

A Bright New Future for GEC

- proposed merger of our Marconi defence business with British Aerospace to create a new force in the global defence industry
- proposed creation of a major communications and technology company with a strong balance sheet to fund growth



We have agreed, in principle, to form a new global aerospace and defence company by merging Marconi Electronic Systems, our world class defence electronics business, with British Aerospace.

GEC shareholders will own shares directly in two FTSE 100 London listed companies:

- 36.7%* ownership in a world leading aerospace and defence company, New BAe.
- 100% ownership of New GEC, a major communications and technology company with sales and profits** of £3.7 billion and £521 million respectively for the year to 31 March 1998.***

GEC shareholders will also receive:

- loan stock issued by New BAe which will pay £440 million of principal and interest over four years in equal annual instalments.

* On a fully diluted basis

** Before interest and tax

*** Unaudited pro forma figures

GEC

January 1999

Dear Stakeholder,

We have agreed, in principle, to merge our defence electronics business, Marconi Electronic Systems, with British Aerospace.

This agreement follows an extensive review of our strategic options with a range of potential partners. The Board of GEC concluded that in the long run the Marconi defence business would be better positioned as part of a larger, combined defence and aerospace business. Also, moving early to lead in the consolidation of Europe's aerospace and defence industries would offer the potential to create more value for our shareholders. We believe Marconi Electronic Systems is a world class business in its own right. Combined with BAe, the new company will be a global aerospace and defence company. Upon completion, our shareholders will own, on a fully diluted basis, 36.7% of New BAe, an exciting new company.

The newly focused GEC will be a major communications and technology company. It will be well placed to grow its communications and technology businesses and will have a strong balance sheet to fund both organic growth and acquisitions. GEC businesses already have a range of enviable positions in growing markets and a proven management team with an entrepreneurial approach to create further shareholder value.

This decision takes GEC into an exciting new future - one which we believe will benefit employees, customers and shareholders alike. The agreement reached at this stage is subject to a number of conditions and approvals, and will therefore take some time to complete. I shall keep you informed of progress.

Yours sincerely,



Lord Simpson
Chief Executive

Marconi Electronic Systems - a world class business, combined with BAe will create Europe's leading aerospace and defence company.

Marconi Electronic Systems is a world class defence electronics business. Marconi Electronic Systems:

- has leading positions in avionics, marine and underwater systems
- invests over £700 million each year developing new technologies and IT
- employs 55,000 people around the world and recruits more science graduates than any other British company
- operates around 20 research and development sites in eight countries, with sales representatives in over 100 countries
- has joint venture partnerships in Alenia Marconi Systems, Thomson Marconi Sonar and Matra Marconi Space
- achieved pro forma unaudited sales and earnings before interest, goodwill amortisation, exceptional items and tax of £3.8 billion and £410 million respectively for the year to 31 March 1998

Merging Marconi Electronics Systems with BAe to create New BAe:

- represents a major step in the consolidation of the European aerospace and defence industries
- provides the cornerstone for further consolidation with the prospect of creating additional value for shareholders
- provides the ability to maximise new technology opportunities as a result of the combination of the technological capabilities of Marconi Electronic Systems and BAe

Strong Management:

New BAe will be managed by its proven team: Sir Richard Evans, Chairman, John Weston, Chief Executive and George Rose, Finance Director. The Board of British Aerospace will be joined by Michael Lester, Peter Gershon and Sir Charles Masefield from the Board of GEC.

The merger of Marconi Electronic Systems and BAe will provide the following major benefits:

- enhances New BAe's defence systems capability
- broadens New BAe's customer base and enhances the quality of its earnings
- brings further scale and enhanced technological capability
- allows two of the UK's principal exporters to pursue a unified approach in overseas markets, thereby enhancing New BAe's potential export opportunities
- allows New BAe to use more efficiently its engineering resources and research and development expenditure

GEC - a major communications and technology business run by a proven management team.

Strongly positioned in
markets with good
growth prospects

A major player

GEC will be a major high technology company focused on communications and technology with enviable market positions and good growth prospects.

GEC will focus on aggressively pursuing the significant organic growth potential of its businesses and enhancing this potential with acquisitions in its expanding markets.

Those businesses that have lower technology bases and are positioned in lower growth markets will be managed for value in a separate part of the business, GEC Capital.

A proven management team

Sir Roger Hurn, Chairman

Lord Simpson, Chief Executive

John Mayo, Finance Director

Marconi Communications

- a leading world-wide competitor in advanced communications transmission technology
- at the leading edge of new product development
- a leading force in smart broad band systems and systems integration

Marconi Systems

Operating in three key areas

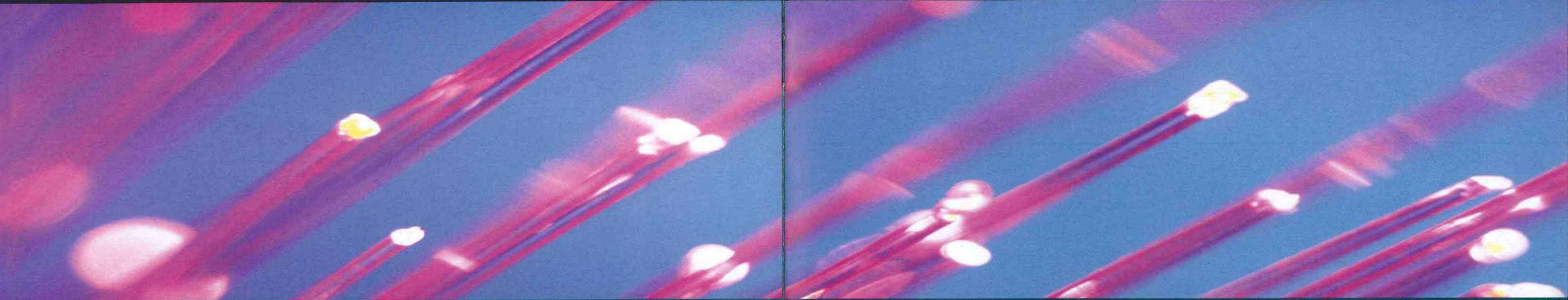
- **Medical information technology:**
Picker, medical imaging systems
- **Automatic data capture:**
Videojet
- **Commerce systems:**
Gilbarco

GEC Capital

Managing for value

- Avery Berkel
- Woods
- GDA (50%)
- Major investments - 24% stake in Alstom

What does this mean for:



Shareholders

GEC shareholders will own shares directly in two FTSE 100 London listed companies:

100% of GEC

36.7%* of BAe

They will also receive loan stock issued by New BAe which will pay £440 million of principal and interest over four years in equal annual instalments.

A circular containing details of the proposed transactions will be sent to shareholders in due course.

Employees

The creation of two stronger and more focused companies, each with greater potential for success, will be of benefit to existing employees whose existing employment rights will be fully safeguarded. Until the merger is completed, Marconi Electronic Systems will continue to be owned and managed by GEC.

Customers

Customers will benefit from BAe's enhanced ability to deliver improved performance on major collaborative programmes. There will be significant cost savings by more efficient use of engineering resources and by removing duplication of facilities and research and development expenditure.

GEC's telecommunications and technology customers will continue to receive a high level of service and will benefit from the development of increasingly advanced technology products and information.

The Defence Industry

The combination of Marconi Electronic Systems and BAe creates a new force in the global aerospace and defence industry. It is likely to be the cornerstone for further consolidation in Europe. GEC shareholders will continue to have a share in these opportunities.

Both BAe and GEC will continue to be leading worldwide competitors and an important part of the UK's industrial base.

* On a fully diluted basis

And for your Questions...

If you are a GEC shareholder
call our Hotline on

0800 216 985

For further information on
GEC and BAe visit the websites at

<http://www.gec.com> and
<http://www.bae.co.uk>

The contents of this document have been approved for the purposes of section 57 of the Financial Services Act 1986 by Warburg Dillon Read, the investment banking division of UBS AG, and Morgan Stanley & Co. Limited. Warburg Dillon Read and Morgan Stanley & Co. Limited, which are regulated in the UK by The Securities and Futures Authority Limited, are acting for GEC in connection with the proposed transactions described in this document and for no-one else and will not be responsible to anyone other than GEC for providing the protections afforded to customers of Warburg Dillon Read and Morgan Stanley & Co. Limited nor for providing advice in relation to such transactions.

