any material loan capital (whether issued or created but unissued), term loans, other borrowings or indebtedness in the nature of borrowing (including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments and obligations under finance leases) or material guarantees. At 21 February 2003 the Corp Group had contingent liabilities in total of L30 million. In the opinion of Corp, these contingent liabilities are not expected to have a material adverse effect on the Corp Group. The Corp Group is engaged in a number of legal proceedings relating, amongst other things, to class shareholder actions and claims relating to contracts, industrial injury and patent infringement. The Corp Group is defending these claims, the estimated possible unprovided exposure of which is included in the contingent liabilities total disclosed above, and Corp currently believes that the claims are unlikely to be settled for amounts resulting in material cash or other asset outflows. 150 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D

----- At the close of business on 21 February 2003, the Corp Group had the following cash balances: L million ----- Secured 763 Collateral against bonding facilities 122 Held by captive insurance company 17 ----- Restricted cash 902 Other 181 ----- Total cash at bank and in hand 1,083 ===== Of the secured cash, L720 million relates to amounts held under an interim security by the Group's Syndicate Banks and Bondholders and also by Barclays Bank PLC (in its capacity as an ESOP Derivative Bank) granted on 13 September 2002. A further L27 million relates to cash deposited against ESOP Derivative Banks for the Strategic Communications business and L16 million relates to cash deposited against secured loans in Italy. For the purposes of the above, amounts denominated in currencies other than sterling have been translated into sterling at the exchange rates prevailing at the close of business on 21 February 2003. D.26 NO SIGNIFICANT CHANGE Save for the operating results for the three months ended 31 December 2002 disclosed in Part A of Appendix 4, there has been no significant change in the financial or trading position of the Corp Group or the plc Group since 30 September 2002, the date to which the last audited consolidated accounts of the Corp Group and the plc Group were prepared as set out in Appendix 1 and Appendix 3 respectively. D.27 CORP INCORPORATION AND REGISTERED OFFICE Corp was incorporated under the name The General Electric Company (1900) Limited on 27 September 1900 under the Companies Acts 1862 to 1898 as a private limited company limited by shares and registered in London, England with number 67307. On 24 August 1903, The General Electric Company (1900) Limited changed its name to The General Electric Company, Limited, on 29 November 1968 to The General Electric and English Electric Companies Limited and on 17 September 1970 to The General Electric Company Limited. On 4 January 1982, The General Electric Company Limited was re-registered as a public limited company under the Companies Acts 1948 to 1980 and became The General Electric Company, p.l.c. On 7 March 2000, The General Electric Company, p.l.c. changed its name to Marconi Corporation plc. The registered office of Corp and plc is at New Century Park, P.O. Box 53, Coventry, Warwickshire, CV3 1HJ. Corp and plc have a head office at Regent's Place, 338 Euston Road, London, NW1 3BT. D.28 CORP SHARE CAPITAL Information as to the authorised, issued and fully paid share capital of Corp is set out in Appendix 13. D.29 MATERIAL SHAREHOLDINGS IN CORP Immediately following the Effective Date of the Corp Scheme the name of each person (other than the Escrow Trustee and its nominee) who, directly or indirectly, is expected to be interested in 3 per cent. or more of Corp's ordinary share capital, and the amount of such person's interest is expected to be as set out below. The Escrow Trustee's nominee is expected to hold up to 14 per cent. of the New Shares in issue immediately after the Effective Date, such shares being held on trust for Scheme Creditors as provided in the Schemes and the Escrow and Distribution Agreement. The Escrow Trustee's nominee has instructions not to exercise any voting rights conferred by those shares. These interests have been calculated by Corp based solely on the information concerning Scheme Creditors (other than the Trustees and disputed creditors) with Known Claims set out in Schedule 3 to each of the Schemes. 151 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE

RESTRUCTURING -- PART D ----- Percentage of  
ordinary Name No. of Corp Shares share capital of Corp ----- Appaloosa Investment  
Ltd Partnership 48,717,593 4.87% Cerebrus Partners LP New York 34,058,285 3.41% Chase Manhattan Bank  
33,843,309 3.38% Neither Corp nor plc makes any representation as to whether or not any of the above persons will  
retain, or whether any such person or any other person will have acquired, an interest in any Known Claim at the  
Effective Date, whether any such Known Claim will be Admitted in whole or part under the relevant Scheme or  
whether any New Shares which any such person may receive under the Schemes will be retained by such person after  
the Effective Date. Accordingly the above calculation should not be relied upon as an accurate indication of the likely  
material shareholdings in Corp on or after the Effective Date. The holdings of Bonds by Bondholders (and therefore  
their prospective holdings of New Shares) cannot be determined on the basis of the Known Claims set out in Schedule  
3 to each of the Schemes. Save as disclosed in this Part D.29, Corp is not aware of any interest which will represent 3  
per cent. or more of the issued ordinary share capital of Corp following the Effective Date of the Corp Scheme. So far  
as Corp is aware, no person or persons, directly or indirectly, jointly or severally exercise or could exercise control  
over Corp. D.30 TAX A description of certain UK and US tax consequences for Scheme Creditors and Bondholders  
of implementation of the Schemes and of holding the Scheme Consideration is set out in Appendix 17. Scheme  
Creditors and Bondholders in jurisdictions other than the UK and the US are strongly urged to consult their own  
professional advisers to determine their own tax position. D.31 INSURANCE The Group maintains the types of  
property and liability insurance which Corp and plc regard as appropriate given the nature of the risks run in the  
course of its business, and for amounts which they consider adequate. When considering the appropriateness of  
insurance cover, the Group has made detailed assessments of insurable risks using both in-house professionals and the  
advice of insurance brokers. The Group has determined what it believes to be the appropriate level of cover having  
regard, among other things, to the Group's loss record, the industry in which it operates, its risk tolerance level, the  
cost of cover relative to the risk, customer and legal requirements and any relevant and available information on the  
levels of cover typically purchased by other comparable companies which operate in the Group's industry. D.32  
ENVIRONMENTAL AND OTHER REGULATIONS ENVIRONMENTAL AND EMPLOYEE HEALTH AND  
SAFETY MATTERS The Group is subject to increasingly stringent regulation under various UK, US, EU and other  
international, national and local laws and regulations relating to employee safety and health, and environmental  
protection, including law and regulations governing air emissions, water discharges and the use, management and  
disposal of hazardous substances. One of the many environmental laws affecting the Group in the US is the  
Comprehensive, Environmental Response, Compensation, and Liability Act, which is the primary federal statute  
governing clean-up of contaminated properties. CERCLA can impose joint, several and retroactive liability for the  
costs of investigating and cleaning up contaminated properties, without regard to fault or the legality of the original  
conduct. Potentially liable parties under CERCLA can include current and former owners or operators of a site, as  
well as those who generate or arrange for the disposal of hazardous substances. Environmental laws in other  
jurisdictions can also impose significant clean-up liabilities. 152 I. EXPLANATORY STATEMENT (IN  
COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER  
EXPLANATION OF THE RESTRUCTURING -- PART D

----- The Group is currently conducting investigation  
and clean-up at approximately 20 contaminated sites, principally in the US including four clean ups pursuant to  
obligations imposed under CERCLA. The remaining sites are being cleaned up voluntarily in connection with a prior  
property sale or purchase, or pursuant to government directive. The Group estimates the total cost to clean up all of  
these sites will be between approximately L10 million and L20 million. A number of these and other current and  
former Group sites were associated with hazardous substance use and may give rise to unforeseen liabilities. The  
Group could therefore incur additional clean-up costs upon the discovery of new contamination at these or other sites  
for which the Group may be found to be responsible, either directly under CERCLA or other laws, or through a  
contractual indemnity obligation as the result of a prior property or business sale. The Group also could incur  
additional costs as a result of any related personal injury or property damage claims. Although such additional costs, if  
any, could be substantial, the Group is not aware of any material claims and does not expect future clean-up or related  
costs to materially affect the Group. See Appendix 20 for a description of a toxic tort claim against Plessey Precision  
Metals. This claim is in its early stages and no estimate of liability can be formed at this point. Litigation is by its  
nature an unpredictable form of risk and is disclosed wherever unliquidated damages are sought but no information

currently available to the Group indicates a material liability of Plessey Precision Metals in this matter. The European Commission has issued two directives which will require member states of the EU to meet certain targets for collection, re-use and recovery of waste electrical and electronic equipment. It is likely that these obligations will be achieved through legislation placing the responsibility for meeting these obligations on equipment producers. Producers will also be required to phase out certain hazardous materials from the equipment. This legislation could significantly increase costs to producers of electrical and electronic equipment. The Group regularly audits its facilities' compliance with employee safety and environmental requirements. The Group has not incurred material capital expenditures for environmental, health or safety matters during the past three financial years, nor does the Group anticipate having to incur material capital expenditures during the current or the succeeding financial years. Although environmental costs cannot be predicted with certainty, the Group believes that costs relating to non-compliance or liability under current environmental, health and safety laws and regulations will not have a material adverse effect on the Group's financial condition or results of operations as a whole. OTHER

**GOVERNMENT REGULATION** The Group's products are subject to industry-specific government regulation and legislation in the United States, the EU and throughout the world. For example, the Group's Network Equipment business must comply with US Federal Communications Commission requirements and regulations and other safety regulations governing communications products sold in the United States. The Group's businesses would suffer if they failed to obtain or lost the certifications, clearances and authorisations required to participate in new or existing projects. Further, the Group could be subject to fines, criminal sanctions or the revocation of important licences and certifications if it fails to comply with government regulations. The Group believes that any non-compliance or liability under current government regulations will not have a material adverse effect on the Group's financial condition or results of operation as a whole. **D.33 NO WAIVER OF DIVIDENDS** There are no arrangements in existence under which future dividends of Corp are to be waived or agreed to be waived. **153 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART D**

----- **D.34 DOCUMENTS AVAILABLE FOR INSPECTION** Copies of the following documents will be available for inspection at the office of Allen & Overy, One New Change, London EC4M 9QQ during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to the date of the Scheme Meetings: a. this document; b. the Prospectus; c. the existing memorandum and articles of association of Corp and the Memorandum and Articles (being the proposed amended Memorandum, and the proposed new Articles of Corp); d. the memorandum and articles of association of plc; e. the audited accounts of Corp for the three financial years ended 31 March 2000, 31 March 2001 and 31 March 2002; f. the audited statutory accounts of plc for the financial years ended 31 March 2001 and 31 March 2002 and the audited interim financial statements for the six months ended 30 September 2002; g. the material contracts referred to in Appendix 19 (and drafts of material contracts referred to in Appendix 19, which will be replaced with executed versions as those contracts are executed); h. the letters of current intention to support the Restructuring which are referred to in Part D.1 of this Section and which are described in more detail in paragraph 6 of Appendix 19; i. all service contracts in relation to the Corp Directors; j. all service contracts in relation to the plc Directors; and k. the rules of the employee share schemes referred to in Part D.10 of this Section. **154 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E**

----- **E. MATERIAL INTERESTS OF DIRECTORS AND TRUSTEES E.1 DIRECTORS** The identities of the directors of Corp and plc are set out in Part A.10 of this Section. None of the directors of Corp and plc has any material interest (whether as director, member, optionholder, creditor or otherwise) in the proposed Restructuring except as disclosed below. Save as disclosed in this Part E.1 the effect of the proposed Restructuring on interests of directors of Corp and plc will not be different from the effect on similar interests of other persons. **DIRECTORS' SERVICE AGREEMENTS AND EMOLUMENTS** The executive directors' contracts are with Corp. New forms of service agreement have been executed between Corp and each of Michael Parton and Michael Donovan, to be effective on the Effective Date. The summary below refers to the agreements (a) as they currently stand and (b) as they will be on and after the Effective Date. a. Directors' current service agreements and emoluments The following executive directors currently have service agreements with Corp as follows: **MICHAEL PARTON**, as Chief Executive Officer, has a service agreement dated 2 May 2002 with plc, which



was novated to Corp on 10 January 2003. The agreement lasts until Mr Parton's sixty-second birthday but may be terminated earlier by either party giving to the other twelve months' notice. The basic salary is L525,000 per annum, which is reviewable on 1 July 2003 (and thereafter annually) and Mr Parton is eligible to participate in such incentive and stock option plans as are generally offered to employees of Mr Parton's status. His agreement provides for participation in a company car scheme and private medical healthcare for himself and his family. Mr Parton is entitled to participate in UK Plan (described in Part D.11 of this Section) to which he contributes 3 per cent. of his basic salary (up to a maximum of 15 per cent. of the Inland Revenue earnings cap, which is L97,200 in the 2002/2003 tax year). As a consequence of the earnings cap restricting the amount an employer can contribute into an exempt approved pension plan, Mr Parton has a funded unapproved retirement benefits scheme (a "FURBS"), to which Corp contributes an amount equal to 21 per cent. of his basic salary (with a further 14 per cent. of his basic salary being paid to Mr Parton). In addition, and as compensation for Mr Parton changing a defined benefit pension arrangement into a defined contribution plan in 2002, Corp has agreed to make net contributions of L88,250 to the FURBS and associated non-pensionable allowances of L58,833.33 to Mr Parton himself on 15 April 2003, 15 July 2003, 15 October 2003 and 15 January 2004. The payments are conditional on Mr Parton remaining in employment with Corp and if his employment is terminated (other than for cause), any payments which have not been made on or before the termination date will become due immediately. FURBS contributions for Mr Parton are paid to the FURBS and to Mr Parton himself in the ratio 60:40. This is because the contributions are taxable benefits, so the payment to Mr Parton is to offset the higher income tax charge for which he is liable. The FURBS documents oblige Corp to fund an unapproved life assurance scheme, which is to provide a lump sum on death in service of four times basic salary and a widow's pension of four-ninths of final pensionable salary. The service agreement contains a provision entitling Corp to make a payment in lieu of notice (a "PILON" payment) if it terminates the service agreement without giving Mr Parton 12 months' notice. The PILON payment comprises the following amounts for the notice period (or the unexpired balance of it: (i) base salary, (ii) 100 per cent. of contributions to his FURBS, (iii) the cost (to the employer) of providing benefits (other than bonus and pension) (which cost Corp may set at 10 per cent. of Mr Parton's base salary) and (iv) 80 per cent. of average core bonuses awarded in the last three completed financial years immediately preceding the financial year in which the employment terminates (pro rata for the PILON period). In addition, the service agreement includes a change of control clause which defines "Change of Control" as (a) the acquisition by any person or persons of the power to control the composition of the board of directors or direct the conduct of the company's business or (b) the determination by the remuneration committee that a change of control has occurred. If within 12 months of a Change of Control (i) Mr Parton's employment is terminated (other than for cause or following prolonged sickness), or (ii) he ceases to be a director (other than 155 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- through voluntary resignation or as a consequence of termination for cause/prolonged sickness), or (iii) Mr Parton terminates his employment for one or more "good reasons" (comprising material reduction of his status following changes by Corp of his duties, a failure by Corp materially to comply with its contractual obligations or a failure by Corp to enter into a new arrangement on the same terms) then Mr Parton will be entitled to liquidated damages. The liquidated damages comprise: his basic salary for his notice period, his pension loss (comprising 166 per cent. of the cash equivalent transfer value of the pension arrangements he would have accrued in the notice period under the main UK Plan plus 100 per cent. of the contributions which would have been paid to his FURBS), the cost to Corp providing other benefits (excluding pension and bonus) in the notice period (which cost Corp may determine at 10 per cent. of Mr Parton's base salary), a bonus equal to his basic annual salary plus the value of share rights foregone. Any payment will be subject to tax. There is a provision to place Mr Parton on garden leave if notice to terminate is served by either party. Garden leave does not trigger the PILON payment. Mr Parton is subject to post-termination protective covenants relating to non-solicitation of clients and managerial or technical employees, non-dealing with clients and not competing with the Group's business. All the covenants are stated to last for 12 months. Mr Parton is a member of the Retention and Emergence plan (described in Part D.10 of this Section). The plan promises a bonus equal to 150 per cent. of his base salary, paid in four equal tranches, two of which have been paid. The third tranche, payable after restructuring, has yet to be paid but the fourth tranche is to be waived. MICHAEL DONOVAN, as Chief Operating Officer, has a service agreement dated 1 June 2002 with plc, whose obligations were guaranteed by Marconi Communications Limited. The

agreement was novated to Corp on 17 March 2003 (with Marconi Communications Limited continuing to act as guarantor). The agreement lasts until Mr Donovan's 62nd birthday but may be terminated earlier by Corp on 12 months' notice and by Mr Donovan on 6 months' notice. The basic salary is L400,000 per annum, which is reviewable on 1 July 2003 (and thereafter annually). Mr Donovan is eligible to participate in such incentive and stock option plans as are generally offered to employees of Mr Donovan's status. His agreement provides for a company car and private medical health care for himself and his family. Mr Donovan is entitled to participate in the UK Plan (described in Part D.11 of this Section) to which he contributes three per cent. of his basic salary (up to a maximum of 15 per cent. of the Inland Revenue earnings cap). As a consequence of the earnings cap restricting the amount an employer can pay into an exempt approved pension plan, Mr Donovan also has a funded unapproved retirement benefits scheme (a "FURBS"). The documentation setting out Mr Donovan's FURBS was amended by the terms of his service agreement (detailed below). Mr Donovan's FURBS is funded on a defined benefit basis, with projected benefits of two-thirds of his final pensionable salary. The current contribution rate (to be reviewed in May 2003) is 39 per cent. of his base salary (although while Mr Donovan is posted to the US, the rate is 46 per cent., owing to local tax legislation). If Mr Donovan leaves service on the grounds of ill-health and receives an immediate ill-health pension from the UK Plan, the total pension payable to him will be two-thirds of his final pensionable salary of the date of leaving. The actual FURBS documentation refers to a defined contribution arrangement (based on 35 per cent. of that part of Mr Donovan's salary in excess of the earnings cap). In addition, it contains an unfunded promise to make up the difference (if any) between the level of benefits under the UK Plan and the FURBS and the benefits to which Mr Donovan would have been entitled had he remained in two pension schemes operated by group companies of his previous employer (BAE Systems). A decision was taken to fund the FURBS on a defined benefit basis rather than to risk the unfunded top-up obligation being called upon and Mr Donovan's service agreement (which sets out the defined benefit basis of the plan) amends the earlier, defined contribution wording. FURBS contributions for Mr Donovan are paid into the FURBS and to Mr Donovan himself in the ratio of 60:40 (or as necessary under US tax law). This is because the contributions are taxable benefits, so the payment to Mr Donovan is to offset the higher income tax charge for which he is liable. The FURBS documents oblige Corp to fund an unapproved life assurance scheme, which is to provide a lump sum on death in service or four times basic salary and a widow's pension of four-ninths of final pensionable salary. The service agreement contains a provision entitling Corp to make a payment in lieu of notice if it terminates the service agreement without giving Mr Donovan 12 month's notice. The PILON payment comprises the same elements as Mr Parton's agreement (described above) save that the compensation for loss of pension benefits differs. Instead of receiving 100 per cent. of the employer contribution to his FURBS, Mr Donovan is entitled to 156 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- an amount equal to 166 per cent. of the cash equivalent transfer value of the additional pension benefits (net of income tax) which Mr Donovan would have accrued in the UK Plan if he had been asked to work his notice. In addition, Mr Donovan would be entitled to an amount equal to 166 per cent. of the net contributions which Corp would have paid to his FURBS during the unexpired noticed period. In addition, the contract includes a change of control clause. "Change of control" is defined as (i) the acquisition by a person of the power to control the composition of the board (or to secure the company's affairs are conducted in accordance with that person's wishes) or (ii) the persons who were on Corp's board of directors at the date of the agreement (or persons subsequently appointed by two-thirds of those directors) (the "Incumbent Board") ceasing for any reason to constitute the majority of Corp's board, or (iii) a "Business Reconstruction" occurs (widely defined to include any disposition of all or substantially all the of the equity in or the business and/or assets of Corp the company to any person to other than another group company (or any other similar transaction)). The definition of Business Reconstruction is, however, qualified so that, for example, there is no trigger if there is an entity immediately resulting from the reorganisation which has shareholders who (before and after the reconstruction) hold more than 50 per cent. of the shares (in similar proportions), does not have one person holding 20 per cent. or more of the voting rights and where the majority of the board of the resulting entity were members of the Incumbent Board who decided upon the reconstruction, or (iv) the company's shareholders approve the dissolution of the company (except pursuant to a Business Reconstruction fulfilling certain criteria). If within 12 months of a change of control, Mr Donovan's employment is terminated or he resigns for one or more specified "good reasons", he will be entitled to liquidated damages. The damages are calculated on the same basis as the PILON payment, save that there is

compensation for loss of share schemes rights and there is an assumed bonus equal to one year's salary. There is provision to place Mr Donovan on garden leave if notice to terminate was served by either party. Garden leave does not trigger the PILON payment. Mr Donovan is subject to post-termination protective covenants relating to non-solicitation of clients and managerial or technical employees, non-dealing with clients and not competing with the Group's business. All the covenants are stated to last for twelve months, save for the non-compete clause which lasts for six months. Mr Donovan also has an arrangement relating to his location in the United States, which contains expatriate arrangements to cover relocation, housing, exchange rate fluctuation, flights for himself and his family and matters common to expatriate terms for senior executives. Mr Donovan is a member of the Retention and Emergence Plan (described in Part D.10 of this Section). The plan promises a bonus equal to 150 per cent. of his base salary, paid in four each tranches, two of which have been paid. The third tranche, payable after restructuring, has yet to be paid but the fourth tranche is to be waived. CHRISTOPHER HOLDEN, as Interim Chief Financial Officer, has a service agreement with Corp dated 13 December 2002 (as varied by a deed dated 28 January 2003). His role is as interim chief financial officer of Corp and plc, but Corp can re-assign him to another position, so long as it is commensurate with his status and seniority. The contract is for a fixed term, commencing on 14 November 2002 and ending on 30 June 2003. The basic salary is L25,000 per month, inclusive of directors' fees. Mr Holden is entitled to join the UK Plan but there are no other pension or incentive arrangements set out in his contract. Corp is entitled to terminate Mr Holden's employment immediately by making a payment in lieu of the base salary he would have otherwise earned in the balance of his fixed term. Mr Holden is subject to post termination protective covenants, all of which are to last for six months following the termination date. The covenants cover non-solicitation of clients, non-dealing with clients, non-poaching of managerial or technical employees and non competing with Group companies. JOHN DEVANEY, as Chairman, has a service agreement with Corp dated 14 March 2003 to which plc is also a party to take the benefits of Mr Devaney's covenants. The agreement is effective on and from 16th December 2002. All payments and benefits due to Mr Devaney are payable by Corp. The agreement is terminable by either party on three months' notice and terminates automatically on Mr Devaney's 65th birthday. Mr Devaney's salary is L250,000 per annum and he is required to devote three days per week to his duties. Mr Devaney is entitled to participate in the Senior Management Share Option Plan and to membership of the UK Plan. His benefits comprise private medical insurance, life insurance, company car and fifteen working days' holiday per annum. 157 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- The agreement lists the companies in respect of which Mr Devaney is already a director and permits him to continue those other interests, so long as they do not affect his obligations under the service agreement. Consent may not be unreasonably withheld or delayed should Mr Devaney wish to be interested in companies substituted for, or additional to, the agreed list of companies from time to time provided that his duties are not adversely affected and that he does not contravene the overriding obligation not to hold more than 5 per cent in any class of securities in any competing business. There are no clauses relating to payments in lieu of notice or change of control and there are no restrictive covenants. Each of the other Directors of Corp and plc has terms of appointment as follows: KENT ATKINSON was appointed a non-executive director of Corp and plc on 16 December 2002 for an initial term of three years (subject to the Articles and described below). Mr Atkinson's duties include chairmanship of the audit and membership of the nomination and remuneration committees. His fee is L30,000 per annum (which includes the fee payable as a non-executive director of plc) based on him spending two days per month on his duties for both companies. Mr Atkinson will also be entitled to a fee of L15,000 per annum for so long as he serves as chairman of the audit committee. Although he will not normally be expected to provide his services for more than 52 days per annum, he is entitled to a fee of L1,500 per day for each additional day worked over the two day per month threshold. These fees are reviewable annually on 1 July and Corp will reimburse business expenses. Mr Atkinson will also be entitled to an advance fee for each of the first three years of his appointment. The fee payable will be L100,000 for the first year and L30,000 for each of the next two years which will be net of any tax and national insurance contributions. The net amount of each year's fee will be invested in Corp Shares. Mr Atkinson has agreed to hold the Corp Shares acquired with the first year's advance fee for three years from the date of his appointment and the Corp Shares acquired with each of the next two years' payment for at least one year. If Mr Atkinson's appointment terminates in any year for which an advance fee has been paid he is obliged to repay a pro-rated amount of that year's fee. There is no other remuneration nor benefits. DEREK BONHAM was

appointed as a non-executive director of plc on 10 April 2001 and became interim Chairman on 4 September 2001. As from 31 March 2002, his fee for this role was fixed at L180,000 per annum and his benefits include reimbursement of expenses. He ceased to be Chairman on 16 December 2002 and it is currently anticipated that he will remain a non-executive director of plc until implementation of the plc scheme when he will resign as a director of plc. He is currently chairman of plc's remuneration committee. Mr Bonham has agreed that his fee as a non-executive director of plc will be paid by Corp (in consideration of the value to Corp of Mr Bonham agreeing to continue providing his services to plc). WERNER KOEPF was appointed a non-executive director of Corp and plc on 16 December 2002 for an initial term of three years (subject to the Articles and described below). Mr Koepf's duties include membership of the audit, remuneration and nomination committees. His fee is L30,000 per annum (which includes the fee payable as a non-executive director of plc) based on him spending two days per month on his duties for both companies. Although he will not normally be expected to provide his services for more than 52 days per annum, he is entitled to a fee of L1,500 per day for each additional day worked over the two day per month threshold. These fees are reviewable annually on 1 July and Corp will reimburse business expenses. Mr Koepf will also be entitled to an advance fee for each of the first three years of his appointment. The fees payable will be L100,000 for the first year and L30,000 for each of the next two years which will be net of any tax and national insurance contributions. The net amount of each year's fee will be invested in Corp Shares. Mr Koepf has agreed to hold the Corp Shares acquired with the first year's advance fee for three years from the date of his appointment, and the Corp Shares acquired with each of the next two year's payment for at least one year. If Mr Koepf's appointment terminates in any year for which an advance fee has been paid he is obliged to repay a pro-rated amount of that year's fee. There is no other remuneration nor benefits. KATHLEEN RUTH FLAHERTY'S appointment as a non-executive director of Corp will take effect on Listing of the New Shares, the New Notes and the Warrants for an initial term of three years (subject to the Articles and as described below). Ms Flaherty's duties include membership of the remuneration and nomination committees. Her fee is L30,000 per annum based on her spending two days per month on her duties for Corp. She is entitled to a fee of L1,500 per day for each additional day over the two days per month threshold. Her fee is reviewable 158 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- annually on 1 July and Corp will reimburse business expenses. Ms Flaherty will also be entitled to an advance fee of L30,000 for each of the first three years of her appointment which will be net of any tax and national insurance contributions. The net amount of each year's fee will be invested in Corp Shares. Ms Flaherty has agreed to hold the Corp Shares acquired with the first year's advance fee for three years from the date of her appointment and the Corp Shares acquired with each of the next two years' payment for one year. If Ms Flaherty's appointment terminates in any year for which an advance fee has been paid she is obliged to repay a pro-rated amount of that year's fee. There is no other remuneration nor benefits. IAN MCMASTER CLUBB'S appointment as a non-executive director of Corp will take effect on Listing of the New Shares, the New Notes and the Warrants for an initial term of three years (subject to the Articles and as described below). Mr Clubb's duties include chairmanship of the remuneration committee and membership of the audit and nomination committees. His fee is L30,000 per annum based on his spending two days per month on his duties for Corp. Mr Clubb will also be entitled to a fee of L10,000 per annum for so long as he serves as chairman of the remuneration committee. He is entitled to a fee of L1,500 per day for each additional day over the two day per month threshold. His fee is reviewable annually on 1 July and Corp will reimburse business expenses. Mr Clubb will also be entitled to an advance fee of L30,000 for each of the first three years of his appointment which will be net of any tax and national insurance contributions. The net amount of each year's fee will be invested in Corp Shares. Mr Clubb has agreed to hold the Corp Shares acquired with the first year's advance fee for the three years from the date of his appointment and the Corp Shares acquired with each of the next two years' payment for one year. If Mr Clubb's appointment terminates in any year for which an advance fee has been paid he is obliged to repay a pro-rated amount of that year's fee. There is no other remuneration nor benefits. The existing articles provide for the removal of a director by (amongst other causes) the written requirement of at least three-quarters of the other Corp Directors or by ordinary resolution of the shareholders. Conditional on the allotment of the New Shares, new articles of association will be adopted which amend these provisions by requiring special notice to be given of the ordinary resolution and furthermore, providing for the removal of a director by extraordinary resolution. For the financial year ended 31 March 2002, the aggregate remuneration (including salaries, fees, pension contributions, shares payments and benefits

in kind) granted to the Directors by plc (no fees were payable in respect of Corp) was approximately L2,287,000. It is estimated that for the financial year ending 31 March 2003, under arrangements in force at the date of this document, the aggregate remuneration of the Directors of Corp will be approximately L5,165,000. Save for an agreement by Michael Parton and by Michael Donovan to waive the first two payments under an annual incentive bonus plan (20 per cent. of basic salary) and the last payment under of the R&E Plan (37.5 per cent. of basic salary), there is no arrangement under which a Director has waived or agreed to waive future emoluments nor have there been any such waivers during the financial year immediately preceding the date of this document. There are no outstanding loans or guarantees granted or provided by any member of the Group to, or for the benefit of, any of the Directors.

b. Directors' new service agreements With effect from the Effective Date, service agreements of the following Executive Directors with Corp replace their existing service agreements and will take effect as follows: MICHAEL PARTON, as Chief Executive Officer, will have a service agreement which will take effect from the Effective Date. The agreement will last until Mr Parton's sixty-second birthday but may be terminated earlier by Corp giving twelve months' notice and by Mr Parton giving six months' notice. The basic salary will be L525,000 per annum (inclusive of directors' fees), which will be reviewable on 1st July 2004 (and thereafter annually) and Mr Parton is eligible to participate in the senior management share option plan. His agreement provides for participation in a company car scheme and private medical healthcare for himself and his family. Mr Parton will be entitled to participate in the UK Plan (described in Part D.11 of this Section) to which he contributes 3 per cent. of his basic salary (up to a maximum of 15 per cent. of the Inland Revenue earnings cap, 159 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E ----- which is L97,200 in the 2002/2003 tax year). As a consequence of the earnings cap restricting the amount an employer can contribute into an exempt approved pension plan, Mr Parton will continue to have a funded unapproved retirement benefits scheme, to which Corp will contribute an amount equal to 21 per cent. of his basic salary (with a further 14 per cent. of his basic salary being paid to Mr Parton). In addition, and as compensation for Mr Parton changing a defined benefit pension arrangement into a defined contribution plan in 2002, Corp has agreed to make net contributions of L88,250 to the FURBS and associated non-pensionable allowances of L58,833.33 to Mr Parton himself on 15 April 2003, 15 July 2003, 15 October 2003 and 15 January 2004. The payments are conditional on Mr Parton remaining in employment with Corp and if his employment is terminated (other than for cause), any payments which have not been made on or before the termination date will become due immediately. FURBS contributions for Mr Parton are paid to the FURBS and to Mr Parton himself in the ratio 60:40. This is because the contributions are taxable benefits, so the payment to Mr Parton is to offset the higher income tax charge for which he is liable. The FURBS documents oblige Corp to fund an unapproved life assurance scheme, which is to provide a lump sum on death in service of four times basic salary and a widow's pension of four-ninths of final pensionable salary. The service agreement will contain a provision entitling Corp to make a payment in lieu of notice if it terminates the service agreement without giving Mr Parton 12 months' notice. The amount of the payment is at the reasonable discretion of the remuneration committee which is to consider the relationship between the Group's and Mr Parton's performance. The maximum PILON payment may not exceed the aggregate of the following amounts for the notice period (or the unexpired balance of it): (i) base salary (ii) 166 per cent. of the cash equivalent transfer value of the pension contributions (net of tax) which would have accrued in the UK Plan; (iii) 100 per cent. of the gross contributions which Corp would have paid in respect of Mr Parton's FURBS and (iv) the cost (to Corp) or providing benefits (other than bonus, pension and incentive entitlements) (which cost Corp may set at 10 per cent. of Mr Parton's base salary). If Corp does not make a full PILON payment (i.e. if the remuneration committee reduces the amount payable), Mr Parton's protective covenants will enure for a proportionately shorter period after the termination of his employment. In addition, the service agreement will include a change of control clause which provide Mr Parton with a right to a payment if, following the Restructuring, there is a change of control of Corp and one of the events described below occurs. Change of control is defined as the acquisition of the power to control the composition of the board of Corp or (by a variety of means) that its affairs are conducted in a certain manner. If, immediately following an acquisition of Corp's shares, the shares in the acquiring company are all held by the holders of the shares of Corp immediately prior to the acquisition in materially the same proportion as prior to the acquisition, then that will not constitute a change of control. If the terms of the clause are triggered, Mr Parton will be entitled to a payment calculated on the same basis as the PILON payment. The events are: (a) Corp or any other Group Company terminating employment (other than for cause); (b) Mr Parton ceasing to be a

director of Corp other than by reason of his voluntary resignation; or (c) if Mr Parton terminates the service agreement for a "good reason". The good reasons are one or more of the following: - a failure to maintain Mr Parton in the role (or a substantially equivalent position, with Corp or any Group Company) which he held immediately prior to the change of control; - an adverse change of material consequence in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position which Mr Parton held immediately prior to the change of control; - a reduction in the aggregate of Mr Parton's basic annual salary and share based incentives and other benefits received from Corp or any Group Company, or the termination or denial of Mr Parton's rights to employee benefits or a substantial reduction in the scope or value thereof where such reduction is not applied to other employees of a similar status and seniority to Mr Parton; - a change in the scope of the business or other activities for which Mr Parton was responsible immediately prior to the change of control, which has rendered Mr Parton substantially 160 I.

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----- unable to carry out, has substantially hindered Mr Parton's performance of, or has caused him to suffer a substantial reduction in, any of the authorities powers, functions, responsibilities or duties attached to his position held; - Corp requiring Mr Parton to have his principal location of work changed to any location that is in excess of 25 miles from its location immediately prior to the change of control without his prior written consent; or - any material breach of the service agreement by Corp or any successor. In each case of a "good reason", however, Mr Parton must first have notified Corp of the act or omission and Corp must have failed within 10 calendar days to gain Mr Parton's agreement to any change or must in that period have remedied the act or omission. There will be a provision to place Mr Parton on garden leave if notice to terminate is served by either party (without triggering any PILON payment). Mr Parton is subject to post-termination protective covenants relating to non-solicitation of clients and managerial or technical employees, non-dealing with clients and not competing with the Group's business. All the covenants are stated to last for 12 months, save for that relating to non-competing, which lasts for six months. See the comments relating to PILON payments for a potential reduction in the periods of such protective covenants. Mr Parton is a member of the Retention and Emergence Plan (described in Part D.10 of this Section). The plan promises a bonus equal to 150 per cent. of his base salary, paid in four each tranches, two of which have been paid. The fourth tranche is to be waived. MICHAEL DONOVAN, as Chief Operating Officer, will have a service agreement with Corp which will take effect on the Effective Date. The agreement will last until Mr Donovan's sixty-second birthday but may be terminated earlier by Corp giving twelve months' notice and by Mr Donovan giving six months' notice. The basic salary is L400,000 per annum (inclusive of director's fees), which will be reviewable on 1 July 2004 (and thereafter annually) and Mr Donovan will be eligible to participate in the senior management share option plan. His agreement will provide for participation in a company car scheme and private medical healthcare for himself and his family. Mr Donovan will be entitled to participate in the UK Plan (described in Part D.11 of this Section) to which he contributes 3 per cent. of his basic salary (up to a maximum of 15 per cent. of the Inland Revenue earnings cap). As a consequence of the earnings cap restricting the amount an employer can pay into an exempt approved pension plan, Mr Donovan also will have a funded unapproved retirement benefits scheme. Mr Donovan's FURBS is funded on a defined benefit basis, with projected benefits of two-thirds of his final pensionable salary. The pension will be made up from Mr Donovan's benefits under the UK Plan, the FURBS, two BAE pension plans and any other retained benefits he may have. If Mr Donovan retires on or after his fifty-fifth birthday, there will be no actuarial reduction in the value of his benefits. The current contribution rate (to be reviewed in May 2003) is 39 per cent. of his base salary (although while Mr Donovan is posted to the US, the rate is 46 per cent., owing to local tax legislation). If Mr Donovan leaves service on the grounds of ill-health and receives an immediate ill-health pension from the UK Plan, the total pension payable to him will be two-thirds of his final pensionable salary of the date of leaving. FURBS contributions for Mr Donovan are paid into the FURBS and to Mr Donovan himself in the ratio of 60:40 (or as necessary under US tax law). This is because the contributions are taxable benefits, so the payment to Mr Donovan is to offset the higher income tax charge for which he is liable. The FURBS documents oblige Corp to fund an unapproved life assurance scheme, which is to provide a lump sum on death in service or four times basic salary and a widow's pension of four-ninths of final pensionable salary. The service agreement will contain a provision entitling Corp to make a payment in lieu of notice if it terminates the service agreement without giving Mr Donovan 12 months' notice. The PILON payment comprises the following amounts for the notice period (or the unexpired balance of it): (i) base salary (ii) 166 per cent. of the cash equivalent

transfer value of the pension contributions (net of tax) which would have accrued in the UK Plan; (iii) 166 per cent. of the net contributions which Corp would have paid into Mr Donovan's FURBS and (iv) the 161 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- cost (to Corp) or providing benefits (other than bonus, pension and incentive entitlements) (which cost Corp may set at 10 per cent. of Mr Donovan's base salary). The PILON payment would be taxable in Mr Donovan's hands. In addition, the service agreement will include a change of control clause which provide Mr Donovan with a right to a payment if, following the Restructuring, there is a change of control of Corp and one of the events described below occurs. Change of control is defined as the acquisition of the power to control the composition of the board of Corp or (by a variety of means) that its affairs are conducted in a certain manner. If, immediately following an acquisition of Corp's shares, the shares in the acquiring company are all held by the holders of the shares of Corp immediately prior to the acquisition in materially the same proportion as prior to the acquisition, then that will not constitute a change of control. If the terms of the clause are triggered, Mr Donovan will be entitled to a payment calculated on the same basis as the PILON payment. The events are: (a) Corp or any other Group Company terminating employment (other than for cause); (b) Mr Donovan ceasing to be a director of Corp other than by reason of his voluntary resignation; or (c) if Mr Donovan terminates the service agreement for a "good reason". The good reasons are one or more of the following; - a failure to maintain Mr Donovan in the role (or substantially equivalent position, with Corp or any Group Company) which he held immediately prior to the change of control; - an adverse change of material consequence in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position which Mr Donovan held immediately prior to the change of control; - a reduction in the aggregate of Mr Donovan's basic annual salary and share based incentives and other benefits received from Corp or any Group Company, or the termination or denial of Mr Donovan's rights to employee benefits or a substantial reduction in the scope or value thereof where such reduction is not applied to other employees of a similar status and seniority to Mr Donovan; - a change in the scope of the business or other activities for which Mr Donovan was responsible immediately prior to the change of control, which has rendered Mr Donovan substantially unable to carry out, has substantially hindered Mr Donovan's performance of, or has caused him to suffer a substantial reduction in, any of the authorities powers, functions, responsibilities or duties attached to his position held - Corp requiring Mr Donovan to have his principal location of work changed to any location that is in excess of 25 miles from its location immediately prior to the change of control without his prior written consent; or - any material breach of the service agreement by Corp or any successor. In each case of a "good reason", however, Mr Donovan must first have notified Corp of the act or omission and Corp must have failed within 10 calendar days to gain Mr Donovan's agreement to any change or must in that period have remedied the act or omission. There will be a provision to place Mr Donovan on garden leave if notice to terminate is served by either party (without triggering the PILON payment). Mr Donovan is subject to post-termination protective covenants relating to non-solicitation of clients and managerial or technical employees, non-dealing with clients and not competing with the Group's business. All the covenants are stated to last for 12 months, save for that relating to non-competing, which lasts for six months. Mr Donovan also will have an arrangement relating to his location in the United States, which contains expatriate arrangements to cover relocation, housing, exchange rate fluctuation, flights for himself and his family and matters common to expatriate terms for senior executives. 162 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- Mr Donovan is a member of the Retention and Emergence Plan (described in Part D.10 of this Section). The plan promises a bonus equal to 150 per cent. of his base salary, paid in four each tranches, two of which have been paid. The fourth tranche is to be waived. JOHN DEVANEY'S service agreement with Corp dated 14 March 2003 will not change. CHRISTOPHER HOLDEN'S service agreement with Corp dated 13 December 2002 (as varied by a deed dated 28 January 2003) will not change. No changes are planned to take effect from the Effective Date, in respect of the terms of appointment of the Chairman and each of the Non-Executive Directors. SHAREHOLDINGS AND MANAGEMENT INCENTIVES Save as set out below the interests of the Director(s), their immediate families and any person connected with any Director within the meaning of section 346 of the Act in the share capital of Corp, plc or any other relevant member of the Group, as the case may be, (all of which are beneficial unless otherwise stated), which: a. have or following Listing of the New

Shares will be required to be notified to Corp and/or plc pursuant to sections 324 and 328 of the Act; b. are required to be entered into the register referred to in section 325 of the Act; or c. are interests of a connected person (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed under (a) or (b) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, as at 27 March 2003 (the latest practicable date prior to the publication of this document), are currently and are anticipated following the Restructuring to be as follows: Number of Number of Percentage of Number of New Shares Warrants New Shares Number of Percentage of Corp Shares after First after First after First plc Shares plc Shares and Warrants Initial Initial Initial Director currently held currently held currently held Distribution Distribution Distribution ----- John Devaney NIL NIL

NIL NIL NIL NIL Michael Parton 128,122 0.005 NIL 229 2,287 0.00002 Michael Donovan 169,670 0.01 NIL 303 3,029 0.00003 Christopher Holden NIL NIL NIL NIL NIL NIL Kent Atkinson NIL NIL NIL NIL NIL Derek Bonham 156,000 0.01 NIL 279 2,785 0.00003 Werner Koepf NIL NIL NIL NIL NIL NIL All of the Executive Directors, as possible beneficiaries, are deemed to be interested in the 1,208,545 plc Shares, the 2,161 Corp Shares and the 21,581 Warrants that will be held by the trustee of the MET following the First Initial Distribution. Mr Parton and Mr Donovan are also deemed to be interested in the 1,135,644 plc Shares, the 2,031 Corp Shares and the 20,279 Warrants that will be held by the trustee of the GEC Employee Share Trust following the First Initial Distribution. The interests of the Directors (excluding their deemed interests described above) together are expected to represent approximately 0.0009 per cent. of the issued ordinary share capital of Corp on the First Initial Distribution. 163 I.

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----- The following options over Corp Shares are expected to be granted to the Directors under the Management Plan described in Part D.10, such options being exercisable at the price and between the dates shown below: Number of Total Corp Shares Exercise price Name of Director under option (per exercise) Exercise period ----- Michael John Parton 17,500,000 L1 May 2004 - May 2013 Michael Donovan 10,000,000 L0 May 2004 - May 2013 Christopher Holden NIL L1 May 2004 - May 2013 John Devaney 3,000,000 L1 May 2004 - May 2013 There will be no consideration payable for the grant of an option. Options will be granted as soon as practicable following the Listing of the New Shares, New Notes and the Warrants. The Directors have the following interests in plc Shares under plc's existing share incentive plans. MICHAEL PARTON Exercise Number of Scheme Date of grant price Exercise period plc Shares ----- The Marconi 1999 Stock Option Plan November 1999 801.5 November 2002- 684,360 November 2009 December 2000 787.0 December 2003- 76,238 December 2010 November 2001 35.0 November 2004- 3,000,000 November 2011 The GEC 1997 Executive Share Option October 1997 331.5 October 2000- 165,912 Scheme -- B Option October 2007 July 1998 384.5 October 2000- 106,631 October 2008 The GEC 1997 Executive Share Option October 1997 331.5 October 2000- 165,912 Scheme -- C Option October 2007 The GEC 1997 Executive Share Option July 1998 384.5 July 2001-July 2008 106,631 Scheme -- C Option The Marconi Phantom Option Scheme November 1999 538.5 November 2002- 139,274 (Converted) October 2009 The Marconi Launch Share Plan November 1999 NIL November 2002- 1,000 November 2009 The Long Term Incentive Plan June 2001 NIL June 2004-June 2011 28,405 (option) The Long Term Incentive Plan (award) July 2000 NIL July 2003-July 2010 26,483 ----- TOTAL 4,500,846 ===== 164 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- MICHAEL DONOVAN Exercise Number of Scheme Date of grant price Exercisable period plc Shares ----- The Marconi 1999 Stock Option Plan November 1999 801.5 November 2002- 266,271 November 2009 The Marconi 1999 Stock Option Plan December 1999 1008.5 December 2002- 69,410 December 2009 The Marconi 1999 Stock Option Plan December 2000 787.0 December 2003- 198,048 December 2010 The Marconi 1999 Stock Option Plan November 2001 35.0 November 2004- 2,500,000 November 2011 The Marconi Phantom Option Scheme October 1998 338.0 October 2001- 266,271 (Converted) September 2008 The Marconi Launch Share Plan November 1999 NIL November 2002- 1,000 November 2009 The Long Term Incentive Plan June 2001 NIL June 2004-June 2011 5,299 (option) The Long Term Incentive Plan (award) July 2000 NIL July 2003-July 2010 24,718 ----- TOTAL 3,331,017 ===== Save as set out in this Part E.1, it is not expected that any Director will have any interest in the



share or loan capital of Corp or plc on the Effective Date of the Corp Scheme. No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group and which were effected by Corp, plc or any Group company during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

**DIRECTORSHIPS** The Directors of Corp and plc and their functions are set out in Part A.10 of this Section. The business address of John Devaney, Michael Donovan, Christopher Holden, Kent Atkinson, Derek Bonham and Michael Parton is Regents' Place, 338 Euston Road, London, NW1 3BT, UK and the business address of Werner Koepf is Ueberlandstrasse 1, CH-8700, Duebendorf, Switzerland. In addition to their directorships of Group companies, the Directors and the individuals who have agreed to become Directors of Corp hold or have held the following directorships and are or were members of the following partnerships, in the past five years: Position still held Name Position Company/Partnership (Y/N) ----- John Devaney Director Baltic Media Group Limited (in Liquidation) Y Director Baltic Publishing Limited (in Liquidation) Y Chairman Bizenergy Limited Y Director Bizenergy.com Limited Y Director Bizzconsulting Limited Y Director Bizzenergy Group Limited Y Director Bizzgeneration Limited Y Director Boocheer Limited N Director British Power International Limited N Non-executive Director British Steel Ltd. (now known as Corus UK Limited) N Director Candihide Limited N 165 I.

**EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E**

----- Position still held Name Position  
 Company/Partnership (Y/N) ----- Director Chesleigh Limited N Director Consort EU Limited N Director E Gas Limited N Director EA Technology Limited Y Director Eastern Energy Management Limited N Director Eastern Group Finance Limited N Director Eastern Private Network Management Limited N Director EBO Czech Investments Limited N Director Electricity Association Limited N Director Energy Holdings (No. 3) Limited N Director EPN Distribution Limited N Director Exel Investments Limited N Chairman Exel Plc N Director F.W. Cook (Mechanical Services) Limited N Director Forne Limited N Director Genient Limited Y Director GTC Pipelines Limited N Non-executive Director HSBC Bank plc N Executive Chairman Kelsey-Hayes Corporation N Chairman Liberata plc N Director Mainpower plc Y Director Mel Group Limited N Director Norwich Capital Investments Limited (Dissolved) N Director NTL Telecom Services Limited N Director Offshore Oil & Gas Development Company Limited N Director The Energy Group Limited N Director Three Gates Limited Y Director TXU (UK) Holdings Limited N Director TXU Direct Sales Limited N Director TXU Europe (Ten) Limited N Director TXU Europe Energy Trading Limited N Director TXU Europe Group plc N Director TXU Europe Leasing (4) Limited N Director TXU Europe Leasing (5) Limited N Director TXU Europe Limited N Director TXU Europe Natural Gas (Trading) Limited N Director TXU Europe Overseas Finance Limited N Director TXU Europe Power Limited N Director TXU Europe Renewable Generation Limited N Director TXU Nordic Holdings Limited N Director TXU UK Limited N Director Unicorn Music and Dance Limited Y Michael Donovan Director British Aerospace Defence Systems Limited (now called BAE Systems (Defence Systems) Ltd) N Director British Aerospace Land & Sea Systems Limited (now called BAE Systems (Land and Sea Systems) Ltd) N Director General Domestic Appliances Holdings Limited N Director Matra BAe Dynamics SAS N 166 I. **EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E**

----- Position still held Name Position  
 Company/Partnership (Y/N) ----- Director STN-Atlas Elektronik GmbH N Director Yard Limited N Christopher Holden Partner Arthur Andersen (in dissolution) Y Director St Kenelms Management Services Limited Y Kent Atkinson Senior Non-Executive Coca-Cola HBC S.A. (Athens) Y director Non-Executive Director Coca-Cola Beverages Ltd (Dissolved) N Non-Executive Director Cookson Group plc (with effect from 1 April 2003) Y Director Lloyds Bank Financial Services (Holdings) Limited N Director Lloyds Bank Subsidiaries Limited N Director Lloyds Commercial Properties Limited N Non-Executive Director Lloyds TSB Bank plc Y Non-Executive director Lloyds TSB Group plc Y Director Lloyds TSB Financial Services Holdings Limited N Director TSB Bank Limited N Director Three Copthall Avenue Limited N Werner Koepf Director Compaq Computer Group Limited N Director Compaq Computer Limited N Director Compaq Computer Manufacturing Limited (now called Hewlett-Packard Manufacturing Ltd) N Director Pixelpark CEE Holding AG (now known as PXP Software AG) Y Managing Director Compaq Computer International GmbH (now known as Hewlett Packard International

SARL GmbH) N Managing Director Compaq Computer EMEA BV N Chairman Compaq Computer GmbH N Chairman Compaq Computer Austria GmbH N Derek Bonham Chairman Cadbury Schweppes Public Limited Company Y Chairman CamAxys Group plc Y Director Energy Holdings (No. 3) Limited N Non-executive Director Glaxo Wellcome plc (now called GlaxoSmithkline Services Unlimited) N Non-executive Director GlaxoSmithkline plc N Director Hanson Pension Trustees Limited N Director I-Fax Europe Limited N Director I-Fax Limited N Chairman Imperial Tobacco Group plc Y Director Newzquest plc N Director Newzeco Limited Y Director Peabody Holdings Company, Inc N Director The Energy Group Limited (In Administration) N Non-executive Director TXU Corporation Y Non-executive Director TXU Europe Limited N Ian Clubb Non-Executive Chairman Amalgamated Scottish Oil Limited Y Chairman B Elliott Group Limited Y Chairman B Elliott Limited Y Director B Elliott plc N Non-Executive Chairman Concentric plc N Non-Executive Chairman DMWS 601 Limited N 167 I.

EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985)  
SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- Position still held Name Position  
Company/Partnership (Y/N) ----- Director Dunedin Smaller Companies Investment Trust plc N Non-Executive Director Expro International Group plc Y Non-Executive Director First Choice Holidays plc Y Non-Executive Director Keycom plc N Director Kuoni Holdings plc N Non-Executive Chairman Longville Group Limited Y Non-Executive Chairman Platinum Investment Trust plc Y Non-Executive Chairman Shanks plc Y Non-Executive Chairman Sitex Security Products Limited N Director Thorn Lighting Group plc N Director Thorn Lighting Pension Trustees Limited N Director Unijet Group Limited N Kathleen Flaherty Non-Executive Director CMS Energy Corporation Y Non-Executive Director Consumers Energy Company Y Director Winstar Europe S.A. (Belgium) N Director Winstar Communications S.A. N Director Winstar Holdings BV (Netherlands) N Director Winstar Communciations GMBH (Germany) N Director Winstar Communications BV (Netherlands) N Director Winstar Communications S.A. (France) N Director Winstar Communications Limited (UK) N Director Winstar Communications S.A. (Switzerland) N Director Winstar Communications S.A. (Belgium) N Director Winstar Columbia Ltda. N Director Winstar Japan Limited (Japan) N Director KDDI Winstar Corporation (Japan) N Director Winstar International HongKong Holding (BVI) Limited N Director Winstar HongKong (BVI) Limited N Director Winstar Communications HongKong Limited N Director Winstar Asia NDMO Pte Limited (Singapore) N Save as disclosed in this Part E.1, at the date of this document none of the Directors: a. has been director or partner of any companies or partnerships at any time in the previous five years; or b. has any unspent convictions in relation to indictable offences; or c. has been bankrupt or entered into an individual voluntary arrangement; or d. was a director with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors save in the case of the plc Scheme and the Corp Scheme as described in parts II and III; or e. has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or voluntary arrangement of such partnership; or 168 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART E

----- f. has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or g has been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conducting the affairs of any company. E.2 TRUSTEES OF THE BONDS The Law Debenture Trust Corporation p.l.c. has a material interest in both of the Schemes by reason of being a Scheme Creditor in each Scheme. Law Debenture Trust Company of New York will be appointed New Senior Notes Trustee in respect of the New Senior Notes to be issued under the Schemes and The Law Debenture Trust Corporation p.l.c. will be appointed Security Trustee under the Security and Intercreditor Trust Deed. Law Debenture Trust Company of New York is an affiliate of The Law Debenture Trust Corporation p.l.c. The Bank of New York has a material interest in both of the Schemes by reason of being a Scheme Creditor in each Scheme. The Bank of New York will be appointed as Distribution Agent and as ADR Depository in respect of any ADRs to be issued under the Schemes. The Eurobond Trustee and the Yankee Bond Trustee also have a material interest in the Schemes by reason of their being owed sums in respect of fees, costs, expenses and liabilities, amounting to a total of L155,159.92 as at 18 March 2003

in respect of the Eurobond Trustee, and a total of L144,450.96 as at 14 March 2003 in respect of the Yankee Bond Trustee (both figures inclusive of VAT). These fees, costs, expenses and liabilities were incurred as a result of the Eurobond Trustee and Yankee Bond Trustee's roles during the drafting and negotiation of the Schemes. If the Schemes are implemented then these fees, costs, expenses and liabilities will be paid in priority to Scheme Claims. Affiliates of the Eurobond Trustee, through such affiliates acting as New Senior Notes Trustee and Security Trustee, and the Yankee Bond Trustee, through its acting as Distribution Agent and ADR Depository, will be entitled to the payment of fees and reimbursement of expenses incurred in performing their respective duties under these ongoing roles. 169 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- F. RISK FACTORS This Part F sets out the principal risk factors affecting the Group and should be read in conjunction with all other information contained in this document. Additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial may also have a material adverse effect on the business, financial condition or results of operations of the Group. Except in Part F.1 and as the context otherwise requires, this Part F assumes that the Schemes will be implemented in accordance with their terms and does not include risk factors about the Group in the event that either or both of the Schemes do not become effective (which are discussed in the letter from the Chairman of plc and of Corp in Section 1). All statements in this document (other than parts II and III) are to be read subject to, and are qualified in their entirety by, the matters referred to in this Part F. For ease of reference only, the risk factors set out below have been grouped into the following four categories: a. Risks related to a failure to implement or a delay in implementing the Restructuring; b. Risks arising from implementation of the Restructuring; c. Operating risks; and d. Risks related to ownership of the New Shares, the New Notes and the Warrants. F.1 RISKS RELATED TO A FAILURE TO IMPLEMENT OR A DELAY IN IMPLEMENTING THE RESTRUCTURING ESOP DERIVATIVE BANKS MAY BE ABLE TO TERMINATE THEIR STANDSTILL UNDERTAKINGS PRIOR TO IMPLEMENTATION OF THE RESTRUCTURING. As discussed in Part D.2 of this Section, plc is the guarantor with respect to the equity derivative transactions with the ESOP Derivative Banks. The ESOP Derivative Banks have previously asserted that they also have claims against certain Group operating companies, including Corp, based on the ESOP Funding Letters executed by those companies. Under the terms of the ESOP Settlement Agreement, Corp will pay a total of L35 million to the ESOP Derivative Banks in full and final settlement of their ESOP related claims against the Group. The settlement is conditional upon the Corp Scheme becoming effective and, in the interim, the ESOP Derivative Banks have agreed to a standstill, namely that they will not commence or further any claims or proceedings against Bedell Cristin Trustees Limited, plc or any Group operating companies (or any of their respective directors and officers) under the ESOP Funding Letters (including releases thereof), the ESOP Derivative Transactions or the plc guarantee of the ESOP Derivative Transactions. The standstill terminates on the occurrence of one of the relevant events set out in the ESOP Settlement Agreement, including (a) the further release of ESOP Funding Letters in certain circumstances, (b) enforcement of the interim security, (c) the Corp Scheme not obtaining the requisite approval at the Scheme Meeting, (d) the Court sanction for the Corp Scheme not being obtained, (e) a demand being made by the agent for the repayment of the Bank Facility, (f) an insolvency event occurring in relation to Corp or, subject to certain limitations, plc and (g) the Effective Date for the Corp Scheme not occurring on or before 31 December 2003. EFFECTIVENESS OF THE SCHEMES REQUIRES THE APPROVAL OF CREDITORS AND SANCTION BY THE COURT. In order for the Corp Scheme and the plc Scheme to become effective, they must be approved by Scheme Creditors of Corp and plc, respectively, as described in this document. Although each of the then members of the Informal Committee of Bondholders and certain members of the Co-ordination Committee indicated as at 13 December 2002 that it was their current intention to vote in favour of the Schemes, they are not bound to do so and in any event do not represent a sufficient proportion of the Scheme Creditors to ensure that the Schemes will be approved. Each of the ESOP Derivative Banks has provided a voting undertaking in relation to the Schemes (as described in more detail in Appendix 19). The willingness of other creditors to vote in favour of the Schemes will be dependent on their assessment of what they would be likely to receive if the Restructuring was successfully concluded, which will depend among other things on their view of the prospects with respect to the Group's future results of operations, financial condition and working capital position and their assessment of 170 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- what they would be likely to receive in insolvency proceedings in connection with the Group. Accordingly, there can be no assurance that the Scheme Creditors will vote to approve either of the Schemes. In addition, for the Schemes to become effective, they must receive the sanction of the Court, as described in this document. The Court will not sanction either of the Schemes unless it is satisfied that the proposed arrangements are fair to the creditors whose claims are being compromised pursuant to the Schemes. There can be no assurance that the court will determine that the Schemes are fair to creditors or that the Court will not conclude that there are other reasons why the Schemes should not be approved. EFFECTIVENESS OF EACH OF THE SCHEMES WILL DEPEND UPON THE GRANTING OF AN ORDER BY A US BANKRUPTCY COURT. Even if one or both of the Schemes are approved by Scheme Creditors and sanctioned by the English Court, the necessary steps required to make either of them effective will not be taken unless a permanent injunction in respect of the relevant Scheme is granted by a US Bankruptcy Court under Section 304 of Title 11 of the United States Code. The US Bankruptcy Court will not grant such an injunction unless it is convinced that the relevant Scheme will abide by fundamental standards of procedural fairness and is not repugnant to any fundamental principle of US law. There can be no assurance that the US Bankruptcy Court will determine that this standard has been met, or that the US Bankruptcy Court will not conclude that there are other reasons why the order should not be granted. THE CORP SCHEME MAY BE IMPLEMENTED EVEN IF THE PLC SCHEME IS NOT, IN WHICH CASE CORP SCHEME CREDITORS WILL RECEIVE LESS SCHEME CONSIDERATION THAN IF BOTH SCHEMES BECOME EFFECTIVE, AND PLC WILL BE FORCED INTO AN INSOLVENCY PROCEEDING. The effectiveness of the plc Scheme is conditional on the Corp Scheme becoming effective, but the effectiveness of the Corp Scheme is not conditional on the plc Scheme becoming effective. Because Scheme Creditors must vote on each of the Corp Scheme and the plc Schemes independently, the Corp Scheme may be approved by Scheme Creditors, while the plc Scheme is not. Moreover, it is possible that the Court may sanction one Scheme but not the other, or that the US Bankruptcy Court may issue an injunction in respect of one Scheme but not the other. If the Corp Scheme becomes effective but the plc Scheme does not, Corp Scheme Creditors will receive less, and Corp Scheme Creditors that are also plc Scheme Creditors could receive significantly less, Scheme Consideration than if both Schemes become effective. There are two reasons for this. First, Corp itself is expected to be a significant plc Scheme Creditor, and the portion of the plc Scheme Consideration that Corp would receive in respect of its claim against plc will not be available for distribution to Corp Scheme Creditors pursuant to the Corp Scheme unless the plc Scheme becomes effective. Second, a significant portion of the Corp Scheme Consideration is expected to be distributed via Ancrane, a wholly owned subsidiary of plc, and this portion of the Corp Scheme Consideration will not be distributed to plc Scheme Creditors pursuant to the plc Scheme unless that Scheme becomes effective. If the plc Scheme does not become effective as and when contemplated in this document, then plc would inevitably have to enter into some form of insolvency proceeding. If the Corp Scheme has become effective, however, the portion of the Corp Scheme Consideration distributed to Ancrane would be among the assets on which plc creditors would have a claim in any such proceeding. Moreover, Corp itself would be entitled to prove its claim against plc in such an insolvency proceeding, and any recovery by Corp in that proceeding would eventually be available for distribution to Corp Scheme Creditors. CORP AND/OR PLC AND/OR THE PROSPECTIVE SUPERVISORS OF THE CORP SCHEME AND/OR THE PLC SCHEME MAY CEASE TO BE SATISFIED AS TO THE SUFFICIENCY OF THE RESERVE CLAIMS SEGMENT OF THAT SCHEME AND/OR CORP MAY CEASE TO BE OF THE OPINION THAT CORP'S WORKING CAPITAL STATEMENT REMAINS VALID. Corp will not take the necessary steps to make the Corp Scheme effective unless and until (among other things), (a) Corp has, following the passing of a unanimous Board resolution to approve the same, provided confirmation in writing to the Prospective Supervisors (for the sole benefit of the Prospective Supervisors) prior to each of (i) the release of the interim security granted by Corp through its special purpose subsidiary Highrose Limited, (ii) the Corp Scheme Meeting, (iii) the hearing to sanction the Corp Scheme and (iv) the Effective Date, to the 171 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- effect that Corp remains satisfied that the reserves built into the Corp Scheme are sufficient to meet distributions due to be made to all Corp Scheme Creditors and that Corp remains of the opinion that its statement as to the Corp Group's working capital contained in Part D.21 of this Section remains valid; and (b) the Prospective Supervisors of the Corp Scheme have provided confirmation in writing to Corp (for Corp's sole benefit) on the day of, but prior to, each of events (i) to (iv) above to the effect that they have

no reason to disagree with Corp's view that the reserves built into the Corp Scheme are sufficient to meet distributions due to be made to all Corp Scheme Creditors. plc will not take the necessary steps to make the plc Scheme effective unless and until (among other things) (a) plc has, following the passing of a unanimous Board resolution to approve the same, provided confirmation in writing to the Prospective Supervisors (for the sole benefit of the Prospective Supervisors) prior to each of (i) the release of the interim security granted by Corp through its special purpose subsidiary Highrose Limited, (ii) the plc Scheme Meeting, (iii) the hearing to sanction the plc Scheme and (iv) the Effective Date, to the effect that plc remains satisfied that the reserves built into the plc Scheme are sufficient to meet distributions due to be made to all plc Scheme Creditors; and (b) the Prospective Supervisors of the plc Scheme have provided confirmation in writing to plc (for plc's sole benefit) on the day of, but prior to, each of events (i) to (iv) above to the effect that they have no reason to disagree with plc's view that the reserves built into the plc Scheme are sufficient to meet distributions due to be made to all plc Scheme Creditors. If any of the confirmations relating to the Corp Scheme is not forthcoming, neither the Corp Scheme nor the plc Scheme will proceed. If any of the confirmations relating to the plc Scheme is not forthcoming the plc Scheme will not proceed. **THE INTERIM SECURITY MIGHT BE ENFORCED, OR MIGHT NOT BE RELEASED, BEFORE THE SCHEME MEETINGS.** If the interim security has not been released prior to the Corp Scheme Meeting, neither Corp nor plc will proceed with their respective Schemes and, in their inevitable subsequent insolvency proceedings, the interim security would remain in place (meaning that the Bank Creditors, Secured Bondholders and Barclays Bank PLC (in its capacity as an ESOP Derivative Bank) would rank ahead of all unsecured creditors of Corp with respect to the cash held in the Lockbox Accounts, the balance of which was approximately L770,700,000 as at 27 March 2003). The occurrence of an enforcement event under the interim security (details of which are set out in Part D.1 of this Section) prior to the Scheme Meetings would have the following implications: a. the majority Bank Creditors (66 2/3 per cent. by value, which includes in its calculation bilateral and guarantee exposures of the Syndicate Banks to Corp) would be entitled to instruct the security trustee for the interim security not to release any further amounts from the Lockbox Accounts; b. the majority, currently three out of four, of the members of the Informal Committee of Bondholders would be entitled to instruct Corp and Highrose Limited not to make or request further withdrawals from the Lockbox Accounts (this is the practical equivalent of (a), but in favour of the Informal Committee of Bondholders who have not been granted rights to instruct the security trustee directly); and/or c. the majority creditors (ie. more than 50 per cent. by value of all Bank Creditors and all Secured Bondholders) would be entitled to instruct the security trustee (through the Co-ordination Committee) to enforce the interim security (in practice, Bank Creditors hold more than 50 per cent. of the value of claims and thus currently have the ability to do this). The interim security contemplates an Effective Date of the Restructuring of no later than 30 June 2003. Implementation of the Corp Scheme later than that date (or it becoming apparent that that date is no longer likely to be achieved) is one of the enforcement events in relation to the interim security. An enforcement event under the interim security would also entitle Barclays Bank PLC, the participating ESOP Derivative Bank, to terminate its Restructuring Undertaking Agreement (as described in Part D.2 of this Section) (unless it is apparent that the Corp Scheme will proceed in any case). Enforcement of the interim security would entitle any of the ESOP Derivative Banks to terminate the standstill contained in the ESOP Settlement Agreement and would also entitle them to terminate their related voting undertakings. 172 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- THE SCHEMES WILL NOT BE EFFECTIVE BY THE TIME PRINCIPAL OR INTEREST BECOMES PAYABLE UNDER THE BANK FACILITY AND/OR THE BONDS. The Bank Facility was due for repayment on 25 March 2003. Corp has not made such repayment and the facility agent has reserved all rights in this regard. Failure by Corp to repay the Bank Facility gives rise to direct rights on the part of individual Syndicate Banks to bring actions for recovery of the debt owing to them and, in addition, will, after the expiry of a five Business Day grace period, result in a cross default under the Eurobonds and Yankee Bonds. The longstop date applicable to (a) Corp's interest rate swap close-out loans with JP Morgan Chase Bank and Barclays Bank PLC, (b) Corp's terminated interest rate swap with UBS AG and (c) the closed-out equity derivative between Bedell Cristin Trustees Limited and UBS AG (in respect of which plc is the credit support provider) was also 25 March 2003, after which date such creditors may demand repayment or payment (as applicable) of principal and interest thereunder. A Yankee Bond interest payment was due on 15 March 2003. Given the expiration of the applicable 14 day grace period, non-payment of such interest will be an event of default entitling the Yankee Bond

Trustee or the holders of 25 per cent. of each respective Yankee Issue to accelerate repayment of the respective Yankee Issue. Failure to pay interest under the Yankee Bonds on the due date also entitles individual holders of Yankee Bonds (under the US Trust Indenture Act of 1939 (as amended)), to sue for recovery of the missed interest coupon from Corp. The Eurobonds had an interest payment due on 30 March 2003. Failure to make the interest payment will, after a grace period of 14 days, be an event of default entitling the holders of 25 per cent. of each respective Euro Issue to instruct the Eurobond Trustee to accelerate repayment of that Euro Issue. In England, if Bondholders or Syndicate Banks sought to exercise direct rights against Corp and/or plc in respect of payment defaults it is likely that they would: (a) petition for a winding up or administration order against Corp and/or plc; or (b) seek to obtain a summary judgment for repayment of the money owed to them. Assuming a statutory demand is not required, it would take a creditor at least three weeks (from the date of service of a winding up on Corp and/or plc) to obtain an order for winding up. In practice, however, this is likely to take closer to six weeks. Administration and winding up are both class remedies in that the Court would be required to exercise its discretion in the best interests of Corp's and/or plc's creditors as a whole. Corp and plc each believe that a Court is likely to conclude that such interests would best be served by creditors being given an opportunity to consider the Corp Scheme and/or plc Scheme (as applicable) and that the Court would therefore be unlikely to allow an individual creditor to frustrate the Restructuring by obtaining an administration order or winding up order prior to the Scheme Meetings. Further, Corp and plc each believe that it is unlikely that the Court would make a winding up order after the Scheme Creditors have voted in favour of the Corp Scheme and/or the plc Scheme (as applicable). Corp would strongly oppose the making of an administration or winding up order prior to or after the Scheme Meetings and would, at the appropriate stage, actively encourage Scheme Creditors that support the Restructuring to appear and oppose such order. It is likely that it would take a creditor at least three months to obtain a summary judgment against Corp and/or plc (on the basis that a Court would be unlikely to consider the aim of defeating the Schemes to be good grounds for an expedited hearing). Levying execution against Corp's and/or plc's property in respect of any summary judgment which was obtained would require the relevant creditor to make further applications to the Court (with the attendant delays). Corp and plc believe that they would have good grounds for obtaining a stay of enforcement given that a writ of execution (or other form of execution) would otherwise prefer that creditor over the relevant Scheme Company's other creditors. In the United States, if any Scheme Creditor sought to exercise direct rights against Corp and/or plc in respect of payment defaults it is likely that they would: (a) seek to obtain a judgment for repayment of the money owing to them; and/or (b) file an involuntary petition against Corp or plc, as the case may be, under Chapter 7 (liquidation) or Chapter 11 (reorganization) of the Bankruptcy Code (three creditors, with aggregate claims of at least US\$11,625 would be required to file such a petition).

173 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F ----- Corp has submitted to New York state and federal jurisdiction in connection with the Yankee Bonds and would therefore be subject to any action filed there. In the New York state courts, an individual creditor might avail itself of a procedure allowing expeditious judgment on a claim for non-payment of money on an instrument (where such claim is for a sum that can be made certain by computation). The process to judgment would take at least 20 days. There is a small risk that, in conjunction with such action, a creditor could successfully seek to attach Corp's assets in New York (by way of ex parte application and by demonstrating sufficient risk that the asset might otherwise be dissipated or removed from the jurisdiction). If a creditor obtained a New York court judgment against Corp, then that creditor could try to enforce that judgment against Corp's US assets. Corp believes that a US federal bankruptcy court would be likely to suspend or dismiss an involuntary petition under Chapter 7 or Chapter 11 if it determined that the interests of Corp and its creditors would be better served thereby, or if a foreign proceeding (such as the Corp Scheme) was pending and the same would be consistent with the due process requirements and insolvency principles necessary to establish an ancillary proceeding under section 304 of the Bankruptcy Code (in respect of which see Appendix 21). Corp further believes that support from Scheme Creditors that support the Restructuring would be likely to have a bearing on the court's determination and would therefore actively encourage such support in defending a petition. Corp has approximately L2.2 billion outstanding under the Bank Facility which, as described above, was due for repayment on 25 March 2003. In addition, the principal amounts outstanding in respect of the Eurobonds and Yankee Bonds are E1.5 billion and US\$1.8 billion respectively. Each of these obligations is guaranteed by plc. Failure to repay the Bank Facility when due would trigger a cross default under the Eurobonds and Yankee Bonds, entitling (i) the holders of 25 per cent. of each respective

Yankee Issue to accelerate repayment of the relevant Bonds, and (ii) the holders of 25 per cent. of each respective Euro Issue to require the Eurobond Trustee to accelerate repayment of the relevant Bond. For the reasons described above, there can be no assurance that the Schemes will become effective, or that they will become effective within the timeframe contemplated. If the Corp Scheme does not become effective in the manner described in this document, the Group will be unable to repay the above debt to its Syndicate Banks and, when due, to its Bondholders and Corp and plc will be forced into insolvency proceedings. THE CONDITIONS TO EFFECTIVENESS OF THE SCHEMES MAY NOT BE SATISFIED BY 19 JUNE 2003. If the conditions to the effectiveness of either Scheme have not been satisfied by 19 June 2003, then the relevant Scheme will be withdrawn and not made effective. If the Corp Scheme does not become effective as and when contemplated in this document, and in any event by 19 June 2003, Corp and plc would have to enter into some form of insolvency proceedings.

**F.2 RISKS ARISING FROM IMPLEMENTATION OF THE RESTRUCTURING CORP WILL HAVE SIGNIFICANT DEBT OUTSTANDING AND WILL HAVE SIGNIFICANT DEBT SERVICE REQUIREMENTS, WHICH WILL MAKE THE GROUP MORE VULNERABLE TO ECONOMIC DOWNTURNS AND REDUCE ITS FLEXIBILITY.** Following the Restructuring, Corp will have significant debt outstanding. This is likely to limit Corp's ability to obtain additional financing on satisfactory terms to fund working capital, capital expenditures, product development efforts and acquisitions of new assets in excess of those in its current business plan. In addition, although Corp will be permitted to meet interest payment obligations under the New Junior Notes through payment in kind by issuing additional New Junior Notes, it will otherwise be required to devote a significant proportion of its cash flow from operations to the payment of interest on its debt obligations, thereby reducing the funds available for other purposes. Corp's level of debt and the fixed nature of a portion of its debt service costs will make it more vulnerable to economic downturns, reduce its flexibility to respond to changing business and economic conditions and limit the Group's ability to pursue business opportunities, to finance its future operations or business needs and to implement its business strategies. 174 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- CORP WILL BE REQUIRED TO COMPLY WITH RESTRICTIVE COVENANTS AND AFFIRMATIVE FINANCIAL COVENANTS, WHICH WILL SIGNIFICANTLY LIMIT THE GROUP'S FINANCIAL AND OPERATIONAL FLEXIBILITY. Following the Restructuring, the terms of the indentures governing the New Notes will require Corp and its Subsidiaries to comply with restrictive covenants and the terms of the indenture governing the New Senior Notes will also require Corp to comply with certain affirmative financial covenants. In addition, the Performance Bonding Facility and the Working Capital Facility will contain restrictive covenants. The relevant covenants will become applicable immediately upon issuance of the New Notes and execution of the Working Capital Facility and the Performance Bonding Facility, as the case may be, and will, among other things, restrict the ability of Corp and its subsidiaries to incur additional indebtedness, pay dividends on and redeem shares of Corp and its subsidiaries, redeem certain subordinated obligations, make investments, undertake sales of assets, engage in certain transactions with affiliates, sell or issue capital stock of subsidiaries, permit liens to exist, operate in other lines of business, engage in certain sale and leaseback transactions and engage in mergers, consolidations or sales of all or substantially all the assets of Corp. The affirmative financial covenants in the indentures governing the New Senior Notes will apply only from and after 30 September 2005 and relate to the minimum ratio of EBITDA to gross cash finance charges and the maximum ratio of indebtedness to total EBITDA, in each case measured with respect to the Corp Group other than the Ringfenced Entities. Restrictions stemming from these covenants and from the need to comply with the affirmative financial covenants will significantly limit the Group's financial and operational flexibility, and could have a significant adverse effect on its business, results of operations and financial condition. Corp's ability to satisfy the affirmative financial covenants will be affected by changes affecting its business, results of operations and financial condition, and is thus subject to the risks described elsewhere in this Part F. A failure to comply with the restrictive covenants or the affirmative financial covenants in the indentures governing the New Notes would, if not cured or waived, constitute an event of default under the New Notes; a failure to satisfy restrictive covenants under the Working Capital Facility and/or the Performance Bonding Facility could also constitute an event of default. Subject to the Security Trust and Intercreditor Deed, the occurrence of an event of default in respect of any of these facilities would permit acceleration of all amounts borrowed thereunder, which could constitute a cross-default under the others, as well as other borrowing arrangements to which Corp or its subsidiaries are party. In such circumstances, there can be no assurance

that Corp would have sufficient resources to repay the full principal amount of the New Notes and the relevant indebtedness under the Working Capital Facility and the Performance Bonding Facility in full. Holders of the Corp Shares might then receive no return on their investment. Moreover, a failure to comply with restrictive covenants constituting an event of default under the Working Capital Facility or the Performance Bonding Facility would permit the lenders under the facilities to terminate their commitments to make further extensions of credit thereunder, which would be likely to have a material adverse effect on the business, results of operations and financial condition of the Group. A NUMBER OF SIGNIFICANT GROUP CONTRACTS CONTAIN TERMINATION PROVISIONS THAT MAY BE TRIGGERED BY THE RESTRUCTURING. Some of the Group's significant contracts to supply customers with systems and services contain provisions that allow its counterparties to terminate the contracts upon a change of control or a composition with creditors or similar arrangement affecting one or more Group companies. Some or all of these counterparties may take the view that the Restructuring gives rise to a right of termination under these contracts, and may accordingly seek to terminate or renegotiate them. Early termination or significant renegotiation of these contracts, individually or in the aggregate, could have a materially adverse effect on the Group's results. Moreover, disputes over whether the Restructuring constitutes a change of control for purposes of terminating these contracts could result in litigation which would be costly, would adversely affect the Group's ability to make accurate predictions needed to run its business and could adversely affect customers' perceptions of the Group. THE GROUP WILL LOSE THE BENEFIT OF CERTAIN TAX LOSSES AS A RESULT OF THE RESTRUCTURING. In recent years, the Group has accumulated significant tax losses (and other tax credits) that are not currently recognised as deferred tax assets (see Appendix 1). As a result of the Restructuring the Group may (and, in some 175 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- cases, expects that it will) forfeit these losses, or be restricted in its ability to offset them against future profits, in various jurisdictions due to the requirements of existing and proposed tax legislation governing the use of losses after a change in ownership. The relevant jurisdictions each define a change in ownership differently, and in some cases include additional conditions which, if met for a considerable amount of time after the change in ownership, allow the losses to continue to be used. It is not therefore possible at this stage to quantify the total amount of forfeiture or restriction of the tax losses. There should be no immediate cash cost of any such forfeiture or restriction, but if profits are earned in an affected jurisdiction in the future, they could be subject to tax in full. THE EFFECTIVENESS OF THE SCHEMES IS NOT CONDITIONAL ON THE ADMISSION OF THE NEW SHARES, THE NEW NOTES OR THE WARRANTS TO THE OFFICIAL LIST OR TO TRADING ON THE LONDON STOCK EXCHANGE OR ANY OTHER SECURITIES EXCHANGE, AND PERMISSION FOR SUCH LISTING MAY BE DELAYED OR DENIED. Application has been made to the UKLA for the New Shares, the New Notes and the Warrants to be admitted to the Official List and to trading on the London Stock Exchange. While it is expected that admission to the Official List and to trading will take place on the Effective Date of the Corp Scheme, there can be no assurance that there will not be a delay in, or denial of, the admission of the New Shares, the New Notes and/or the Warrants after the Corp Scheme has become effective. If admission to the Official List and to trading on the London Stock Exchange does not take place as and when expected, Corp will use its reasonable efforts to list the New Shares, the New Notes and the Warrants in London or on another recognised stock exchange thereafter. If admission to the Official List and to trading on the London Stock Exchange does not take place on the Effective Date, this will inhibit the development of a liquid trading market for the New Shares, the New Notes and the Warrants which is likely to have a material adverse effect on their value. Additionally, if the New Notes are not listed on a recognised stock exchange within the meaning of applicable UK tax legislation, withholding tax may be payable on interest payments in respect of the New Notes. Under the terms of the New Notes, Corp will be required to pay additional amounts to the holders of the New Notes in respect of any amounts withheld. While this should not result in any direct cost to the holders of the New Notes, the payment of these "gross up" amounts will be an additional cash expense for Corp and could have a material adverse effect on Corp's financial condition and results of operations. Additionally, Corp intends to establish an ADR programme in respect of the New Shares and will apply to list such ADRs on NASDAQ. It is currently anticipated that this listing will become effective during the third calendar quarter of 2003. Nevertheless, there can be no assurance that such listing will take place within the time expected, or at all. If the NASDAQ listing does not take place as and when expected, this may also inhibit the development of a liquid trading market for the ADRs, which is likely to have a material adverse effect on



their value. F.3 OPERATING RISKS THE TELECOMMUNICATIONS INDUSTRY IS EXPERIENCING A SEVERE DOWNTURN, MANY OF THE GROUP'S CUSTOMERS HAVE REDUCED AND ARE CONTINUING TO REDUCE CAPITAL EXPENDITURE AND, AS A RESULT, DEMAND FOR THE GROUP'S PRODUCTS AND SERVICES HAS DECLINED AND MAY CONTINUE TO DECLINE. The telecommunications industry is currently experiencing a prolonged and severe downturn. Many of the Group's current and potential customers are network operators with high levels of indebtedness and, in some cases, emerging or weak revenue streams. Adverse economic conditions, network over-capacity due to excess build-out, lack of funding for telecommunications development and overspending on licence fees have forced network operators to undertake extensive restructuring and cost-cutting initiatives. In light of market conditions, many of the Group's customers have delayed delivery of orders previously placed and have implemented drastic reductions in capital expenditure in 2002 and 2003 as compared to 2001 and even more so in comparison with 2000, and may further reduce capital expenditure. As a result, demand for the Group's products and network roll-out services has declined. The Group's near-term financial objectives do not depend on assumptions or expectations of improvement in market conditions for the telecommunications industry or improvement in current levels of sales in the Core 176 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F ----- businesses. However, they do assume that there will not be a further material deterioration in current market conditions or a material decline in sales levels. Additionally, achievement of the Group's longer-term financial objectives will depend upon an increase in the Group's sales volumes based on an improvement in demand for the Group's products and services, due to a recovery of the industry or otherwise. Consequently, if demand remains weak for the Group's products and services, resulting from the financial condition of the Group's customers, market and industry conditions or otherwise, it is likely to have a material adverse effect on the Group's business, results of operations and financial condition in the longer term. In particular, this may affect the Group's ability to achieve its profitability and cash flow objectives and, consequently, it may impact on the future funding requirements of the business. There can be no assurance that the telecommunications market will improve within any particular timeframe or at all, or that it will not experience subsequent, and possibly more severe and/or prolonged, downturns in the future. THE GROUP IS CURRENTLY NOT PROFITABLE AND HAS BEEN EXPERIENCING NET OPERATING CASH OUTFLOWS, AND WILL NEED TO EFFECT FURTHER CHANGES IN ITS BUSINESS IN ORDER TO ACHIEVE ITS NEAR-TERM FINANCIAL OBJECTIVES. The Group is currently not profitable and has been experiencing net operating cash outflows, and has not made an operating profit (before exceptional items and goodwill amortisation) in any fiscal quarter since the quarter ended 31 March 2002. The Group does not expect trading conditions in the telecommunications market to improve in the near-term and, as discussed above, there can be no assurance that such conditions will improve at all. Accordingly, the Group's ability to become profitable and generate positive cash flow depends significantly on improving gross margins through changes in product mix, achieving operating efficiencies, and reducing operating costs, as well as there being no further material decline in sales. a. Improvement in gross margins. The Group is aiming to improve gross margins within the Core businesses to between 24 and 27 per cent. during the year ending 31 March 2004. This target assumes that trading conditions in the telecommunications market will not change materially over this period from current conditions. The Group will accordingly seek to increase its gross margins by focusing its sales on higher margin products and through further supply chain rationalisation, lower unit product cost from on-going re-engineering of its products and further improvements and efficiencies in its manufacturing process, such as lower materials costs. If sales of higher margin products do not increase as a proportion of total sales and unit production costs do not fall as expected, the Group may not be able to achieve the improvement in gross margins it anticipates. Moreover, competitive pressures may compel the Group to reduce prices, such that gross margins remain steady or decrease, even if production costs fall. b. Reduction in operating costs (before goodwill amortisation and exceptional items). The Group is aiming to reduce the annual operating cost run-rate of the Core businesses (before goodwill, amortisation and exceptional items) to below L450 million during the financial year ending 31 March 2004, as compared with a run rate at 31 December 2002 of L550 million (before goodwill, amortisation and exceptional items). The Group will seek to achieve these cost reductions primarily through further planned reduction in headcounts as a result of further rationalisation of its activities and from natural attrition in its workforce. Reduced spending on sales and marketing initiatives and professional fees are also expected to contribute to operating cost savings. However, the actions that will be required to achieve this cost base target have

not yet been fully implemented, so there is a risk that the Group may not achieve this forecast operating cost run rate or that it will not do so within the anticipated timeframe. c. No further decline in sales levels. The Group's sales have declined quarter on quarter for the past five quarters, reflecting the current downturn in the telecommunications industry as a whole. While the Group expects the market to recover at some stage, if sales in the Group's Core businesses continue to decline materially for a prolonged period, it is unlikely that the Group will be able to return to and maintain profitability or generate positive cash flow solely through gross margin improvements and operating cost reductions. 177 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- Because of these risks and uncertainties, as well as the other risks and uncertainties discussed in this Section, there can be no assurance that the Group's actual experience will correspond with its assumptions and expectations, and thus no assurance that the Group will be able to return to profitability or generate positive operating cash flows within a particular timeframe or at all. Moreover, even if the Group does attain profitability and positive operating cash flow, it may not be able to sustain or increase this from quarter to quarter or from year to year. Failure of the Group to become and remain profitable and to generate positive operating cash flow may affect its ability to pay interest and principal on the New Notes when due and will affect its ability to pay dividends on the Corp Shares. The Group may find it has limited or no ability to raise additional capital through offerings of debt or equity securities in the capital markets in the near or medium term. A RELATIVELY SMALL NUMBER OF CUSTOMERS ACCOUNT FOR A LARGE PROPORTION OF THE GROUP'S BUSINESS. IN PARTICULAR, THE LOSS OF BRITISH TELECOMMUNICATIONS PLC AS A CUSTOMER WOULD HAVE A SIGNIFICANT ADVERSE EFFECT ON THE GROUP'S RESULTS. A relatively small number of customers account for a significant proportion of the Group's turnover. In the six months ended 30 September 2002, sales to the Group's 10 largest customers represented approximately 46 per cent. of turnover of the Group's Core businesses. Because of this concentration, adverse changes that affect only a small number of customers or customer relationships could have a significant adverse effect on the Group's results. British Telecommunications plc and its subsidiaries are of particular importance to the Group. For the six months ended 30 September 2002, sales to BT represented approximately 17 per cent. of turnover of the Group's Core businesses. The loss of BT as a customer or any substantial reduction in orders by BT, particularly for the products and services of the Core businesses, would have a significant adverse effect on the Group's results. PERCEPTIONS OF UNCERTAINTY SURROUNDING THE FUTURE PROSPECTS OF THE GROUP MAY HAVE AN ADVERSE EFFECT ON ITS BUSINESS. In deciding whether or not to buy the Group's products or services, potential and existing customers are likely to consider certainty of supply as part of their procurement decision-making process. Although the Restructuring process has made it possible for the Group to continue to operate, perceptions of uncertainty may remain with respect to its financial condition and business prospects. By comparison, some competitors may have more secure balance sheets and may be perceived as more attractive suppliers. If new customers are not won, or if existing customers do not continue to place orders or are lost, it would materially adversely affect the Group's business and results of operations. In addition, perceived uncertainties associated with the Group may adversely affect existing relationships with suppliers. If suppliers become concerned about the ability of the Group to pay its creditors, they may demand shorter payment terms or not extend normal trade credit, either of which would adversely affect the Group's working capital position. The Group may not be successful in obtaining alternative suppliers if the need arises and this would adversely affect its results of operations. THE GROUP OPERATES IN A HIGHLY COMPETITIVE AND RAPIDLY CHANGING MARKET AND MAY BE UNABLE TO INVEST SUFFICIENTLY IN RESEARCH AND DEVELOPMENT TO SUSTAIN OR INCREASE SALES OF ITS PRODUCTS. The Group's products are sold in markets that are characterised by rapid adoption of new technologies, many new product introductions, shortening product lifecycles and evolving industry standards. If the Group's products cease to be competitive, the Group would be likely to lose customers and sales, which would materially adversely affect the Group's business, results of operations and financial condition. The process for developing new products based on rapidly moving technologies for broadband fixed networks and optical networks is complex and variable. It requires innovative solutions that are cost effective and based on accurate insights into technology and trends. Success depends on the timely and effective introduction of new products or enhancements to existing products in a way that meets customer needs and differentiates the Group's products from those offered by its competitors. At the same time, these new product introductions must achieve 178 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF

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----- market acceptance, anticipate and accommodate emerging industry standards and be compatible with current and competitor products. If there is an unforeseen change in one or more of the technologies affecting telecommunications the Group's products may cease to be competitive. As part of its cost reduction effort, the Group has refocused and significantly reduced its spending on research and development. The Group is aiming to reduce overall research and development spending with a target spend of around 10 per cent. of Core sales. The Group has focused more of its research and development expenditure on Core products and intends to devote an increasing proportion of spending to the optical networks and broadband routing and switching businesses. However, this may not be sufficient to maintain the competitiveness of the Group's Core products or enable it to increase its market share in key market segments. Moreover, as discussed above, the Group will be subject to restrictive covenants and other limitations and is likely to have difficulty obtaining additional sources of financing, which may affect its ability to increase spending or otherwise develop its technologies effectively. A number of the Group's competitors have greater financial and technological resources than the Group and, therefore, are in a better position to invest in developing and acquiring proprietary technology, to expand into new business segments and to increase their market shares. The Group may not be able to develop new products and services at the same rate, maintain compatibility of its products with competitors' products or keep up with technology market trends. If the Group's products and services are not competitive, it is likely that the Group will lose customers and business, its turnover will decline and its business will be materially adversely affected. **THE GROUP IS DEPENDENT ON KEY MANAGEMENT PERSONNEL AND SKILLED TECHNOLOGY WORKERS WHOSE DEPARTURE COULD ADVERSELY AFFECT THE GROUP'S ABILITY TO DEVELOP ITS PRODUCTS AND OPERATE ITS BUSINESS.** The overall headcount of the Group's Core business has been reduced to approximately 16,000 at 31 December 2002 from 33,000 at 31 March 2001, excluding the impact of the discontinued operations (medical systems, data systems and strategic communications). This reduction has been due to the implementation of cost-reduction plans and disposals of assets and businesses. Included in the number of employees that have left the Group are managers with many years of experience in the management and operations of the Group's business as well as highly skilled technology workers and other employees with years of operational experience in the Group's business. Further workforce reductions are planned and could include key employees with valuable skills and knowledge whose departure would adversely affect the Group's ability to continue to develop new and enhance existing products. At the same time, the uncertainties associated with headcount reductions and the Group's prospects generally may cause key employees to leave and otherwise increase employee and management turnover, which may contribute to and result in inefficiencies in running the Group's business. In addition, following the Restructuring, the incentive arrangements offered by the Group may be perceived as unattractive in comparison with those offered by the Group's competitors, which may make it more difficult to retain personnel and attract qualified replacements for those who leave. The loss of additional key managers and highly skilled technology workers may result in the Group's inability to develop new products on a timely basis, improve current technologies or operate its business efficiently. **THE GROUP IS RELIANT ON THE CONTINUED PERFORMANCE OF THIRD PARTIES IN RELATION TO CERTAIN OUTSOURCING ARRANGEMENTS.** The Group relies on outsourcing arrangements for the manufacture of certain products and components and is considering further potential outsourcing opportunities in its supply chain and logistics organisation and with respect to information technology. If the third parties on whom the Group relies or will rely in relation to these outsourcing arrangements do not fulfil their obligations under such contracts, or seek to terminate or change the terms of their contracts due to perceived uncertainty with respect to the Group's ongoing ability to perform under such contracts, or if the Group does not otherwise properly manage these relationships, such supplies or services could be severely disrupted or reduced. A significant increase in the price of key supplies or services or constraints on suppliers' capacities, particularly during periods of significant demand, in the absence of an alternative supplier, would adversely affect the Group's business. Moreover, outsourcing initiatives ultimately 179 I.

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----- may not yield the benefits the Group expects, and may raise product costs and delay product production and service delivery. The Group's outsourcing arrangements are discussed in Part A.7 of this Section. **MEASURES TO REDUCE OPERATING COSTS COULD ADVERSELY AFFECT RELATIONS WITH EMPLOYEES OF THE GROUP, ITS SUPPLIERS AND/OR ITS PARTNERS,**

WHICH COULD DISRUPT ITS BUSINESS. In order to further reduce operating costs, the Group intends to reduce the size of its workforce, in part through further rationalisation of its activities and outsourcing initiatives, and to seek to renegotiate certain existing contracts with suppliers and partners in order to obtain more favourable terms. The implementation of these plans may increase demands on, and/or negatively impact relations with, employees of the Group and its suppliers and partners. Such negative impact may result in a diminution in employee morale, labour disruptions, industrial action and/or labour-related law suits against the Group, its suppliers or partners. Any of these results could diminish the efficient operation of the Group's business, disrupt services at the facilities of the Group, its suppliers or partners and inhibit the realisation of the operating cost reductions that are fundamental to the Group's financial objectives, which would have a material adverse effect on the Group's business, financial condition and results of operations. In Europe, particularly, employees are protected by laws giving them, through local and central work councils, rights of consultation with respect to specific matters regarding their employers' business and operations, including the downsizing or closure of facilities and employee terminations. These laws, and collective bargaining agreements to which the Group, its suppliers or partners may be subject, could impair the Group's flexibility as it continues to pursue reductions in operating expenses. THE GROUP'S FINANCIAL REPORTING SYSTEMS REQUIRE SIGNIFICANT OPERATIONAL RESOURCES. As a result of the rapid expansion of the Group in 1999 and 2000, the number of different acquired systems, the deferral of the introduction of a Group-wide FRP system due to cost considerations and the disposal of a number of businesses from the Group, the operation of the Group's financial reporting systems has required and will continue to require considerable personnel resources. Taken together with the demands of the Restructuring process, this has placed significant pressure on the resources of the finance function. The Group is also in the process of implementing a number of changes to its consolidation and financial reporting systems, with a view to streamlining the existing reporting processes. Although Corp and plc currently believe that the Group's financial reporting systems are, and without the changes referred to above would remain, fit for purpose, the continued effectiveness of these systems following the Restructuring is dependent on a combination of the continued availability of sufficient finance team resources and any changes that are made to the financial reporting system being successfully implemented. FUNDING OF PENSION PLANS MAY BECOME MORE DIFFICULT. The interaction of poor equity markets and low interest rates over the last several years has had a significant negative impact on the funded status of and liabilities under the Group's defined benefit pension plans and contribution obligations under such plans, more details of which are set out in Part D.11 of this Section. Corp either sponsors such plans or is exposed to liabilities with respect to plans sponsored by affiliates or former affiliates. It is possible that unless equity markets and/or interest rates improve, such obligations may require Corp and/or its affiliate sponsoring companies to such plans to make additional contributions. Likewise, changes in the statement of investment principles of the UK plans, the actuarial assumptions employed in conjunction with any such plans or legislation could also result in a need for Corp and/or its affiliates to make additional contributions to such plans. Corp does not believe that (as at 5 April 2002, the date for when figures are last available) the UK Plan has a funding deficit (by reference to the plan's own on-going basis), however investment conditions have deteriorated since 5 April 2002. If the UK Plan is wound up, however, then it is unlikely that it will have sufficient assets to discharge in full all liabilities, calculated on a winding-up rather than an on-going basis. No plans have been made to wind up the UK Plan but should such a decision be made (as opposed to operating it as a plan closed to new members), Corp and the participating Group Companies would (under current legislation) be required to make good any statutory debt (if there is one). If a statutory debt were to arise, the size of the debt (relative to the 180 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- Group's assets) could have a materially detrimental effect on the Group's resources. The significance of the potential detrimental effect should be seen against Corp's estimate that (as at 5 April 2002) the value of the UK Plan's assets was L2.495 billion and the value of its liabilities was L2.494 billion. There is no guarantee that the value of the UK Plan's assets will not deteriorate nor that legislation will not be introduced to oblige employers to make further contributions to pension plans which are not fully funded on a specified basis which is stricter than that required by current legislation. In its Green Paper published on 17 December 2002, the UK government has said that it is considering replacing the statutory minimum funding requirement with a scheme-specific minimum funding level, which could be higher. Following the sale of General Domestic Appliances Holdings Limited in 2001, the trustee of the UK Plan is expected to make a payment to the

buyer's pension plan in respect of the accrued benefits of the employees who transferred to the buyer. Although a basis for calculation of the transfer amount was agreed in the sale agreement for the sale of General Domestic Appliances, the trustee of the UK Plan is not bound by this. Corp is responsible for 50 per cent. of any shortfall between the transfer amount agreed in the sale agreement and the amount actually paid by the trustee. Anticipating a shortfall at the time of the sale, an allowance of L3.255 million was made in the sale price. The information received by Corp to date is that the plan actuary intends to advise the trustee to calculate the transfer amount on a basis which would (apart from the allowance in the sale price) result in a liability for Corp under the shortfall obligation of approximately L1.47 million. Allowing for the price adjustment, Corp would on these figures be entitled to L1.785 million from the buyer. If the trustee does not follow the advice of the actuary or if the actuary changes his advice, Corp expects its maximum liability under the shortfall obligation to be L14.665 million (or L12.88 million if the net over-allowance by Corp is taken into account). The actuary is not bound by his representations and a final determination of the transfer amount is not likely until April or May 2003. There can be no assurance that the trustee will not decide to follow a basis which results in a greater liability for Corp than Corp currently expects or that any such liability would not have a material adverse effect on the Group. Indeed, if the trustee refuses or fails to transfer the whole or any part of the agreed amount, Corp will be liable to pay 50 per cent. of the shortfall (less the buyer's prevailing rate of corporation tax), which could produce a significant larger liability. **THERE IS A RISK THAT THIRD PARTY INTELLECTUAL PROPERTY RIGHTS WILL BE ASSERTED AGAINST THE GROUP.** The Group relies on patents, trade marks, trade secrets, design rights, copyrights, confidentiality provisions and licensing agreements to establish and protect its proprietary technology and to protect against claims from others. Infringement claims have been and may continue to be asserted against the Group or against its customers in connection with their use of the Group's systems and products. The Group cannot ensure the outcome of any such claims and, should litigation arise, such litigation could be costly and time-consuming to resolve and could result in the suspension of the manufacture of the products utilising the relevant intellectual property. In each case, the Group's operating results and financial condition could be materially affected.

**F.4 RISKS RELATED TO OWNERSHIP OF THE NEW SHARES, THE NEW NOTES AND THE WARRANTS THERE IS NO CURRENT TRADING MARKET FOR THE NEW SHARES, THE NEW NOTES OR THE WARRANTS, AND THE MARKET PRICES OF THE NEW SHARES, THE NEW NOTES AND THE WARRANTS MAY BE ADVERSELY AFFECTED BY SIGNIFICANT SELLING ACTIVITY IN THE PERIOD FOLLOWING IMPLEMENTATION OF THE RESTRUCTURING.** The New Shares, the New Notes and the Warrants comprise new issues of securities for which there is currently no public trading market. There can be no assurance as to the development or liquidity of any market for the New Shares, the New Notes or the Warrants. To the extent that the New Shares and the Warrants are traded after their initial issuance, they may trade at prices that are lower than the initial market values thereof depending on many factors, including prevailing interest rates and the markets for similar securities as well as technological, market, economic, legislative, political, regulatory and other factors. Similarly, the New Notes may, after their initial issuance, trade at a substantial discount to their principal amounts, depending upon prevailing interest rates, the market for similar securities, the performance of Corp and other factors. There can be no assurance that active trading markets will develop or be maintained for the New Shares, the Warrants or the New Notes. Significant sales of the New Shares, the Warrants or the New Notes would be likely to result in a decline in their respective market prices. It is likely that certain persons who receive New Shares or Warrants through the 181 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- Schemes will sell the New Shares or the Warrants they receive very soon after the Corp Scheme becomes effective and those securities are initially issued. These sales could result in significant downward pressure on the market price of the New Shares or the Warrants. Similar sales and corresponding price pressure could also affect the New Notes. **CORP WILL BE DEPENDENT IN PART ON FUNDS RECEIVED FROM ITS SUBSIDIARIES TO PAY INTEREST AND PRINCIPAL ON THE NEW NOTES AND TO PAY DIVIDENDS, IF ANY, ON THE NEW SHARES.** Corp is a holding company, its principal assets being its investments in its subsidiaries. As a holding company, Corp's ability to pay dividends on the New Shares and to pay interest and principal on the New Notes is dependent upon the receipt of funds from its subsidiaries by means of dividends, interest, inter-company loans or otherwise. The ability of its subsidiaries to make funds available to Corp is subject, among other things, to applicable corporate and other laws and restrictions contained in agreements to which such subsidiaries are subject. There can be no assurance that Corp's subsidiaries will be in a position to make

funds available. Any limitations on the ability of its subsidiaries to make funds available to Corp would have a corresponding adverse effect on Corp's ability to make payments of interest and principal on the New Notes and to pay dividends, if any, on the New Shares. In addition, the terms of the indentures governing the New Notes will significantly restrict the ability of Corp to pay dividends on Corp Shares while the New Notes are outstanding. Accordingly, Corp does not expect to pay dividends on Corp Shares for the foreseeable future. THE US RINGFENCING WILL GIVE RISE TO OPERATIONAL AND FINANCIAL INEFFICIENCIES AND OTHER COSTS WHICH MAY ADVERSELY AFFECT THE GROUP'S BUSINESS AND THE MARKET PRICE OF THE NEW SHARES. As described in Part A.2 of this Section certain of the Group's US businesses will be contractually separated or "ringfenced" from the rest of the Group upon implementation of the Restructuring. This US Ringfencing may have significant implications for holders of New Notes, as well as holders of New Shares. The covenants in the indentures governing the New Notes will regulate the type of financial, operational and other dealings that the Non-Ringfenced Entities can have with the Ringfenced Entities. The covenants in the New Notes will also require Corp to separate the North American Access Business, BBRS Business and OPP Business into separate subsidiaries within the US Ringfencing no later than the second anniversary of the issue date of the New Notes. Moreover, the Non-Ringfenced Entities will generally be prohibited from providing funding for any of the Ringfenced Entities and, following the separation of the three principal businesses within the US Ringfencing, the North American Access Business, BBRS Business and OPP Business will generally be prohibited from providing funding to each other. The Ringfenced Entities will enter into various agreements with the Non-Ringfenced Entities necessary to ensure that from the Effective Date those dealings that are permitted with each other will be provided in the ordinary course of business on an arm's-length basis or otherwise as permitted by the covenants in the indentures governing the New Notes. These arrangements for the provision of such services may lead to higher costs for the Group as a whole which may affect its results of operations, as well as Corp's ability to repay the New Notes. In addition to the foregoing, the operational and financial inefficiencies and other costs associated with the US Ringfencing arrangements could have an adverse effect on Corp's business and on the market price of the New Shares. CORP MAY BE UNABLE TO REPAY THE NEW NOTES AT MATURITY. Corp currently intends to repay any principal amount outstanding in respect of the New Notes at their maturity in part from cash generated by the Group. As discussed above, the Group currently is cash flow negative and its ability to generate significant positive cash flow in the future is subject to significant risks and uncertainties. If the Group is unable to generate sufficient cash to allow Corp to repay the New Notes at maturity, Corp would need to obtain other financing for this purpose. However, also as discussed above, Corp's ability to obtain such financing may be extremely limited. Accordingly, no assurance can be given that Corp will be able to repay any of the New Notes at their maturity.

182 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F ----- In the event that Corp is unable to repay the New Notes following an event of default or at their maturity (either from its own cash or from other sources of funding), no assurances can be given as to whether the proceeds of the security granted by Corp and the Guarantors in connection with the New Notes will be sufficient to meet any shortfall. Whilst the holders of the New Notes will have the benefit of the Security (as described in Appendix 10), such security: a. ranks in its entirety behind the security in favour of the providers of the Performance Bonding Facility; b. ranks behind certain cash collateral in favour of the providers of existing performance bonds; and c. in relation to the property located at Warrendale Pennsylvania, ranks behind the first mortgage in favour of Liberty Funding L.L.C. as provider of the Working Capital Facility to be made available to Marconi Communications, Inc. THE NEW NOTES ARE SUBJECT TO A REDEMPTION OBLIGATION AT A PREMIUM UPON A CHANGE OF CONTROL OF CORP WHICH MAY DISCOURAGE POTENTIAL BIDDERS. Upon the occurrence of specific kinds of change of control or merger events, Corp will be required to offer to repurchase all outstanding New Notes at the greater of 110 per cent. of their aggregate principal amount or a make whole amount based on 50 basis points above the yield on US treasuries of similar maturity plus, in each case accrued and unpaid interest. This obligation to redeem the New Notes at a premium could have the effect of deterring third parties who might otherwise offer to acquire a controlling interest in the Group or could adversely affect the terms on which any such offer is made. This redemption obligation may accordingly have an adverse effect on the market price of the New Shares and could deprive holders of the New Shares of an opportunity to receive a premium for their New Shares upon a change of control of the Group. THE FUNDING STATUS OF THE GROUP'S US PENSION PLANS AND THE AGREEMENT ENTERED INTO BY CORP WITH THE PBGC WITH RESPECT

TO THOSE PLANS COULD DELAY OR ADVERSELY AFFECT THE TERMS OF THE SALE OF THE GROUP'S US BUSINESSES. As described in Part D.11 of this Section, the funding status of certain tax-qualified defined benefit plans subject to the regulation of the Pension Benefit Guaranty Corporation ("PBGC") in the United States could result in action being taken by the PBGC that might delay or otherwise adversely affect the sale of the Group's US Businesses or assets used therein (or the net proceeds realised therefrom). The likelihood of such action will depend in part on the funded status of such plans at the time of any such sale, the creditworthiness of the purchaser following such sale and the extent to which the pension liabilities are assumed by the purchaser in any such sale. Although Corp has entered into a memorandum of understanding with the PBGC with a view to making such adverse action less likely, under this memorandum of understanding specified conditions must be satisfied in connection with any such sale. To the extent that these matters give rise to any delay or other adverse consequences with respect to the sale of the Group's US Businesses, holders of New Shares and New Notes, and in particular holders of New Junior Notes, could be adversely affected. **IT IS UNLIKELY THAT CORP WILL PAY DIVIDENDS FOR THE FORESEEABLE FUTURE.** Corp does not anticipate paying dividends on the New Shares in the foreseeable future. Moreover, even if Corp has distributable reserves and becomes cash flow positive and profitable and so is in a position to pay dividends, the indentures relating to the Notes significantly restrict its ability to pay dividends. Certain institutional investors may only invest in dividend-paying equity securities or may operate under other restrictions that may prohibit or limit their ability to invest in the New Shares. This may reduce the demand for the New Shares until Corp is able to pay dividends in respect of the New Shares, which may in turn adversely affect the price of the New Shares in the market.

**183 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F**

**----- PRE-EMPTIVE RIGHTS FOR NON-UK HOLDERS OF NEW SHARES MAY NOT BE AVAILABLE.** In the case of, amongst other things, an increase of the share capital of Corp, existing shareholders are entitled to pre-emptive rights pursuant to the Act and Corp's articles of association unless waived by a resolution of the shareholders at a general meeting or in the circumstances stated in Corp's articles of association. Even where pre-emptive rights apply, holders of the New Shares in the United States, South Africa, Australia, Canada and other jurisdictions outside the United Kingdom may in practice not be able to exercise pre-emptive rights in respect of their New Shares unless Corp decides to comply with applicable local laws and regulations and, in the case of holders of the New Shares in the United States, a registration statement under the US Securities Act is effective with respect to such rights, or an exemption from the registration requirements thereunder is available. Corp intends to evaluate at the time of any pre-emptive rights offering the costs and potential liabilities associated with any such registration statement and compliance with other applicable local laws and regulations, as well as the indirect benefits to it of thereby enabling or facilitating the exercise by holders of the New Shares in the United States and such other jurisdictions of their pre-emptive rights for new securities in respect of their New Shares and any other factors Corp considers appropriate at the time, and then to make a decision as to how to proceed and whether to file such a registration statement or comply with such other applicable local laws and regulations. No assurance can be given that any registration statement with respect to the securities offered under a pre-emptive issue would be filed or any such other local laws and regulations would be complied with to enable the exercise of such holders' pre-emptive rights. **IN THE EVENT OF ENFORCEMENT OF THE SECURITY FOR THE NEW NOTES AND THE PERFORMANCE BONDING FACILITY, THE NEW NOTES WILL RANK JUNIOR IN RIGHT OF PAYMENT TO THE PERFORMANCE BONDING FACILITY, THE NEW JUNIOR NOTES WILL RANK JUNIOR IN RIGHT OF PAYMENT TO THE NEW SENIOR NOTES, AND THE RIGHTS OF THE NEW JUNIOR NOTES TO TAKE ENFORCEMENT ACTION WITH RESPECT TO THE SECURITY WILL BE LIMITED.** Corp, the Guarantors, the indenture trustees for the New Notes and the agent under the Performance Bonding Facility, among others, will enter into a Security Trust and Intercreditor Deed that will establish the relative priorities among the New Senior Notes, the New Junior Notes and the Performance Bonding Facility in the event of enforcement of the security therefor. Following the occurrence of a payment default and/or an acceleration of the maturity of the New Senior Notes, all proceeds from enforcement of the security granted by Corp and the Guarantors to secure their respective obligations under the New Notes, the guarantees thereof and the Performance Bonding Facility will be applied as follows: - first, to the fees and expenses of the trustees and other agents; - second, to the banks providing the Performance Bonding Facility; - third, to repayment of the New Senior Notes; and - fourth, to repayment of the New Junior Notes. Under the terms of the Security Trust and Intercreditor Deed, no payments may

be made on the New Junior Notes (other than payments of interest in kind) and no redemptions of the New Junior Notes from the proceeds of asset sales may be made, subject to limited exceptions: (i) following a payment default under, or acceleration of, the New Senior Notes until the payment default or acceleration has been remedied or waived or unless at least a majority in principal amount of the New Senior Notes consent in writing or all liabilities arising under the New Senior Notes are paid in full, or (ii) following a standstill notice being delivered by the New Senior Notes Trustee to the Security Trustee (notifying it of the occurrence of a default under the New Senior Notes) for a period of up to 179 days. In addition, under the terms of the Security Trust and Intercreditor Deed, the holders of the New Junior Notes may not: - accelerate the New Junior Notes during a standstill period (as described in more detail in Part C of this Section); - take enforcement action against any security securing the New Junior Notes without the consent of the holders of the New Senior Notes or unless all liabilities arising under the New Senior Notes have been discharged in full; or 184 I. EXPLANATORY STATEMENT (IN COMPLIANCE WITH SECTION 426 OF THE COMPANIES ACT 1985) SECTION 2: FURTHER EXPLANATION OF THE RESTRUCTURING -- PART F

----- - amend the indenture for the New Junior Notes, with limited exceptions. Furthermore, if the holders of the New Senior Notes agree to waive a default or event of default and/or amend the New Senior Notes or the related indenture to address the circumstances leading to such default or event of default, the holders of the New Junior Notes will be deemed to have waived such default or event of default and/or the corresponding provisions of the New Junior Notes and the related indenture will be amended or supplemented to the same effect, in each case without the consent of any holder of New Junior Notes (but subject to certain limitations). THE VALUE OF THE GUARANTEES AND THE COLLATERAL MAY BE LIMITED BY APPLICABLE LAWS. Corp's obligations under the New Notes and the Performance Bonding Facility will be guaranteed by certain of Corp's subsidiaries that, with limited exceptions, must include on an ongoing basis (i) subsidiaries that together account for at least 80 per cent., and (ii) each subsidiary that individually accounts for more than 5 per cent, in each case, of the total assets, total external assets, total external sales, and (commencing as of 31 March 2005) total EBITDA of Corp and its subsidiaries. Corp and the Guarantors will, with limited exceptions, grant security over substantially all of their respective assets to secure their respective obligations under the New Notes and the guarantees as well as the Performance Bonding Facility. The obligations of the Guarantors will be limited under the relevant laws applicable to such Guarantors and the granting of such guarantees and/or security (including laws relating to corporate benefit, capital preservation, financial assistance, fraudulent conveyances, fraudulent transfers or transactions at an under value) to the maximum amount payable or secured such that such Guarantees or security will not constitute a fraudulent conveyance, fraudulent transfer or a transaction at an under value, or otherwise cause the Guarantor to be insolvent under relevant law or such guarantees or security to be void or unenforceable or cause the directors of such Guarantor to be held in breach of applicable corporate or commercial law for providing such Guarantee or security. As a result, a Guarantor's liability under its guarantee and/or the value of security granted could be reduced to zero. Notwithstanding the foregoing limitations to the guarantees, there can be no assurance that the provision of any guarantee by any particular Guarantor or Guarantors will not be challenged by a liquidator, administrator or other creditor of such Guarantor or Guarantors. If a court voided any guarantee or held it unenforceable, holders of New Notes would cease to have a claim in respect of the guarantee by the relevant Guarantor and, accordingly, would cease to be a creditor of such Guarantor. 185 II. THE CORP SCHEME

----- IN THE HIGH COURT OF JUSTICE  
 CHANCERY DIVISION COMPANIES COURT NO. 1783 OF 2003 IN THE MATTER OF MARCONI CORPORATION PLC AND IN THE MATTER OF THE COMPANIES ACT 1985

----- SCHEME OF ARRANGEMENT (UNDER SECTION 425 OF THE COMPANIES ACT 1985) ----- BETWEEN: MARCONI CORPORATION PLC AND ITS SCHEME CREDITORS (AS HEREINAFTER DEFINED) 186 II. THE CORP SCHEME ----- PART I PRELIMINARY RECITALS

DEFINITIONS A In this Scheme, unless the context otherwise requires or unless otherwise expressly provided for, the following expressions shall bear the following meanings: "ACCOUNT HOLDER" has the definition in Recital G(3); "ACCOUNT HOLDER LETTER" a letter in the form, or substantially in the form, set out as the annex to Appendix 28; "ACT" the Companies Act 1985; "ADMISSIBLE INTEREST" an amount in respect of any interest to which a Scheme Creditor is entitled to be paid by the Company or which has accrued but is not yet payable by the Company to a Scheme Creditor, whether by reason of contract, judgment against the Company, decree or otherwise,



in respect of the period up to and including, the Record Date; "ADMITTED" (1) when used of a Scheme Claim, the amount of any relevant claim which has been admitted by the Supervisors pursuant to clause 9 so as to qualify for Distributions; and (2) when used of a Scheme Creditor, that Scheme Creditor in respect of the amount of its Scheme Claim which has been admitted by the Supervisors as described in (1); "ADMITTED IN FULL" in connection with a Disputed Claim for the purposes of determining the currency or currencies in which New Senior Notes will be denominated only means Admitted in the amount set out against that Disputed Claim in the second column of Schedule 3 or in the second column of Schedule 3 of the plc Scheme as the case may be; "ADR" an American depositary receipt evidencing an American depositary share, each representing 10 New Shares, issued pursuant to the deposit agreement dated on or around 31 March 2003 between the Company, the ADR Depository, and the owners and beneficial holders of American depositary receipts; "ADR DEPOSITORY" Bank of New York, as depository under the deposit agreement relating to the ADRs; "AFFILIATE" in relation to the Company, a body corporate in which it has a direct or indirect interest as a shareholder of at least 25 per cent. of the issued ordinary share capital; "ALLOWED PROCEEDING" (1) any Ascertainment Proceeding in any jurisdiction commenced or continued by a person claiming to be a creditor of the Company and whether against the Company alone or against the Company and others which is commenced or continued (so far as the Company is concerned) for the sole purpose of ascertaining whether such person has (and, if so, the quantum of) a Scheme Claim including for the avoidance of doubt any adjudication pursuant to sub-clause 17(1) and Part VI; and (2) any proceeding by a Scheme Creditor to enforce its rights under the Scheme where the Company or the Supervisors fail to perform their respective obligations under the Scheme; "ANCRANE" Ancrane, an unlimited liability company incorporated in England and Wales with registered number 4308188, which is a subsidiary of plc; 187 II. THE CORP SCHEME

----- "ANCRANE DIRECTION" (1) the irrevocable direction given by Ancrane to the Company directing the Company to deliver to plc any Scheme Consideration to which Ancrane is entitled pursuant to any Claim Form filed by it in respect of the Known Claim listed against its name in Schedule 3 (which, for the avoidance of doubt, does not include any claim or entitlement in respect of Bonds of which Ancrane is the Bondholder); together with (2) the irrevocable authorisation and direction given by Ancrane to each of the Eurobond Trustee, the Yankee Bond Trustee, the Escrow Trustee, the supervisor of the plc Scheme and the Supervisors to direct the Distribution Agent to pay all Scheme Consideration or distributions received pursuant to the plc Scheme to which Ancrane is entitled by virtue of its holding of Bonds to plc; "ASCERTAINMENT PROCEEDING" any action or other legal proceeding including any judicial review, arbitration, alternative dispute resolution or adjudication; "ASSET SALE" has the meaning given to it in the New Junior Notes' indenture and in Appendix 8; "BANK OF NEW YORK" The Bank of New York, a New York banking corporation having an office at 101 Barclay Street, New York, New York, 10286, U.S.A.; "BANKS" the banks, financial and other institutions which provide the Existing Facility to the Company as at the Record Date; "BASIC KNOWN CLAIMS SEGMENT" has the meaning given to it in sub-clause 21(3)(a); "BASIC RESERVE CLAIMS SEGMENT" has the meaning given to it in sub-clause 21(3)(b); "BASIC SCHEME CONSIDERATION" the Cash and the New Rights as further described in sub-clause 21(1); "BONDHOLDER COMMUNICATIONS" Bondholder Communications Group, a New York corporation having an office at 30 Broad Street, 46th Floor, New York, NY10004 U.S.A.; "BONDHOLDER" a person with the ultimate economic interest in any of the Bonds; "BOND ISSUES" the Euro Issues and the Yankee Issues; "BONDS" all or any of the Eurobonds and the Yankee Bonds; "BOOK-ENTRY DEPOSITORY" Bank of New York in its capacity as book-entry depository in relation to the Yankee Bonds (or, from time to time, any successor to Bank of New York as such book entry depository); "BUSINESS DAY" any day on which banks are open for general business in both London and New York; "CASH" the sum of L340,000,000, plus any Excess Cash, to be distributed to Eligible Recipients in accordance with the provisions of the Scheme; "CHANGE OF LAW" a change of law or regulation since 27 March 2003 in any jurisdiction, such that distribution of securities pursuant to the Scheme to a person in such jurisdiction would be prohibited (if previously permitted) or permitted (if previously prohibited) pursuant to sub-clause 30(7); "CLAIM FORM" each or any of the claim forms to be completed by or on behalf of a Scheme Creditor (or its duly authorised agent) detailing its Scheme Claim substantially in the form which is set out in Appendix 30; "CLEARSTREAM, LUXEMBOURG" Clearstream Banking, societe anonyme; "COMPANY" Marconi Corporation plc, a company incorporated in England and Wales with registered number 67307; "CONCLUSIVELY REJECTED" when used of a Scheme Claim or part thereof means that following a notice of rejection given pursuant to clause 16 either: (1) the decision of the Supervisors in relation to that Scheme Claim (or part thereof) has been

upheld (in whole or in part) by a determination in an Allowed Proceeding pursuant to clause 18 or by adjudication pursuant to Part VI; or (2) the Company has been released from that Scheme Claim (or part thereof) pursuant to clause 20; "CONSOB" The Commissione Nazionale per le Società e la Borsa, the public authority responsible for regulating the Italian securities market; 188 II. THE CORP SCHEME

----- "CO-ORDINATION COMMITTEE" the co-ordination committee of Banks which has acted in connection with the restructuring proposals, the present members being Barclays Bank PLC, HSBC Bank plc, London Branch, JPMorgan Chase Bank, The Royal Bank of Scotland plc and Commerzbank Aktiengesellschaft, London Branch and of which Intesa BCI S.p.A. was a member from 22 October 2001 to 5 March 2003; "CORP GROUP" the Company and its Affiliates; "CORP/PLC MODEL" the distribution model described in sub-clause 27(2); "CORP SPV" Regent Escrow Limited, a limited liability special purpose company incorporated specifically to act as escrow trustee pursuant to the Scheme and the plc Scheme; "COURT" the High Court of Justice of England and Wales; "COURT HEARING" the hearing of the Company's application to the Court requesting the Court's sanction of the Scheme; "CREDITORS' COMMITTEE" the committee of Scheme Creditors established and operated pursuant to and in accordance with Parts VIII and IX; "CREST" the system for the paperless settlement of trades in listed securities of which CRESTCo Limited is the operator; "CURRENCY RATE" the Exchange Rate on the last Business Day before the meeting of creditors of the Company convened pursuant to the order of the Court is held (being, in the case of an adjournment of that meeting, the day the last meeting pursuant to such adjournment is held); "DEFINITIVE HOLDER" the registered holder of a Yankee Bond in definitive form and the bearer (whether pursuant to an attornment or otherwise) of a Eurobond in individual global form other than a Eurobond in individual global form in respect of which no Account Holder Letter has been delivered pursuant to the arrangements described in Recital G(4); "DEPOSITARIES" the holders for the time being of the global bonds described in Recital G(5) in respect of which no Account Holder Letter has been delivered; "DESIGNATED RECIPIENT" a person specified in the valid Account Holder Letter (or, in the case of Ancrane, in the Escrow and Distribution Agreement) relating to a particular principal amount of Bonds as being the recipient of any part of the First Initial Distribution and of any further Distribution in respect of those Bonds and includes, in the case of any cash distributed as part of any Distribution made in respect of the Eurobonds, each person to whom such cash is distributed through Euroclear or Clearstream, Luxembourg; "DIRECTORS" the directors of the Company from time to time; "DISPUTED CLAIMS" those Known Claims in Schedule 3 to which note 6 to that Schedule applies; "DISTRIBUTION" a distribution of Elements of the Scheme Consideration to Eligible Recipients in accordance with the Scheme; "DISTRIBUTION AGENT" Bank of New York as distribution agent pursuant to the Escrow and Distribution Agreement and any successor from time to time; "DISTRIBUTION ENTITLEMENT" the entitlement under the Scheme of an Admitted Scheme Creditor to a Distribution; "DISTRIBUTION NOTICE" an irrevocable notice served by the Supervisors on the Escrow Trustee (with a copy to the Distribution Agent) instructing the Escrow Trustee to direct the Distribution Agent to make a Distribution; "DTC" The Depository Trust Company of New York; "EFFECTIVE DATE" the date on which an office copy of the order of the Court sanctioning the Scheme shall have been delivered to the Registrar of Companies for registration; 189 II. THE CORP SCHEME

----- "EFFECTIVE TIME" the time at which the office copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies for registration; "ELEMENT" when used of any of the Basic Scheme Consideration, the plc Distribution Supplement, any plc Receipts and any Rejected Claim Supplement, each of the New Rights and the Cash (and, in the case of the plc Distribution Supplement, any plc Receipt or any Rejected Claim Supplement, any other Property); "ELIGIBLE RECIPIENT" (1) in relation to an Admitted Scheme Claim other than Scheme Claims in respect of Bonds, the Scheme Creditor; and (2) in relation to an Admitted Scheme Claim in respect of Bonds, the relevant Designated Recipient; "EMPLOYEE" any partner in the same firm as the Supervisors, or any person employed, whether under a contract of service or a contract for services, by that firm or by any company owned by that firm, who is employed by the Supervisors in accordance with Part VII in connection with the conduct of the Supervisors' functions and powers under the Scheme; "ESCROW AND DISTRIBUTION AGREEMENT" the agreement entered into on 27 March 2003 between, inter alios, the Company, the Supervisors, the Escrow Trustee and the Distribution Agent in the form set out in Appendix 7, a condition precedent to the effectiveness of which (in so far as it relates to the Scheme) is the occurrence of the Effective Time; "ESCROW TRUSTEE" Corp Spv, appointed as escrow trustee under the terms of the Escrow and Distribution Agreement and any successor from time to time; "ESOP BANKS" Barclays Bank PLC, Salomon

Brothers International Limited and UBS AG; "ESOP ESCROW AGREEMENT" the escrow agreement between plc, the Company, HSBC Bank plc and Barclays Bank PLC dated 13 December 2002; "ESOP SETTLEMENT AGREEMENT" the ESOP settlement agreement dated 26 March 2003 between the Company, plc, HSBC Bank plc, the ESOP Banks and Bedell Cristin Trustees Limited; "EURO" or "E" the single currency of those member states of the European Communities that have adopted (or adopt) the euro as their lawful currency under the legislation for the European Union for European Monetary Union; "EUROBONDS" all or any of the bonds comprising the Euro Issues; "EUROBOND TRUSTEE" The Law Debenture Trust Corporation p.l.c. in its capacity as trustee under the Trust Deeds; "EUROCLEAR" Euroclear Bank S.A./N.V., as operator of the Euroclear system; "EURO ISSUES" E500,000,000 5.625 per cent. bonds due 2005 and E1,000,000,000 6.375 per cent. bonds due 2010, both issued by the Company and both guaranteed by plc; "EXAMINATION PERIOD" has the meaning given to it in sub-clause 24(2); "EXCESS CASH" any Net Proceeds of Asset Sales, other than up to L82,000,000 of Excluded Asset Sale and Liquidation Proceeds, received by the Company or any of its Subsidiaries on or after 1 December 2002 and before 1 May 2003; "EXCHANGE RATE" means the mid-point rate of exchange on the relevant Business Day for the conversion of one currency to another currency as published in the Financial Times, (or, if the Financial Times is not published, in the International Herald Tribune or another internationally recognised newspaper) on the following Business Day; "EXCLUDED ASSET SALE AND LIQUIDATION PROCEEDS" has the meaning given to it in the New Junior Notes' Indenture and in Appendix 8; 190 II. THE CORP SCHEME

----- "EXCLUDED CLAIM" any claim or right which a person is or may in any circumstances become entitled to bring or enforce against the Company in respect of any Liability of the Company in each and every case (save as otherwise provided below) in existence as at the Record Date or to which the Company may become subject after that date by reason of any Liability of the Company incurred before that date in respect of any of the following: (1) claims of employees who were employed by the Company at the Record Date under their respective contracts of employment and fee arrangements of Directors (who were directors of the Company at the Record Date) including those set out in part I of Appendix 9; (2) the Company's Liability in respect of any promise or arrangement to provide pensions, allowances, lump sums or other like benefits on retirement, death, termination of employment (whether voluntary or not), or during periods of sickness or disablement, which are for the benefit of any officer or former officer or employee or former employee of the Marconi Group or for the benefit of persons dependent on any such persons, including any guarantees and indemnities given by the Company to trustees or administrators of arrangements providing such benefits and any statutory liabilities owing to any government authority (including the Pension Benefit Guaranty Corporation) in respect of any such promises or arrangements, including those set out in part I of Appendix 9; (3) certain guarantee or indemnity obligations of the Company given in respect of obligations of Affiliates which are considered to be beneficial to that Affiliate's ongoing operations as set out in part I of Appendix 9; (4) Liabilities in respect of Trading Obligations of the Company or its Affiliates under contracts where, and to the extent that, the Company is a joint or joint and several obligor with one or more Affiliates including those set out in part I of Appendix 9; (5) contractual obligations, including warranty and indemnity obligations, of the Company under disposals and acquisitions (each otherwise than in the Ordinary Course of Business), demergers, mergers and joint ventures and any Pre-Disposal Liabilities including those set out in part I of Appendix 9; (6) intra-group loan and trading account claims against the Company by any Affiliate; (7) the Company's Liabilities under commercial contracts or licences relating to the Corp Group and ongoing trading operations of Affiliates to which the Company is a party and which are regarded as beneficial to the Corp Group's ongoing operations and the documentation which has been entered into prior to the Record Date in connection with the proposed financial restructuring of the Company and plc pursuant to the Scheme and the plc Scheme in each case as set out in part I of Appendix 9; (8) the Company's Ordinary Course of Business Liabilities incurred in connection with the supply of goods and/or services to the Company as set out in part I of Appendix 9; (9) the Company's Liabilities to third parties which are covered by Insurance and Liabilities of the Company which would be covered by Insurance but for; (a) any excess, deductible or limit of liability applicable under any Insurance to any such Liability; or (b) any insurer failing to satisfy any Insurance claim in full when payable when the insurer is in liquidation or provisional liquidation or administration under the Insolvency Act 1986 or subject to any scheme of arrangement under section 425 of the Act (or any equivalent or analogous proceeding or arrangement in any other jurisdiction, including any proceeding under chapter 11 of the US Bankruptcy Code); or (c) the Insurance or any claim under it being void or avoided by any insurer, being Liabilities of the Company in respect of which the third party would have

rights against the insurer under that Insurance by virtue of section 1 of the Third Party (Rights against Insurers) Act 1930 in the event that any of the events set out in section 1(1)(b) of that Act occurred with respect to the Company; (10) Preferential Claims; (11) rights of indemnity of directors and officers of the Company (who were directors and/or officers of the Company at the Record Date) against the Company under its articles of association and at common law; (12) costs, fees and expenses of: (a) all advisers to the Company; (b) the Prospective Supervisors and their advisers; (c) the Escrow Trustee and its advisers; (d) the Distribution Agent and its advisers; (e) the Eurobond Trustee and its advisers; (f) the Yankee Bond Trustee and its advisers; (g) the Co-ordination Committee and its advisers; (h) the Informal Committee of Bondholders and its advisers; (i) Bondholder Communications; (j) the Sponsors and their advisers; (k) the ESOP Banks and their advisers; (l) the trustee of the New Senior Notes and its advisers; (m) the trustee of the New Junior Notes and its advisers; and (n) the security trustee in respect of the New Notes, (and any Liability under any engagement letter or similar arrangement entered into by the Company with such parties) incurred in connection with the consideration, negotiation and implementation of the restructuring of the Company and plc in each case as set out in part I of Appendix 9; (13) Liabilities of the Company to a creditor where such Liabilities in aggregate to that creditor do not exceed L5,000 (which, for the avoidance of doubt, do not include any Liabilities in respect of Bonds); (14) the Company's Liabilities in respect of Unclaimed Dividends; (15) the Company's Liabilities in respect of the lease of the property at 329-333 High Street, Stratford, London; (16) the Company's Liabilities under the restructuring undertaking agreements with each ESOP Bank, the ESOP Escrow Agreement, Mobile Escrow Agreement, Subsequently Sold Opco Escrow Agreements and the ESOP Settlement Agreement; (17) the Company's Liabilities in respect of any personal injury claims which are not excluded from the Scheme under sub-paragraph (9) above; and (18) the Company's Liability (if any) in respect of the Italian Implied Guarantee; "EXISTING FACILITY" the E6,000,000,000 syndicated credit facility dated 25 March 1998 between The General Electric Company p.l.c. (now the Company), HSBC Investment Bank plc (as agent), Marine Midland Bank (as US swingline agent) and the financial institutions named therein (as banks) as amended from time to time; 192 II. THE CORP SCHEME ----- "EXISTING SHARES" the 2,866,250,735 issued ordinary shares of 5 pence each in the capital of the Company as at the Record Date which will become Non-Voting Deferred Shares forthwith and conditionally upon the allotment of the New Shares to be allotted upon the issue of the First Initial Distribution Notice; "EXPLANATORY STATEMENT" the explanatory statement circulated with this Scheme pursuant to Section 426 of the Act; "FINAL DISTRIBUTION" the Distribution of all remaining Scheme Consideration made at the direction of the Supervisors which the Supervisors state in writing to the Company and the Creditors' Committee will be the final Distribution of Scheme Consideration; "FINAL DISTRIBUTION DATE" the date of the Final Distribution; "FIRST CLAIM DATE" 17 April 2003; "FIRST INITIAL DISTRIBUTION" the Initial Distribution to Eligible Recipients on the basis set out in clause 23; "FIRST INITIAL DISTRIBUTION NOTICE" the Distribution Notice in respect of the First Initial Distribution compiled by the Prospective Supervisors and presented at the Court Hearing detailing those Scheme Claims which the Prospective Supervisors are satisfied should properly be Admitted on the Effective Date; "FORCE MAJEURE" any act of God, government act, war, fire, flood, explosion, civil commotion or act of terrorism; "GOES INTO LIQUIDATION" has the meaning given in section 247(2) of the Insolvency Act 1986 and "GO" or "GOING" into liquidation shall be construed accordingly; "INDENTURE" the indenture dated 19 September 2000 between the Company, plc and the Yankee Bond Trustee and relating to the Yankee Bonds; "INFORMAL COMMITTEE OF BONDHOLDERS" the informal ad hoc committee of certain parties with interests in Bonds which has participated in the negotiation of the restructuring of the Company as detailed in Appendix 22; "INITIAL DISTRIBUTION" an initial distribution to Eligible Recipients of the Elements of Scheme Consideration on the bases set out in clause 23; "INSURANCE" any contract of liability insurance insuring the Company in respect of a liability which as at the Record Date is valid and enforceable; "ITALIAN IMPLIED GUARANTEE" the guarantee implied under Article 2362 of the Italian Civil Code which may arise as a result of the Company's sole shareholding in Marconi Finanziaria SpA for the period from March 2000 to 29 October 2001; "KNOWN CLAIMS" the Scheme Claims (including Admissible Interest thereon) listed in Schedule 3; "KNOWN CLAIMS SEGMENT" has the meaning given to it in sub-clause 21(4)(a); "KNOWN CLAIMS SUPPLEMENT" has the meaning given to it in sub-clause 27(3)(a); "KNOWN CREDITOR" a Scheme Creditor in respect of its Known Claim; "KNOWN REJECTED CLAIM SUPPLEMENT" has the meaning given to it in sub-clause 29(1)(a)(i); "KPMG" KPMG LLP, a UK limited liability partnership; "LIABILITY" or "LIABILITIES" any liability or obligation

of a person whether it is present, future, prospective or contingent, whether or not it is fixed or undetermined, whether or not it involves the payment of money or performance of an act or obligation and whether it arises at common law, in equity or by statute, in England and Wales or in any other jurisdiction, or in any other manner whatsoever, but 193

II. THE CORP SCHEME ----- such expression does not include any liability which is barred by statute or otherwise unenforceable under English law or arises under a contract which is void or, being voidable, has been duly avoided; "LIQUIDATION DISTRIBUTION PRINCIPLES" English law relating to dividends paid to creditors in a liquidation under English law; "LISTING" admission to the Official List maintained by the UKLA for the purposes of part VI of the Financial Services and Markets Act 2000 and to trading on the London Stock Exchange's market for listed securities and "LISTED" shall have a corresponding meaning; "MARCONI GROUP" plc and its Affiliates; "MOBILE ESCROW AGREEMENT" the escrow agreement between the Company, plc, Marconi Bruton Street Limited, HSBC Bank plc, the ESOP Banks, Bedell Cristin Trustees Limited and Slaughter and May dated 2 August 2002; "NASDAQ" the national market as operated by Nasdaq Stock Market, Inc.; "NET PROCEEDS" has the meaning set out in the New Junior Notes' indenture and in Appendix 8, save that the references therein to "Cash Equivalents" shall be treated as deleted; "NEW CREDITOR SHARES" the 995,000,000 new ordinary shares of nominal value 5p each in the capital of the Company, comprising 99.5 per cent. of the New Shares, which are to form part of the Scheme Consideration as described in sub-clause 21(1)(d); "NEW JUNIOR NOTES" the junior notes to be issued by the Company to the Escrow Trustee to hold on behalf of Scheme Creditors in respect of their Admitted Scheme Claims and to be issued on or substantially on the terms and conditions set out in Appendix 8; "NEW NOTES" the New Senior Notes and the New Junior Notes; "NEW RIGHTS" the New Notes and the New Creditor Shares; "NEW SENIOR NOTES" the senior notes to be issued by the Company to the Escrow Trustee to hold on behalf of Scheme Creditors in respect of their Admitted Scheme Claims and to be issued on or substantially on the terms and conditions set out in Appendix 8; "NEW SHARES" 1,000,000,000 new ordinary shares of 5 pence each to be issued by the Company to the Escrow Trustee to hold on behalf of Scheme Creditors in respect of their Admitted Scheme Claims and on behalf of plc Shareholders and which will carry the rights and be subject to the restrictions contained in the articles of association of the Company particulars of which are contained in Appendix 14 or, except as the context requires otherwise, the equivalent amount of such shares in the form of ADRs; "NOMINEES" Marconi Nominees Limited, a limited company incorporated in England and Wales with registered number 3854422; "NON-VOTING DEFERRED SHARES" the non-voting deferred shares of 5p each in the capital of the Company held by plc and Nominees arising from the conversion and re-designation of the Existing Shares forthwith and conditionally upon the allotment of the New Shares pursuant to the Scheme; "NOTIONAL RESERVE CLAIM" means a notional claim against the Company of L125,000,000; "ORDINARY COURSE OF BUSINESS" the ordinary day-to-day business activities carried on by the Company, conducted with a degree of regularity, or a one-off transaction concluded in the nature of trade and with a view to a profit and being such as might reasonably be expected to occur without requiring the specific authority of the board of directors; "PLC" Marconi plc, a public limited company incorporated in England and Wales under registered number 3846429; "PLC DISTRIBUTION SUPPLEMENT" (if any) the net additional cash and/or New Rights receivable by the Company pursuant to the Corp/plc Model (or any similar or analogous arrangements agreed by the 194

II. THE CORP SCHEME ----- Supervisors with the supervisors of the plc Scheme pursuant to sub-clause 27(5)) for distribution to Eligible Recipients with the Initial Distribution in accordance with clauses 26 and 27; "PLC RECEIPTS" distributions actually received by the Company from plc: (1) pursuant to the plc Scheme (but not, for the avoidance of doubt, any plc Distribution Supplement); or (2) if the plc Scheme does not become effective or subsequently terminates in accordance with its terms, from any liquidation, voluntary arrangement or scheme of arrangement (other than the plc Scheme) in respect of plc or otherwise received from plc; "PLC SCHEME" the scheme of arrangement in respect of plc under section 425 of the Act sent to certain creditors of plc with the Explanatory Statement with or subject to any modification, addition or condition approved or imposed by the Court; "PLC SHAREHOLDER" a registered holder of ordinary shares of nominal value 5p each in the capital of plc at the close of dealings in such shares on the last day of dealings in such shares on the London Stock Exchange prior to the Effective Date; "PLC SHAREHOLDER STOCK" the 5,000,000 new ordinary shares of nominal value 5 pence each, comprising 0.5 per cent. of the New Shares and which are to be dealt with in accordance with clause 31; "POST" delivery by pre-paid first class post or air mail; "PRE-DISPOSAL LIABILITIES" any Liability of the Company to a third party in respect of a former Affiliate of the Company which has been the subject of a disposal and

arising as a result of: (a) any financial or other guarantee, indemnity, counter-indemnity or similar arrangement given by the Company in respect of the obligations of that former Affiliate; or (b) any claim being made under a performance bond, bank guarantee or similar instrument in respect of that former Affiliate; "PREFERENTIAL CLAIM" any claim against the Company which would have been preferential under section 386 of the Insolvency Act 1986 if the Company were to have gone into liquidation on the Record Date and on the basis that the Record Date is the "relevant date" for the purposes of section 387 of the Insolvency Act 1986; "PROCEEDING" any process, action, legal or other proceeding including any arbitration, alternative dispute resolution, judicial review, adjudication, demand, execution, seizure, lien or enforcement of judgment; "PROHIBITED PROCEEDING" any Proceeding against the Company or its Property in any jurisdiction whatsoever other than an Allowed Proceeding; "PROPERTY" all forms of property tangible and intangible, including money, goods, things in action, land and every description of property wherever situated and also the benefit of obligations and every description of interest, whether present or future, vested or contingent or otherwise arising out of, or incidental to, property; "PROSPECTIVE SUPERVISORS" means Philip Wallace and Richard Heis being the persons that it is anticipated shall be appointed as Supervisors of the Scheme; "RECORD DATE" 5.00 p.m. (London time) on 27 March 2003; "REGISTRAR OF COMPANIES" the registrar or other officer performing under the Act the duty of registration of companies in England and Wales and including a deputy registrar; "REGISTRARS" Computershare Investor Services PLC, or such other person as the Company may appoint as its registrars for the purposes of the Scheme; "REJECTED CLAIM SUPPLEMENT" has the meaning given to it in sub-clause 29(1)(a); 195 II. THE CORP SCHEME

----- "RELEVANT DEDUCTION" the euro equivalent (calculated at the Currency Rate) of the aggregate amount of New Senior Notes which would be allocated in respect of Disputed Claims under each Scheme and in respect of the Notional Reserve Claim under each Scheme, assuming that those claims had been admitted in full and converted into Sterling at the Currency Rate (if required); "RESERVE CLAIM" a Scheme Claim which is not a Known Claim; "RESERVE CLAIMS SEGMENT" has the meaning given to it in sub-clause 21(4)(b); "RESERVE CLAIMS SUPPLEMENT" has the meaning given to it in sub-clause 27(3)(b); "RESERVE CREDITOR" a Scheme Creditor in respect of its Reserve Claim; "RESERVE REJECTED CLAIM SUPPLEMENT" has the meaning given to it in sub-clause 29(1)(a)(ii); "RESTRICTED JURISDICTION" each of France, Italy, Malaysia and the US states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont; "SCHEME" the scheme of arrangement in respect of the Company under section 425 of the Act in its present form or with or subject to any modification, addition or condition approved or imposed by the Court; "SCHEME CLAIM" any claim or right which a person is or may in any circumstances become entitled to bring or enforce against the Company in respect of any Liability of the Company in each and every case in existence as at the Record Date or to which the Company may become liable after that date by reason of any Liability of the Company incurred before that date, and including, for the avoidance of doubt but without double-counting and subject as provided in Recital I, the claims of the Depositories and of Definitive Holders in respect of Bonds but excluding always Excluded Claims; "SCHEME CONSIDERATION" the Basic Scheme Consideration together with any plc Distribution Supplement, plc Receipts and/or Rejected Claim Supplement; "SCHEME CREDITOR" subject as provided in Recital I, a creditor of the Company in respect of a Scheme Claim including, in respect of Scheme Claims in relation to the Bonds, for the avoidance of doubt and without double counting, the Depositories and all persons who become Definitive Holders pursuant to the arrangements described in Recital G or otherwise; "SCHEME IMPLEMENTATION DEED" the deed dated 27 March 2003 made between the Company, plc, E A Continental Limited, Ancrane, Nominees and others; "SCHEME RATE" the mid-point rate of exchange five Business Days prior to the Effective Date for the conversion of the relevant currency to another currency as published in the Financial Times (or, if the Financial Times is not published, in the International Herald Tribune or another internationally recognised newspaper) on the fourth Business Day prior to the Effective Date; "SDRT EXPENSE" any UK stamp duty or stamp duty reserve tax payable in respect of: (1) the issuance of ADRs to an Eligible Recipient who elects to receive any New Creditor Shares distributed to it pursuant to the Scheme or the plc Scheme in the form of ADRs; or (2) the issuance of ADRs to an Eligible Recipient who deposits any New Creditor Shares received pursuant to the terms of the Scheme or the plc Scheme (or an equivalent number of New Shares) into the Company's ADR programme prior to the date falling two calendar months after the effectiveness of the listing of the ADRs on NASDAQ in accordance with the procedures specified by the Company and the ADR Depository as described in the Explanatory Statement; "SPONSORS" Lazard Brothers & Co., Limited and Morgan Stanley & Co. Limited; "STERLING" or "L" pounds sterling or other lawful currency being the

currency of the UK for the time being; 196 II. THE CORP SCHEME

----- "SUBMITTED" when used of a Scheme Claim, that it has been duly submitted to the Prospective Supervisors or the Supervisors (as applicable) in accordance with clause 12; "SUBSEQUENTLY SOLD OPCO ESCROW AGREEMENT" an escrow agreement established in connection with an operating subsidiary of plc whose employees were entitled to participate in certain employee share option plans and which was sold after 28 August 2002; "SUBSIDIARY" has the meaning given to it in the New Junior Notes Indenture and in Appendix 8; "SUPERVISORS" the persons holding office as supervisors of the Scheme from time to time; "SUPERVISORS' ENGAGEMENT LETTER" the engagement letter dated on or around 31 March 2003 between the Company, KPMG and the Prospective Supervisors; "TERMINATION DATE" the date ten Business Days after issue of the Termination Notice; "TERMINATION NOTICE" a written notice served by the Supervisors on the Company, the members of the Creditors' Committee and the Scheme Creditors (being, in the case of the Bonds, the Definitive Holders the Eurobond Trustee and the Yankee Bond Trustee) at the termination of the Scheme as provided for in clause 110 and clause 116; "TRADING OBLIGATIONS" obligations of a commercial character incurred in the Ordinary Course of Business and which arise from the supply of goods or services in exchange for payment in money or money's worth; "TRUST DEEDS" the two trust deeds each dated 30 March 2000 between the Company, plc and the Eurobond Trustee and constituting the Eurobonds; "UK" the United Kingdom of Great Britain and Northern Ireland; "UKLA" the Financial Services Authority in its capacity as the competent authority for the purposes of part VI of the Financial Services and Markets Act 2000, including, where the context so permits, any committee, employee, officer or servant to whom any function of the UK Listing Authority may for the time being be delegated; "UNADMITTED" when used of a Scheme Claim, the amount of any relevant claim which has been Submitted but has neither been Admitted nor Conclusively Rejected; "UNCLAIMED DIVIDENDS" dividends declared prior to the Record Date on the Existing Shares but not claimed by the relevant shareholder or former shareholder as at the Effective Date; "UNDISTRIBUTED SCHEME CONSIDERATION" shall have the meaning given to it in sub-clause 25(1); "UNRESTRICTED JURISDICTION" each of the United Kingdom, Bahamas, British Virgin Islands, the Canadian provinces of Alberta, British Columbia, Ontario and Quebec, Cayman Islands, Guernsey, Jersey, Netherlands Antilles, the United States (as to federal securities law) and each state of the United States other than Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont; "USA" or "US" the United States of America; "US DOLLAR" or "US\$" United States dollars or other lawful currency being the currency of the USA for the time being; "WAITING PERIOD" the period of 12 months after the Effective Date or such shorter period as results from the operation of clause 24(1); "WARRANTS" up to 50 million warrants each entitling its holder to subscribe for one ordinary share of 5 pence each in the Company at a subscription price of 150 pence to be issued to or for the benefit of plc Shareholders on the basis described in the Scheme, and in particular Part IV, the conditions of which are set out at Appendix 12; "YANKEE BONDS" all or any of the bonds comprising the Yankee Issues; 197 II.

THE CORP SCHEME ----- "YANKEE BOND TRUSTEE" Bank of New York, in its capacity as trustee under the Indenture; and "YANKEE ISSUES" US\$900,000,000 7 3/4 per cent. bonds due 2010 and US\$900,000,000 8 3/8 per cent. bonds due 2030 both issued by the Company and both guaranteed by plc. INTERPRETATION B In this Scheme, unless the context otherwise requires or otherwise expressly provides: (1) references to Recitals, Parts, clauses, sub-clauses and Schedules are references to the Recitals, Parts, clauses, sub-clauses and Schedules respectively of the Scheme; (2) references to Appendices are references to the appendices to the Explanatory Statement; (3) references to a "person" include references to an individual, firm, partnership, company, corporation, unincorporated body of persons or any state or state agency; (4) references to a statute or a statutory provision include the same as subsequently modified, amended or re-enacted from time to time; (5) the singular includes the plural and vice versa and words importing one gender shall include all genders; (6) references to "including" shall be construed as references to "including without limitation" and "include" shall be construed accordingly; (7) headings to Recitals, Parts, clauses, sub-clauses, Schedules and Appendices are for ease of reference only and shall not affect the interpretation of the Scheme; (8) references to the Scheme becoming effective are references to the office copy of the order of the Court sanctioning the Scheme being delivered to the Registrar of Companies for registration; and (9) references to consents not being "unreasonably withheld" shall be construed as references to such consents not being "unreasonably withheld or delayed". THE COMPANY C The Company was incorporated in England and Wales on 27 September 1900 as a private limited company under company number 67307 and re-registered as a public limited company on 4 January

1982. D At the date hereof the Company has an authorised share capital of L300,000,000 divided into 6,000,000,000 ordinary shares of 5 pence each, of which 2,866,250,735 have been issued and are fully paid up or credited as fully paid up, and the remainder remain unissued. E At an extraordinary general meeting of the Company duly convened and held on 26 March 2003 there was passed a special resolution pursuant to which: (1) the directors are, forthwith and conditionally upon the Court making an order sanctioning the Scheme, authorised to allot relevant securities up to a maximum nominal amount of L69,100,000 and equity securities for cash: (a) pursuant to the Scheme; (b) pro rata to ordinary shareholders; and (c) otherwise up to a maximum nominal amount of L2,500,000; (2) forthwith and conditionally upon the allotment of new ordinary shares of 5 pence each pursuant to the Scheme: (a) the Company is to alter its memorandum of association by inserting a new object giving the Company the power to establish and operate share incentive plans and to establish trusts to operate in conjunction with these plans; 198 II. THE CORP SCHEME ----- (b) the Company is to adopt new articles of association; and (c) the 2,866,250,735 existing ordinary shares of 5 pence each are to be converted into non-voting deferred shares of 5 pence each; and (3) forthwith upon the said conversion taking effect and upon the entry in the register of members of the Company of the names of the persons to whom the said new ordinary shares have been allotted, the capital of the Company is to be reduced by the cancellation of the non-voting deferred shares of 5 pence each resulting from the said conversion and the cancellation of the share premium account of the Company.

BINDING OF THIRD PARTIES F The following persons involved in the implementation of the Scheme have undertaken to be bound to carry out their designated functions under the Scheme and, if applicable, the Escrow and Distribution Agreement: (1) the Supervisors; (2) the Escrow Trustee; (3) the Distribution Agent (4) the Registrars; (5) the Eurobond Trustee; (6) the Yankee Bond Trustee; (7) Bondholder Communications; and (8) plc. BONDS ISSUED BY THE COMPANY G Each of the Bond Issues is held under an arrangement whereby: (1) the Bond Issues are constituted by the Trust Deeds (in respect of the Eurobonds) and the Indenture (in respect of the Yankee Bonds), the trustees being the Eurobond Trustee and the Yankee Bond Trustee respectively; (2) the Bonds were initially issued in wholly global bearer form and were held by a depositary under systems designed to facilitate paperless transactions; (3) the systems involve immediate interests of persons in the Bonds being recorded in books or other records maintained, in the case of Eurobonds, by Clearstream, Luxembourg and Euroclear and, in the case of Yankee Bonds, by DTC, Clearstream, Luxembourg and Euroclear (such persons with interests being herein defined as "ACCOUNT HOLDERS"); (4) at the request of certain creditors of the Company, arrangements have been made for the global Bonds representing the Yankee Bonds to be exchanged in whole or in part for Yankee Bonds in definitive form registered in the names of the Definitive Holders specified in Account Holder Letters and the global Bonds representing the Eurobonds to be exchanged in whole for individual global Eurobonds in bearer form held on behalf of the Definitive Holders specified in Account Holder Letters; and (5) any unexchanged Yankee Bonds will, pending their exchange in accordance with subsequently delivered Account Holder Letters, continue to be held in global bearer form by the Book-Entry Depositary and any individual global Eurobonds in respect of which no Account Holder Letter has been delivered will be held by depositaries for Euroclear and Clearstream, Luxembourg. 199 II. THE CORP SCHEME ----- THE PURPOSE OF THE SCHEME H The purpose of the Scheme is to constitute a compromise and arrangement between the Company and the Scheme Creditors by: (1) the Scheme Creditors exchanging their Admitted Scheme Claims for the Scheme Consideration; and (2) providing full and effective releases of all of the Company's Liabilities in respect of Scheme Claims. THE BONDS AND THE SCHEME I With the agreement of the Eurobond Trustee, the Yankee Bond Trustee and the Book-Entry Depositary respectively: (1) Claim Forms in relation to the Bonds are to be returned by the Eurobond Trustee (in reliance on the promise to pay in favour of the Eurobond Trustee contained in the Trust Deeds) and the Yankee Bond Trustee (in reliance on section 5.04 of the Indenture and the promise to pay in section 10.01 of the Indenture) respectively; (2) persons with interests in or in respect of Bonds have been invited to instruct their Account Holders as to the manner in which the Account Holder Letter delivered in respect of each of the Bonds in respect of which they have an interest should be completed including, in particular, as to the identity of the Definitive Holder and any Designated Recipients; (3) none of the Eurobond Trustee, the Yankee Bond Trustee, the Book-Entry Depositary and the respective depositaries for Euroclear and Clearstream, Luxembourg will vote at the meeting of creditors of the Company convened at the direction of the Court and instead the Definitive Holders (as creditors of the Company for the purpose) will be the persons entitled to attend and vote at those meetings; (4) Scheme Consideration which is to be distributed in relation to the Bonds is, with the authority and at the direction of the Eurobond Trustee



and the Yankee Bond Trustee (as the persons with Submitted Scheme Claims in relation to the Bonds which will have been Admitted), to be distributed to Designated Recipients; (5) as a result, and subject as provided in Recital I(6) below, references in this Scheme to Scheme Creditors shall, in relation to the Bonds: (a) in the context of entitlements to make a Scheme Claim, submission of Claim Forms and receiving or directing the receipt of Scheme Consideration in respect of that Scheme Claim be construed as references only to the Eurobond Trustee and the Yankee Bond Trustee in relation to the Bonds; and (b) in the context of entitlement to be appointed to the Creditors' Committee and attend and vote at meetings of Scheme Creditors be construed as references only to the Definitive Holders; and (6) except where otherwise specifically provided, references in this Scheme to: (a) Scheme Creditors in relation to the Bonds in Parts II, VII (excepting clauses 53 and 55), X and XI (except clause 113) include the Eurobond Trustee, Bank of New York in its capacities as the Book-Entry Depository and the Yankee Bond Trustee, the respective depositaries for Euroclear and Clearstream, Luxembourg, the Depositaries and all persons who are Definitive Holders; and (b) Scheme Creditors in relation to the Bonds in Parts III, IV, V and VII (in clause 55) mean the Eurobond Trustee and the Yankee Bond Trustee as entitled claimants under the Scheme; 200 II. THE CORP SCHEME

----- (c) Scheme Creditors in relation to the Bonds in Part VII (in clause 53), VIII, IX and XI (in clause 113) mean the Definitive Holders; and references to related Scheme Claims shall be construed in the same manner. CURRENCY ELECTION J (1) The New Senior Notes to be issued as part of the Scheme Consideration may be issued denominated in both, or either, euro and US dollars. (2) New Senior Notes denominated in US dollars will only be issued if, following all elections made in Claim Forms and Account Holder Letters received by the Prospective Supervisors and Bondholder Communications respectively by the First Claim Date together with all equivalent currency elections made in accordance with the plc Scheme, elections have been made which would, assuming the plc Scheme becomes effective, result in an aggregate of at least the US dollar equivalent (calculated at the Currency Rate) of euro 250,000,000 (less the Relevant Deduction) of New Senior Notes being required to be distributed in the First Initial Distribution and the first initial distribution under the plc Scheme. (3) New Senior Notes denominated in euro will only be issued if, following all elections made in Claim Forms and Account Holder Letters received by the Prospective Supervisors and Bondholder Communications respectively by the First Claim Date together with all equivalent currency elections made in accordance with the plc Scheme, elections have been made which would, assuming the plc Scheme becomes effective, result in an aggregate of at least euro 250,000,000 (less the Relevant Deduction) of New Senior Notes being required to be distributed in the First Initial Distribution and the first initial distribution under the plc Scheme. (4) If no New Senior Notes denominated in US dollars are issued as a result of the mechanism described in Recital J(2), all of the New Senior Notes will be denominated in euro. (5) If no New Senior Notes denominated in euro are issued as a result of the mechanism described in Recital J(3), all the New Senior Notes will be denominated in US dollars. LISTING K The Scheme Consideration includes New Shares and New Notes. Application has been made for Listing of these New Shares and New Notes, together with the Warrants. 201 II. THE CORP SCHEME

----- PART II THE SCHEME APPLICATION AND EFFECTIVENESS OF THE SCHEME 1. (1) The compromise and arrangement effected by the Scheme shall apply to all Scheme Claims and shall be binding on all Scheme Creditors. (2) For the avoidance of doubt, the Scheme is not conditional upon the plc Scheme becoming effective. (3) The Scheme shall become effective at the Effective Time. STAY OF PROHIBITED PROCEEDINGS 2. (1) Subject to sub-clause 2(2), no Scheme Creditor shall commence or continue any Prohibited Proceeding in respect of, arising from, or relating to, a Scheme Claim after the Effective Time. (2) Nothing in this Scheme shall prevent: (a) a landlord of leasehold property of the Company from exercising such rights and remedies of distress, forfeiture and re-entry (and any other of such landlord's self-help rights and remedies) as it may have in respect of such leasehold property; or (b) a secured creditor from exercising its rights and remedies as a secured creditor in respect of any Property of the Company. 3. Subject to sub-clause 20(2), a Scheme Creditor may commence or continue an Allowed Proceeding against the Company after the Effective Time provided that it has first: (1) where the Scheme Creditor is continuing an Allowed Proceeding, notified the Supervisors in writing of its intention to do so; (2) where the Scheme Creditor intends to commence an Allowed Proceeding, given the Supervisors five Business Days' prior notice in writing of its intention to do so; and (3) where sub-clause 17(2) applies with respect to an Allowed Proceeding, it has, in addition to complying with sub-clause 3(1) or 3(2) as applicable, complied with that sub-clause. 4. (1) Save in respect of any Allowed Proceeding as permitted by this Scheme or any action permitted under sub-clause 2(2), each Scheme Creditor by this Scheme covenants not to sue the

Company in respect of a Scheme Claim. (2) For the purpose of enforcing the covenant in sub-clause 4(1), the Company is hereby appointed as the agent and attorney of each and every Scheme Creditor for the purpose of giving any and all instructions (and doing any such acts or things) as are necessary or desirable to enforce that covenant. 5. If any Scheme Creditor commences or continues any such Prohibited Proceeding as is prohibited by sub-clause 2(1) after the Effective Time it shall be treated as having received, on account of its entitlement to Scheme Consideration, an advance payment by way of a Distribution equal to the amount or gross value of any money, property, benefit or advantage obtained by it after the Effective Date at the expense of the Company or, as applicable, as a result, directly or indirectly, of such Prohibited Proceeding, and the extent, if any, to which it is entitled to Scheme Consideration shall be reduced accordingly. Such Scheme Creditor shall hold any benefit received or receivable in excess of its entitlement to Scheme Consideration pursuant to the terms of the Scheme as a result, directly or indirectly, of a Prohibited Proceeding on trust for the Company and shall account to the Company for such excess benefit. For this purpose, the gross value of any such property, benefit or advantage shall be conclusively determined by the Supervisors and may include such amount as the Supervisors may consider to be appropriate by way of interest or costs, charges or expenses incurred by the Company and/or the Supervisors as the result of such Prohibited 202 II. THE CORP SCHEME ----- Proceeding. This treatment and reduction is without prejudice to the Company's rights first to any injunctive or other relief or remedy to which the Company may be entitled in respect of the breach and, secondly, in respect of any loss the Company may suffer as a result of the breach. The Supervisors shall make such consequential adjustments to the amount and timing of payment of Distributions to any such Scheme Creditor (and in the case of Definitive Holders, to the Eurobond Trustee or the Yankee Bond Trustee or both as appropriate) pursuant to the rules and formulae in Part III as are necessary to give effect to this clause. ASSIGNMENTS OR TRANSFERS 6. (1) The Supervisors shall be under no obligation to recognise any assignment or transfer of Scheme Claims after the Record Date for the purposes of determining entitlements under the Scheme, provided that where the Supervisors have received from the relevant parties notice in writing of such assignment or transfer, the Supervisors may, in their sole discretion and subject to the production of such other evidence as they may require and to any other terms and conditions which they may consider necessary or desirable, agree to recognise such assignment or transfer for the purposes of determining entitlements under the Scheme. Any assignee or transferee of a Scheme Claim so recognised by the Supervisors shall be bound by the terms of this Scheme and for the purposes of this Scheme shall be a Scheme Creditor. (2) For the purposes of the Scheme (including for the purposes of the definition of Excluded Claims) no recognition shall be given to any assignment or transfer of any (or any part of any) debt, claim or right of any person in respect of a Liability of the Company effected between 1 January 2003 and the Record Date (both dates inclusive) other than any such assignment or transfer pursuant to or contemplated by the Scheme Implementation Deed if, in the reasonable opinion of the Supervisors, a material purpose of such assignment or transfer was to make such debt, claim or right (or part thereof) an Excluded Claim (under sub-paragraph 13 of the definition of Excluded Claims) and not a Scheme Claim. (3) For the avoidance of doubt, in relation to the Bonds, Bondholders are permitted to assign or transfer their interest in Bonds after the Record Date. EFFECT OF SCHEME 7. (1) This clause is without prejudice to the Company's rights under clauses 2 and 5 and is subject to Part X. (2) Without prejudice to clause 20, in consideration of the rights of Scheme Creditors under this Scheme (including the rights of Admitted Scheme Creditors to receive Scheme Consideration), all Liabilities on the part of the Company in respect of each Scheme Claim (and any interest accruing thereon or other amounts payable in connection therewith whether arising before or after the Record Date), automatically and without further documentation or action of the parties, shall be compromised, fully and finally discharged, satisfied and cancelled on the earlier of: (a) the first date on which such Scheme Claim is both Admitted and the subject of a Distribution Notice; (b) the Final Distribution Date; and (c) the issue of the Termination Notice (other than a Termination Notice served pursuant to sub-clause 115(3)). (3) No Scheme Claim of a Scheme Creditor shall be reduced or in any way affected by the compromise of any claims of that Scheme Creditor against plc pursuant to the terms of the plc Scheme nor shall it be reduced or in any way affected by reason of any distributions received by or on behalf of that Scheme Creditor in the plc Scheme provided that the aggregate recoveries of a Scheme Creditor in respect of a claim pursuant to the Scheme and the plc Scheme shall not exceed the quantum of the Scheme Claim. 203 II. THE CORP SCHEME ----- PART III DETERMINATION OF SCHEME CLAIMS AND PROCEDURE FOR DISTRIBUTIONS RECORD DATE 8. (1) All Scheme Claims shall be determined as at the Record Date. (2) Any Scheme Claim which at the Record Date is not

immediately due and payable but on the Company going into insolvent liquidation would, either automatically without further action by any party or by the issue of a notice by the relevant Scheme Creditor, be capable of being made legally and immediately due and payable shall be treated for the purposes of Distributions under this Scheme as immediately due and payable as at the Record Date (and hence not a debt payable at a future time). RULES AND PROCEDURES 9. The Supervisors shall consider each Claim Form submitted to determine the existence and quantum of each Submitted Scheme Claim and shall decide the extent, if any, to which it shall be Admitted in accordance with the rules and procedures set out in the Scheme and in particular in Schedule 1. ONLY ADMISSIBLE INTEREST 10. Without prejudice to sub-clause 7(2), for the purpose solely of the determination and payment of Distributions under the Scheme, no Admitted Scheme Claim shall include any amounts in respect of interest except Admissible Interest and, for the avoidance of doubt, any interest other than Admissible Interest shall not be taken into account by the Supervisors in determining the quantum of the relevant Scheme Claim. NO ADMISSIONS OF LIABILITY 11. Save as expressly set out in this Scheme or the Explanatory Statement, nothing in the Scheme or the Explanatory Statement or the distribution thereof to any person evidences or constitutes any admission by the Company, the Prospective Supervisors, the Supervisors or KPMG that a person is a Scheme Creditor or that a Liability is owed to any person in respect of any claim or right. The failure to distribute the Scheme, Explanatory Statement, any notice or any other communication to any Scheme Creditor shall not constitute an admission by the Company, the Prospective Supervisors, the Supervisors or KPMG that such person is not a Scheme Creditor or that any Liability owed to such person is an Excluded Claim. PROVISION OF INFORMATION 12. (1) A Scheme Creditor submitting a Scheme Claim: (a) shall provide the Supervisors with such information as they may reasonably require to enable the claim to be determined (and for the avoidance of doubt shall comply with such of the rules and procedures in Schedule 1 as the Supervisors may require); and (b) shall, in any event, submit a Claim Form to the Prospective Supervisors or, after the Effective Date, to the Supervisors (in accordance with the instructions set out in the Claim Form) at the relevant address set out in the Claim Form by hand or by Post. (2) Scheme Creditors who wish an Initial Distribution to be distributed to the Eligible Recipient in respect of that Scheme Creditor's Scheme Claim on the Effective Date must have submitted their duly completed Claim Forms so as to be received by the Prospective Supervisors by 5.00 p.m. (London time) on the First Claim Date. Only Known Creditors that have complied with this precondition and whose Scheme Claims are listed in the First Initial Distribution Notice shall be Admitted by the Supervisors in accordance with the Scheme on the Effective Date and participate in the First Initial Distribution in accordance with clause 23. Only if a Scheme Creditor has 204 II. THE CORP SCHEME

----- complied with this pre-condition and its Scheme Claim is Admitted by the Supervisors in accordance with the Scheme on the Effective Date shall that Admitted Scheme Creditor's Eligible Recipient receive an Initial Distribution when the First Initial Distribution is made. (3) For the purposes of this Scheme, it is expressly recognised that: (a) the Eurobond Trustee shall be entitled to submit a Claim Form in its capacity as creditor under the Trust Deeds in respect of all of the Eurobonds and, in consequence, no person with an interest in the Eurobonds other than the Eurobond Trustee shall be entitled to submit a Claim Form in respect of the Eurobonds by virtue of such interest; and (b) the Yankee Bond Trustee shall be entitled to submit a Claim Form in accordance with section 5.04 of the Indenture and, in consequence, no person with an interest in a Yankee Bond other than the Yankee Bond Trustee shall be entitled to submit a Claim Form in respect of the Yankee Bonds by virtue of such interest. ENTITLEMENT TO SCHEME CONSIDERATION 13. Eligible Recipients shall be eligible to receive Scheme Consideration in accordance with the Scheme. A Scheme Creditor with a Scheme Claim which is Unadmitted shall not be entitled to Scheme Consideration in accordance with the Scheme unless, until and to the extent that such Scheme Claim becomes Admitted. 14. The amount of the Scheme Consideration to which a Scheme Creditor is entitled (and any Eligible Recipient in respect of that Scheme Creditor's Admitted Scheme Claim is eligible to receive) shall be calculated in accordance with this Part III. ADMISSION AND REJECTION OF SCHEME CLAIMS 15. A Scheme Claim may be Admitted by the Supervisors either for the whole amount claimed by the Scheme Creditor or for part of that amount. 16. If the Supervisors refuse to admit a Scheme Claim, in whole or in part, they shall promptly prepare a written statement of their reasons for doing so, and send it to the Scheme Creditor, accompanied by a notice of rejection in such form as the Supervisors shall determine. APPEAL AGAINST DECISION ON SCHEME CLAIMS 17. (1) If a Scheme Creditor is dissatisfied with a refusal by the Supervisors to admit, in whole or in part, a Scheme Claim then, subject to sub-clause 17(2), it may either commence or continue an Allowed Proceeding to determine the existence and/or quantum of its Scheme Claim or elect by notice in writing to

the Supervisors that the existence or quantum of its Scheme Claim be referred for adjudication in accordance with Part VI. (2) If an Allowed Proceeding has not been commenced, or is not being continued as at the date of the notice of rejection, then either: (a) an Allowed Proceeding must be commenced (and notice given in accordance with clause 3); or (b) an election for adjudication made in accordance with sub-clause 17(1) by the Scheme Creditor, in each case within 40 Business Days following receipt by the Scheme Creditor of the notice of rejection. 18. If a Scheme Claim has not been Admitted and at the expiration of the 40 Business Days period referred to in sub-clause 17(2) an Allowed Proceeding is continuing (whether commenced by the Scheme Creditor before or after receipt of the notice of rejection) or an election has been made for adjudication (in each case in accordance with clause 17) then: 205 II. THE CORP SCHEME ----- (1) any final determination of that Allowed Proceeding (after the ordinary time for appealing the original determination or any determination on appeal has expired without any appeal having been made) shall be binding on the Scheme Creditor, the Company and the Supervisors; (2) if an election has been made for adjudication the provisions of Part VI shall apply; and (3) without prejudice to sub-clauses 18(1) and 18(2), the Scheme Creditor and the Supervisors may at any time agree to any matter or issue in the Allowed Proceeding being determined in some manner other than in the Allowed Proceeding, and any Proceeding commenced pursuant to such agreement shall have effect as an Allowed Proceeding commenced in accordance with clause 17. 19. If in an Allowed Proceeding or in an adjudication pursuant to Part VI any order or direction shall be made that any costs of such proceeding or adjudication are to be borne by the Supervisors or by the Company, such costs shall be payable in full by the Company. 20. If a Scheme Claim has not been Admitted and at the expiration of the 40 Business Days period referred to in sub-clause 17(2) neither an Allowed Proceeding (in accordance with the terms of the Scheme) is continuing in respect of such Scheme Claim nor an election (in accordance with the terms of the Scheme) has been made for that Scheme Claim to be referred to adjudication in accordance with Part VI, then: (1) the Company shall be released from all Liabilities in relation to the Scheme Claim (or part thereof) which has not been Admitted (and any interest accruing thereon or other amounts payable in connection therewith whether arising before or after the Record Date); and (2) any Proceeding which is thereafter commenced and which would otherwise have been an Allowed Proceeding shall be a Prohibited Proceeding.

THE BASIC SCHEME CONSIDERATION, THE KNOWN CLAIMS SEGMENT AND THE RESERVE CLAIMS SEGMENT 21. (1) The Basic Scheme Consideration is: (a) cash of L340,000,000 or such larger sum of cash calculated in accordance with sub-clause 21(2); (b) the euro equivalent (applying the Currency Rate) of L450,000,000 New Senior Notes to be issued in both or either euro and US dollars, subject to elections by Scheme Creditors and Bondholders described in Recital J; (c) an aggregate of US\$300,000,000 and the US dollar equivalent (applying the Currency Rate) of L117,270,000 New Junior Notes (or such smaller principal amount of New Junior Notes calculated in accordance with sub-clause 21(2) if the amount of Cash is increased); and (d) 995,000,000 New Creditor Shares. (2) If there is any Excess Cash, the amount of Cash comprising the Basic Scheme Consideration shall be increased by the amount of such Excess Cash, converted into sterling applying the Exchange Rate on the date such cash is first received by the Company or the Subsidiary, as the case may be. Following 1 May 2003 but prior to the Effective Date, the aggregate principal amount of the New Junior Notes shall be decreased by 10/11ths of the sterling amount by which the Cash has been so increased (such calculation to reduce the L117,270,000 figure referred to in sub-clause 21(1)(c)). (3) In this Scheme: (a) the term "BASIC KNOWN CLAIMS SEGMENT" means that part of the Basic Scheme Consideration calculated by applying the fraction: 
$$\frac{125,000,000}{125,000,000 + KC}$$
 to each Element of Basic Scheme Consideration, where KC = the aggregate amount of the Known Claims; and (b) the term "BASIC RESERVE CLAIMS SEGMENT" means that part of the Basic Scheme Consideration calculated by applying the fraction: 
$$\frac{125,000,000}{125,000,000 + KC}$$
 to each Element of Basic Scheme Consideration, where KC = the aggregate amount of the Known Claims. (4) In the Scheme: (a) the term "KNOWN CLAIMS SEGMENT" means that part of the Scheme Consideration available until the expiry or termination of the Waiting Period from which Distributions of Distribution Entitlements of Admitted Known Creditors shall be made being, from time to time, the aggregate of the following: (i) the Basic Known Claims Segment; (ii) any Known Claims Supplement arising under sub-clause 27(3) (or equivalent supplement pursuant to sub-clause 27(5)); (iii) any plc Receipts made available to Known Creditors as a result of the operation of clause 28; and (iv) any Known Rejected Claim Supplement made available to Known Creditors as a result of the operation of clause 29. The parts of the Known Claims Segments listed in (ii) - (iv) above shall be treated for all purposes as a supplement to the Basic Known Claims Segment. Any

entitlement to receive a distribution from the Basic Known Claims Segment shall be supplemented by an entitlement to receive a distribution of those other parts (if any) of the Known Claims Segment of the same proportion as the Distribution Entitlement of the relevant Scheme Creditor to the Basic Known Claims Segment is of the Basic Known Claims Segment (but such proportion shall be calculated after taking into account any decrease in the size of the Basic Known Claims Segment resulting from: (A) Known Claims being Conclusively Rejected resulting in a Rejected Claims Supplement being deducted from the Basic Known Claims Segment pursuant to sub-clause 29(1)(a) and becoming available for distribution to Scheme Creditors in accordance with sub-clause 29(2); and/or (B) Known Claims being Conclusively Rejected resulting in the Distribution Entitlement to which the Known Creditor who would have been entitled had its Known Claim been Admitted being deducted from the Basic Known Claims Segment and becoming part of the Reserve Claims Segment pursuant to clause 29(1)(b)). (b) the term "RESERVE CLAIMS SEGMENT" means that part of the Scheme Consideration available until the expiry or termination of the Waiting Period from which Distributions of Distribution Entitlements of Admitted Reserve Creditors shall be made being, from time to time, the aggregate of the following: (i) the Basic Reserve Claims Segment; (ii) any Reserve Claims Supplement arising under sub-clause 27(3) (or equivalent supplement pursuant to sub-clause 27(5)); 207 II. THE CORP SCHEME ----- (iii) any plc Receipts made available to Reserve Creditors as a result of the operation of clause 28; and (iv) any Reserve Rejected Claim Supplement made available to Reserve Creditors as a result of the operation of clause 29. The parts of the Reserve Claims Segment listed in (ii) - (iv) above shall be treated for all purposes as a supplement to the Basic Reserve Claims Segment and any entitlement to receive a distribution from the Basic Reserve Claims Segment shall be supplemented by an entitlement to receive a distribution of those other parts (if any) of the Reserve Claims Segment of the same proportion as the Distribution Entitlement of the relevant Scheme Creditor to the Basic Reserve Claims Segment is of the Basic Reserve Claims Segment (but such proportion shall be calculated after taking into account any increase in the size of the Basic Reserve Claims Segment resulting from Known Claims being Conclusively Rejected which results in the Distribution Entitlement to which the Known Creditor who would have been entitled had its Known Claim been Admitted being deducted from the Basic Known Claims Segment and becoming part of the Reserve Claims Segment pursuant to clause 29(1)(b)). 22. If a Known Claim is Admitted at a value higher than the value of that Known Claim set out in Schedule 3, the excess over the value set out in Schedule 3 shall be treated as an Admitted Reserve Claim. INITIAL DISTRIBUTION AND FIRST INITIAL DISTRIBUTION 23. (1) Each Scheme Creditor who has a Submitted Scheme Claim which is Admitted before the expiry or termination of the Waiting Period shall be entitled to receive an Initial Distribution from: (a) the Known Claims Segment if its Admitted Scheme Claim is a Known Claim; or (b) the Reserve Claims Segment if its Admitted Scheme Claim is a Reserve Claim. (2) The Supervisors shall use reasonable endeavours to determine promptly whether or not a Submitted Scheme Claim shall be Admitted and, if they do so determine, shall promptly Admit that Submitted Scheme Claim. (3) As soon as reasonably practicable after a Scheme Claim has been Admitted it shall be the subject of a Distribution Notice. (4) On the Effective Date: (a) Known Creditors whose Scheme Claims are Submitted on or before 5.00 p.m. (London time) on the First Claim Date and which have been listed in the First Initial Distribution Notice shall be Admitted by the Supervisors; (b) the Supervisors shall issue the First Initial Distribution Notice to the Escrow Trustee (with a copy to the Distribution Agent); (c) Scheme Creditors whose Scheme Claims are Submitted on or before 5.00 p.m. (London time) on the First Claim Date which are Admitted by the Supervisors on the Effective Date but which were not listed in the First Initial Distribution Notice shall be the subject of a Distribution Notice issued by the Supervisors to the Escrow Trustee (with a copy to the Distribution Agent) at the same time as the First Initial Distribution Notice; and (d) Scheme Creditors with Admitted Scheme Claims listed in the First Initial Distribution Notice or in any Distribution Notice issued pursuant to sub-clause 23(4)(c) shall be entitled to an Initial Distribution forthwith upon the issue of the First Initial Distribution Notice (and any Distribution Notice issued pursuant to sub-clause 23(4)(c)) in respect of such Admitted Scheme Claim and its Initial Distribution shall be made to its Eligible Recipient. 208 II. THE CORP SCHEME ----- (5) Scheme Creditors whose Scheme Claims are Submitted and which are Admitted before the expiry or termination of the Waiting Period but in respect of which a First Initial Distribution pursuant to sub-clause 23(4)(b) or an Initial Distribution pursuant to sub-clause 23(4)(c), is not made shall be entitled to an Initial Distribution in respect of such Admitted Scheme Claims and such distributions shall be made to their Eligible Recipients as soon as practicable after such claims have been Admitted. (6) The amount of the Initial Distribution (including, for the avoidance of doubt, the First Initial

Distribution) from the Known Claims Segment to which an Admitted Known Creditor is entitled shall be calculated in accordance with the following formula:  $KDE = AKC \times KCS \div KC$  where KDE = the Distribution Entitlement of the relevant Admitted Known Creditor to each of the Elements of the Basic Scheme Consideration in the Initial Distribution; AKC = the Admitted Known Claim of the relevant Admitted Known Creditor; KC = the aggregate amount of the Known Claims; and KCS = separately, the amount of each of the Elements of the Basic Scheme Consideration comprising the Basic Known Claims Segment as at the Effective Time. (7) The amount of the Initial Distribution from the Reserve Claims Segment to which an Admitted Reserve Creditor is entitled shall be calculated in accordance with the following formula:  $RDE = ARC \times KCS \div KC$  where RDE = the Distribution Entitlement of the relevant Admitted Reserve Creditor to each of the Elements of the Basic Scheme Consideration in the Initial Distribution; ARC = the Admitted Reserve Claim of the relevant Admitted Reserve Creditor; KC = the aggregate amount of the Known Claims; and KCS = separately, the amount of each of the Elements of Basic Scheme Consideration comprising the Basic Known Claims Segment as at the Effective Time. (8) Any Distribution Notice given by the Supervisors to the Escrow Trustee (with a copy to the Distribution Agent) shall instruct the Escrow Trustee to direct the Distribution Agent to make a Distribution to all relevant Eligible Recipients referred to in the Distribution Notice in accordance with the terms of the Scheme. (9) Where in sub-clauses 21(3), 23(6), and 23(7) above any sum included in any of the terms AKC, KC and ARC is in a currency other than sterling then, for the purposes of calculating the relevant fraction, that sum shall be converted to sterling at the Scheme Rate. (10) In the case of a Scheme Claim in respect of Bonds which is Admitted where the aggregate total of all Distributions to Designated Recipients in respect of that claim is less than the Distribution to which the Eurobond Trustee or the Yankee Bond Trustee as appropriate in respect of that claim is entitled, the remainder of the Scheme Consideration shall be held by the Escrow Trustee and dealt with in accordance with the Escrow and Distribution Agreement.

TERMINATION OF THE WAITING PERIOD 24. (1) Subject to sub-clause 24(2), if at any time after the issue of the First Initial Distribution Notice the Supervisors are not satisfied that the Reserve Claims Segment is sufficient to make Distributions of 209 II. THE CORP SCHEME -----

Distribution Entitlements in respect of all Reserve Claims which have been, or are likely to be, Admitted, the following shall apply: (a) the Supervisors shall forthwith notify the Company and the Creditors' Committee; (b) the Waiting Period shall terminate and all entitlements of Admitted Scheme Creditors to Scheme Consideration which have not been the subject of a Distribution Notice shall be dealt with in accordance with the provisions of clause 25; and (c) for the avoidance of doubt, the provisions of this clause shall not affect the Distribution Entitlement of any Scheme Creditor whose Admitted Scheme Claim is the subject of a Distribution Notice issued prior to the issue of the Supervisors' notice in sub-clause 24(1)(a). (2) If a Scheme Claim is Submitted after the issue of the First Initial Distribution Notice which: (a) if immediately Admitted would result in the Supervisors not being satisfied that the Reserve Claims Segment is sufficient to make Distributions of Distribution Entitlements in respect of all Reserve Claims which have been, or are likely to be, Admitted; and (b) the Supervisors cannot immediately determine whether, or the extent to which, that Submitted Scheme Claim should be Admitted, the Supervisors may consider that Scheme Claim for a period of up to 30 Business Days from the date on which that Scheme Claim is Submitted (the "EXAMINATION PERIOD"). The Supervisors shall forthwith notify the Company and the Creditors' Committee of the commencement of the Examination Period. On, or prior to, the expiry of such 30 Business Days the Supervisors shall confirm to the Creditors' Committee and the Company whether or not they are satisfied that the Reserve Claims Segment shall be sufficient to make Distributions of Distribution Entitlements in respect of all Reserve Claims which have been, or are likely to be, Admitted. The issue of the Supervisors' confirmation or, if later, the expiry of the 30 Business Day period shall bring the relevant Examination Period to an end. If no confirmation is provided prior to the expiry of such 30 Business Days, the Supervisors are deemed to be not satisfied that the Reserve Claims Segment is sufficient to make Distributions of Distribution Entitlements in respect of all Reserve Claims which have been, or are likely to be, Admitted. If the Supervisors are (or are deemed to be) not satisfied that the Reserve Claims Segment is sufficient to make Distributions of Distribution Entitlements in respect of all Reserve Claims which have been, or are likely to be, Admitted sub-clauses 24(1)(a)-(c) shall apply. No Distribution Notice shall be issued during an Examination Period. For the avoidance of doubt, nothing in this sub-clause shall affect the Distribution Entitlement of any Scheme Creditor whose Admitted Scheme Claim has, prior to the commencement of the Examination Period, been the subject of a Distribution Notice. FURTHER DISTRIBUTIONS 25. (1) Any Scheme Consideration which has not been the subject of a Distribution Notice by the termination or expiry of the Waiting Period (in this clause

"UNDISTRIBUTED SCHEME CONSIDERATION") shall, from the termination or expiry of the Waiting Period, be dealt with as set out in this clause. (2) Before the Undistributed Scheme Consideration (if any) shall be available for making further Distributions pursuant to this clause 25 to Admitted Scheme Creditors which have already received or become entitled to receive an Initial Distribution, the Undistributed Scheme Consideration shall be used to reimburse the Company for any SDRT Expense that it has incurred in excess of L500,000. For the avoidance of doubt, the Company shall have no right to receive any such reimbursement in respect of the first L500,000 of SDRT Expense it incurs. The Supervisors, acting reasonably, shall determine which Elements of Scheme Consideration shall be utilised to effect the reimbursement, converting Elements into money as the Supervisors, acting reasonably, deem necessary to enable the reimbursement to be made. The Supervisors shall give the necessary 210 II. THE CORP SCHEME

----- directions to the Escrow Trustee and the Distribution Agent to effect the reimbursement of the Company pursuant to this clause. (3) Thereafter the Undistributed Scheme Consideration shall be used to make further Distributions to Eligible Recipients on the following basis: (a) the distinction between the Known Claims Segment and the Reserve Claims Segment shall no longer be relevant and the remainder of the segments shall be aggregated for future Distribution purposes; (b) the Supervisors' approach to further Distributions shall be in accordance with the approach a liquidator would take following Liquidation Distribution Principles including the following concepts: (i) the setting of final dates by which a creditor must claim if it wishes to participate in a planned dividend; (ii) in the case of claims which have not been Admitted at the time of the declaration of a dividend to creditors, the taking into account of any such disputed claim in setting the dividend on a prudent basis so that if the disputed claim is later Admitted, the relevant creditor shall receive the dividend it would have received if and to the extent its claim had been Admitted at the date of the relevant dividend; (iii) generally, the concept of pari passu distribution; and (iv) any Scheme Creditor whose Scheme Claim is Admitted but whose Distribution Entitlement has not yet been satisfied shall be entitled to a Distribution in priority to the entitlement of other Admitted Scheme Creditors (whose entitlements to previous Distributions have been satisfied) to further Distributions until that Scheme Creditor is entitled to (and such entitlement is satisfied) the same rateable Distribution that other Admitted Scheme Creditors are entitled to (which entitlements have been satisfied). (4) The Supervisors, in deciding whether and, if so, when to direct a further Distribution, shall have regard to the cost of making the Distribution in relation to the value of the Undistributed Scheme Consideration to be distributed and may, acting reasonably, decide to delay directing a Distribution until such time (if any) as the costs of making the Distribution do not exceed the value of Scheme Consideration (or proceeds of sale of such Scheme Consideration) to be distributed. THE COMPANY AS A CREDITOR OF PLC 26. Property received or receivable by the Company from plc from time to time by virtue of the Company being a creditor of plc (whether pursuant to the plc Scheme, any other scheme of arrangement for plc, any voluntary arrangement for plc or any liquidation of plc or otherwise) shall be available for distribution and shall be distributed by the Company to Admitted Scheme Creditors subject to, at the time, in the manner and on the basis set out in the Scheme. In the light of the position of Ancrane as a Scheme Creditor and a Bondholder and the Ancrane Direction, this may involve successive distributions between the Company and plc, either notional or actual, as provided for in this Scheme and the plc Scheme. THE PLC DISTRIBUTION SUPPLEMENT 27. (1) Sub-clauses 27(2), (3) and (4) shall apply to the Initial Distribution if all of the conditions set out at (a) to (c) inclusive below are satisfied on the Effective Date: (a) the plc Scheme including provisions in the form or substantially the form of that set out in Schedule 2 becomes effective; (b) the plc Scheme supervisors admit the Company's claim against plc pursuant to the plc Scheme; and (c) (i) the Known Claim of Ancrane is Admitted by the Supervisors; or 211 II. THE CORP SCHEME

----- (ii) either (or both) of the Known Claims of the Eurobond Trustee are Admitted by the Supervisors; or (iii) either (or both) of the Known Claims of the Yankee Bond Trustee are Admitted by the Supervisors. (2) To give effect to clause 26 and on the conditions in sub-clause 27(1) being satisfied on the Effective Date, the Supervisors shall agree with the plc Scheme supervisors a distribution model simulating successive distributions to the Company in the plc Scheme and to plc in the Scheme (pursuant to the Ancrane Direction) (using the figures for the Company's claim against plc, Ancrane's claim against the Company as actually admitted by the Supervisors of the respective Schemes and Ancrane's holding of Bonds) in order to produce a net additional amount of Scheme Consideration available for Distribution to Admitted Scheme Creditors with the Initial Distribution (such net additional amount being the "PLC DISTRIBUTION SUPPLEMENT"). The plc Distribution Supplement shall be distributed to Eligible Recipients at the times and in the manner set out sub-clauses

27(3) and 27(4). (3) The Elements of the plc Distribution Supplement shall for these purposes be treated as being made up of two parts as follows: (a) the "KNOWN CLAIMS SUPPLEMENT" which shall be the plc Distribution Supplement less the Reserve Claims Supplement; and (b) the "RESERVE CLAIMS SUPPLEMENT" which shall be the same proportion of the plc Distribution Supplement as the Basic Reserve Claims Segment (which for this purpose shall be calculated after taking into account any increase in the size of the Basic Reserve Claims Segment resulting from Known Claims being Conclusively Rejected and the Distribution Entitlement of the Known Creditor who would have been entitled had its Known Claim been Admitted rather than Conclusively Rejected becoming part of the Reserve Claims Segment pursuant to clause 29(1)(b)) is of the Basic Scheme Consideration (which for this purpose shall be calculated after taking into account any decrease in the size of the Basic Known Claims Segment resulting from: (A) Known Claims being Conclusively Rejected resulting in a Rejected Claims Supplement being deducted from the Basic Known Claims Segment pursuant to sub-clause 29(1)(a) and becoming available for distribution to Scheme Creditors in accordance with sub-clause 29(2); and/or (B) Known Claims being Conclusively Rejected resulting in the Distribution Entitlement to which the Known Creditor who would have been entitled had its Known Claim been Admitted being deducted from the Basic Known Claims Segment and becoming part of the Reserve Claims Segment pursuant to clause 29(1)(b)). (4) (a) The Elements of the Known Claims Supplement shall be distributed to Admitted Known Creditors at the same time as the Initial Distribution. (b) The Elements of the Reserve Claims Supplement shall be distributed to Admitted Reserve Creditors at the same time as the Initial Distribution. (5) (a) For the purposes of Distributions under the Scheme: (i) other than the Initial Distribution; and/or (ii) as regards the Initial Distribution if the provisions of sub-clauses 27(2)-27(4) inclusive do not come into force because one or more of the conditions in sub-clause 27(1) is not satisfied, the Supervisors may agree similar or analogous arrangements to those in sub-clause 27(2) (a "MODEL") with the supervisors of the plc Scheme (if any, or, if none, any other duly 212

II. THE CORP SCHEME ----- authorised representative of plc) where, acting reasonably, the Supervisors consider that to do so shall be in the interests of Admitted Scheme Creditors. (b) If a model is agreed pursuant to sub-clause 27(5)(a) prior to the expiry or termination of the Waiting Period, the equivalent of the plc Distribution Supplement thereby created shall be apportioned in the same manner as provided for in sub-clause 27(3), otherwise no apportionment shall be made. (c) Any supplement arising pursuant to sub-clause 27(5)(a)(ii) which shall be apportioned in accordance with sub-clause 27(5)(b) shall be distributed at the same times and in the same manner as provided for in sub-clause 27(4). (d) Any supplement arising pursuant to sub-clause 27(5)(a)(i) prior to the expiry or termination of the Waiting Period shall become available for distribution following apportionment under sub-clause 27(5)(b) and the Supervisors shall promptly issue a Distribution Notice to the Escrow Trustee (with a copy to the Distribution Agent) in respect of the distribution of the relevant amount of the supplement to which Admitted Known Creditors are entitled pursuant to sub-clause 21(4)(a) and the relevant amount of the Reserve Claim Supplement to which Admitted Reserve Creditors are entitled pursuant to sub-clause 21(4)(b) to Eligible Receipts in respect of the previously Admitted Claims provided that the costs of making that Distribution would not exceed the value of the Scheme Consideration to be distributed. (e) Any supplement arising pursuant to sub-clause 27(5)(a)(i) after the expiry or termination of the Waiting Period shall be distributed in accordance with the provisions of clause 25. PLC RECEIPTS 28. (1) As regards: (a) the Initial Distribution if the provisions of sub-clauses 27(2) - 27(4) above do not come into force for any reason; and (b) any Distributions other than the Initial Distribution, in each case, to the extent that relevant similar or analogous arrangements as referred to in clause 27(5) are not agreed in respect of the Company's entitlement to the plc Receipts, Admitted Scheme Creditors shall be entitled to all plc Receipts from time to time which shall be held on trust for Scheme Creditors under the Scheme. (2) If plc Receipts arise pursuant to sub-clause 28(1) prior to the expiry or termination of the Waiting Period, those plc Receipts shall be apportioned in the same manner as provided for in sub-clause 27(3), otherwise no apportionment shall be made. (3) Any plc Receipts arising pursuant to sub-clause 28(1)(a) which shall be apportioned in accordance with sub-clause 28(2) shall be distributed at the same times and in the same manner as provided for in sub-clause 27(4). (4) Any plc Receipts arising pursuant to sub-clause 28(1)(b) prior to the expiry or termination of the Waiting Period shall become available for distribution following apportionment under sub-clause 28(2) and the Supervisors shall promptly issue a Distribution Notice to the Escrow Trustee (with a copy to the Distribution Agent) in respect of the distribution of the relevant amount of the supplement to which Admitted Known Creditors are entitled pursuant to sub-clause 21(4)(a) and the relevant amount of the Reserve Claim Supplement to which Admitted Reserve Creditors are entitled pursuant to sub-clause 21(4)(b) to Eligible Recipients in respect of the previously Admitted Claims provided that the costs of



making that Distribution would not exceed the value of the Scheme Consideration to be distributed. (5) Any plc Receipts arising pursuant to sub-clause 28(1)(b) after the expiry or termination of the Waiting Period shall be distributed in accordance with the provisions of clause 25. 213 II. THE CORP SCHEME

----- REJECTED CLAIMS 29. (1) Where a Known Claim is Conclusively Rejected before the expiry or termination of the Waiting Period, the Distribution Entitlement to which the Known Creditor would have been entitled, had its Known Claim been Admitted rather than Conclusively Rejected, shall: (a) if the quantum of the Known Claim which is Conclusively Rejected exceeds L250,000,000 (such Distribution Entitlement being a "REJECTED CLAIM SUPPLEMENT"), be deducted from the Known Claims Segment and be apportioned as follows: (i) the "KNOWN REJECTED CLAIM SUPPLEMENT" which shall be the Rejected Claim Supplement less the Reserve Rejected Claim Supplement; and (ii) the "RESERVE REJECTED CLAIM SUPPLEMENT" which shall be the same proportion of the Rejected Claim Supplement as the Basic Reserve Claims Segment (which for this purpose shall be calculated after taking into account any increase in the size of the Basic Reserve Claims Segment resulting from Known Claims being Conclusively Rejected and the Distribution Entitlement of the Known Creditor who would have been entitled had its Known Claim been Admitted rather than Conclusively Rejected becoming part of the Reserve Claims Segment pursuant to clause 29(1)(b)) is of the Basic Scheme Consideration (which for this purpose shall be calculated after taking into account any decrease in the size of the Basic Known Claims Segment resulting from: (A) Known Claims being Conclusively Rejected resulting in a Rejected Claims Supplement being deducted from the Basic Known Claims Segment pursuant to sub-clause 29(1)(a) and becoming available for distribution to Scheme Creditors in accordance with sub-clause 29(2); and/or (B) Known Claims being Conclusively Rejected resulting in the Distribution Entitlement to which the Known Creditor who would have been entitled had its Known Claim been Admitted being deducted from the Basic Known Claims Segment and becoming part of the Reserve Claims Segment pursuant to clause 29(1)(b)); and (b) if the quantum of the Known Claim (or part thereof) which is Conclusively Rejected is less than or equal to L250,000,000, be deducted from the Known Claims Segment and form part of the Reserve Claims Segment and therefore not be available for distribution to Admitted Scheme Creditors as a Rejected Claim Supplement pursuant to sub-clause 29(2). (2) A Rejected Claim Supplement shall become available for distribution following apportionment under sub-clause 29(1)(a) and the Supervisors shall promptly issue a Distribution Notice to the Escrow Trustee (with a copy to the Distribution Agent) in respect of the distribution of the amount of the Known Rejected Claim Supplement to which Admitted Known Creditors are entitled pursuant to sub-clause 21(4)(a) and the amount of the Reserve Rejected Claim Supplement to which Admitted Reserve Creditors are entitled pursuant to sub-clause 21(4)(b) to Eligible Recipients in respect of the previously Admitted Claims. (3) For the purposes of distributing the Rejected Claim Supplement; if: (a) the plc Scheme including provisions in the form or substantially in the form of that set out in Schedule 2 becomes effective; (b) the plc Scheme supervisors admit the Company's claim against plc pursuant to the plc Scheme; (c) (i) the Known Claim of Ancrane is Admitted by the Supervisors; or (ii) either (or both) the Known Claims of the Eurobond Trustee are Admitted the Supervisors; or 214 II. THE CORP SCHEME

----- (iii) either (or both) the Known Claims of the Yankee Bond Trustee are Admitted by the Supervisors; and (d) the waiting period under the plc Scheme has not been terminated or expired, the Supervisors may agree similar or analogous arrangements to those in sub-clause 27(2) with the supervisors of the plc Scheme (if any, or, if none, any other duly authorised representative of plc) where, acting reasonably, the Supervisors consider that to do so would be in the best interests of Admitted Scheme Creditors.

GENERAL PROVISIONS ON DISTRIBUTIONS 30. (1) No Scheme Creditor shall have any right to disturb a prior Distribution, whether on the grounds that there remains insufficient Scheme Consideration to satisfy that creditor's Distribution Entitlement (if any) or otherwise. (2) The Supervisors shall give all necessary directions and issue all necessary Distribution Notices to the Escrow Trustee (with a copy to the Distribution Agent) to enable Distributions to be made in accordance with the Scheme. The issue by the Supervisors of directions in accordance with this sub-clause 30(2) shall be a complete discharge of the Supervisors' responsibilities with respect to such Distributions. Without prejudice to the generality of the previous sentence, the Supervisors shall not be liable in any way whatsoever for any acts or omissions of the Escrow Trustee, the Distribution Agent or Bondholder Communications in respect of those directions. (3) Subject always to sub-clause 30(1) an Admitted Scheme Claim may be withdrawn or reduced as to the amount claimed by agreement between the Supervisors and the relevant Scheme Creditor. (4) Any sums of cash or rights or benefits paid, transferred or credited to the Escrow Trustee pursuant to clause 34 shall be distributed together

with, or, as appropriate, in place of, and at the same time as, the New Rights to which such sum of cash or other rights or benefits relate. (5) (a) Elections may be made in Claim Forms and Account Holder Letters for the Eligible Recipient: (i) to receive any New Creditor Shares in the form of ADRs; and/or (ii) subject to the thresholds described in Recital J being met, to receive euro-denominated or US dollar-denominated New Senior Notes (but not both); and/or (iii) to receive any New Creditor Shares: (A) in certificated form; or (B) into an account held with CREST. (b) The Company shall pay any applicable SDRT Expense. (c) Where there are any New Creditor Shares which are not sufficient in number to equate to one ADR and which therefore cannot be transferred to the ADR Depository in accordance with the terms of the Escrow and Distribution Agreement, the Supervisors shall direct the Escrow Trustee to procure that the Distribution Agent, acting on behalf of the Escrow Trustee shall sell those New Creditor Shares and remit the proceeds to augment the Reserve Claims Segment. (6) Eligible Recipients shall receive Distributions in accordance with the provisions of the Scheme provided that no fraction of a New Share and no fraction of a New Note shall be transferred, allotted or issued to any Eligible Recipient but: (a) if the New Creditor Shares or New Notes or any of them are Listed all fractions of such Listed New Creditor Shares or New Notes which, but for this proviso, any such Eligible 215 II. THE CORP SCHEME -----

Recipients would have received shall be aggregated and sold in the market and the net proceeds of sale shall comprise part of the Reserve Claims Segment; and (b) if any of the New Creditor Shares or New Notes are not listed, all entitlements of Eligible Recipients to all fractions of such New Creditor Shares and New Notes which, but for this proviso any such Eligible Receipts would have received, shall be rounded down to zero and the fractions shall comprise part of the Reserve Claims Segment. (7) (a) New Creditor Shares and New Notes will not be distributed to or to the order, or for the account or benefit, of any person where such distribution would be prohibited by any applicable law or regulation, or so prohibited except after compliance with conditions or requirements that are unduly onerous. Where any determination is required as to whether the conditions or requirements of applicable law or regulation are "unduly onerous," such determination will be made by the Company with the advice of legal counsel and having due regard for the number of Scheme Creditors and Bondholders that are or may be located in the relevant jurisdiction, the value of the securities to which such persons are or may be entitled pursuant to the Scheme, the extent to which the requirements of the laws and regulations of such jurisdiction as applied to the Scheme are uncertain, the nature and extent of the risks or penalties associated with any violation of those legal or regulatory requirements and the costs, administrative burden and timing implications of taking such action (if any) as might permit distributions of securities to be made in that jurisdiction (including pursuant to any available exemptions) in accordance with applicable legal and regulatory requirements. (b) Notwithstanding the foregoing, distribution of New Creditor Shares and New Notes will not be refused on the grounds of any legal or regulatory prohibition of general application under the laws of any Unrestricted Jurisdiction, unless there has been a Change of Law. (c) New Creditor Shares and New Notes will not be distributed to or to the order of any Scheme Creditor or Bondholder located in a Restricted Jurisdiction, except that New Creditor Shares and New Notes will be distributed to or to the order of: (i) any Scheme Creditor or Bondholder located in France if the Scheme Creditor or (as the case may be) the Bondholder and any Designated Recipient of such Bondholder is a "qualified investor" as defined in Article L.411-2 of the French Monetary and Financial Code; (ii) any Scheme Creditor or Bondholder located in Italy, if CONSOB has confirmed that such distribution does not constitute a public offering under Italian securities legislation; (iii) any Bondholder located in Italy, if the number of such persons does not exceed 200; (iv) any Scheme Creditor other than a Bondholder located in Italy, if: (A) such person is a "professional investor" as defined in the Consolidated Financial Act Article 30, paragraph II and in CONSOB Regulation 11522/1998 Article 31, paragraph II; or (B) such person is not a "professional investor" as so defined but the number of such persons that are not "professional investors" does not exceed 200; and (v) any Scheme Creditor or Bondholder located in the US states of Arizona, California, Colorado, Connecticut, Illinois, Ohio and Vermont if such persons falls within one of the relevant categories of persons set out in Schedule 4. Notwithstanding the foregoing, New Creditor Shares and New Notes may be distributed to or to the order of persons located in a Restricted Jurisdiction to the extent that there has been a Change of Law. 216 II. THE CORP SCHEME -----

(d) Notwithstanding the provisions of sub-clause (c) above, if the confirmations required by box 3 of the Claim Form or section 5, paragraphs (D), (E) and (F) of the Account Holder Letter are given in the form requested by the Claim Form or the Account Holder Letter (as the case may be), then distribution of New Creditor Shares and New Notes to or to the order of the relevant persons will not be refused on the grounds of any legal or regulatory prohibition of general application under the laws of any

Restricted Jurisdiction, unless: (i) the Company determines that such confirmations have been given inappropriately on the basis that information provided in or in connection with the transmittal of the Claim Form or Account Holder Letter indicates that such Claim Form has been submitted by, or such Account Holder Letter has been delivered on behalf of, or delivery of securities is being requested to or for the account or benefit of, a person that is located in a Restricted Jurisdiction and that could not be eligible to receive the securities under any provision described in sub-clause 30(7)(c); (ii) the Company obtains actual knowledge that such confirmations are false; or (iii) there has been a Change of Law. Notwithstanding the foregoing, New Creditor Shares and New Notes will be distributed in Italy pursuant to sub-clauses 30(7)(c)(ii), 30(7)(c)(iv)(B) (to the extent applicable) without regard to whether the required confirmations have been inappropriately or falsely given in any relevant Claim Form or Account Holder Letter. (e) To the extent that New Creditor Shares or New Notes that would otherwise be deliverable pursuant to the Scheme cannot be delivered because of a legal or regulatory prohibition described in sub-clause 30(7) (a) above, such New Creditor Shares or New Notes will not be delivered and instead: (i) in the case of New Creditor Shares or New Notes that are listed on a securities exchange, such New Creditor Shares or New Notes will be sold and the net proceeds of such sale delivered to the relevant person in full satisfaction of the rights of such person in respect of such New Creditor Shares or New Notes under the Scheme, all as more particularly specified in the Escrow and Distribution Agreement; and (ii) in the case of New Creditor Shares or New Notes that are not listed on a securities exchange, the relevant person will receive a sum in cash which is substantially equivalent in value to such New Creditor Shares or New Notes, such sum to be determined by agreement between the Company and the Supervisors or absent such agreement by adjudication under Part VI and the Supervisors shall direct the sale of the New Creditor Shares and/or New Notes to which the relevant person would otherwise have been entitled. (8) The Supervisors shall give all appropriate directions to the Escrow Trustee (with a copy to the Distribution Agent) to give effect to this clause 30. (9) Any sale referred to in this clause 30 shall be made for the best terms reasonably available at the time of the sale and shall be undertaken on behalf of the person absolutely entitled to the relevant asset and none of the Supervisors, the Company, the Escrow Trustee, the Distribution Agent, the Registrars or any other person shall be responsible for any loss arising from the terms or timing of the sale. (10) For the avoidance of doubt, a Scheme Creditor must comply with the terms of the Scheme, including submitting a Claim Form in accordance with the provisions of clause 12, in order for its Eligible Recipient to receive any Distributions of Scheme Consideration to which that Scheme Creditor's Scheme Claim might entitle it. 217 II. THE CORP SCHEME

----- PART IV FURTHER PROVISIONS

REGARDING THE ISSUE OF NEW SHARES AND WARRANTS 31. The following shall apply in relation to the allotment and issue of the New Shares and the Warrants in pursuance of the Scheme: (1) The New Shares shall be allotted and issued by the Company to the Escrow Trustee by means of credit to an appropriate CREST account of the Escrow Trustee or its nominee. (2) Each New Share shall be allotted and issued credited as fully paid in consideration of: (a) the release of Scheme Claims which are the subject of the First Initial Distribution Notice on the basis set out in the Scheme; and/or (as the case may be) (b) the agreement of Scheme Creditors with other Scheme Claims not to commence or continue Prohibited Proceedings in respect of such Scheme Claims as set out in clauses 2 to 5, (such consideration being in aggregate net of the amount of the Cash and the face value of the New Notes). (3) The plc Shareholders shall receive the plc Shareholder Stock on the following basis: (a) each plc Shareholder shall be provisionally allocated one New Share from the plc Shareholder Stock in respect of every 559 ordinary shares of nominal value 5p each in the capital of plc ("PLC SHARES") which it holds on the last day of dealings in those shares prior to the Effective Date (the "REGISTER DATE"). No fractions of New Shares shall be provisionally allocated to plc Shareholders. (b) each plc Shareholder who holds less than 559 plc Shares at the Register Date shall be allocated one New Share from those New Shares not distributed by virtue of the prohibition against the allocation of fractions of New Shares set out in sub-clause 31(3)(a) ("RESIDUAL SHARES"). If there are insufficient Residual Shares to enable one New Share to be allocated to each such plc Shareholder (the "SHORTFALL"), sub-clause 31(3)(c) shall apply until the Shortfall has been eliminated. If there are Residual Shares in excess of the number of New Shares required to ensure that each plc Shareholder is allocated one New Share from the plc Shareholder Stock pursuant to sub-clause 31(3)(a) (the "EXCESS"), sub-clause 31(3)(d) shall apply. (c) (i) One New Share shall be deducted from the provisional allocation of each plc Shareholder beginning with the plc Shareholder receiving the highest provisional allocation (from which no New Share has been deducted under this sub-clause) and continuing with the plc Shareholder with the next highest provisional allocation. (ii) Where more than one plc Shareholder has the same

provisional allocation and a deduction pursuant to sub-clause 31(3)(c)(i) is required to be made from the provisional allocation of one such plc Shareholder, such deduction shall be made in the alphabetical order of the first letter of the surname or corporate name (or first surname or corporate name if more than one) of such plc Shareholders as they appear in the register of the members of plc. (iii) Deductions pursuant to sub-clauses 31(3)(c)(i) and 31(3)(c)(ii) shall continue until the number of New Shares so deducted equals the Shortfall. (d) (i) If the Company reasonably believes that the New Shares shall be (and they are in fact) Listed within 30 Business Days of the Effective Date, the Registrars shall use reasonable endeavours to procure the sale of the Excess on the London Stock Exchange and the net proceeds of sale shall be paid to the Company for its benefit. 218 II. THE CORP SCHEME

----- (ii) In any other circumstances, the Registrars shall use reasonable endeavours to procure the sale of the Excess and the net proceeds of such sale shall be paid to the Company for its benefit. (e) Once the provisional allocations under this sub-clause have been finalised they shall be treated as final allocations and distributed to plc Shareholders as soon as reasonably practicable in the manner provided for in the Escrow and Distribution Agreement. (4) The Warrants shall be allotted and issued by the Company prior to the Effective Date and the Registrars shall hold the Warrants for the benefit of the plc Shareholders to be distributed to (or, as the case may be, sold in the market as provided in sub-clause 31(6)(b)) as directed by the Company in accordance with the terms of the Scheme. (5) Each plc Shareholder shall be allocated one warrant in respect of every 56 plc Shares which it holds at the Register Date. No fractions of Warrants shall be allocated to plc Shareholders. (6) (a) New Shares and Warrants will not be distributed to or to the order, or for the account or benefit, of any plc Shareholder where such distribution would be prohibited by any applicable law or regulation, or so prohibited except after compliance with conditions or requirements that are unduly onerous (determined in accordance with sub-clause 30(7)(a)). Accordingly, (i) New Shares and Warrants will not be distributed to any plc Shareholder that is shown in the register of plc Shareholders as having a registered address in Malaysia, unless there has been a Change of Law; and (ii) Warrants will not be distributed to any plc Shareholder that is shown in the register of plc Shareholders as having a registered address in Italy, unless: (A) CONSOB has confirmed that such distribution does not constitute a public offering under Italian securities legislation; or (B) the number of such plc Shareholders does not exceed 200; or (C) there has been a Change of Law. (b) To the extent that New Shares or Warrants that would otherwise be deliverable to a plc Shareholder cannot be delivered because of a legal or regulatory prohibition described in sub-clause 31(6)(a) above, such New Shares or Warrants will not be delivered and instead the Registrars shall use reasonable endeavours to sell such New Shares or Warrants and will pay the net proceeds of such sale (if any) to the relevant plc Shareholder in full satisfaction of the rights of such plc Shareholder in respect of such New Shares or Warrants under the Scheme, all as more particularly specified in the Escrow and Distribution Agreement. (7) Any sale pursuant to clause 31 shall be for the best terms reasonably available at the time of the sale and shall be undertaken on behalf of the relevant plc Shareholders and none of the Supervisors, the Company, the Escrow Trustee, the Distribution Agent, the Registrars or any other person shall be responsible for any loss arising from the terms or timing of the sale or the failure to procure any purchaser for all or any plc Shareholder Stock or Warrants to be sold pursuant to clause 31. 32. The plc Shareholder Stock and the Warrants shall only be available for the purposes of Distributions to plc Shareholders (or sale) pursuant to clause 31. 219 II. THE CORP SCHEME

----- PART V ESCROW AND DISTRIBUTION ARRANGEMENTS ESCROW AND DISTRIBUTION AGREEMENT 33. On the Effective Date, those provisions of the Escrow and Distribution Agreement which have not already come into force shall come into force in accordance with its terms. In particular, but without limitation, the Company, forthwith upon the Effective Date, shall allot and issue or, as the case may be, pay the Basic Scheme Consideration (and the plc Shareholder Stock) to the Escrow Trustee or its nominee to be dealt with in accordance with the Escrow and Distribution Agreement. Any plc Receipts shall (as soon as practicable after receipt by the Company) be paid or transferred to the Escrow Trustee to be dealt with in accordance with the Escrow and Distribution Agreement. SCHEME CONSIDERATION AND PLC SHAREHOLDER STOCK WHEN HELD IN ESCROW BY THE ESCROW TRUSTEE 34. All of the Scheme Consideration allotted, issued and/or transferred to the Escrow Trustee or its nominee shall be held by the Distribution Agent or the Escrow Trustee's nominee, as the case may be as custodian for the Escrow Trustee. The Escrow Trustee shall hold that Scheme Consideration on bare trust absolutely for the Scheme Creditors on the basis set out in the Escrow and Distribution Agreement and all of the plc Shareholder Stock allotted, issued or transferred to the Escrow Trustee shall be held by the Escrow Trustee on trust absolutely for the plc Shareholders. In each case and so as to bind

the Scheme Creditors and any person deriving title from them, the Scheme Consideration shall be applied by the Escrow Trustee on behalf of the Scheme Creditors absolutely entitled to it, in accordance with the Escrow and Distribution Agreement and the provisions of the Scheme. Subject to the provisions of the Escrow and Distribution Agreement, the Escrow Trustee shall at no time whatsoever, either present or future, have any beneficial interest in the Scheme Consideration or the plc Shareholder Stock. 35. Whilst any New Shares, New Notes or any Cash are held by, or on behalf of, the Escrow Trustee: (1) dividends paid on (or any other rights or benefits added or attached to) such New Shares; and/or (2) interest accrued on any such Cash or interest paid on any such New Notes; and/or (3) any cash arising from the prepayment by the Company of any such New Senior Notes or New Junior Notes in accordance with their terms and any interest accruing thereon, shall be paid, transferred or credited to the Escrow Trustee to hold on the terms of the Escrow and Distribution Agreement. 36. The Escrow Trustee shall not exercise any voting rights attaching to any New Notes or New Shares held in escrow. 37. (1) The Escrow Trustee's liabilities as trustee shall be solely those arising out of its trusteeship and other obligations set out in the Escrow and Distribution Agreement. (2) The Distribution Agent's liabilities as custodian for the Escrow Trustee and as distribution agent shall be solely those arising out of its custodianship and other obligations set out in the Escrow and Distribution Agreement. 220 II. THE CORP SCHEME ----- PART VI INDEPENDENT ADJUDICATION 38. If any question or issue in relation to the existence or quantum of a Scheme Claim shall be referred for adjudication as a result of an election made pursuant to clause 17 or the question of what sum an Eligible Recipient shall be entitled to shall be referred for adjudication pursuant to sub-clause 30(7)(e)(ii) the question or issue shall be referred for adjudication to an individual agreed between the Supervisors and the relevant Scheme Creditor (the "COUNTERPARTY"), such individual to be an independent third party considered by the Supervisors and the Counterparty to be a fit and proper person duly qualified to adjudicate on the question or issue, or in the absence of any such agreement between the Supervisors and the Counterparty within 10 Business Days of the election, to an individual nominated by The President of the Law Society of England and Wales. 39. The individual to whom the question or issue is referred (the "ADJUDICATOR") shall be entitled to prescribe such reasonable provisions and procedures as, in his absolute discretion, he may consider appropriate for the purposes of assisting him in reaching his decision, and shall be entitled for such purpose to call for such evidence in relation to the question or issue referred to him as he may require, provided that the Counterparty and the Company shall always be afforded a reasonable opportunity to make oral submissions to the Adjudicator. In any one adjudication, such oral submissions shall not in aggregate occupy more than one working day save with the approval, in his absolute discretion, of the Adjudicator. 40. With regard to any adjudication before him, the Adjudicator may make such directions in respect of payment of his remuneration and in respect of the costs, charges and expenses incurred by him, the Supervisors, the Company or the Counterparty as he shall think just. In particular, but without limitation, one party may be directed to pay remuneration and costs, charges and expenses of another party if, in the opinion of the Adjudicator, any such party has made a claim, relied on a defence or otherwise howsoever conducted himself in relation to the adjudication in a manner which is frivolous, vexatious or had no reasonable prospect of success. 41. If the Adjudicator shall direct that any such remuneration, costs, charges and expenses be paid by the Supervisors or by the Company, the same shall forthwith be paid in full by the Company. 42. If the Adjudicator shall direct that any such remuneration, costs, charges and expenses be paid by the Counterparty, the same shall forthwith be paid in full by the Counterparty and, if not so paid then, for the purposes of determining whether such Counterparty is entitled to participate in any Distribution under the Scheme, he shall be treated as having received on account an advance distribution under the Scheme equal to the amount which he has been directed to pay. 43. Subject to any directions which may be given by the Adjudicator in accordance with clause 40, the Company shall pay all costs, charges and expenses incurred by the Adjudicator in the course of exercising and performing his powers, duties and functions under the Scheme and shall pay such remuneration to the Adjudicator for the exercise and performance of his powers, duties and functions as may be agreed between the Adjudicator and the Supervisors and approved by the Creditors' Committee. 44. The Adjudicator shall notify the Supervisors and the relevant Counterparty of his decision by notice in writing by Post as soon as practicable. 45. Subject to any mandatory applicable law, the determination of the Adjudicator of any question or issue shall be final and binding on the Company, the Supervisors and the Counterparty and, for the avoidance of doubt, there shall be no right of appeal therefrom, and no right to make any claim against the Adjudicator in respect thereof. For the avoidance of doubt, this exclusion of any right of appeal shall operate only to the extent permitted by law. 46. If at the expiration of 6 months in the case of a question or issue referred for adjudication as a result of an

election made pursuant to clause 17 or of 3 months in the case of a question or issue referred for adjudication pursuant to sub-clause 30(7)(e)(ii) no decision on such question or issue has been reached by an Adjudicator, then nothing in this Scheme shall preclude the Counterparty from taking any appropriate action in the Court for the purposes only of securing a determination of the question or issue concerned. 221 II. THE CORP SCHEME

----- PART VII THE SUPERVISORS 47. The Supervisors shall have the powers, duties and functions conferred upon them by the Scheme and any other documents entered into pursuant to the Scheme. 48. The Supervisors shall be a minimum of two individuals (and not more than three) who are each licensed insolvency practitioners and duly qualified in the reasonable opinion of the Company and the Creditors' Committee to discharge the function of the Supervisors under the Scheme. The initial Supervisors shall be Philip Wedgwood Wallace and Richard Heis of KPMG LLP, 8 Salisbury Square, London EC4Y 8BB, England. 49. The Supervisors, or any of them, may resign their appointment at any time by giving not less than 28 days' notice in writing to the Company and the Creditors' Committee or such shorter period as may be agreed by the Company and the Creditors' Committee. 50. The office of Supervisor shall be vacated by an appointee to that office if that appointee: (1) dies, becomes bankrupt or mentally disordered; or (2) is convicted of an indictable offence (other than a road traffic offence); or (3) resigns his office by 28 days' notice in writing to the other Supervisors; or (4) ceases to be a licensed insolvency practitioner. 51. In the event of a vacancy in the office of the Supervisors pursuant to clauses 49 and 50, the Company and the Creditors' Committee (acting in accordance with sub-clause 82(2)) shall, if required, forthwith appoint as a replacement Supervisor a person who is suitably qualified so to act pursuant to clause 48 and not disqualified to act under clause 50 and who consents to act as Supervisor. 52. The functions and powers of the Supervisors under the Scheme may be performed and exercised jointly or severally and any act required to be done by the Supervisors pursuant to the Scheme may be done by all or any one or more of them. 53. (1) The Supervisors shall supervise, and carry out their functions as set out in, the Scheme. (2) Without prejudice to the generality of sub-clause 53(1), the Supervisors shall: (a) execute an accession letter to the Escrow and Distribution Agreement on the Effective Date and on and from the Effective Date, perform their obligations and duties thereunder; (b) prepare a report on the conduct of the affairs of the Company in relation to the Scheme and the operation of the Scheme during each period of 12 months since the later of the Effective Date and the date when the last such report was prepared; (c) attend meetings of the Creditors' Committee and meetings of the Scheme Creditors convened and operated in accordance with Part IX to discuss such reports or if requested by the party convening the meeting for any other purpose in relation to the operation of this Scheme; and (d) maintain a record of Scheme Creditors entitled to attend meetings of Scheme Creditors based on information contained in Claim Forms and supplied by Bondholder Communications to the Supervisors in accordance with the terms of the Escrow and Distribution Agreement. 54. The Supervisors shall, with effect from the Effective Date, ensure that there is in force in relation to the Company such bond as would have had to be in force if the Company had been wound up in England on the Effective Date and they had been appointed as liquidators of the Company. 222 II. THE CORP SCHEME

----- 55. Without prejudice to the generality of clause 53, in carrying out their functions and powers under the Scheme, the Supervisors shall be entitled: (1) to admit or refuse to admit Scheme Claims Submitted by Scheme Creditors (including to ensure the Company properly conducts its defence of any Prohibited Proceedings and/or any Allowed Proceedings) and direct: (a) Distributions; and (b) realisations of Scheme Consideration to generate cash for Distributions by the Distribution Agent in accordance with the Scheme and the Escrow and Distribution Agreement; (2) to have access at all reasonable times to all relevant employees, books, papers and other documents of the Company and to receive all such information from the Company as they may reasonably require in relation to their duties as Supervisors and to receive the reasonable co-operation of the Company in connection with the conduct of any Prohibited Proceedings, any Allowed Proceedings or defending any Proceedings against the Supervisors in respect of carrying out their functions and exercising their powers under the Scheme; (3) to delegate to any Employee all or any of the functions, powers, rights, authorities and discretions conferred upon the Supervisors under the Scheme and from time to time to revoke any such delegation, provided that the Supervisors shall be responsible for any act or omission of any such employee or delegate to the same extent as if they had expressly authorised it; (4) to be remunerated by the Company for the carrying out of such functions and powers (in the case of the initial Supervisors, Philip Wedgwood Wallace and Richard Heis, such remuneration to be calculated by reference to the Supervisors' Engagement Letter) and to be reimbursed by the Company for all expenses properly incurred by them in connection with this clause including any adverse costs ordered to be paid by the

Supervisors as a result of any Proceeding in connection with the Scheme; (5) to defend any proceedings against them in respect of carrying out their functions and exercising their powers under the Scheme; (6) to apply to the Court for directions in relation to any particular matter arising in the course of the Scheme; (7) to liaise with the Creditors' Committee and to attend Creditors' Committee meetings; (8) to convene a meeting of Scheme Creditors in accordance with Part IX, if appropriate; and (9) to exercise such powers as are necessary or desirable to enable them to fulfil their functions under the Scheme and to do all other things incidental to the exercise of the functions and powers referred to in this and clause 53. 56. Save as expressly set out in this Scheme, the Supervisors shall be entitled to employ and remunerate accountants, actuaries, lawyers and other professional advisers or agents in connection with the conduct of their functions and powers under the Scheme. 57. Any function of or power conferred on the Company or its officers, whether by statute or by its memorandum or articles of association, which could be exercised in such a way as to interfere with the exercise by the Supervisors of their functions and powers in relation to the Company or the Scheme, shall not be so exercised except with the consent of the Supervisors, which may be given either generally or in relation to particular cases. Any such consent given by the Supervisors may be withdrawn. 58. In carrying out their functions and exercising their powers under the Scheme, the Supervisors shall act bona fide and with due care and diligence in the interests of the Scheme Creditors as a whole and they shall use their powers under the Scheme for the purpose of ensuring that the Scheme is operated in accordance with its terms. 223 II. THE CORP SCHEME

----- 59. (1) Save as expressly set out in this Scheme or the Escrow and Distribution Agreement, the Supervisors shall act as agents of the Company (without personal liability) in respect of all functions and powers conferred on them under this Scheme. The Supervisors shall, in their capacity as such, incur no liability to any Scheme Creditor or any other person: (a) in respect of any decrease in the value of a Scheme Creditor's Distribution Entitlement during the period between that Scheme Creditor submitting its Scheme Claim and that Scheme Creditor receiving Scheme Consideration in satisfaction of its Distribution Entitlement; (b) in respect of bringing the Waiting Period to an end pursuant to sub-clause 24(1); (c) arising from the structure or establishment of the Scheme including any claim based upon: (i) the quantum of the Reserve Claims Segment; and (ii) the timing of the First Initial Distribution; and (d) arising from the exercise of any power or discretion vested in them under the Scheme, except where such liability arises as a result of their own negligence, wilful default, breach of duty, breach of trust, fraud, bad faith or dishonesty (or as a result of the negligence, wilful default, breach of duty, breach of trust, fraud, bad faith or dishonesty of any Employee). (2) The Company shall indemnify the Supervisors for any Liability incurred by the Supervisors arising out of or in connection with making or having made any Distributions in accordance with the terms of the Scheme save to the extent that such Liability arises from the Supervisors own negligence, wilful default, breach of duty, breach of trust, fraud or dishonesty (or as a result of the negligence, wilful default, breach of duty, breach of trust, fraud or dishonesty of any Employee). 60. (1) To the extent permitted by law, no Scheme Creditor shall be entitled to challenge the validity of any act done or omitted to be done in good faith and with due care by the Supervisors in accordance with