



THE GEC PLAN AND  
SELECTED BENEFIT  
SCHEME

REPORT AND  
ACCOUNTS 2000

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**Stanhope Pension Trust Limited is the trustee of the G.E.C. 1972 Plan with assets of over £5,408 million as at 5 April 2000 which are held in trust to provide benefits for some 156,000 beneficiaries.**

**The plan is administered by  
Marconi Pensions Office, P.O.Box 20,  
Lichfield Road, Stafford ST17 4LN**



*securing*

## Year in Brief

-  **ALSTOM transfer completed**
-  **Actuarial valuation as at 6 April 2000**
-  **Plan return ahead of benchmark**
-  **Pension Consultative Committee structure changed**
-  **More than £260m paid in benefits**
-  **Assets split between Plan and BAE SYSTEMS  
2000 Pension Plan**
-  **Statement of socially responsible investment**

*your future*

# Trustee, Administration, Managers and Advisers

## Trustee

Stanhope Pension Trust Limited, P.O. Box 20, Lichfield Road, Stafford, ST17 4LN

### Directors

J. M. Brew (*Chairman*)  
J. H. Chaplin  
M. V. Elliott  
A. B. Lee  
D. W. Marsden  
R. J. Mills  
K. J. O'Boyle  
C. F. N. Samuel  
N. D. Sutcliffe  
C. R. J. Walton  
V. A. Webster

### Secretary

S. J. S. Hart

### Investment Advisory Committee

J. M. Brew (*Chairman*)  
B. M. Hiorns  
N. Walter  
R. P. Walther

### Investment managers

Bankers Trust Company  
Fleming Investment Management Limited  
Merrill Lynch Investment Management  
Stanhope Investment Management Limited

### Property managers

Gerald Eve  
Jones Lang LaSalle  
Pepper Angliss & Yarwood

### Custodians for investments

Bankers Trust Company  
Bank of New York (Europe) Limited  
State Street Bank and Trust Company

### Auditors

Deloitte & Touche

### Bankers

HSBC Bank plc

### Medical adviser

E. J. Albright, M.B., Ch.B.

### Scheme Actuary

A. J. Wise  
Partner in the firm of Watson Wyatt Partners

### Solicitors

Eversheds  
Sacker & Partners

### Pensions administration

Marconi Pensions Office  
P.O. Box 20  
Lichfield Road  
Stafford ST17 4LN  
Tel: 01785 256344  
Fax: 01785 274732  
e-mail: [accounts.info@marconi-pensions.co.uk](mailto:accounts.info@marconi-pensions.co.uk)  
[www.marconi-pensions.co.uk](http://www.marconi-pensions.co.uk)

### Pension schemes registry number

101206410

# Report of the Trustee

5 April 2000

## **Constitution**

The G.E.C. 1972 Plan (the Plan), comprising The GEC Plan and Selected Benefit Scheme (SBS), is the principal pension arrangement in the UK for employees of the Marconi Group (Marconi). The Plan was established with effect from 6 April 1973 and is constituted under a definitive deed dated 4 March 1982, as amended.

The Plan is administered by Marconi's Pensions Office on behalf of the corporate trustee, Stanhope Pension Trust Limited (SPT). The power of appointing and removing the trustee, and the directors of SPT, is vested in Marconi Corporation plc (Marconi Corporation) under the terms of the Plan's definitive deed and of the articles of association of SPT, respectively. Marconi Corporation is a subsidiary of Marconi plc and was formerly known as The General Electric Company, p.l.c. (GEC).

Employees of Marconi and its subsidiary and associated companies which participate in the Plan are eligible to apply for membership provided they are under the age of 65. The Plan is not contracted out of the State Earnings-Related Pension Scheme.

## **The fund**

The fund of the Plan reduced during the year ended 5 April 2000 by £656.1 million to £5,408.7 million. This large reduction was a result of the transfer of assets (as well as the liabilities in respect of transferring members, deferred pensioners and pensioners) to the ALSTOM Pension Scheme which amounted to £1,024.6 million (see page 12), offset by an increase in the market value of the investments of £359.6 million. Ignoring the ALSTOM transfer, net withdrawals arising from transactions with members and employers were £178.3 million which were offset by net income of £187.2 million generated by the investments.

Since the end of the Plan year a further significant reduction in the value of the Plan has occurred as a result of a transfer to the BAE SYSTEMS 2000 Pension Plan, details of which are given on page 13.

## **Actuarial valuation**

The financial position of the Plan cannot be judged solely by the income and expenditure in any particular year, or by the market value of its investments at a particular point in time, but is shown by actuarial valuations normally undertaken triennially.

As a result of the ALSTOM transfer referred to above it was decided to bring the valuation forward by a year and undertake a valuation as at 6 April 1999.

The main purposes of the valuation as at 6 April 1999 were for the Scheme Actuary to advise SPT and Marconi Corporation:

- on the funding position at the valuation date, by a comparison of the assets at the valuation date with the value of the benefits in respect of pensionable service to that date,
- of the rate of contribution needed from the employers to meet the balance of the cost of benefits accruing for future service and
- of the proportion of assets of the Plan which relate to the benefits accrued by members, deferred pensioners and pensioners whose Plan service was with an ALSTOM UK Limited employer.

The Actuary carried out the valuation using the Projected Unit method. Broadly speaking, this method produces a normal long term contribution rate required to secure each year's benefits as they accrue. Provided that new entrants continue to join the Plan at a reasonable rate, both the active membership profile of the Plan and the contribution rate should remain reasonably stable over time.

# Report of the Trustee

5 April 2000

## Actuarial valuation (continued)

The liabilities in respect of past service were calculated by estimating the incidence, amount and probability of future benefit payments using the actuarial assumptions summarised below. These liabilities were then discounted to the valuation date by reference to an appropriate market-based discount rate and were compared to the market value of Plan assets as reported in last year's accounts. The target funding position is 100% cover of asset value relative to past service liabilities.

To assess the level of contributions required in the future, the Actuary calculated the total cost of benefits accruing in the ensuing year's service by determining the addition to the past service liabilities arising from that year's service, making due allowance for expected investment returns, salary inflation, declaration of credited interest and benefit payments during the year. The discounted value of the expected members' contributions was deducted to arrive at the amount payable by the employers which was expressed as a percentage of total pensionable pay.

The key issue in carrying out the valuation is the choice of discount rate as this is critical to determining the market related value of liabilities. In making this choice, the redemption yield on gilts provides a relevant indicator. In principle, a gilt portfolio could be arranged so that future inflows of cash, from interest payments and principal repayments, match pension payments and a policy of gilt matching would give a high degree of confidence in the amount of gilt assets which would be required to meet pensions in payment. The redemption yield on gilts was 5% at 6 April 1999 which implies that a 5% discount rate would be appropriate for such liabilities.

About one third of the Plan's assets are held in gilts and comparable securities but there are also substantial equity and property investments which are held in expectation of higher average returns. Having regard to this point and to the split of liabilities between pensioner and active members, it is appropriate to choose a higher discount rate than that implied by gilts. The rate for non-pensioner liabilities should not be substantially greater than the gilt rate, however, to allow for the risks that salary increases may be higher than anticipated, longevity may increase etc. The Actuary considered that taking a prudent approach a discount rate of 6% should be used for non-pensioner liabilities. Overall the average discount rate for all the liabilities works out at 5.7%.

The rate chosen by the Actuary is prudent when compared to the historical rates of return earned by the Plan. The principle underlying the valuation is that, because of the financial risks inherent in the Plan, the recognition of any excess returns over the assumed discount rate will be deferred to future valuations, after such returns have materialised.

The financial assumptions adopted by the Actuary for the 1999 valuation are as follows:

<i>Long term rates of:</i>	<i>% per annum</i>
Price inflation	3.00
Increases in pay (in addition to promotional increases)	5.00
Growth of basic State pension	3.00
Pension increases	3.00
Discount rate for pensioner liabilities	5.00
Discount rate for non-pensioner liabilities	6.00
Discount rate for investment of future contributions	7.25
Credited interest	5.50

# Report of the Trustee

5 April 2000

## Actuarial valuation (continued)

The past service position of the Plan as at 6 April 1999 is shown in the following table:

	£ million
<i>Market based values of liabilities to:</i>	
Pensioners and dependants	2,598
Deferred pensioners (excluding SBS)	870
Members in employment – Pre-Plan service	426
– Plan service (excluding SBS)	982
SBS	172
<b>Total</b>	<b>5,048</b>
Market Value of Plan assets	5,048

The funding level (ratio of assets to liabilities) was 100.0%. The Actuary confirmed that the Plan met the statutory Minimum Funding Requirement (MFR) with a funding level of 120.5% and, as required by Regulations made under the Pensions Act 1995, the Board of SPT has put in place a schedule of contributions effective from 1 June 2000 to ensure the continued compliance with the MFR.

The Actuary calculated that the rate of contribution required from the employers to fund the provision of future benefits is 7.2% of pensionable salaries. This is a slight increase from the rate of 7.1% calculated at 5 April 1997, the date of the last actuarial valuation. At that time the Actuary advised that the employers should pay a rate of 6.6% until the next valuation date to take account of the surplus in the Plan.

The Actuary has advised that it is not necessary for the rate of employers' contribution to be altered immediately as the Plan is 100% funded at 6 April 1999. Marconi Corporation has considered the advice of the Actuary and has decided to continue to contribute to the Plan at a rate of 6.6% of pensionable salaries until 5 April 2001.

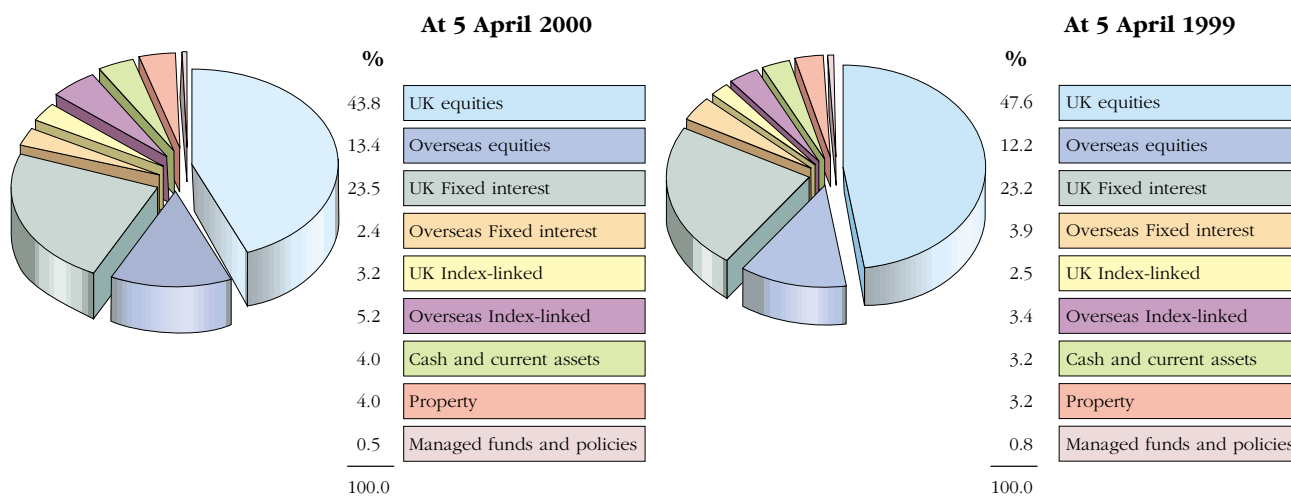
A statement from the Actuary in terms of the Disclosure Regulations is shown on page 16.

## Investment policy and management of assets

Investments continue to be managed in accordance with the policy determined by SPT having regard to advice given by the Investment Advisory Committee (IAC) and by Stanhope Investment Management Limited (SIM). Information about the current members of the IAC, which meets quarterly to review investment strategy and to make such recommendations to SPT as it considers appropriate, is given on page 33.

The policy determined by SPT is consistent with the Statement of Investment Principles (SIP) which is reproduced on page 35 and copies of which are available on request. The SIP was amended in June 2000, to reflect the Board's policy on socially responsible investment (as required by recent changes in Regulations), and to permit greater latitude to one investment manager on the proportion which any single equity might form of its portfolio. All investments were made in accordance with the SIP.

The charts below show the percentage distribution of the various categories of investment at each year end. The values of the investments are shown in the Net Assets Statement on page 19.



# Report of the Trustee

5 April 2000

## Investment policy and management of assets (continued)

The investment managers are appointed by SPT and their objectives are laid down in customer agreements with SPT. All managers, except for Bankers Trust Company, are authorised by the Investment Management Regulatory Organisation (IMRO); the arrangement with Bankers Trust Company is governed by US law. SIM is a wholly-owned subsidiary of Marconi.

The managers have responsibility for investments in specific geographical regions and investment categories, while property and most cash assets of the Plan are managed by SPT, as shown below:

Investment managers and portfolios	5 April 2000		5 April 1999	
	£m	%	£m	%
<b>Bankers Trust Company</b>				
<i>Short dated US Treasury Bonds</i>	<b>129.8</b>	<b>2</b>	<b>146.1</b>	<b>2</b>
<b>Fleming Investment Management Limited</b>				
<i>Japanese equities</i>	<b>241.4</b>	<b>5</b>	<b>164.8</b>	<b>3</b>
<b>Merrill Lynch Investment Management</b>				
<i>UK equities</i>	507.9	9	507.0	8
<i>European equities</i>	466.6	9	400.0	7
<i>Japanese equities</i>	0.0	0	160.3	3
<b>Total</b>	<b>974.5</b>	<b>18</b>	<b>1,067.3</b>	<b>18</b>
<b>SIM</b>				
<i>UK Fixed interest securities</i>	1,272.0	24	1,409.9	23
<i>UK Index-linked securities</i>	173.7	3	148.9	3
<i>Overseas Fixed interest securities</i>	0.0	0	87.6	1
<i>Overseas Index-linked securities</i>	278.0	5	203.9	3
<i>UK equities</i>	1,866.9	35	2,391.4	39
<i>Overseas equities</i>	39.0	1	30.7	1
<i>Property unit trusts</i>	14.6	-	13.4	-
<i>Managed funds</i>	26.5	-	46.5	1
<b>Total</b>	<b>3,670.7</b>	<b>68</b>	<b>4,332.3</b>	<b>71</b>
<b>Total externally managed assets</b>	<b>5,016.4</b>	<b>93</b>	<b>5,710.5</b>	<b>94</b>
<b>SPT</b>				
<i>Short-term deposits</i>	169.6	3	212.4	4
<i>Property</i>	198.7	4	191.7	3
<i>Other</i>	24.0	-	(49.8)	(1)
<b>Total</b>	<b>392.3</b>	<b>7</b>	<b>354.3</b>	<b>6</b>
<b>Total assets</b>	<b>5,408.7</b>	<b>100</b>	<b>6,064.8</b>	<b>100</b>

Except for SIM, the amounts shown above for each manager include net current assets/(liabilities)

The Japanese equity investments were consolidated into a single portfolio with effect from 6 April 1999 and the Japanese equity portfolio previously managed by Merrill Lynch Investment Management (MLIM) was transferred to Fleming Investment Management Limited (FIML). MLIM traded as Mercury Asset Management plc until 30 June 2000. In addition, a total of £235 million has been withdrawn from the Japanese equity market throughout the year.

SPT considers that, with minor exceptions, its investments are marketable and readily realisable in the short term. Direct property investments can be realised in the market but over a longer time scale than other investments.

# Report of the Trustee

5 April 2000

## Investment performance in the period to 31 December 1999

Rates of return on investments, used as a measure of investment performance, are calculated from investment income received and changes in the market value of investments over each calendar year. Plan performance is measured using a service provided by The WM Company (WM).

Historically, Plan performance has been compared with that of other funds participating in the WM service and the benchmarks used to assess the investment performance of the Plan were the average returns from the WM All Funds Universe (which includes over 1,500 funds with an aggregate value representing more than 75% of the value of UK pension funds' assets) and the WM50 Universe (which is comprised of the 50 largest funds measured by WM, each of which is valued at more than £1.6 billion). Comparisons were also made of the returns from various categories of investments against appropriate indices.

The comparisons were carried out largely as a matter of interest, to gauge whether a good return had been achieved; achieving the average pension fund return has never been a (formal or informal) target for the Plan and there has never been a desire to distribute the Plan's assets in a similar manner to other pension funds. The returns were only comparable to the extent that the investment strategy of other funds was similarly unconstrained. Until recently this was generally true but this has become less the case as customised benchmarks have become more common.

During 1998, SPT adopted an investment strategy that is prudent in the light of the Asset Liability Study carried out by the Actuary and investment policy will be constrained accordingly. Comparisons are still to be made with total returns achieved by other funds but the new strategy will mean that it is much less a 'like-for-like' comparison than was previously the case. SPT has also arranged to measure the performance of the Plan against its own customised benchmark (which more closely mirrors the investment strategy) and the performance against this benchmark will be reported. The table below summarises the results for the period ended 31 December 1999:

	Annualised return % per annum		
	One Year	Five Years	Ten Years
Plan	17.8	16.3	13.0
WM All Funds Universe	21.3	16.3	12.5
WM50 Universe	21.6	16.3	12.4
Customised benchmark	16.2	Not applicable	Not applicable

The benchmark is shown for one year as it is only in the last year that the performance of the Plan has been constrained by the investment policy.

In 1999 the average return for UK pension funds in the WM All Funds Universe was 21.3% which was one of the highest returns of the decade. Throughout the year there was an increasing concentration of investment opportunities in a limited number of sectors and stocks which was coupled with marked differences in return from the major investment areas. As a result there was a dramatic increase in the range of results reported by WM and the risk of significant underperformance was far greater than in previous years. Overseas equities, with a return of 39.5%, was the best performing sector; this was particularly true in Japan which had returns of 91.1%. The average return for the largest sector, UK equities, was 24.1% for the year. The Index-linked sector produced a positive return of 4.6% but UK and overseas bonds were the poorest performing sectors with returns of -1.3% and - 5.0% respectively.

# Report of the Trustee

5 April 2000

## Investment performance in the period to 31 December 1999 (continued)

Over the ten year period ended 31 December 1999, the Plan achieved better returns than the average fund included in both the WM All Funds Universe and the WM 50 Universe. It must be remembered that investment performance relates to past returns and is not necessarily indicative of future results.

The table below compares the Plan return and asset distribution with those of the customised benchmark and the WM All Funds average:

Category of investment	Return Year ended 31 December 1999			Distribution 31 December 1999		
	Plan	Benchmark	WM All Funds	Plan	Benchmark	WM All Funds
	%	%	%	%	%	%
Fixed interest						
UK	-2.4	-0.6	-1.3	22	17½	8
Overseas ( <i>see note</i> )	0.1	-2.1	-5.0	4	0	4
Index-linked	3.8	3.5	4.6	3	17½	5
UK equities	20.4	24.2	24.1	46	46	51
Overseas equities	73.1	34.5	39.5	17	12	25
Property	17.7	13.5	14.1	4	5	4
Cash and net current assets ( <i>see note</i> )	5.8	5.2	6.8	4	2	3
<b>Total fund assets measured</b>	<b>17.8</b>	<b>16.2</b>	<b>21.3</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Note: The Bankers Trust portfolio is included in cash for performance measurement purposes.*

A result of the change in the investment strategy, which was explained in last year's report, is that the Plan runs a significantly lower risk of a poor return but the opposite is also true - there will be less chance of an exceptionally high return. As may have been expected, the Plan underperformed when measured against the average performance of other funds due to its lower exposure in the UK and overseas equities sectors which was exacerbated by poor returns in the UK fixed interest sector. Against the customised benchmark, however, the Plan showed a good return mainly as a result of its performance in the overseas equity and property sectors. The overseas equity performance was a reflection of the high proportion of Japanese equities held by the Plan.

Investment performance is attributable to two factors: Policy and Selection. Policy measures the effect of the distribution of investments and also of changes made during the year whilst Selection measures the contribution made to performance by the choice of investments within each of the categories of asset.

In terms of both Policy and Selection the Plan performed better than the customised benchmark in 1999. In both cases the positive contribution was mainly due to Japanese equities which was offset by a negative impact on performance by Selection in the UK equity and fixed interest sectors.

Comparative information about rates of return on members' contributions is given on pages 9 and 10.

# Report of the Trustee

5 April 2000

## Custody of assets

During the year, the Royal Bank of Scotland plc sold its custody business to the Bank of New York. As a result, RBS Trust Bank plc was renamed Bank of New York (Europe) Limited. The assets of the Plan are held securely by the following custodians:

Investment Manager	Asset classes held by custodian	Custodian
Bankers Trust Company	US Treasury bonds	Bankers Trust Company
Fleming Investment Management Limited	Japanese equities	State Street Bank & Trust Company
Merrill Lynch Investment Management	UK and European equities	Bank of New York (Europe) Limited
Stanhope Investment Management Limited	UK and overseas equities, fixed interest and index linked securities and property unit trusts	State Street Bank & Trust Company

The custodians are regularly assessed and the services provided are monitored to ensure that the assets are secure and that the service standards demanded by SPT are maintained.

## Underwriting commissions

It was reported last year that the trustees of Post Office and British Telecom pension schemes had appealed against the decision of the High Court that underwriting commissions were income derived from trading and were therefore subject to income tax. The Court of Appeal considered the case in February 2000 and decided in favour of the trustees. The Inland Revenue petitioned the House of Lords to hear an appeal against this decision but the Lords decided the Revenue's petition should be refused and dismissed the case.

It remains SPT's view that underwriting commissions are tax exempt investment income of the Plan and efforts by the Inland Revenue to tax such commissions as trading income will continue to be resisted.

## Membership

Mainly as a result of the ALSTOM transfer, membership of each category of member of the Plan decreased during the year to 5 April 2000. On 6 April 2000, 15,078 contributing members of The GEC Plan, 5,881 contributing members of SBS, 33,874 pensioners and 17,223 deferred pensioners were transferred to the BAE SYSTEMS 2000 Pension Plan; more information about this transfer is given on page 13.

Category of member	5 April 1999	5 April 2000	6 April 2000
Contributor to The GEC Plan	43,638	31,157	16,079
Contributor to SBS	17,012	11,632	5,751
Pensioner	78,279	72,191	38,317
Deferred pensioner	58,208	53,083	35,860

Further statistics regarding the membership of the Plan are given on pages 30 and 31.

## Credited interest

Credited interest is applied to members' contributions to The GEC Plan and SBS; the amounts accumulated in The GEC Plan are used in the calculation of 'Basis 3' pensions and refunds of members' contributions on withdrawal or death; those accumulated in SBS are used to purchase an annuity at the date of retirement or as refunds of members' contributions on withdrawal or death. The rate of credited interest is determined yearly by SPT on the advice of the Actuary; the minimum rate is 2.5%. The rate determined for the Plan year ending 5 April 2001 is 9.0%. Rates applicable for the ten years since 6 April 1991 are set out below:

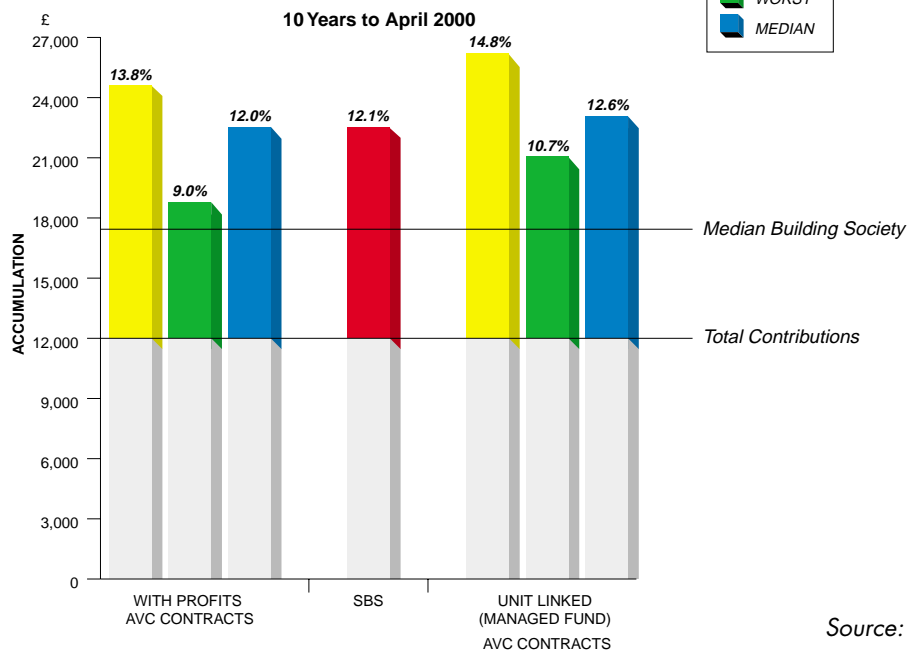
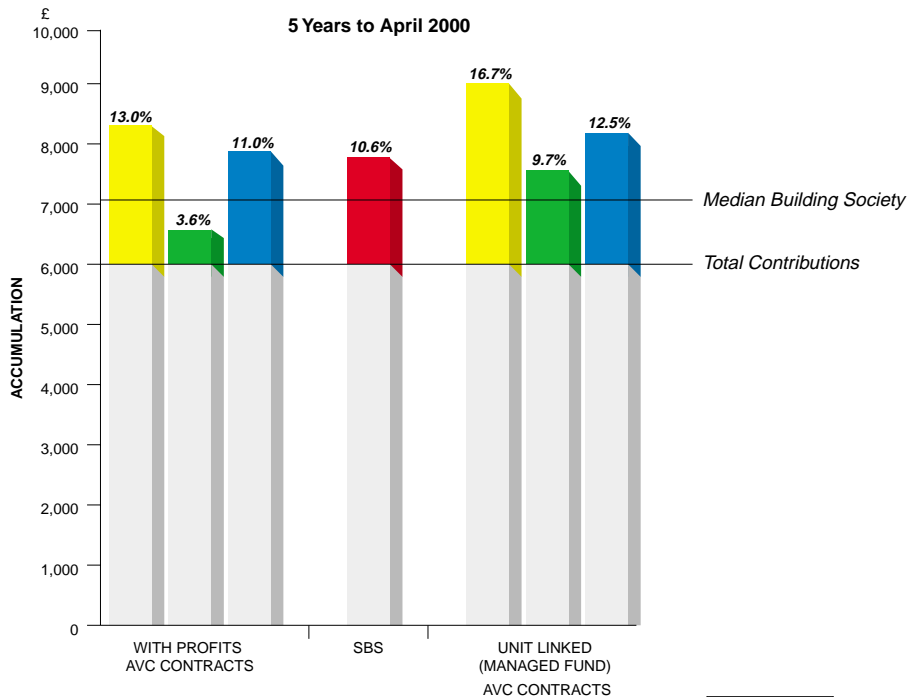
Plan year to 5 April	Rate of credited interest	Plan year to 5 April	Rate of credited interest
	%		%
1992	17.00	1997	11.00
1993	17.00	1998	11.00
1994	13.25	1999	11.00
1995	13.50	2000	9.50
1996	12.50	2001	9.00

# Report of the Trustee

5 April 2000

## Credited interest (continued)

The average rate of credited interest for the ten years ending 5 April 2001 is 12.4% per annum. A comparison of SBS with other pension arrangements, based on an accumulation of additional voluntary contributions (AVCs) of £100 per month, is given below for the five and ten year periods ended 5 April 2000:



Source: Watson Wyatt Partners

Percentages shown in the charts are average yearly rates of return on monthly contributions paid. Where a contribution lower than £100 per month was paid, returns on with profits and unit linked contracts would have been less than shown in the charts as expenses would have been proportionately higher.

The current low levels of inflation are expected to be reflected in lower investment returns in the future which will inevitably lead to lower rates of credited interest.

# Report of the Trustee

5 April 2000

## Pension and deferred pension increases

The Plan Rules provide for increases of the smaller of 5% per annum and the increase in the General Index of Retail Prices (RPI). Increases above these rates, having regard to changes in the RPI and the resources of the Plan, are at the discretion of SPT and are subject to the approval of Marconi Corporation.

An increase of 2%, which corresponds with the increase in the RPI over the twelve month period to January 2000, was applied to most pensions with effect from 1 May 2000. Proportionate increases were awarded to pensions which became deferred or commenced to be paid after 1 May 1999.

Some pensions and deferred pensions are not subject to increase, or are subject to fixed increases, according to the terms on which they were originally set up.

The rates of increase to Plan pensions that generally applied during the past ten years are as follows:

Year beginning 1 May	Rate of Plan increase %	Comparable rate of increase in the RPI	Year beginning 1 May	Rate of Plan increase %	Comparable rate of increase in the RPI %
1991	9.1	9.0	1996	2.9	2.9
1992	4.5	4.1	1997	2.8	2.8
1993	1.9	1.7	1998	3.5	3.3
1994	2.5	2.5	1999	2.4	2.4
1995	3.3	3.3	2000	2.0	2.0

The average rate of increase to a Plan pension which commenced payment on 1 May 1990 has been 3.5% per annum; over the same period the average rate of change in the RPI has been 3.4% per annum.

## Benefits

### Pensions

The aggregate amount of pensions paid in the year ended 5 April 2000 has reduced substantially when compared to the previous year due to the ALSTOM transfer. Excluding the effects of that transfer, however, the amount paid in pensions grew at a faster rate than the annual increase awarded on 1 May 1999; this was due to an aggregate increase in the number of pensioners over the year and members retiring in the year having higher amounts of pensions when compared to those ceasing.

At 1 May 2000, the average age of pensioners was 72.7 years and the average pension in payment amounted to £2,916 per annum. The reported figures for 1 May 1999 were 72.3 years and £2,880 per annum respectively although they are not strictly comparable to this year's figures as the current year excludes those pensioners transferred to the BAE SYSTEMS 2000 Pension Plan on 6 April 2000. In addition to a pension, most pensioners took part of their benefits as a capital sum at retirement.

### Transfer values paid from the Plan

On leaving pensionable service, a member may choose to have the value of his deferred benefits transferred to another employer's approved pension scheme or to a personal pension policy. Individual transfers paid from the Plan to other pension schemes and to personal pension arrangements amounted to £6.0 million in the year to 5 April 2000 (1999 £8.1 million).

Transfer values may not be less than the value of benefits calculated on the basis used for the MFR. For the purpose of calculating the transfer value under this basis, SPT has considered whether discretionary benefits should be included and has determined that:

- Discretionary increases to pensions in payment should not be taken into account.
- Future credited interest should be anticipated at 8% per annum (the allowance made in the MFR calculation for the rate of return expected on British Government Securities).
- Provision for specified dependants' benefits should be made.
- No provision for favourable early retirement terms should be made.

# Report of the Trustee

5 April 2000

## **Transfer values paid to the Plan**

As a general rule, SPT has imposed an embargo on the acceptance of transfer payments into the Plan except where such transfers occur as a result of bulk exercises following acquisitions of businesses by participating employers; this embargo was imposed due to uncertainties created by some effects of the Pensions Act 1995 which have not been resolved.

## **Death benefits**

Members are recommended to nominate the persons to whom they wish benefits to be paid in the event of death and to review such nominations if personal circumstances change. A nomination form (P7) is available from personnel departments or direct from SPT; completed nomination forms are treated in strictest confidence by SPT.

## **Financial counselling**

An independent financial counselling service is available to members and to their dependants where capital benefits payable exceed £25,000. This service was used by 152 retiring employees and dependants during the year (1999 297).

## **Acquisitions, mergers and disposals of businesses by employers**

### **Acquisitions**

Following the acquisition of Tetrel Limited by Marconi Communications Limited 90 employees were invited to join the Plan for future service benefits from 1 May 1999. An offer of substituted benefits in the SBS in respect of past service benefits to 30 April 1999 in the Tetrel Limited Employees Retirement Benefit Scheme was made to members of that scheme and a transfer value amounting to £0.1 million is included in the accounts in respect of the 24 members who chose to transfer.

### **Disposals and mergers**

As reported last year, ALSTOM UK Ltd (AUK) set up its own pension arrangements, the ALSTOM Pension Scheme (APS), following the flotation of the GEC ALSTHOM joint venture by GEC and ALCATEL. An initial transfer of assets was made to APS on 6 April 1999 amounting to approximately 95% of the fund attributable to the 11,374 contributing members employed by an AUK company and the 3,030 deferred pensioners and 6,358 pensioners whose benefits were derived from employment with a GEC ALSTHOM company. During the year further balancing payments were made to APS and the total amount of assets transferred is included in the accounts.

During the year transfer arrangements were finalised for the employees of Seal Semiconductors Limited. For those employees who opted to transfer the value of their Plan benefits to their new employer's pension scheme, the relevant asset transfer from the Plan is shown in the accounts.

A provision is also included in the accounts relating to the Berkel pension scheme which was merged with the Plan some ten years ago; this provision is the estimated cost of increasing some Guaranteed Minimum Pensions (GMPs) following the recent reconciliation of GMPs with the DSS. The Berkel pension scheme was contracted out of the State Earnings Related Pension Scheme (SERPS) and its GMPs (equivalent to SERPS benefit) were bought-out with Norwich Union as they could not be transferred to the Plan because it is not contracted-out.

The merger of the defence businesses with British Aerospace plc and the resulting transfer of assets is dealt with on page 13.

No transfer has yet been made in respect of the disposals of Plessey Semiconductors (which was mentioned in last year's report), the facilities management and processing business of EASAMS Limited or Avery Berkel Limited. The employees of Plessey Semiconductors have been offered an opportunity of transferring their interests in the Plan to their new employer's pension scheme or to a personal pension provider and SPT is awaiting the return of the members' option forms. The employees of the facilities management and processing business of EASAMS Limited and Avery Berkel Limited will have an opportunity to transfer their interests in the Plan to their new employer's pension scheme in due course. An appropriate transfer of assets will be included in next year's accounts for the members at these businesses who choose to transfer.

# Report of the Trustee

5 April 2000

## **BAE SYSTEMS transfer**

GEC agreed to merge its defence businesses with British Aerospace and the deal was given regulatory approval in November 1999. The agreement between the two companies envisaged that the company formed as a result of the merger, BAE SYSTEMS, would establish its own pension arrangements. The BAE SYSTEMS 2000 Pension Plan (the BAE Plan) was established during the year and, as anticipated in the agreement, a transfer of assets was made to the BAE Plan on 6 April 2000.

The transfer represented 95% of the amount estimated to be due to the BAE Plan in respect of the 15,078 contributing members, 17,223 deferred pensioners and 33,874 pensioners whose benefits were transferred to the BAE Plan at the same date. It is expected that the balance of the transfer due to the BAE Plan will be paid later in the year. Further information relating to the transfer to the BAE Plan is given in note 15 to the accounts.

## **Year 2000**

An exercise was successfully completed to ensure that Pensions Office systems are year 2000 compliant. The exercise cost £335,000 and was subject to outside scrutiny by consultants employed by Marconi. There were no significant problems caused by the year 2000.

## **Data Protection**

The Data Protection Act 1998 was introduced in March 2000. SPT, Marconi and the other employers are regarded as data controllers for the purposes of this Act, in relation to data processing for the purpose of administering, paying benefits under, and operating the Plan. They have a legal obligation and a legitimate interest to process such data, which may include passing it to the Plan's actuary, auditor, administrator and other third parties, where necessary for the administration and operation of the Plan.

Both SPT and Marconi Corporation have existing entries on the Data Protection Register, and the administrative systems of the Plan have been reviewed in consequence of the new Act's introduction. The Marconi Pensions Office has confirmed its measures to ensure technical and organisational security of data, and members are being advised at appropriate times of the implications of the Act.

## **Administration and investment management expenses**

Expenses relating to administration and investment management activities are borne by the Plan. For the year to 5 April 2000 expenses amounted to £11.4 million (1999 £9.9 million). The increase is mainly attributable to

- investment management fees (which have increased as a result of the rise in the markets)
- the costs of running the Pensions Office (which include the costs to date of the replacement pensions administration system).

Expenses were 11.3% of the sum of normal contributions to The GEC Plan and SBS in the year to 5 April 2000 (1999 7.6%). 'Normal contributions' is the rate of contributions which is required to provide Plan benefits and was 10.2% of pensionable earnings in the year to 5 April 2000 (1999 10.1%). The increase in the expense ratio is a result of the items detailed above.

The expenses are analysed in notes 7 and 10 to the accounts.

## **Communication**

Application forms to join The GEC Plan and SBS are made available to all new employees together with the Plan booklet. Copies of these documents are available on request from Unit personnel departments or SPT.

Contributing members, deferred pensioners and pensioners receive a yearly statement of benefits with further statements provided for members who pay additional voluntary contributions to SBS.

# Report of the Trustee

5 April 2000

## **Communication (continued)**

The 1999 report and accounts was issued to Units to be made available to members and direct to members, pensioners and deferred pensioners to meet specific requests. Each member, pensioner and deferred pensioner was sent a copy of a new leaflet, 'Review for 1999', which replaced the salient features document issued in previous years. The new leaflet included highlights from the 1999 report and accounts.

Feedback from members was positive about the new leaflet and it is intended to issue a similar document this year. The report and accounts will continue to be made available to members and prospective members at their Units.

Contributing members of the Plan are encouraged to obtain information concerning the Plan direct from their Unit personnel departments. However, should they wish to contact the Pensions Office or SPT they should write to the address given on page 2, quoting their National Insurance number and employing Unit. Members can also contact Pension Consultative Committee (PCC) representatives at their Unit or the Chairmen or Secretaries of the PCCs at the addresses shown on page 38.

In addition to supplying documentation about the Plan, Pensions Office staff visit Units to deliver pre-retirement courses, make presentations to new joiners and explain Pension Office procedures to the Units' administration staff. Consideration of ways to enhance communications and presentations to members is continuous and an interactive quotation system for contributing members is nearing completion.

Regular updates about the Plan are now issued and general information can be obtained from our website, [www.marconi-pensions.co.uk](http://www.marconi-pensions.co.uk).

## **Financial statements**

SPT is responsible for the preparation of the financial statements which follow this report. Pension scheme regulations require SPT to make available to Plan members, beneficiaries and certain other parties, audited financial statements which:

- show a true and fair view of the financial transactions of the Plan during the year and of the amount and disposition of the assets and liabilities at the end of the year (other than the liability to pay pensions and other benefits after the end of the year which are dealt with in the actuary's report),
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and
- are prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

SPT has supervised the preparation of the financial statements and has ensured that suitable accounting policies have been agreed and applied consistently and that any judgements and estimates that have been made are reasonable and prudent.

SPT is also responsible for ensuring that contributions to the Plan are made in accordance with the Plan rules and the recommendation of the actuary and that contributions are paid within the time limit laid down in the regulations made under the Pensions Act 1995.

## **Trust Deed and Rules**

As reported last year, the 12th Deed of Variation, which changes the SBS rules so that members' contributions can be paid on a wider range of earnings, was executed on 5 May 1999.

## **Member Nominated Directors (MNDs)**

The Pensions Act 1995 places a statutory obligation on SPT to secure the nomination of MNDs to the Board, or to implement an agreed alternative (the PCC nominees), and thus on Marconi Corporation to appoint the nominated directors.

This requirement is met by the operation of regional PCCs which are elected by the members at each business unit and which each nominate two directors to be appointed to the SPT Board. Representation of pensioners and deferred pensioners is also via the PCCs. Members of the Plan may continue to serve on the PCC if they so wish, having left the employment of Marconi or another participating employer, for a period of up to four years.

# Report of the Trustee

5 April 2000

## **Member Nominated Directors (MNDs) (continued)**

The number of PCCs was reduced from four (which previously each nominated one director) to two, following the transfer of approximately half of the Plan's active membership to the BAE SYSTEMS 2000 Pension Plan on 6 April 2000 and the consequential reduction in the number of regional units and their representatives. Four directors continue to be nominated by the membership.

Further information relating to the PCCs is given on page 38.

## **Trustee Board**

The following changes have been made in the composition of the Board since 5 April 1999:

*Appointments*      Mr K J O'Boyle on 19 April 1999  
                         Mr W A Newman on 3 August 1999  
                         Mr C F N Samuel on 3 March 2000  
                         Mr D W Marsden on 9 March 2000  
                         Mr M V Elliott and Mr R J Mills on 3 May 2000.

Kevin O'Boyle is Marconi's Group Pensions Director, Clifford Samuel is a solicitor at Marconi's Head Office, David Marsden is Chief Finance Officer of Marconi Communications, Mick Elliott is a draughtsman with Marconi Mobile at Chelmsford, and Roy Mills is a design engineer with General Domestic Appliances at Bodelwyddan.

Bill Newman, Military Sales and Marketing Manager of Matra Marconi Space at Stevenage, subsequently resigned following his transfer to BAE SYSTEMS.

*Resignations*      Mr D A Wells on 6 April 1999  
                         Mr R M Hadley on 8 April 1999  
                         Mr P E Read on 14 April 1999  
                         Mr M Lester on 18 January 2000  
                         Mr D J Cox on 6 April 2000  
                         Mr W A Newman on 6 April 2000.

David Wells and Richard Hadley, directors since 1991 and 1996 respectively, resigned following the transfer of their interests in the Plan to the ALSTOM Pension Scheme. Philip Read, a director since 1997, resigned on his resignation as Pensions Manager of GEC. Michael Lester, a director since 1997, resigned following his transfer to BAE SYSTEMS. Derek Cox, a director since 1993, resigned on the transfer of his interest as a Plan pensioner to the BAE SYSTEMS 2000 Pension Plan.

Further information about the current members of the Board is given on page 32.

*J. M. Brew*

**J M Brew**  
*Chairman*

24 August 2000

# Report of the Scheme Actuary

Actuarial Statement made for the purposes of Regulation 30 of The Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuation) Regulations 1996

## G.E.C. 1972 Plan ('the Plan')

Effective date of valuation: 6 April 1999

### 1 Security of prospective rights

In my opinion, the resources of the Plan are likely in the normal course of events to meet in full the liabilities of the Plan as they fall due. In giving this opinion, I have assumed that the following amounts will be paid to the scheme:

#### Description of contributions

By members: as specified in the Rules  
By the employer: not less than 6.6% of earnings subject to review at future valuations

### 2 Summary of methods and assumptions used

For the purposes of this Statement I have assumed that the Plan will continue. Thus, in the normal course of events active members will continue to accrue benefits under the Plan and their benefits will be based on their actual pensionable service at cessation of membership and their final pensionable salary at that time.

The liabilities referred to in this Statement relate to the benefits which are expected to become payable under the normal operation of the Plan. They take account of future benefit accruals and include appropriate allowance for future increases in salaries and credited interest.

This statement does not address the situation were the Plan to be discontinued, further consideration of which is set out in my actuarial valuation addressed to the Trustee dated March 2000.

Funding method:	Projected unit % per annum
Increases in pay (in addition to promotional increases)	5.00
Growth of basic State pension	3.00
Pension increase	3.00
Average discount rate for accrued liabilities	5.70
Discount rate for investment of future contributions	7.25
Credited interest	5.50

Further details of the methods and assumptions used are set out in my actuarial valuation addressed to the Trustee dated March 2000.



Signed **A J Wise**

**Fellow of the Institute of Actuaries**  
**Partner in the firm of Watson Wyatt Partners**

**Watson Wyatt Partners**  
**21 Tothill Street**  
**Westminster**  
**London**  
**SW1H 9LL**

**31 March 2000**

# Auditors' Report

## To the trustee of the G.E.C. 1972 Plan ('the Plan')

We have audited the financial statements on pages 18 to 27 which have been prepared on the basis of the accounting policies set out on page 20.

### Respective responsibilities of trustee and auditors

As described on page 14 the trustee is responsible for obtaining audited financial statements which comply with applicable United Kingdom law and Accounting Standards and for making available certain other information about the Plan in the form of an Annual Report. The trustee is also responsible for procuring that contributions are made to the Plan in accordance with the Plan rules and with the recommendations of the actuary. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also provide a statement about contributions, in which we report to you our opinion as to whether contributions have been paid in accordance with the Plan rules and with the recommendations of the actuary. We report to you if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion and statement about contributions

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Plan's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the Plan rules and the recommendations of the actuary.

### Statement about contributions under the Plan

In our opinion contributions payable to the Plan during the year ended 5 April 2000 have been paid in accordance with the Plan rules and the recommendations of the actuary.

### Opinion

In our opinion, the financial statements show a true and fair view of the financial transactions of the Plan during the Plan year ended 5 April 2000 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.



6 September 2000

Deloitte & Touche

### Chartered Accountants and Registered Auditors

Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2BN

# Fund Account

for the year ended 5 April 2000

	Note	2000 £ million	1999 £ million
<b>Contributions from members</b>	2		
The GEC Plan		24.8	32.2
SBS for retirement benefits		16.8	22.1
SBS for death in service benefits		0.2	0.3
		<hr/>	<hr/>
		41.8	54.6
<b>Contributions from employers</b>	2		
The GEC Plan		54.7	70.9
<b>Transfer values received</b>			
Individual		0.0	0.3
Bulk exercises	3	0.1	23.8
		<hr/>	<hr/>
		0.1	24.1
<b>Receipts from life office</b>	4	0.1	0.3
<i>Total</i>		<hr/>	<hr/>
		96.7	149.9
<b>Benefits paid</b>	5	261.8	285.2
<b>Transfer values paid</b>	6		
Individual		6.0	8.1
Bulk exercises		1,025.1	20.4
		<hr/>	<hr/>
		1,031.1	28.5
<b>Administration expenses</b>	7	6.5	5.7
<b>Premiums to life office</b>	8	0.2	0.3
<i>Total</i>		<hr/>	<hr/>
		1,299.6	319.7
<b>Net withdrawals arising from transactions with members and employers</b>		<hr/>	<hr/>
		(1,202.9)	(169.8)
<b>Returns on investments</b>			
Investment income	9	192.1	206.1
Investment management expenses	10	(4.9)	(4.2)
Changes in market values of investments	11	359.6	253.7
		<hr/>	<hr/>
<b>Net returns on investments</b>		546.8	455.6
<b>Net (decrease) / increase in the Fund during the year</b>		<hr/>	<hr/>
Net assets at the beginning of the year		(656.1)	285.8
		6,064.8	5,779.0
<b>Net assets at the end of the year</b>		<hr/>	<hr/>
		5,408.7	6,064.8



# Net Assets Statement

at 5 April 2000

	Note	2000 £ million	1999 £ million
<b>INVESTMENTS</b>	11		
<b>Fixed interest securities</b>			
UK		1,272.0	1,409.9
Overseas		129.8	233.7
		<u>1,401.8</u>	<u>1,643.6</u>
<b>Index-linked securities</b>			
UK		173.7	148.9
Overseas		278.0	203.9
		<u>451.7</u>	<u>352.8</u>
<b>Equities</b>			
UK		2,369.8	2,890.2
Overseas		724.7	742.2
		<u>3,094.5</u>	<u>3,632.4</u>
<b>Property</b>			
Freehold and leasehold		198.7	178.2
Unit trusts		14.6	13.4
		<u>213.3</u>	<u>191.6</u>
<b>Managed funds</b>		26.1	46.5
<b>Insurance policies</b>		3.0	4.0
<b>Short-term deposits</b>			
Sterling		170.2	228.4
Foreign currencies		36.1	1.7
		<u>206.3</u>	<u>230.1</u>
<i>Total investments</i>		<u>5,396.7</u>	<u>6,101.0</u>
<b>Net current assets / (liabilities)</b>	12	12.0	(36.2)
<b>Net assets at end of the year</b>		<u>5,408.7</u>	<u>6,064.8</u>

The notes on pages 20 to 27 form part of these accounts.

Approved by  
Stanhope Pension Trust Limited  
on 24 August 2000

J. M. Brew  
 K. J. O'Boyle

} Directors

# Notes to the Accounts

5 April 2000

## 1 Accounting policies

### (a) *Basis of preparation*

The accounts are prepared and audited in accordance with regulations made under section 41 (1) and (6) of the Pensions Act 1995 (the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996) and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes issued by the Pensions Research Accountants Group.

The accounts summarise the transactions and net assets of the Plan. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the statement by the Actuary on page 16 and the accounts should be read in conjunction with this statement.

### (b) *Fund Account*

Items are brought into account on an accruals basis.

Individual transfers are accounted for at the date of transfer whilst bulk transfers involving other pension schemes are added to or deducted from the Fund Account on an accruals basis where arrangements have been agreed by the trustees of receiving and ceding pension schemes and, where necessary, members' consents have been obtained.

Changes in market values of investments relate to increases and decreases arising from movements in the prices of investments including realised profits and losses arising during the year from disposals of investments.

### (c) *Net Assets Statement*

Investments are valued on the bases shown below:

Securities listed on UK and recognised overseas stock exchanges, at closing prices as at 5 April 2000 adjusted, where applicable, by accrued interest.

Unlisted securities, at valuations provided by the Plan's investment managers.

The freehold and leasehold properties were valued by External Valuers, CB Hillier Parker, as at 5 April 2000 on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Unit trusts, at closing prices provided by the managers.

Managed funds and insurance policies, consistent with the actuarial statement on page 16.

Overseas investments' values are translated into sterling at the rates of exchange ruling as at 5 April 2000.

## 2 Contributions

### (a) Members contributed to The GEC Plan at a rate of 3% of earnings.

Where applicable, members also contributed additional voluntary contributions to SBS for retirement benefits and death in service benefits at varying amounts specified by them, subject to the limits imposed by legislation.

### (b) Employers contributed to The GEC Plan at a rate of 6.6% of members' earnings (1999 6.6%).

# Notes to the Accounts

5 April 2000

## 3 Transfer values received

Bulk transfers of assets were received from the following pension schemes (or provided for in the accounts) as a result of arrangements agreed between SPT and the trustees of the ceding schemes following acquisitions of businesses by the participating employers.

	2000			1999
	The GEC Plan £ million	SBS £ million	Total £ million	Total £ million
The Tetrel Limited Employees Retirement Benefits Scheme	0.0	0.1	0.1	0.0
The BTR Pension Scheme	0.0	0.0	0.0	23.6
Siemens Communication Systems Limited Pension Scheme	0.0	0.0	0.0	0.2
	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>23.8</b>

## 4 Receipts from life office

These relate to claims from the insurance of SBS death in service benefits.

## 5 Benefits paid

	2000			1999
	The GEC Plan £ million	SBS £ million	Total £ million	Total £ million
Pensions	211.8	0.0	211.8	225.9
Cash sums on retirement	43.1	0.1	43.2	50.3
Capital payments on death	3.7	0.1	3.8	5.1
Refunds of members' contributions with credited interest				
on death	1.9	0.5	2.4	3.1
on leaving service	0.2	0.4	0.6	0.8
	<b>260.7</b>	<b>1.1</b>	<b>261.8</b>	<b>285.2</b>

Benefits paid take account of improvements effective during the year; most pensions in payment, deferred pensions and contingent pensions were increased by 2.4% on 1 May 1999.

Transfers of assets from SBS to purchase pensions in The GEC Plan for members retiring in the year ended 5 April 2000 amounted to £24.1 million (1999 £32.4 million). As this amount is an intra fund transfer it is excluded from the face of the accounts.

# Notes to the Accounts

5 April 2000

## 6 Transfer values paid

- (a) Individual transfer values paid, at the request of members who had left pensionable service, in lieu of benefits to which they were entitled, comprised:

	2000			1999
	The GEC Plan £ million	SBS £ million	Total £ million	Total £ million
Personal pension providers	3.0	0.3	3.3	3.9
Other employers' schemes	2.6	0.1	2.7	4.2
	<u>5.6</u>	<u>0.4</u>	<u>6.0</u>	<u>8.1</u>

- (b) Bulk transfers of assets were made to the following pension schemes (or were provided for in the accounts) as a result of arrangements agreed between SPT and the trustees of the receiving schemes following disposals of businesses by the participating employers.

	2000			1999
	The GEC Plan £ million	SBS £ million	Total £ million	Total £ million
ALSTOM Pension Scheme	969.5	55.1	1,024.6	0.0
Berkel Guaranteed Minimum Pensions	0.4	0.0	0.4	0.0
Telemetrix Group Pension Scheme	0.1	0.0	0.1	0.0
Siemens Group Pension Scheme	0.0	0.0	0.0	16.5
Others	0.0	0.0	0.0	3.9
	<u>970.0</u>	<u>55.1</u>	<u>1,025.1</u>	<u>20.4</u>

## 7 Administration expenses

	2000 £ million	1999 £ million
Marconi Pensions Office	6.0	5.0
Actuarial, audit and legal fees	0.5	0.7
	<u>6.5</u>	<u>5.7</u>

## 8 Premiums to life office

These relate to the insurance of SBS death in service benefits.

# Notes to the Accounts

5 April 2000

## 9 Investment income

	2000 £ million	1999 £ million
<b>Fixed interest securities</b>		
UK	79.0	87.9
Overseas	1.8	5.5
<b>Index-linked securities</b>		
UK	5.4	3.6
Overseas	6.8	2.3
<b>Equities</b>		
UK	72.7	73.6
Overseas	5.4	5.5
	<hr/> 171.1	<hr/> 178.4
<b>Property</b>		
Freehold and leasehold	13.9	14.2
Unit trusts	0.9	0.5
	<hr/> 14.8	<hr/> 14.7
<b>Short-term deposits</b>	6.2	13.0
	<hr/> <b>192.1</b>	<hr/> <b>206.1</b>

## 10 Investment management expenses

	2000 £ million	1999 £ million
Investment management	3.8	3.2
Property management	1.1	1.0
	<hr/> <b>4.9</b>	<hr/> <b>4.2</b>

Investment management includes fees charged by SIM related to direct costs incurred, amounting to £0.5 million for the year (1999 £0.5 million). Fees charged by the other investment managers are calculated as a percentage of the market value of the investments which they manage and, in some cases, are linked to performance compared with market indicators.

Property managers charge fees related to the amount of rental income on the properties they manage. There are also additional fees for items such as rent reviews, lease renewals and irrecoverable expenses on empty properties.

# Notes to the Accounts

5 April 2000

## 11 Investments

a) Movements of net assets during the year ended 5 April 2000

	Market value at 5 April 1999 £ million	Transfers of assets in specie £ million	Purchases at cost £ million	Sales proceeds £ million	Net investment £ million	Changes in market values of investments £ million	Market value at 5 April 2000 £ million
<b>Fixed interest securities</b>							
UK	1,409.9	(204.1)	1,099.0	(965.4)	133.6	(67.4)	<b>1,272.0</b>
Overseas	233.7	(13.1)	18.5	(112.0)	(93.5)	2.7	<b>129.8</b>
<b>Index-linked</b>							
UK	148.9	(22.5)	120.3	(73.4)	46.9	0.4	<b>173.7</b>
Overseas	203.9	(30.6)	132.3	(37.7)	94.6	10.1	<b>278.0</b>
<b>Equities</b>							
UK	2,890.2	(435.1)	782.9	(938.6)	(155.7)	70.4	<b>2,369.8</b>
Overseas	742.2	(106.4)	490.9	(740.9)	(250.0)	338.9	<b>724.7</b>
<b>Property</b>							
Freehold and leasehold	178.2	0.0	12.6	(2.4)	10.2	10.3	<b>198.7</b>
Unit trusts	13.4	0.0	0.0	(0.0)	0.0	1.2	<b>14.6</b>
<b>Managed funds</b>							
	46.5	0.0	0.0	(26.1)	(26.1)	5.7	<b>26.1</b>
<b>Insurance policies</b>							
	4.0	0.0	0.0	(1.3)	(1.3)	0.3	<b>3.0</b>
			<u>2,656.5</u>	<u>(2,897.8)</u>			
<b>Short-term deposits</b>							
Sterling	228.4	(212.8)			154.6	0.0	<b>170.2</b>
Foreign currencies	1.7	0.0			47.4	(13.0)	<b>36.1</b>
<i>Total investments</i>	<u>6,101.0</u>	<u>(1,024.6)</u>			<u>(39.3)</u>	<u>359.6</u>	<b><u>5,396.7</u></b>
<b>Net current (liabilities) / assets</b>							
	<u>(36.2)</u>	<u>0.0</u>			<u>48.2</u>	<u>0.0</u>	<b><u>12.0</u></b>
	<u>6,064.8</u>	<u>(1,024.6)</u>			<u>8.9</u>	<u>359.6</u>	<b><u>5,408.7</u></b>

# Notes to the Accounts

5 April 2000

## 11 Investments (continued)

(b) Sterling deposits were held with the following banks:

	<b>2000</b>	1999
	<b>£ million</b>	£ million
HSBC plc	<b>74.0</b>	45.3
Bank of Scotland Treasury Services plc	<b>50.0</b>	50.0
Coutts & Co	<b>20.0</b>	5.0
Barclays	<b>16.0</b>	0.0
Lloyds TSB plc	<b>8.5</b>	25.0
Bank of New York (Europe) Limited	<b>1.3</b>	13.3
State Street Bank & Trust Company	<b>0.4</b>	14.8
Halifax plc	<b>0.0</b>	50.0
Abbey National Treasury Services plc	<b>0.0</b>	25.0
	<b>170.2</b>	228.4

All such deposits are held on call or are fixed deposits for periods not exceeding one month.

(c) Foreign currencies deposits comprised:

	<b>2000</b>	1999
	<b>£ million</b>	£ million
Japanese Yen	<b>40.8</b>	4.0
Forward contracts	<b>(4.8)</b>	(2.7)
Other	<b>0.1</b>	0.4
	<b>36.1</b>	1.7

Foreign currency deposits are held on call. The amounts shown for forward contracts represent aggregate losses based on year end exchange rates on contracts to buy or sell foreign currencies which had settlement dates falling after the year end.

(d) Investment in participating employers

At the start of the year, the only employer related investments held were shares in GEC. As a result of the merger of the GEC defence businesses with British Aerospace plc on 30 November 1999, the Plan acquired shares in Marconi plc and BAE SYSTEMS together with loan stock in BAE SYSTEMS. From 30 November until 5 April 2000, BAE SYSTEMS was a participating employer in the Plan.

There were no dealings in GEC shares in the period 6 April 1999 to 30 November 1999. The table below details the holdings at 30 November 1999 in each of the securities which replaced the GEC shares, together with the sales and purchases in the period to 5 April 2000 and the resultant holdings at that date.

Security	Holding at 30 November 1999	Sales	Purchases	Holding at 5 April 2000
Marconi Ordinary shares	3,868,000	0	375,000	<b>4,243,000</b>
BAE SYSTEMS Ordinary shares	3,808,711	0	613,000	<b>4,421,711</b>
BAE SYSTEMS Loan Stock	523,727	0	0	<b>523,727</b>

The market value of the investments in participating employers at the year end was £47.2 million or 0.9% of the assets of the Plan (1999 £25.4 million or 0.4% of the assets of the Plan). The Plan's investments comply with the restrictions prescribed for employer related investments.

(e) There were no calls payable on quoted or unquoted securities and no contingent underwriting liabilities at the year end (1999 Nil).

# Notes to the Accounts

5 April 2000

## 11 Investments (continued)

(f) The market value of holdings in unit trusts comprised:

	<b>2000</b>	1999
	<b>£ million</b>	£ million
Operating companies registered outside the UK	<b>39.0</b>	30.7
Operating companies registered within the UK	<b>140.9</b>	149.9

(g) Managed funds consist of an investment bond with the Prudential Assurance Company.

(h) At 5 April 2000 the Plan had no individual investment which amounted to more than 5 per cent of the net assets (1999 Nil).

## 12 Net current assets / (liabilities)

	<b>2000</b>	1999
	<b>£ million</b>	£ million
<b>Debtors</b>		
Investment income	<b>19.8</b>	27.0
Investments sold	<b>29.9</b>	34.3
Contributions	<b>7.0</b>	7.0
Tax on investment income	<b>0.1</b>	1.4
Other	<b>0.3</b>	0.8
	<b>57.1</b>	70.5
<b>Bank balances - current accounts overdrawn</b>	<b>(1.0)</b>	(1.3)
<b>Creditors</b>		
Investments purchased	<b>(30.5)</b>	(30.2)
Investment income in advance	<b>(3.4)</b>	(2.7)
Benefits	<b>(3.4)</b>	(5.6)
PAYE	<b>(2.9)</b>	(3.4)
Administration expenses	<b>(2.7)</b>	(2.0)
Transfers to other pension schemes	<b>(0.6)</b>	(61.4)
Other	<b>(0.6)</b>	(0.1)
	<b>(44.1)</b>	(105.4)
	<b>12.0</b>	(36.2)

## 13 Taxation

### *UK income tax*

The Plan is exempt approved by the Inland Revenue under Chapter I Part XIV of the Income and Corporation Taxes Act 1988.

### *Underwriting commissions*

No provision has been included in these accounts for a contingent liability amounting to £1.7 million arising from assessments by the Inland Revenue on underwriting commissions received since 1981. The assessments have been made on the basis that the commissions represent profits arising from trading.

SPT has appealed against the assessments on the grounds that the commissions represent investment income of the Plan and are therefore exempt from income tax.

# Notes to the Accounts

5 April 2000

## 14 Value of Selected Benefit Scheme (SBS)

The combined assets of The GEC Plan and SBS are shown in the Net Assets Statement on page 19. The value of SBS at 5 April 2000 was £179.7 million (1999 £231.7 million). This reduction occurred mainly as a result of the transfer to the ALSTOM Pension Scheme.

## 15 Post year end event

Assets were transferred from the Plan to the BAE SYSTEMS 2000 Pension Plan (the BAE Plan) on 6 April 2000 in respect of the benefits accrued by 15,078 contributing members (including 5,881 who were also contributors to SBS), 33,874 pensioners and 17,223 deferred pensioners whose benefits were transferred to the BAE Plan on the same date.

The Actuary to the Plan estimated that the proportion of assets required to support the liabilities transferred to the BAE Plan was 50.2% of the total assets of the Plan. The agreement between SPT and BAE SYSTEMS 2000 Pension Plan Trustees Limited allowed for 95% of this estimate to be transferred as at 6 April 2000. Where practical, the transfer was made in specie; where this was not possible, cash payments were made.

The table below shows the value of the assets of the Plan at 5 April 2000, together with the value of the Actuary's estimate of assets to be transferred to the BAE Plan and the value of the assets actually transferred as at 6 April 2000.

The balance outstanding, which is estimated to be some £156.2 million at 6 April 2000, will be transferred when a calculation of the final proportion of the assets attributable to the BAE Plan is completed by the Actuary.

	Market values at 5 April 2000 £ million	Estimate of assets to be transferred as at 6 April 2000 £ million	Market values of assets transferred as at 6 April 2000 £ million
<b>Investments</b>			
<b>Fixed interest securities</b>			
UK	1,272.0	638.5	615.4
Overseas	129.8	65.1	0.0
<b>Index-linked</b>			
UK	173.7	87.2	83.7
Overseas	278.0	139.5	135.1
<b>Equities</b>			
UK	2,369.8	1,189.6	1,148.8
Overseas	724.7	363.8	347.6
<b>Property</b>			
Freehold and leasehold	198.7	99.8	43.5
Unit trusts	14.6	7.3	7.1
<b>Managed funds</b>	26.1	13.1	0.0
<b>Insurance policies</b>	3.0	1.5	0.0
<b>Short-term deposits</b>			
Sterling	170.2	85.4	177.5
Foreign currencies	36.1	18.1	0.0
<i>Total investments</i>	<u>5,396.7</u>	<u>2,708.9</u>	<u>2,558.7</u>
<b>Net current assets</b>	12.0	6.0	0.0
	<u>5,408.7</u>	<u>2,714.9</u>	<u>2,558.7</u>

# Largest Equity Holdings

at 5 April 2000

## The twenty largest individual shareholdings in UK equities by market value:

	£ million	% of UK equities
BP Amoco	157.5	6.6
Vodafone Airtouch	148.6	6.3
British Telecom	127.4	5.4
Glaxo Wellcome	109.8	4.6
Shell Transport and Trading	91.6	3.9
SmithKline Beecham	89.6	3.8
HSBC Holdings	71.7	3.0
AstraZeneca	65.0	2.7
Lloyds TSB Group	57.3	2.4
Barclays Bank	55.5	2.3
Cable & Wireless	51.3	2.2
Royal Bank of Scotland	40.6	1.7
BG Group	32.3	1.4
Centrica	32.2	1.4
Tesco	31.0	1.3
Marconi	29.8	1.3
Rio Tinto	27.9	1.2
Reuters Group	27.1	1.1
Prudential	26.4	1.1
National Grid Group	26.2	1.1

Total market value of the UK equities was £2,369.8 million.

## The ten largest individual holdings in overseas equities by market value:

		£ million	% of overseas equities
Nokia	Finland	24.9	3.4
Total Fina Elf	France	23.0	3.2
NTT	Japan	22.2	3.1
Royal Dutch Petroleum	Netherlands	15.5	2.1
Ericsson	Sweden	15.4	2.1
Siemens	Germany	14.3	2.0
Roche Holdings	Switzerland	13.2	1.8
Vivendi	France	12.9	1.8
Software AG Darmst	Germany	12.2	1.7
Adecco	Switzerland	11.8	1.6

Total market value of the overseas equities was £724.7 million.

# Summary of Securities

	Market value at 5 April 2000 £ million	Market value at 5 April 1999 £ million
<b>Fixed interest</b>		
UK	1,272.0	1,409.9
Overseas	129.8	233.7
	1,401.8	1,643.6
<b>Index-linked</b>		
UK	173.7	148.9
Overseas	278.0	203.9
	451.7	352.8
<b>Equities</b>		
UK		
Resources	293.4	278.6
Basic Industries	57.2	121.3
General Industrials	73.3	99.3
Cyclical Consumer Goods	61.8	39.4
Non-Cyclical Consumer Goods	343.7	562.3
Cyclical Services	289.4	393.7
Non-Cyclical Services	400.4	330.1
Utilities	174.7	178.7
Information Technology	42.1	11.1
Financials	501.3	738.1
Investment Trusts etc	132.5	137.6
	2,369.8	2,890.2
Overseas		
<i>Europe</i>		
Belgium	-	4.6
Eire	4.4	7.3
Finland	27.4	14.9
France	113.8	92.5
Germany	76.5	76.5
Greece	2.6	2.5
Italy	48.6	41.0
Netherlands	47.2	43.6
Portugal	-	2.3
Spain	26.8	21.5
Sweden	28.8	14.2
Switzerland	80.2	73.2
	456.3	394.1
<i>The Americas</i>		
USA	39.0	30.7
<i>Pacific Basin</i>		
Japan	229.4	317.4
	724.7	742.2
<b>Total securities</b>	4,948.0	5,628.8

# Membership Statistics

Five years 5 April 2000

	2000	1999	1998	1997	1996
<b>The GEC Plan contributors (see Note)</b>					
At beginning of the year	43,638	46,945	48,899	49,488	48,463
New members	3,144	4,186	5,576	5,301	5,858
Members leaving service with the following benefits					
Retirements	(1,392)	(1,839)	(2,285)	(1,935)	(1,881)
Refunds of contributions	(231)	(407)	(496)	(353)	(321)
Death in service benefits	(25)	(60)	(84)	(79)	(97)
Transfer values or deferred pensions	(13,977)	(5,187)	(4,665)	(3,523)	(2,534)
	(15,625)	(7,493)	(7,530)	(5,890)	(4,833)
At end of the year	<b>31,157</b>	43,638	46,945	48,899	49,488
<b>SBS contributors</b>					
At beginning of the year	17,012	17,811	17,900	16,843	16,036
New members	1,288	2,050	2,709	2,817	2,610
Transfers to other pension schemes	(4,937)	0	0	0	0
Members leaving service or ceasing to contribute	(1,731)	(2,849)	(2,798)	(1,760)	(1,803)
At end of the year	<b>11,632</b>	17,012	17,811	17,900	16,843
<b>Pensioners (see Note)</b>					
At beginning of the year	78,279	77,413	76,590	75,934	75,367
New pensioners (including spouses' pensions coming into payment)	3,583	4,344	4,151	3,952	3,824
Transfers from other pension schemes	0	0	0	228	0
Transfers to other pension schemes	(6,358)	0	0	0	0
Deaths	(3,313)	(3,478)	(3,328)	(3,524)	(3,257)
At end of the year	<b>72,191</b>	78,279	77,413	76,590	75,934
<b>Deferred pensioners (see Note)</b>					
At end of the year	<b>53,083</b>	58,208	57,094	52,611	50,784

## Note

Members of The GEC Plan may have different categories of benefits concurrently (eg a contributing member may have one or more deferred pensions arising from transfers from other pension schemes or from earlier periods of employment with a Marconi group company or may be in receipt of a pension from an earlier period of service). Where this is the case, members are counted in one category only.

# Membership Statistics

continued

	2000	1999	1998	1997	1996
<b>Age distribution of contributors to The GEC Plan at end of year</b>					
	%	%	%	%	%
under 21	0.3	0.5	0.4	0.3	0.2
21 to 30	12.0	11.8	12.3	11.5	11.0
31 to 40	27.0	26.0	26.0	25.6	25.2
41 to 50	31.0	29.7	29.5	30.3	30.5
51 to 60	26.2	27.9	27.4	27.3	27.9
61 to 64	3.5	4.1	4.4	5.0	5.2
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Age distribution of new contributors to The GEC Plan</b>					
	%	%	%	%	%
under 21	2.0	2.7	2.3	1.3	1.1
21 to 30	34.9	32.2	32.7	33.4	32.0
31 to 40	33.8	32.3	30.6	33.3	33.1
41 to 50	21.2	21.4	20.9	21.9	22.9
51 to 60	7.7	10.8	12.4	9.5	10.3
61 to 64	0.4	0.6	1.1	0.6	0.6
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Age distribution of contributors to SBS at end of year</b>					
	%	%	%	%	%
under 31	6.0	6.3	6.5	5.9	5.7
31 to 40	21.6	20.5	20.3	20.1	19.3
41 to 50	31.7	30.3	30.0	31.2	30.7
51 to 60	35.9	37.3	37.0	36.1	37.1
61 to 64	4.8	5.6	6.2	6.7	7.2
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Age distribution of new pensioners</b>					
	%	%	%	%	%
under 50	0.8	1.0	1.5	1.0	1.1
50 to 54	12.9	11.1	10.5	11.7	9.9
55 to 59	22.3	19.9	16.8	17.9	16.6
60 to 64	26.4	30.3	33.1	30.3	33.0
65 and over	37.6	37.7	38.1	39.1	39.4
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Other statistics</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>
<i>Average age</i>					
Contributing members	44.0	44.5	44.4	44.4	45.1
Pensioners	72.7*	72.3*	71.9	71.7	71.5
<i>Average Plan pensionable service</i>					
Contributing members	7.8	7.7	7.4	7.8	7.6

\*The average age of pensioners in 1999 and 2000 is calculated as at 1 May; in previous years data is provided as at 5 April. The calculation date has been changed in these years to allow for the transfers of ALSTOM and BAE SYSTEMS pensioners.

# Directors

## **J M Brew**

Aged 69. John Brew, a Fellow of the Institute of Investment Management and Research and an Associate of The Institute of Actuaries, is a mathematician by training. He worked on the Stock Exchange, joining Grieveson Grant in 1953 and was a partner from 1961 until amalgamation with Kleinwort Benson. He was Chief Executive of Kleinwort Grieveson Securities until 1987. He was appointed to the SPT Board in 1991, and is Chairman of both the SPT Board and the IAC.

## **J H Chaplin**

Aged 64. Jon Chaplin, a barrister, was Company Secretary of GEC from April 1980 until he retired in April 1991. He was appointed to the SPT Board in 1980, and is now a pensioner of The GEC Plan. He also currently acts as an outside trustee of other occupational pension schemes and common investment funds.

## **M V Elliott**

Aged 55. Mick Elliott has 40 years' service with the group, since 1966 as a draughtsman at Chelmsford, currently for Marconi Mobile. He has been a senior employee representative for 25 years. He became a Pension Consultative Committee member in 1999, and a director of SPT in May 2000.

## **A B Lee**

Aged 43. Andy Lee is Executive Vice-President, Human Resources, of Marconi Communications, based in Pittsburgh, Pa., having previously been Personnel Director for Marconi Electronic Systems, and for GPT Limited. He was appointed to the SPT Board in 1998.

## **D W Marsden**

Aged 48. David Marsden joined GEC in 1999, and is now Chief Finance Officer of Marconi Communications, based in Pittsburgh, Pa. He is qualified as an associate of CIMA. He was appointed to the SPT Board in March 2000.

## **R J Mills**

Aged 56. Roy Mills has worked since 1971 as a senior design engineer with the General Domestic Appliances group of companies, in North Wales and previously in Peterborough. He has been a Pension Consultative Committee member since 1986, serving as Chairman from 1990, and was appointed to the SPT Board in May 2000.

## **K J O'Boyle\***

Aged 42. Kevin O'Boyle joined GEC in 1999, and is now Marconi's Group Pensions Director. He is responsible for Marconi's pension arrangements both in the UK and overseas. He was appointed a director of SPT in April 1999 and he is also a director of SIM.

## **C F N Samuel**

Aged 39. Clifford Samuel, a solicitor, has been a senior lawyer at the GEC and Marconi head office since 1994, having previously worked in private practice. He was appointed to the SPT Board in March 2000.

## **N D Sutcliffe**

Aged 38. Neil Sutcliffe is Chief Executive Officer of Marconi Services, based in Coventry, having previously managed the Strategic Networks division of Marconi Communications. He joined GPT Limited in 1992 and was appointed to the SPT Board in 1998.

## **C R J Walton\***

Aged 57. Chris Walton, a chartered engineer, is a Marconi Communications program and planning manager at Poole, where he has been employed for more than twenty years. He has been a Pension Consultative Committee member since March 1992, and was appointed to the SPT Board in 1993.

## **V A Webster\***

Aged 55. Vic Webster is a senior technologist at Marconi Communications P2PS Group in Liverpool, where he has worked since 1963. He became a Pension Consultative Committee member in 1991, serving as the Secretary of the West PCC from 1992 to 1997. He was appointed to the SPT Board in 1997.

\*Members of the Approvals Sub Committee of the Board.

# Investment Advisory Committee

## **J M Brew**

Mr Brew has been chairman of the IAC since January 1991; he is also a director and chairman of the SPT Board (see opposite).

## **B M Hiorns**

Dr Hiorns is Chief Investment Officer at Teather & Greenwood, having previously been the UK investment head of Dresdner RCM Global Investors, the fund management subsidiary of Dresdner Bank. He joined Grieveson Grant, now part of Kleinwort Benson, in 1974 and during his career he has had responsibility for a wide range of senior investment management roles including head of strategy. He was appointed to the IAC in June 1994.

## **R P Walther**

Mr Walther, a Fellow of The Institute of Actuaries and an Associate of the Institute of Investment Management and Research, is Chief Executive of the Clerical Medical Investment Group and a member of the Halifax Executive Committee. He joined Clerical Medical in 1965 and during his career with them he has held responsibilities for a wide range of senior investment management roles, having overall responsibility for investment between 1979 and 1995. He was appointed to the IAC in July 1988.

## **N Walter**

Professor Walter has worked for Deutsche Bank since 1987, having been managing director of Deutsche Bank Research and Group Chief Economist since 1992. From 1971 to 1986 he was at the Kiel Institute for World Economics, as professor and scientific director from 1978. He has published frequently in Germany, Britain and elsewhere, principally on economic policy analysis and forecasting. He was appointed to the IAC in January 1999.

# Financial Statistics

five years to 5 April 2000

<b>FUND ACCOUNT</b>	<b>2000</b>	1999	1998	1997	1996
	<b>£ million</b>	£ million	£ million	£ million	£ million
<b>Transactions involving members and employers</b>					
<b>Additions to the Fund</b>					
Contributions					
Members' to The GEC Plan	<b>24.8</b>	32.2	31.9	31.6	29.6
Employers' to The GEC Plan	<b>54.7</b>	70.9	64.1	63.6	59.5
SBS	<b>17.0</b>	22.4	22.3	20.1	17.5
Transfer values Individual	<b>0.0</b>	0.3	0.0	0.5	3.0
Bulk	<b>0.1</b>	23.8	1.9	18.1	2.3
Receipts from life office	<b>0.1</b>	0.3	0.0	0.3	0.4
<b>Total</b>	<b>96.7</b>	<b>149.9</b>	<b>120.2</b>	<b>134.2</b>	<b>112.3</b>
<b>Withdrawals from the Fund</b>					
Benefits paid	<b>261.8</b>	285.2	271.6	243.7	232.2
Transfer values Individual	<b>6.0</b>	8.1	3.1	5.6	3.4
Bulk	<b>1,025.1</b>	20.4	63.9	0.4	0.1
Administration expenses	<b>6.5</b>	5.7	4.3	4.1	3.9
Premiums to life office	<b>0.2</b>	0.3	0.3	0.3	0.3
<b>Total</b>	<b>(1,299.6)</b>	<b>(319.7)</b>	<b>(343.2)</b>	<b>(254.1)</b>	<b>(239.9)</b>
<b>Returns on investments</b>					
Investment income	<b>192.1</b>	206.1	172.6	173.4	167.0
Investment management expenses	<b>(4.9)</b>	(4.2)	(5.7)	(5.0)	(5.2)
Changes in market value of investments	<b>359.6</b>	253.7	1,119.6	247.3	601.7
<b>Net returns on investments</b>	<b>546.8</b>	<b>455.6</b>	<b>1,286.5</b>	<b>415.7</b>	<b>763.5</b>
<b>Net increase (decrease) in the Fund</b>	<b>(656.1)</b>	<b>285.8</b>	<b>1,063.5</b>	<b>295.8</b>	<b>635.9</b>
Fund at the beginning of the year	6,064.8	5,779.0	4,715.5	4,419.7	3,783.8
<b>Fund at the end of the year</b>	<b>5,408.7</b>	<b>6,064.8</b>	<b>5,779.0</b>	<b>4,715.5</b>	<b>4,419.7</b>
<b>Distribution of net assets of the fund</b>					
	%	%	%	%	%
Fixed interest securities					
UK	<b>23.5</b>	23.2	22.7	2.7	2.0
Overseas	<b>2.4</b>	3.9	5.4	4.8	4.4
Index-linked securities					
UK	<b>3.2</b>	2.5	3.0	5.4	5.5
Overseas	<b>5.2</b>	3.4	0.8	0.0	0.0
Equities					
UK	<b>43.8</b>	47.6	50.5	65.0	64.2
Overseas	<b>13.4</b>	12.2	11.0	10.4	12.8
Property	<b>4.0</b>	3.2	2.6	3.3	3.7
Managed funds	<b>0.5</b>	0.7	1.1	1.5	1.8
Insurance policies	<b>-</b>	0.1	0.1	0.1	0.1
Short-term deposits	<b>3.8</b>	3.8	3.4	5.8	4.7
Net current assets / (liabilities)	<b>0.2</b>	(0.6)	(0.6)	1.0	0.8
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Investment performance for year to previous 31 December</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
	<b>17.8</b>	13.9	19.4	11.0	19.8

# Statement of Investment Principles

## 1. Introduction

This Statement of Investment Principles has been agreed by the Board of Stanhope Pension Trust Limited (the Board), the trustee of the G.E.C. 1972 Plan (the Plan), following consideration of written advice from Stanhope Investment Management Limited (SIM) and consultation with Marconi Corporation plc. (Marconi), representing the sponsoring employers. This Statement will not be amended without further written advice from a person suitably qualified in investment matters, and consultation with the employers.

A copy of this Statement as amended from time to time will be sent to Marconi, to SIM and to each of the external investment managers employed to manage the assets of the Plan. A formal Customer Agreement between Stanhope Pension Trust Limited and each investment manager employed will be maintained at all times. The Board will seek confirmation of compliance with these principles by regular reports from the managers.

## 2. The kinds of investments held

The Board considers the following classes of investments to be suitable for the Plan:

- Equities, convertible stocks and warrants
- Fixed interest and index-linked stocks
- Property
- Cash deposits and short term bills and notes
- Policies and bonds issued by insurance companies
- Futures and options (for asset allocation changes)

Exposure to these assets may be effected via unit trusts or other collective arrangements. Forward foreign currency transactions are also permitted where they are used to hedge a foreign currency exposure back to sterling.

## 3. The expected return on investments

If the outlook for inflation remains unchanged and assuming that economic circumstances remain stable, then over the long term, the following average returns are expected from the assets, over and above the risk-free real return on index-linked gilts. These returns are intended to reflect likely index returns, in sterling, and not the value added (or subtracted) by the managers.

	% pa
UK equities	2½
Overseas equities	2½
Fixed interest	½
Property	1½
Cash and other	½

However, the Board recognises that, over shorter time periods, achieved returns are likely to differ markedly from those indicated above. The performance objectives given to the investment managers are annexed. They may be changed (or new managers appointed) from time to time without altering this Statement of Investment Principles, in which event the new objectives will be annexed in substitution.

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## 4. Risk, and the balance between different kinds of investment

The Board has prescribed a strategic asset allocation benchmark, and minimum and maximum percentages of the assets that may be allocated to each class, as follows. These reflect the Board's views on the appropriate balance to be struck between returns and risk, and on the extent to which the Plan's assets should be distributed so as to match its liabilities. The benchmark, together with investment restrictions which are imposed on the managers to ensure that there is no undue concentration at the stock level, is designed to enable the Plan's investments to be suitable and to be adequately diversified insofar as is appropriate to the circumstances of the Plan. While there will be no general prohibition on appointed equity or bond managers in regard to the size of holdings in any single security, the Board may forbid any manager from holding more than a specified proportion of its portfolio in any single security or class of security, or may (after consultation with Marconi) relax such a prohibition.

	Benchmark (%)	Minimum (%)	Maximum (%)
Total Equities	58	53	63
Total Bonds	35	30	40
Property	5	2	8
Cash and Other	2	0	10
of which			
UK equities	46	37	51
Overseas equities	12	8	16
UK Fixed Interest	17½	0	40
UK Index-Linked	17½	0	40
Overseas Bonds	0	0	5

SIM and the Investment Advisory Committee continually assess market trends and conditions and recommend deviations from the benchmark within the approved ranges.

## 5. Socially responsible investment

The Board considers the long term financial interests of the Plan's fund to be paramount, and encourages the investment managers to take account of social, environmental and ethical issues in selecting, retaining and realising investments insofar as this serves those interests.

The exercise of rights (including voting rights) attaching to investments is delegated by the Board to the investment managers.

## 6. The realisation of investments

The investment restrictions imposed on the managers ensure that a high proportion of the assets is readily realisable, and the Board and the Plan administrators will ensure that sufficient liquidity is held to meet known benefit payments. The Board is also satisfied that assets could be realised to meet unexpected cash flow requirements.

## 7. Performance measurement

The Board receives an annual report on investment performance from The World Markets Company. This gives Plan returns for each manager in each asset class and these are compared with the performance targets the managers have been set.

## 8. Minimum Funding Requirement

The Board and Marconi are seeking to employ an investment policy that they believe will lead to reasonable returns and low volatility in the funding level of the Plan. The Board believes that its policy is consistent with an expectation that the Plan will continue to satisfy the statutory Minimum Funding Requirement in the long term.

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## **Annex to Statement of Investment Principles Investment Manager Performance Objectives**

### **Bankers Trust Company**

#### ***US Government Securities Portfolio***

The investment objective of the Portfolio is the preservation of principal. Liquidity and credit quality of the investments are of paramount importance. Within these constraints, the Trustee will attempt to maximise yield by investing in a portfolio of obligations issued or guaranteed by the US Government.

Benchmark: Salomon 1 month Treasury Bill Index.

### **Fleming Investment Management Limited**

#### ***Japan Portfolio***

To outperform the FT-A World index-Japan by at least 3% per annum over the medium and long term.

### **Merrill Lynch Investment Management (MLIM)**

#### ***UK Equity Portfolio***

MLIM will select investments with the object of obtaining in the long term a total net return of more than 1% per annum in excess of that given by the FT-Actuaries All-Share Index.

#### ***European Equity Portfolio***

The objective of the Fund is to provide a total return greater than that of the FT-Actuaries European Index (excluding the United Kingdom) in sterling terms.

### **Stanhope Investment Management Limited**

#### ***UK Equities***

To achieve a rate of return in the long term in excess of that given by the FTSE CAP All Share Index.

#### ***UK Fixed Interest***

To achieve a rate of return in the long term in excess of that given by the average of the FTSE Actuaries Government Securities All Stocks and Over 15 year Indices.

#### ***UK Index Linked***

To achieve a rate of return in the long term in excess of that given by the FTSE Actuaries Government Securities Index Linked 5 - 15 Year Index.

#### ***Overseas Bonds***

To achieve a rate of return in the long term (including the effect of any currency hedging) in excess of that given by the UK Fixed Interest Benchmark (for overseas conventional bonds) or the UK Index Linked Benchmark (for overseas index linked bonds).

# Pension Consultative Committees

Two Pension Consultative Committees (PCCs), elected by Plan members, meet periodically:

- to consult with the Pensions Office on matters relating to Marconi Group pension schemes
- to assist the Pensions Office, trustee and management in the communication of information to members
- to represent the views of pension scheme members and employees as to matters affecting their interests
- to nominate two representatives from each PCC for appointment by Marconi Corporation as a director of SPT. This representative must be a contributing member or a pensioner of the Plan. The PCCs review their nominations every four years.

Sitting members of a PCC who leave service may, if they so wish, remain PCC members for the balance of their four year period of office and, in the case of pensioners, for a further period of four years from the date of commencement of their pension.

The Chairmen and Secretaries of the PCCs are:

<i>Area</i>	<i>Chairman</i>	<i>Secretary</i>
<i>North</i>	P Dronfield Marconi Communications Limited PO Box 53 New Century Park Coventry CV3 1HJ	K W Buckley Marconi Secure Systems Ltd Wavertree Boulevard Wavertree Technology Park Liverpool L7 9PE
<i>South</i>	I C Chaplin * c/o Marconi Pensions Office PO Box 20 Lichfield Road Stafford ST17 4LN	J W Kerr Marconi Applied Technologies Waterhouse Lane Chelmsford Essex CM1 2QU

\*Mr Chaplin is a pensioner of the Plan

# Other Information

## **Occupational Pensions Regulatory Authority (OPRA)**

### **Pension Schemes Registry**

From April 1997, pension schemes are regulated by OPRA, which has power to impose civil penalties and to bring criminal prosecutions for serious breaches of the regulations made under the Pensions Act 1995.

OPRA also maintains the register of all occupational and personal pension schemes and the registry offers a service to enable individuals to trace benefits to which they may be entitled from previous employers' pension schemes. The registrar can be contacted at:

Occupational Pensions Regulatory Authority  
Pension Schemes Registry  
PO Box 1NN  
Newcastle-upon-Tyne  
NE99 1NN.

A guide for pension scheme trustees, published by OPRA, has been provided to each of the directors of SPT.

## **OPAS (The Office of the Pensions Advisory Service)**

### **Pensions Ombudsman**

OPAS is available to assist members and beneficiaries of occupational pension schemes in connection with any difficulties which they have been unable to resolve with the trustees or administrators, and to assist at any stage during the internal dispute resolution procedure.

The Pensions Ombudsman, appointed by the government, may investigate and decide complaints or disputes of fact or law concerning occupational pension schemes made or referred.

Before approaching the Pensions Ombudsman, members must have followed the internal dispute resolution procedure, a copy of which is available on request from Marconi Pensions Office. Both OPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB

# Notes





Stanhope Pension Trust Limited,  
Registered at London No. 1049236