OVERVIEW

Consolidated Income Statement

£ million	Three months ended 30 June 2005	31 March 2005	30 June 2004
Revenue			
Continuing Operations	285	346	289
Discontinued Operations	-	-	50
Group	285	346	339
Adjusted Gross Profit			
Continuing Operations1	86	110	93
Adjusted Gross Margin %	30.2%	31.8%	32.2%
Discontinued Operations	-	-	9
Group(1)	86	110	102
Restructuring items - Continuing Operations	-	-	1
Group Gross Profit1	86	110	103
Group Gross Margin %	30.2%	31.8%	30.4%
Adjusted Operating Expenses before grant income	(92)	(94)	(95)
R&D grant income	-	5	-
Adjusted Operating Expenses	(92)	(89)	(95)

Adjusted Profit/(Loss) from Operations			
Continuing Operations	(6)	21	(2)
Restructuring and litigation items	(27)	(8)	1
Share option costs	(2)	(4)	(10)
Share of operating loss of associate	(1)	-	-
Profit/(Loss) from Operations Continuing Operations	(36)	9	(11)
Discontinued Operations	-	-	1
Group	(36)	9	(10)

(1) FY05 stated before restructuring and litigation items, see page 13

Continuing Operations Overview

Three months ended 30 June 2005 compared with three months ended 30 June 2004

At £285 million, revenues from Continuing Operations were stable compared to the three months ended 30 June 2004 on both a reported and constant currency basis (£289 million). A strong performance in APAC and an increased rate of broadband access network deployment in the UK, were offset by a decline in Data Networks revenue and lower Optical revenue in the UK & Italy.

Adjusted gross margin from Continuing Operations declined to 30.2 per cent from 32.2 per cent in the three months ended 30 June 2004 driven by pricing pressure and changes in business mix, with a decreased proportion of higher margin Optical products, an increased proportion of lower margin Access products and a higher percentage of Services sales.

After adjusted operating expenses of £92 million in the quarter (Q1 FY05 £95 million), adjusted loss from operations from Continuing Operations was £6 million compared to an adjusted loss from operations of £2 million recorded in the prior year.

The loss from Continuing Operations was £36 million, after share option costs of £2 million and restructuring costs of £27 million as we began to implement the restructuring plans announced in May 2005. This compared to a loss from Continuing Operations of £11 million in the three months ended 30 June 2004.

Three months ended 30 June 2005 compared with three months ended 31 March 2005

Sequentially, revenue decreased by 18 per cent reflecting the seasonal nature of our business with our highest sales in the fourth quarter and lowest in the first quarter. The three months ended 31 March 2005 represented a particularly strong quarter for Access sales, leading to a more marked quarter-on-quarter seasonal decline than in the previous financial year.

Adjusted gross profit decreased quarter-on-quarter from £110 million to £86 million largely as a result of the decline in sales volume and a higher proportion of lower margin Network Services sales.

Adjusted operating costs were £92 million compared with £89 million in the previous quarter when we benefited from grant income that offset R&D expenditure. Lower gross profit combined with higher operating costs led to an adjusted loss from operations of £6 million compared to £21 million adjusted profit from operations in the previous quarter.

An increase in restructuring costs of £19 million in the quarter resulted in a loss from Continuing Operations of £36 million compared to the profit from Continuing Operations of £9 million in the three months ended 31 March 2005.

Group Overview

Group revenues for the quarter were down on a year-on-year basis due to the disposal of the North American Outside Plant & Power business in August 2004. We did not record any further revenues from Discontinued Operations in the quarter.

Summary of IFRS Changes

We are reporting under International Financial Reporting Standards (IFRS) for the first time this quarter. All FY05 comparatives, by quarter, have been restated under IFRS and are presented in Appendix VII.

As outlined in our 'Transition from UK GAAP to IFRS' document issued at the end of June and available on our website, the main changes to the income statement result from the cessation of goodwill amortisation under IFRS. Included within operating costs is amortisation of capitalised development costs of £2 million, which is offset by capitalisation of £2 million of applicable development costs in the 3 months ended 30 June 2005. In line with IAS 38, we capitalise certain development costs under the caption 'Intangible assets', which appears for the first time on the balance sheet at 30 June 2005. There is also a small brought-forward adjustment in the accounting for retirement benefit obligations.

On the balance sheet at 30 June 2005, goodwill appears higher than that reported in the previous quarter under UK GAAP, due to the cessation of goodwill amortisation since 1 April 2004.

Presentation of restructuring costs, share of losses in associates, investment income and finance costs in the income statement reflect the impact of presentational adjustments required under IFRS. For an explanation of these, please see the 'Transition from UK GAAP to IFRS' document referred to above.

Segment Reporting

We continue to report under our existing business segments.

Effective 1 April 2005, we are providing additional analysis of our Access Networks revenues to reflect the way the product groupings are now being overseen at a regional level. All SoftSwitch and legacy switching revenues are reported under 'Switching Products' while Access Hub and legacy access products are grouped together as 'Access Products'. Fixed Wireless Access comprises our range of point-to-point and point-to-multipoint radio access equipment.

We have renamed our BBRS segment 'Data Networks'.

BUSINESS UPDATE

Book to bill(1)

Book to bill from Continuing Operations was 1.01 for the three months ended 30 June 2005 which is comparable to the prior quarter and an improvement on the book to bill of 0.91 recorded in three months ended 30 June 2004.

Equipment book to bill ratio at 1.14 increased both year-on-year (Q1 FY05: 0.98) and quarter-on-quarter (Q4 FY05: 0.94) mainly as a result of strength in UK Access orders.

(1) Book to bill is the ratio of order intake divided by the level of sales in any given period.

Key wins

We have announced the following key wins since our results in May:

Optical Networks
During the quarter, we announced three customers for our next-generation multiservice provisioning platform (MSPP).

- We were awarded a five-year frame contract by Cable & Wireless and will supply a range of transport services including access and customer-located solutions.

- Existing SDH customer Belgacom will use the OMS1664 to deliver new services whilst reducing operating and capital expenditure.

- E-Plus, Germany's third largest mobile operator, will deploy Marconi's OMS1654 multiservice provisioning platform in its national customer access network in areas that require high bandwidth or high port density.

We also recently completed the deployment of two submarine links for Vodafone Italy, demonstrating new optical core (DWDM) functionality.

Data Networks

We announced the first win for our newly launched Marconi Service Router, part of Marconi's portfolio of carrier-grade IP service delivery systems. US service provider, Dalton Utilities, will deploy the Marconi Service Router to support multiple virtually routed customers on a single system.

Key Customer Overview

Our major customers (in alphabetical order) are BT, E-Plus, Metro City Carriers (Germany), Network Rail, O2, Telecom Italia, Telkom South Africa, Telstra, US Federal Government, and Vodafone.

In the three months ended 30 June 2005, our ten largest customers accounted for 55 per cent of revenue from Continuing Operations in the quarter. The ten largest customers accounted for 52 per cent of revenue from Continuing Operations in the three months ended 30 June 2004.

BT Revenue

Sales to BT at £77 million were stable on the prior quarter and the same quarter last year. BT continues to be our largest customer, representing 27 per cent of sales in the quarter ended 30 June 2005 (Q4 FY05: 22 per cent, Q1 FY05: 26 per cent).

With the exception of Optical, sales were stable or up on the previous quarter.

Sales of our broadband access platform, the Access Hub, increased to £9 million in the quarter, as BT continued to increase broadband penetration, and this has driven an associated increase in Installation, Commissioning & Maintenance revenues. Legacy Switching and Access sales benefited from initial last-time-buys resulting from the phasing out of System X hardware manufacturing. We also received new orders for software builds which will contribute to future Legacy Switching revenues. Finally, our next-generation Optical and Access products have now been approved for deployment in the BT network and we have taken orders for deployment in the coming quarters.

BT Revenue, 3 months ended 30 June 2005

		3 months ended	
	30 June 2005	31 March 2005	30 June 2004
£ million			
Services of which:			
Cable Services	25	25	28
IC&M and Support	23	21	16
Optical	10	15	24
Legacy Switching & Access	10	7	10
Broadband Access	9	7	1
Total Revenue	77	75	79

OUTLOOK

We are maintaining our previous guidance for the current financial year.

- Revenues are expected to be at a similar level to FY05 despite our continued expectation of a decline of around £50 million in revenues from BT as they move to implement their 21CN network

- Gross margins will be impacted by continuing fierce pricing pressure and changing business mix

We continue to target business cost reductions to counter the pricing pressure we are seeing and reiterate our overall target savings of approximately £50 million on an annualised basis, around half of which we expect to be realised in FY06.

In the UK, consultation with trade unions and employee representatives is progressing amicably through a collective consultation process and we expect initial headcount reductions, under our previously disclosed proposals, to commence towards the end of the second quarter.

We are making good progress with our plans to introduce competitive sourcing amongst our outsourced manufacturing partners. During the quarter, we registered a marked increase in shipments of our Metro SDH OMS1664 product from Celestica in Malaysia and have now established production of our Access Hub with Celestica in the Czech Republic.

The management team have been rebuilding the business since 2001, initially targeting to reduce the company's debt burden and improve our operating results. We have achieved both of these goals and focused the business on product and service areas where we continue to be world class. Despite continuous and significant changes in our industry's dynamics the business has been stabilised giving us the opportunity to consider the best future from this stronger base. We remain committed to maximising shareholder value and positioning the business for a successful long term future.

RESULTS OF OPERATIONS

Set out below are the results of our operating segments. A reconciliation of our adjusted operating results to our loss from operations is set out in Table V on page 14 and commented upon on page 9.

Optical and Access Networks

	Three months ended 30 June 2005	31 March 2005	30 June 2004
Revenue (£m)			
Optical Networks	68	87	77
Access Networks	73	100	60
Fixed Wireless Access	23	35	19
Switching Products	18	16	20
Access Products	32	49	21
	141	187	137
Book to bill ratio	1.16	0.84	1.01
Adjusted Gross Profit(2) (£m)	49	70	46
Adjusted Gross Margin %	34.8%	37.4%	33.6%
Adjusted Profit / (Loss)(1) from operations (£m)	(6)	23	(8)

(1) Segmental Adjusted Operating Profit before Central costs of £8 million in Q1 FY06 (£7 million in Q1 FY05) before share option costs, and restructuring and litigation items.
(2) Adjusted Gross Profit stated before restructuring costs, see page 13.

Revenue from Optical Networks declined by 12 per cent from £77 million in the quarter ended 30 June 2004 to £68 million in the quarter ended 30 June 2005. Reduced demand from major European optical customers such as BT and TI was partially offset by a strong performance in APAC where we are experiencing a marked increase in demand from Telstra under our multi-year Optical deployment programme and an increase in sales of metro transport products to Brasil Telecom.

In addition to the typical seasonal downturn in demand in the first quarter of our financial year, the sequential reduction in Optical revenues was largely due to the reduced spend by BT and TI as our customers optimise existing network capacity, as well as the phasing of network build projects for Scandinavian and other Italian operators. Sales to Telstra increased as a result of the supply of Multihaul DWDM equipment for the Melbourne - Sydney project.

Revenue growth in Access Networks compared to the first quarter of the previous year was driven by Access products, with increased broadband network deployments at BT and Bulldog in the UK and Metro City Carriers in Germany. We also recorded an increase in sales of our Access Hub to Primus. An increase in network build by German mobile operator, E-Plus was the main contributor to the growth in Fixed Wireless Access revenues.

On a sequential basis, Access Products revenue decreased to £32 million from £49 million in the quarter ended 31 March 2005. Within Access Products, Access Hub revenue represented £20 million, compared to £34 million in the previous quarter as the reduced sales to TI were only partially offset by continuing strength in revenues from BT's broadband roll-out and an increase in Access Hub sales to Telkom South Africa. The decline in Fixed Wireless Access revenues was driven by a reduction in deliveries to Vodafone in Germany following an exceptionally strong fourth quarter at the end of the customer's financial year. The increase in Switching Products revenue was due to first deliveries under a number of last time buy orders for System X hardware in the UK.

Strength in book to bill for Optical and Access Networks was largely due to last time buy orders for legacy Switching Products in the quarter. Increased orders under the Telstra optical frame contract included additional work on the Melbourne-Sydney route as well as a new Sydney-Brisbane link. In Germany, orders increased under our new SDH contract with E-Plus and our DWDM contract with T-Com.

The improved adjusted gross profit and margin performance compared to the first quarter of the previous financial year has largely been driven by the benefits of ongoing product cost reductions, partially offset by continued pricing pressure. The product cost reductions have focused on our next-generation product portfolio, in particular our Multihaul DWDM and OMS optical platforms as well as our Access Hub. Lower sales volumes and a change in mix within Optical were the main drivers of the declines in adjusted gross profit and margin compared to the prior quarter.

Adjusted loss from operations was £6 million, a £2 million decrease on the £8 million loss in the first quarter of the previous year. This was a result of the improvement in adjusted gross profit. The lower adjusted profitability compared to the previous quarter was driven by reductions in gross profit and R&D grant income.

Data Networks

	Three months ended		
	30 June 2005	31 March 2005	30 June 2004
Revenue (£m)			
Data Networks Equipment	14	18	24
Data Networks Services	14	12	14
	28	30	38
Book to bill ratio	0.86	1.02	0.69
Adjusted Gross Profit (£m)	17	18	24
Adjusted Gross Margin %	60.7%	60.0%	63.2%
Adjusted Profit from operations (£m)	4	3	8

The £10 million reduction in revenue from Data Networks compared to the first quarter of the previous year was driven by reduced equipment deliveries to the US Federal Government. The first quarter of the previous financial year included deliveries under a previously disclosed major contract for the supply of BXR-48000 multi-service switch routers, whilst the first quarter results this year reflect the continued pressure on Federal communication network budgets. Revenue from Data Networks services remained stable year-on-year as we continued to successfully secure product support and value-added service business with both Federal and non-Federal customers.

The £2 million reduction in revenue compared to the previous quarter resulted from a decline in equipment revenues, which was partially offset by an increase in support services to US Federal Government customers.

Book to bill ratio for the quarter was 0.86. The increase on the prior year was due to the major BXR-48000 order mentioned above. The renewal of a major Federal Government support contract signed in March 2005 drove the higher order intake recorded in the prior quarter.

The decrease in adjusted gross profit and adjusted gross margin percentage compared to the first quarter of the previous year resulted from the change in business mix, with sales of the higher margin BXR-48000 replaced by a higher proportion of lower margin third party OEM equipment (BXR-5000). Compared to the previous quarter, the mix impact was offset by the benefits of cost reduction programmes in Data Networks services, resulting in a slight improvement in adjusted gross margin.

We have made solid progress with our previously announced business restructuring and headcount realignment programmes in North America, which resulted in over 150 employees leaving the business. The resulting operating cost savings were a major contributor to the improvement in adjusted profit from operations compared to the previous quarter.

Network Services

	Three months ended		
	30 June 2005	31 March 2005	30 June 2004
Revenue (£m)			
IC&M	52	60	48
VAS	64	69	66
	116	129	114
Book to bill ratio	0.86	1.27	0.86
Adjusted Gross Profit (£m)	20	22	23
Adjusted Gross Margin %	17.2%	17.1%	20.2%
Adjusted Profit / (Loss) from Operations (£m)	4	3	5

Two major factors contributed to the £2 million increase in revenue from Network Services compared to the same period in the previous financial year: i) a non-recurring wireless software licence sale to a North American customer in VAS and ii) increased IC&M revenues following the increased rate of broadband access deployments in the UK. These more than offset lower revenues from VAS due to the previously disclosed completion of a long-term government contract in the prior year.

The £13 million decrease in Network Services revenue compared to the previous quarter reflects a reduction in IC&M revenues as a result of lower equipment sales to a number of our major European Optical customers. This was combined with lower revenues in VAS, primarily under a major rail contract, which is nearing completion.

At 0.86, book to bill ratio was in line with the level recorded in the first quarter of the previous year. The higher ratio recorded in the three months ended 31 March 2005 was driven by the large multi-year Tube Lines joint venture order recorded in the prior quarter.

The reduction in adjusted gross profit and adjusted gross margin compared to the first quarter of the previous year reflects the impact of completion of the high value-add government services contract mentioned above. Compared to the previous quarter, we have maintained a relatively stable adjusted gross margin as the impact of lower volumes has been offset by the high margin attributable to the non-recurring software licence sale.

Adjusted profit from operations declined by £1 million year-on-year due to the lower gross profit contribution. When compared to the previous quarter, operating cost savings more than offset the reduction in gross profit, leading to a £1 million increase in adjusted profit from operations.

Other Financial Items

Adjusted operating expenses

Three months ended 30 June 2005

We maintain our focus on operating cost reduction plans and have reduced adjusted operating expenses from £95 million in the first quarter of the previous year to £92 million.

This compares to £89 million of net costs incurred in the previous quarter, when we benefited from the receipt of £5 million of grant income in support of key R&D programmes. Sales & Marketing (£32 million) costs decreased as the business restructuring initiatives in the US began to deliver cost reductions. General & Administration costs (£16 million) remained stable quarter-on-quarter. The cost reduction programmes for G&A are ongoing and are expected to deliver benefits later in the second half of the financial year.

At the end of June 2005, we had 9,550 employees, compared to 9,810 at 31 March 2005.

R&D Expenditure by Business

As % of Total Adjusted R&D Expenditure(1) (Continuing Operations)

	3 months ended 30 June 2005	3 months ended 30 June 2004
Optical and Access	84%	76%
Data Networks	13%	21%
Network Services	3%	3%

(1) Stated before share option costs.

In line with our previously stated strategy for Data Networks, we have targeted cost savings in R&D and refocused expenditure towards IP-related features and functionality. Of the total spend in the quarter, approximately 50% was IP-focused with continued investment in our recently launched carrier grade service router and new plug-in IP blades for our BXR range.

As a result, the proportion of total R&D spend on Optical and Access Networks has risen above 80 per cent. In Optical, we have refocused our programmes towards our next-generation product portfolio, with particular emphasis on our optical core solutions (Multihaul DWDM, the OMS3200 family, the OMS1664 family) and are investing our new Ethernet transport solution the OMS2400. In Access Networks, future releases of our Access Hub platform will focus on delivering new services such as triple play and interworking with IP networks. As previously disclosed, we are reducing expenditure on BT-specific features for our SoftSwitch platform and prioritising development towards features required for the international and alternative carrier markets.

Restructuring and litigation items

In the quarter, we incurred a total charge to the Income Statement of £27 million relating to our previously announced cost reduction programmes in the UK and North America. This comprised a £27 million increase in restructuring provisions, of which approximately £4 million was utilised in the period, to cover both the cost of severance payments and site closures.

Share option costs were £2 million in the quarter, down slightly on the prior quarter (£4 million). The reduced charge was due to a lower National Insurance liability accrual following the recent decrease in the share price.

Higher share option costs in the first quarter of last year were incurred to account for share options, which vested in the prior year.

Loss from Operations amounted to £36 million and comprised our adjusted operating loss of £6 million, restructuring costs of £27 million, share option costs of £2 million and our share of the operating loss of associates of £1 million.
Loss on ordinary activities before taxation amounted to £34 million. We earned investment income of £40 million, including bank interest (£3 million), interest earned on tax repayments (£2 million) and expected returns on pension scheme assets (£35 million). This was partially offset by finance costs of £38 million of which £36 million related to the pension scheme. Previously under UK GAAP, expected returns on pension assets were netted against interest on pension liabilities. IFRS requires these gross amounts to be shown separately.

Taxation in the three months ended 30 June 2005 was £nil due to the utilisation of tax losses.

Consequently, the loss on ordinary activities after taxation amounted to £34 million.

Liquidity, capital resources and working capital

The definition of operating cash flow changed under IFRS from UK GAAP. Net funds from operating activities now includes the cash impact of income tax and interest paid. Table VI set out on page 15 follows the IFRS format and comparative periods have been restated on page 18 to reflect the change.

The Group recorded a £10 million net outflow from operating activities in Continuing Operations before restructuring items during the three months ended 30 June 2005. This compared to a £15 million inflow during the previous quarter and an £11 million inflow in the corresponding quarter of the previous financial year.

The outflow in the quarter was driven largely by the reduction in operating profitability (£9 million loss from operations before restructuring items compared to £15 million profit in the previous quarter) and further inventory build (£19 million outflow compared to £6 million outflow in the previous quarter). This was partially offset by net tax refunds of £11 million as we continued to settle historical tax disputes.

Inventory increased in the quarter as a result of the deferred phasing of sales to European customers. In addition, we built up inventory to support an increase in Multihaul DWDM and OMS 1664 orders , and inventory of System X hardware in support of the previously mentioned last time buy programme.

The decrease in debtors was in line with the overall reduction in business volumes compared to the previous quarter. We factored £22 million of debtors in the quarter.

The decrease in creditors and consequent cash outflow was driven by a net reduction of trade creditors, payment of annual all-employee bonuses and previous payments in advance traded on contracts.

Net funds at 30 June 2005 amounted to £281 million, which consisted of cash of £319 million and debt of £38 million held in overseas subsidiaries. This compared to net funds of £297 million at 31 March 2005.

In addition to operating and restructuring outflows, we had capital expenditure of £6 million. This was partly offset by interest and disposal income and a foreign exchange gain.

Balance Sheet

Provisions stood at £165 million at 30 June 2005 (Q4 FY05 £145 million). Included in the closing provision is £47 million (Q4 FY05 £24 million) in respect of restructuring.

As a result of our May reorganisation announcement, we identified headcount and cost reductions to be undertaken from the beginning of the current financial year. In order to provide for the costs to be incurred on plans initiated at the balance sheet date, we have created a provision of £29 million, £27 million to the profit and loss account and £2 million held in other debtors to be amortised in future quarters.

FURTHER INFORMATION

Analyst Presentation and Conference Call

Management will host a conference call for analysts and investors at 9 am (UK time) on Wednesday, 3 August 2005.

The call can be accessed on Marconi's website or by dialing +44 (0)20 8974 7900 (UK and international) or +1 718 354 1175 and quoting 'Marconi Q1 Results'. Presentation materials will be available at
www.marconi.com
 from 8 am.

A replay facility will be available for 14 days by dialing +44 (0)1296 618700, access code 268311 (UK or International) or +1 617 801 6888, access code 15896554 (in the US).

2005 Financial Calendar

Financial calendar events are provisionally scheduled as follows:

3 November - Q2 Interim results for the three and six months ending 30 September 2005
28 November - Annual General Meeting for the year ended 31 March 2005

Important Notice
This report is prepared under International Financial Reporting Standards (IFRS) and should be read in conjunction with the Group's Non-Statutory Accounts for the three months ended 30 June 2005.

Forward-Looking Statements

This document contains certain statements that are not historical facts, including statements about Marconi's expectations and beliefs and statements with respect to its plans and other objectives. Such statements are forward-looking statements. These statements typically contain words such as 'intends', 'expects', 'anticipates', 'estimates' and words of similar import. Undue reliance should not be placed on such statements, which are based on Marconi's current plans, estimates, projections and assumptions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances which may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, future revenues being lower than expected; increasing competitive pressures within the industry and general economic conditions or conditions affecting the relevant industries, both domestically and internationally, being less favourable than expected. Marconi has identified some important factors that may cause such differences in the Company's Form 10-K annual report for year ended 31 March 2004 as filed with the US Securities and Exchange Commission. Marconi disclaims any obligation to publicly update or revise these forward-looking statements, whether to reflect new information or future events or circumstances or otherwise.

About Marconi Corporation plc

Marconi Corporation plc is a global telecommunications equipment, services and solutions company. The Company's core business is the provision of innovative and reliable optical networks, broadband routing and switching and broadband access technologies and services. The Company's customer base includes many of the world's largest telecommunications operators.

The Company is listed on the London Stock Exchange under the symbol MONI and on Nasdaq under the symbol MRCIY.

Additional information about Marconi Corporation plc can be found at www.marconi.com
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SUPPORTING TABLES

I. ANALYSIS OF REVENUE BY PRODUCT AREA

	Three months ended		
£ million	30 June 2005	31 March 2005	30 June 2004
Optical Networks	68	87	77
Access Networks	73	100	60
Fixed Wireless Access	23	35	19
Switching products	18	16	20
Access Products	32	49	21
Optical and Access Networks	141	187	137
Data Networks Equipment	14	18	24

Data Networks Services	14	12	14
Data Networks	28	30	38
IC&M	52	60	48
VAS	64	69	66
Network Services	116	129	114
Continuing Operations	285	346	289

II. ANALYSIS OF REVENUE BY GEOGRAPHICAL DESTINATION

	Three months ended					
	30 June 2005 2005		31 March 2005		30 June 2004	
	£m	%	£ m	%	£ m	%
United Kingdom	109	38.2%	128	37.0%	109	37.7%
Italy	17	6.0%	35	10.1%	28	9.7%
Germany	52	18.2%	72	20.8%	47	16.3%
Other EMEA	36	12.6%	51	14.7%	40	13.8%
EMEA	214	75.0%	286	82.6%	224	77.5%
NA	34	12.0%	28	8.1%	38	13.2%
CALA	12	4.2%	10	2.9%	9	3.1%
APAC	25	8.8%	22	6.4%	18	6.2%
Continuing Operations	285	100%	346	100%	289	100%

III. ANALYSIS OF GROSS PROFIT AND GROSS MARGIN BY PRODUCT AREA

£ million	Three months ended 30 June 2005	31 March 2005	30 June 2004
Adjusted gross profit by business			
Optical and Access Networks	49	70	46
	34.8%	37.4%	33.6%
Data Networks	17	18	24
	60.7%	60.0%	63.2%
Network Services	20	22	23
	17.2%	17.1%	20.2%
Continuing Operations	86	110	93
Adjusted gross margin %	30.2%	31.8%	32.2%
Restructuring items credited to cost of sales			
Optical and Access Networks	-	-	1
Gross profit by business			
Optical and Access Networks	49	70	47
	34.8%	37.4%	34.3%
Data Networks	17	18	24
	60.7%	60.0%	63.2%
Network Services	20	22	23
	17.2%	17.1%	20.2%

Continuing Operations	86	110	94
Gross margin %	30.2%	31.8%	32.5%

IV. ANALYSIS OF OPERATING EXPENSES

	Three months ended		
	30 June	31 March	30 June
£ million	2005	2005	2004
Research and Development (before share option costs)	45	40	43
Sales and Marketing (before share option costs)	32	34	34
General & Administration (before share option costs and restructuring and litigation items)	16	16	18
Net Other Operating Income	(1)	(1)	-
Adjusted Operating Expenses	92	89	95
Restructuring and litigation items charged to operating expenses	27	8	-
Share option costs	2	4	10
Operating Expenses - Continuing Operations	121	101	105

V. ANALYSIS OF OPERATING RESULTS

Three months ended		
30 June	31 March	30 June

£ million	2005	2005	2004
Optical and Access Networks	(6)	23	(8)
Data Networks	4	3	8
Network Services	4	3	5
Central costs	(8)	(8)	(7)
Other	-	-	-
Adjusted profit/(loss) from operations	(6)	21	(2)
Restructuring and litigation items	(27)	(8)	1
Share option costs	(2)	(4)	(10)
Share of operating loss of associates	(1)	-	-
Profit/(Loss) from Operations - Continuing Operations	(36)	9	(11)

VI. OPERATING CASH FLOW

£ million 3 months ended	30 June 2005	31 March 2005	30 June 2004
Continuing operations			
(Loss)/Profit from operations	(36)	9	(11)
Restructuring and litigation	27	8	(1)
(Loss)/Profit from operations before restructuring and litigation	(9)	17	(12)
Depreciation charge	8	9	10
Amortisation of intangibles	2	2	2

Shares to be issued related to share options	3	4	8
Operating cash flow before movements in working capital	4	32	8
Increase in inventories	(19)	(6)	1
Decrease/(increase) in receivables	33	(49)	34
(Decrease)/increase in payables	(34)	45	(19)
Decrease in provisions	(4)	(6)	(5)
Cash generated by operations	(20)	16	19
Income taxes received/(paid)	11	(1)	(2)
Interest paid	(1)	-	(6)
Net cash from operating activities	(10)	15	11
Discontinued operations	-	-	(3)
Cash outflow from restructuring and litigation	(6)	(7)	(26)
Group operating cash flow	(16)	8	(18)

VII. IFRS QUARTERLY COMPARATIVES - INCOME STATEMENT

£ million	30 June 2004	30 September 2004	31 December 2004	31 March 2005
Revenue	289	305	330	346
Cost of sales	(195)	(200)	(220)	(236)

Gross profit	94	105	110	110
Selling & distribution expenses	(36)	(36)	(35)	(35)
Research & development costs	(44)	(48)	(47)	(40)
Administrative expenses	(25)	(23)	(21)	(19)
Restructuring costs	(2)	(1)	(5)	(8)
Other operating income	2	-	-	1
(Loss)/Profit from operations	(11)	(3)	2	9
Investment income	39	37	36	36
Finance costs	(57)	(46)	(35)	(37)
(Loss)/Profit before tax	(29)	(12)	3	8
Tax	3	(3)	(1)	49
(Loss)/Profit from Continuing Operations	(26)	(15)	2	57
Profit from Discontinued Operations	1	81	-	19
(Loss)/Profit for the period	(25)	66	2	76

VIII. IFRS QUARTERLY COMPARATIVES - BALANCE SHEET

£ million	30 June 2004	30 September 2004	31 December 2004	31 March 2005

Non current assets				
Goodwill	390	390	390	390
Other intangible assets	7	6	7	9
Property, plant & equipment	118	114	115	116
Interests in associates	6	5	5	3
Available for sale investments	3	3	3	5
Trade & other receivables	4	5	5	1
	528	523	525	524
Current assets				
Inventories	143	156	167	162
Trade & other receivables	327	338	332	369
Tax receivables	-	-	-	22
Cash & cash equivalents	473	374	349	334
	943	868	848	887
Non-current assets classified as held for sale	126	-	-	-

	1,597	1,391	1,373	1,411
	=======	========	========	========
Current liabilities				
Trade & other payables	(394)	(409)	(411)	(437)
Tax liabilities	(101)	(114)	(98)	(55)
Bank overdrafts & loans	(18)	(16)	(14)	(15)
	-------	--------	--------	--------
	(513)	(539)	(523)	(507)
	-------	--------	--------	--------
Non-current liabilities				
Bank loans	(265)	(21)	(22)	(21)
Trade & other payables	(23)	(5)	(6)	(6)
Retirement benefit obligation	(234)	(244)	(246)	(230)
Long-term provisions	(183)	(179)	(160)	(145)
Obligations under finance leases	(2)	(2)	(2)	(1)
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	(707)	(451)	(436)	(403)
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Liabilities directly associated with				

non-current assets classified as held for sale	(44)	-	-	-
Total liabilities	(1,264)	(990)	(959)	(910)
NET ASSETS	333	401	414	501
Capital & reserves				
Share capital	50	51	52	52
Share premium account	1	2	3	4
Shares to be issued	36	30	26	28
Capital reserve	9	9	9	9
Capital reduction reserve	241	241	241	186
Retained earnings	(5)	66	82	221
Equity attributable to equity holders of parent company	332	399	413	500
Minority interest	1	2	1	1

TOTAL EQUITY	333	401	414	501

IX. IFRS QUARTERLY COMPARATIVES - CASH FLOW STATEMENT

£ million	30 June 2004	30 September 2004	31 December 2004	31 March 2005
Net cash outflow from operating activities	(18)	(27)	5	8
Investing activities				
Purchases of property, plant & equipment	(5)	(5)	(11)	(14)
Capitalised development costs	(2)	(1)	(3)	(4)
Disposals of property, plant & equipment	1	-	2	-
Disposals of interests in subsidiaries	(4)	195	(34)	27
Disposal of interests in associates & joint ventures	-	-	15	(30)
Income from loans, deposits & investments	4	3	2	2
Net cash (used in)/from investing activities	(6)	192	(29)	(19)

Financing activities

Repayments of borrowings	-	(2)	(1)	(1)
Loan Note repayments	(23)	(247)	-	-
Redemption premium	(3)	(25)	-	-
Issue of ordinary shares	-	2	1	1
Net cash used in financing activities	(26)	(272)	-	-
Net decrease in cash and cash equivalents	(50)	(107)	(24)	(11)
Cash and cash equivalents at the beginning of the period	519	473	374	349
Effect of foreign exchange rate changes	4	8	(1)	(4)
Cash and cash equivalents at the end of the period	473	374	349	334