

REPORT & ACCOUNTS

The Report & Accounts of the Plan were approved by the Board of SPT on 3 November 2005 and signed off by the auditor on 4 November 2005. Finalisation of the document was delayed pending the outcome of discussions between Marconi and SPT relating to Marconi's strategic review. Although the outcome of those discussions are a significant part of the Report of the Trustee, it is not covered in this update as a circular has already been issued to members by the Chairman.

The fund

The fund of the Plan increased during the year ended 5 April 2005 by £62.8 million to £2,388.3 million. The major changes when compared to last year were the reduction in the employers' augmentations into SBS and lower amounts of benefits and transfers that were paid from the Plan. The reduction in augmentations reflected the more stable environment when fewer employees left Marconi as a result of redundancy.

Fewer leavers resulted in a greatly reduced number of cash lump sums and other benefit payments, although the amount paid via the pensions payroll increased, reflecting the effect of the pension increase awarded in the year (although this was tempered by a reduction in the actual numbers of pensioners paid, as more pensioners died in the year than were added to the payroll).

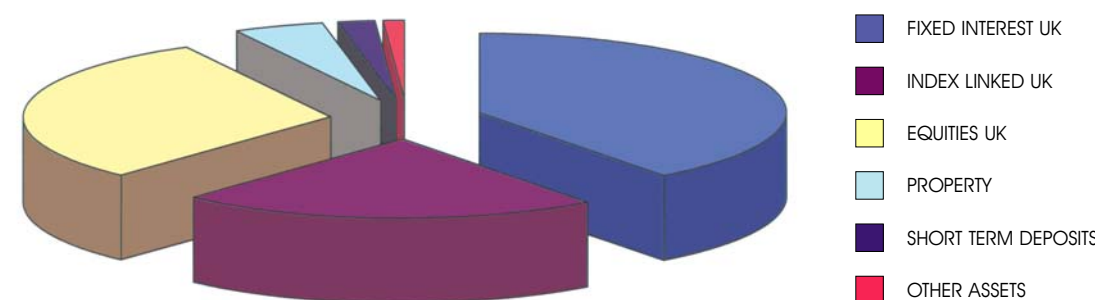
The reduction in transfer values paid from the Plan is almost entirely explained by the almost total absence this year of any bulk transfer payments (such transfers occur as a result of corporate actions undertaken by the participating employers).

For the third successive year, investment performance was positive as markets continued to climb from the low levels seen previously. As well as performing well in absolute terms, Plan investment performance relative to its customised benchmark was also good.

The asset distribution of the Plan as at 5 April 2005 was as follows:

| | £ million |
|---------------------|----------------|
| Fixed Interest UK | 945.5 |
| Index Linked UK | 535.3 |
| Equities UK | 722.3 |
| Property | 112.8 |
| Short term deposits | 46.0 |
| Other assets | 26.4 |
| Total | 2,388.3 |

ASSET DISTRIBUTION AS AT 5 APRIL 2005



Actuarial valuation

A formal actuarial valuation of the Plan as at 5 April 2005 is currently being undertaken and has to be completed by 5 April 2006. A revised actuarial statement, based on the preliminary results of the valuation has been issued, stating that the current level of contributions being paid by Marconi is insufficient to meet the cost of benefits currently being accrued. Marconi is currently contributing to the Plan at the rate of 8.2% of pensionable salaries, which is the rate set after the actuarial valuation as at 5 April 2002.

As a consequence of the corporate deal outlined above it is likely that the actuarial valuation will be finalised and future contribution rates agreed during the first quarter of 2006. If the deal completes as currently proposed, SPT and Watson Wyatt do not envisage any difficulties in agreeing an appropriate Schedule of Contributions with Telent plc. The results of the valuation will be included in next year's Report and Accounts.

Investment policy

As a consequence of both the failure by Marconi to win any part of the BT 21CN contract and the subsequent announcement of the corporate deal with Ericsson, SPT has carried out a full review of its investment policy. Further information about any changes in policy will be included in the 2006 report.

Membership

| Category of member | 5 April 2005 | 5 April 2004 |
|------------------------------------|---------------|---------------|
| Contributor to The GEC Plan | 3,200 | 3,250 |
| Contributor to SBS | | |
| - Internal | 785 | 917 |
| - SLAC | 467 | 486 |
| - MLPL | 527 | 496 |
| Total | 1,779 | 1,899 |
| Pensioner | 37,538 | 38,474 |
| Deferred pensioner | 28,056 | 30,697 |

The number of members contributing to the GEC Plan and to the SBS was more stable than in previous years but continued to reflect the decline in the number of people employed by Marconi and its subsidiary companies. The decline in pensioner numbers reflects fewer pensions being established than those that have ceased as a result of pensioner deaths.

During the year, MPO has continued to trace deferred pensioners with a benefit secured under the Equivalent Pension Benefit (the forerunner of SERPS). In most of these cases, the pension benefit secured under the Plan is a very small fixed amount per annum and the member is offered the opportunity to accept a single lump sum payment. The work is continuing and it is expected that there will be a substantial decline in deferred pensioners during the year to 5 April 2006.

The number of active members of the Plan is also likely to alter substantially in the current year as a result of the announcement of the sale of significant parts of Marconi's business to Ericsson.

Credited interest

In recent years' reports, the possible effects of the liability-led investment strategy adopted by SPT have been outlined and, in particular, that this strategy will almost certainly result in declarations of lower rates of credited interest than had been the case previously. In the year ended 5 April 2005, a credited interest rate of 2.5% was declared together with a terminal bonus to be applied in certain circumstances. The terminal bonus applied for those who were members prior to 6 April 2003.

For the year commencing 6 April 2005, SPT was again prudent in setting a credited interest rate of 2.5% for the year, and also withdrew the terminal bonus.

SPT recognised that the withdrawal of the terminal bonus may result in an immediate reduction in members' benefit expectations and therefore decided, with the agreement of Marconi, that for those members who take their benefits in the year commencing 6 April 2005, such benefits will not be less than they would have been had they been paid on 5 April 2005. This concession also applies to members who decide to transfer their internal SBS balance to an external provider before 6 April 2006.

IF YOU ARE AN ACTIVE OR DEFERRED MEMBER WITH AN SBS BALANCE TO WHICH CREDITED INTEREST APPLIES, THE TRUSTEE BELIEVES THAT IT MAY BE IN YOUR INTEREST TO CONSULT AN INDEPENDENT FINANCIAL ADVISER REGARDING THE FUTURE INVESTMENT OF YOUR FUND.

Stanhope Pension Trust Limited



To contributing members, deferred pensioners and pensioners of the G.E.C. 1972 Plan (the Plan)

Dear Member

In October, I wrote to you to give you details of the Marconi/Ericsson transaction and, in particular, the effects that transaction was likely to have on the Plan. I promised to write again as the transaction progressed.

Marconi/Ericsson transaction

I can confirm that the transaction remains on schedule and that circulars have been issued by both Marconi and Ericsson to their respective shareholders. The shareholders have until 21 December to decide whether to accept the proposals and their decision, which is expected to be positive, should be known in the week before Christmas.

Subject to the shareholders' decision and regulatory approval of the transaction, the £185 million referred to in my earlier letter will be paid into the Plan during the first quarter of 2006. At the same time, £490 million will be paid into the escrow account, which is subject to legally binding terms that make it available to the trustee should a future deficit arise on the Plan. Both payments will be made prior to the distribution to shareholders.

Transfer of contributing members to Ericsson

A potential transfer to a new pension scheme for those employees who are transferring to Ericsson and who are contributing members of the Plan is being discussed by Marconi, Ericsson and the Trustee. We are expecting to make a separate communication to affected members shortly.

I wish to assure you that, if you are affected, you will be given sufficient information and time to make an informed decision about whether or not to transfer.

I shall write to you again on both the above matters in due course.

Newsletter

Attached to my letter, you will find the Pensions Office's regular Newsletter which includes details of some of the effects of the changes to the taxation regime from 6 April 2006 and details from the Report and Accounts for the year ended 5 April 2005, which I hope you will find interesting. Publication of the Report and Accounts was delayed due to the Marconi/Ericsson transfer but the document is now with the printers and it is expected to be available before Christmas.

It only remains for me to wish you all the best for Christmas and New Year, and I look forward to writing to you with another update early in 2006.

Yours sincerely

Chris Holden
Chairman

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PENSIONS UPDATE



Dear Member

Welcome to the December 2005 Pensions Update. This comes at a time of significant change both for

the UK pensions industry in general and for the Plan in particular. I am sure that uppermost in the minds of many members will be the proposed sale of Marconi's equipment and international services businesses to Ericsson, and the impact on the Plan. The Chairman of Trustees explained the deal in his letter of 25 October, and an update on progress is included in his letter. I believe that the outcome is a very positive one for the Plan, which will result in a major injection of cash, with additional security being provided by the £490 million set aside to fund any future Plan deficit.

This Update concentrates on two issues, firstly the changes to the tax regime governing pensions which comes into effect from April 2006, and secondly the latest report and accounts for the Plan, which show continued sound performance.

I would just like to finish by wishing all members a Merry Christmas and a Happy New Year

Peter Harris
Pensions Manager

Finance Act 2004

The Finance Act 2004 becomes effective from 6 April 2006 and will introduce a number of changes for active members, deferred members and pensioners of the Plan. The existing Revenue and Customs regimes that currently govern pension schemes will be replaced with a single regime for all occupational and personal pension schemes in the UK. This will result in a significant simplification for the vast majority of members.

Please note these changes do not affect pensioners over the age of 75.

What are the general changes from 6 April 2006?

- In most cases members will be able to contribute up to 100% of earnings to a pension scheme or other retirement saving arrangements up to a maximum of £215,000 per year (or £3,600 for those with no earnings).
- There will be an Annual Allowance (AA) on pension accrual, for the tax year 2006/07 of £215,000 and this will be increased each year. Any accrual over the AA will result in an additional tax charge for the scheme member. In schemes such as the Plan, a multiplier of 10 will be applied to the yearly change in pension to assess growth against the Annual Allowance.
- The minimum early retirement age, at which pension benefits may be taken, will be increased from 50 to 55 on 6 April 2010.
- A Lifetime Allowance (LTA) will be introduced and the value of all your pensions including occupational pensions will be subject to a lifetime limit of £1.5million, which will increase each year until 2008. Any accrued benefits in excess of the LTA will incur an additional tax charge payable by the scheme member of 55%. The value of pension benefits will be assessed against the LTA by applying a multiplier of 20 to the scheme pension.

Each year pensioners will be advised of the amount of the LTA they have used as a result of drawing their pension. For pensions in payment the value will be calculated as 25 times the annual rate of pension (the difference in factors is because it will be assumed that a pensioner has taken the maximum tax free cash at retirement). This will only be relevant if you have a pension in payment and then put an additional pension into payment.

If you think you may be affected by the lifetime limit you will be able to 'protect' your current pension benefits. We believe that it is very important that you seek independent financial advice from an IFA if your pension fund is likely to exceed the LTA.

- In most cases the maximum tax-free cash sum will be around 25% of the capital value of your pension, including Additional Voluntary Contributions. In certain circumstances, members of occupational pension schemes who currently have a tax-free cash entitlement in excess of 25% may be able to 'protect' their current cash entitlement. You should seek advice from an IFA if you think this affects you.
- Currently if you are over the age of 50 and your GEC Plan pension is less than £260 per annum this may be exchanged for a once only tax free cash lump sum. This is known as trivial commutation. Under the new regime (if you are aged between 60 and 75) in a single period of 12 months a member may elect to exchange trivial pensions for a once only cash lump sum, where the total pension rights from all schemes amounts in aggregate to no more than 1% of the LTA. 25% of the lump sum may be paid tax-free.
- Any pension benefits paid out on death will be valued against the LTA and any benefits above this paid as a lump sum will be subject to 55% tax.
- You will be able, should you wish, to be an active member of more than one registered pension scheme at a time. Thus, you could continue to be an active member of the Plan and contribute to a separate personal pension.

How will these changes affect you?

The new rules will give greater individual choice and flexibility in when and how people save for their retirement, allowing people to pay more towards a pension and retirement lump sum and still gain the benefits of tax privileged savings. The rules will allow most people to pay what they can afford and when they can afford it.

After April 2006 members will be responsible for certifying that they have sufficient unused LTA to enable benefits to be paid. In order to help you monitor your benefits we will be advising you of your current fund value in either your annual benefit statement (active members and deferred members) or your annual P60 (pensioners).

What happens next?

The above information is based on the legislation which has been published so far. As some of the detail of the legislation has not yet been finalised, the Trustee has not concluded discussions with the Company over how to implement the changes. However the rules of the Plan may need to be more restrictive than the legislation.

All scheme members will receive further communications on these changes at the end of January 2006, which will detail the effect these changes have on your Plan benefits, further information about protecting your pension and how to assess your LTA and AA.

In the meantime if you wish to find out more information regarding the new legislation, this can be found at www.hmrc.gov.uk/pensionschemes

To find an independent financial adviser, please contact:
IFA Promotion
Tel: 0800 085 3250
Website: www.unbiased.co.uk

