FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

Filing Date: **2005-09-20** | Period of Report: **2005-03-31**
SEC Accession No. 0000950117-05-003744

(HTML Version on secdatabase.com)

FILER

CABLE & WIRELESS PUBLIC LIMITED CO

CIK:**854088**| IRS No.: **000000000** | Fiscal Year End: **0331**
Type: **20-F** | Act: **34** | File No.: **001-10309** | Film No.: **051093073**
SIC: **4813** Telephone communications (no radiotelephone)

Mailing Address
8219 LEESBURG PIKE
C/O SCOTT YANCEY
VIENNA VA 22182

Business Address
NEW MERCURY HOUSE
26 RED LION SQUARE
LONDON ENGLAND WC1R X0
00000
7038474835

As filed with the Securities and Exchange Commission on September 20, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

£ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: March 31, 2005

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission file number: 1-10309

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

(Exact name of Registrant as specified in its charter)

ENGLAND AND WALES

(Jurisdiction of incorporation or organization)

Lakeside House, Cain Road, Bracknell, Berkshire, RG12 1XL, United Kingdom

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Ordinary Shares of nominal value 25 pence each	New York Stock Exchange*

*Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer' s classes of capital or common stock as of the close of the period covered by the annual report.
2,394,822,240 Ordinary Shares of nominal value 25p each

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes S No £

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 S Item 18 £

Back to Contents

managers Brewers Broadcasters
rs Designers Distributors
rs Government departments
estors Lawyers Local authorities
npanies Police forces Railways
nies Supermarkets Systems
riers Tourist resorts Utilities

Choose Wisely

CABLE & WIRELESS

2005
Annual report on Form 20-F

Back to Contents

Operating and financial review
Cautionary statement regarding forward-looking statements

The following discussion should be read in conjunction with the Financial statements and notes thereto included elsewhere in this Annual Report. These financial statements have been prepared in accordance with UK GAAP, which differs in significant respects from US GAAP. The principal differences between UK GAAP and US GAAP, as they relate to Cable & Wireless, are described and reconciliations of net income and shareholders' equity to US GAAP are set out in Note 35 of Notes to the financial statements.

Cautionary statements regarding forward-looking statements

This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operation and business of Cable & Wireless.

Statements that are not historical facts, including statements about Cable & Wireless' beliefs and expectations, are forward-looking statements. Words such as 'believes', 'anticipates', 'expects', 'intends', 'seeks' and 'plans' and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in light of new information or future events.

Written and/or oral forward-looking statements may also be made in, amongst others, the periodic reports to the Securities and Exchange Commission on Forms 6-K, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials and in oral statements made by Cable & Wireless' Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Cable & Wireless cautions investors that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These factors include:

Risks specific to Cable & Wireless' business

- the restructuring of the Group may not result in an improvement to performance and financial position;

- transformation initiatives by the Group may not be successfully implemented;

- technological changes in communication and information technology may render the Group's products and services obsolete or non-competitive resulting in an adverse impact on financial results;

- network or critical IT system failures may expose the Group to potential liability or loss of customers;

Regulatory risk

- unforeseen changes in regulation and government policy in the countries in which Cable & Wireless operates may result in planned business objectives not being met;

- exposure to other telecommunications operators and the behaviour of other market participants may have a detrimental effect on the Group's operations;

- the Group may lose revenue if unlicensed operators are able to gain access to the Group's network;

Risks specific to the telecommunications industry

- the Group's operations could suffer from adverse effects of competition and price pressures on the demand for products and services;

- continued overcapacity and other factors could lead to lower prices for the Group's products and services;

- mobile communications devices may pose health risks;

Legal and other

- the historic activities of the Group's insurance subsidiary may result in material claims;

- the ongoing US Securities Act Class action might adversely impact the Group's financial condition;

- the Group's withdrawal from the US domestic market may result in unforeseen claims against Cable & Wireless;

- changes in the pension regulatory framework and volatility in the financial markets may require the Group to provide further cash funding to its pension funds; and

- fluctuations in currency exchange rates in the countries where Cable & Wireless operates may adversely affect the Group's reported results and financial condition.

Trends and factors that are expected particularly to affect Cable & Wireless' results are discussed in more detail elsewhere in this Annual Report, including, without limitation, in the Business overview and the Operating and financial review.

Back to Contents

Contents

Section 1: Profile

Section 4: Reference

Shareholder information

This report ("Annual Report") comprises the annual report of Cable and Wireless plc in accordance with United Kingdom requirements. and, in substantial part, the Company' s Annual Report on Form 20-F in accordance with the requirements of the United States Securities and Exchange Commission ("SEC"). The 2005 Annual Review is published as a separate document.

It should be noted that the Company restated its 2004 Form 20-F filing to include amendments to certain figures included in the US GAAP Reconciliation of its Form 20-F originally filed on 21 June 2004. As such, only the amended 2004 form 20-F filed on 28 July 2005 will include figures for 2004 that are completely consistent with the historic figures shown in the US GAAP Reconciliation in this 2005 filing.

Unless otherwise stated in this Annual Report the terms "Cable & Wireless", the "Group", "it", "we", "us" and "our" refer to Cable and Wireless plc and its subsidaries, collectively. The term "Company" refers to Cable and Wireless plc.

Cable & Wireless prepares its financial information in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). Unless otherwise indicated, any reference in this report to Financial Statements is to the Financial Statements of Cable & Wireless (including the Notes to the financial statements) included in this report. UK GAAP differs from generally accepted accounting principles in the United States ("US GAAP"). The material differences between UK GAAP and US GAAP relevant to Cable & Wireless are explained on pages 144 to 152.

Cable & Wireless publishes its Financial Statements in pounds sterling ("£"). On 31 March 2005, the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York was US$1.89 = £1. On 26 August 2005 the noon buying rate was US$1.81 = £1. For additional information on exchange rates between pounds sterling and the US dollar see exchange rates on page 156.

References to a year in this report are, unless otherwise indicated, references to the Company' s financial year ending 31 March of such year. In this report, financial and statistical information is, unless otherwise indicated, stated on the basis of the Group' s financial year.

This document is dated 20 September 2005 including the Legal proceedings section at pages 93 to 95. Note 33 to the Financial statements for the year ended 31 March 2005 discusses legal proceedings also but has not been updated to reflect most recent developments given that the Financial statements are dated 3 June 2005.

This document includes terms which may be specific to the industry, the Group or UK GAAP. A Glossary of terms is included on pages 162 to 165 to explain and define such terms or to give the US GAAP equivalent, as appropriate.

Back to Contents

Profile

Business overview

Back to Contents

About us and highlights

About us

Cable & Wireless is the leading telecoms operator in the majority of countries in which it operates. It is the second largest fixed network telecoms operator in the UK.

Its principal operations are in the UK, the Caribbean, Panama, Macau and Monaco. It provides voice, data, broadband, internet protocol ("IP") and mobile services to business and residential customers, fixed and mobile telecoms carriers, mobile operators and content, application and internet providers.

Its extensive international network conveys traffic between these operations and provides a platform from which to offer telecommunication services to other carriers.

Highlights

Cable & Wireless completed the second year of its turnaround programme with a robust financial performance and further progress in reshaping the Group. Key developments included:

- restructuring of UK operations around customer segments;
- acquisition of Bulldog Communications and a controlling interest in Monaco Telecom;
- expansion of National Telcos' broadband and mobile activities;
- completion of US exit for £220 million and withdrawal from Japanese domestic market; and

We achieved further cost savings in the traditional legacy voice and data sectors. Led by a strengthened management team, we accelerated investment to position the Group for profitable growth in new services. Shortly after the year end, we announced a three-year plan to develop an IP-based Next Generation Network in the UK and confirmed that Bulldog had completed the first phase of its local loop unbundling programme ahead of schedule. In National Telcos, we have continued to invest in our broadband and mobile infrastructure.

Profit before tax and exceptionals (continuing operations):[a]

- up 13 per cent to £361 million

Earnings per share (total Group):

- 13.0 pence per share

Full year dividend:

- up 21 per cent to 3.8 pence

a This is a non-UK GAAP financial measure which is used by management as a key performance measure. A reconciliation is set out on page 87.

Back to Contents

Chairman’ s statement

- Turnaround programme on track

- Revenue from continuing operations stable at constant currency

- Initiated £190 million investment in Next Generation Networks

- Targeted National Telcos investment in broadband, IP and mobile

The past 12 months have been a time of transition as Cable & Wireless entered a new phase in the three-year programme to revive the Group. By the end of the year, the Chief Executive and his new team were no longer preoccupied with the Group’ s past, and had turned confidently to face the future.

A year of transition

Over the past year, management has delivered on the promises it made in June 2003. We completed our exit from the US market at considerably lower cost than originally expected. This allowed the Chief Executive to concentrate on the restructuring of our UK business and on defining a path to a sustainable position in this market. An enormous amount of work has gone into improving operations and tightening cost controls in the legacy businesses. Customer focus has been central to our new structures.

We are also seeing some excellent groundwork in network development. A prime example is our investment in Bulldog, the UK broadband operator we acquired last May. Bulldog gives us network access across the “last mile” to the customer, enabling us to offer an end-to-end service in competition with BT. Building our customer base in this way is an important goal as we embark upon investment of £190 million over three years in our UK IP-based Next Generation Network. This new technology offers network economies that will benefit our customers and improve our margins. In this context, we welcome Ofcom’ s vision of a UK telecommunications market based on realistic and sustainable competition among players willing to invest in future technological strength.

Our financial disciplines and continued cost reduction have created a stable framework so that Cable & Wireless can move forward. Since November, a corporate reorganisation has refocused our activities on the key customer segments at the heart of our business. We are now well-placed to exploit rising global demand for broadband, IP and mobile services across the whole market, from large multinational corporations to residential users.

Outside the UK, our National Telcos have become more aggressive in dealing with competition. Co-operation and communication have also improved between our operations, so that these businesses can benefit from each others' experiences of the rapidly liberalising telecom landscape. We are successfully capitalising on the controlling stake in Monaco Telecom acquired a year ago, and will take opportunities to expand our footprint into new geographies as appropriate.

The exit from the US and disposal of our Japanese business kept our cash intact, which allowed us, in November 2004, to launch a £250 million share buyback. As at March 2005 we had bought back 60.5 million shares, at an average price of 124.4 pence.

Chairman' s statement

Results and dividend

The 2005 financial performance demonstrates our progress. Profit before taxation and exceptional items for continuing operations, for the year ended 31 March 2005, was £361 million. Revenue from continuing operations at £3,023 million, was stable at constant currency compared to 2004.

The Board has recommended a full year dividend of 3.8 pence per share, after paying 1.16 pence per share at the interim stage. This represents a 21 per cent increase in the total dividend, indicating our confidence in the Group.

The Board

The Board was strengthened during the year. In July, George Battersby joined the executive team as Group Human Resources Director and in December, Harris Jones was appointed as Executive Director, International Businesses. We also appointed three new Non-executive Directors, Kate Nealon, Agnès Touraine and Clive Butler. Their combined experience has significantly broadened the skills of our Board as we undertake the next stage of the Group' s transformation. Kevin Loosemore resigned from the Board on 1 December 2004 and left Cable & Wireless at the end of the financial year, we would like to thank him for his contributions. Dr Janet Morgan retired from the Board in July 2004 having served 16 years during which time her contribution has been considerable, and for which we thank her.

On page 36, our senior Non-executive Director reports on the four key aspects of good corporate governance. I am pleased to report that Cable & Wireless continues to operate governance to high standards.

Our team

Cost-cutting and corporate reorganisation has inevitably been unsettling for staff, and I want to thank our management and employees for meeting the challenges so far with resilience and determination. Their contribution has enabled us to strengthen our business for the future.

Looking ahead

Our markets continue to suffer from excess capacity and severe price competition. Performance improvement will come from efficiencies and cost-cutting, and a shift in our sales mix towards broadband, IP and mobile. We are in a unique position to help our customers embrace these new technologies and I look forward with confidence to the year ahead.

Richard Lapthorne
Chairman

Back to Contents

Profile

Chief Executive' s review

Focusing on margin
and investing in profitable growth

We have defined a clear path for our business based around key trends in customer demand and the rapid shift in technology. It is key to our success to manage margins in traditional services and to be able to invest for profitable growth in new services.

In 2005 we made solid progress in strengthening Cable & Wireless' competitive position:

- we have focused the Group on markets where we have a relevant presence and can develop and maintain a sustainable position;
- we completed the US exit and the sale of our domestic business in Japan;
- we committed to invest £190 million over three years in a UK Next Generation Network to increase competitiveness and enhance financial performance;
- we focused National Telcos to compete in the growth areas of mobile and broadband and continue to reduce costs;
- we reshaped our UK business into four customer-focused segments, Enterprise, Business, Carrier Services and Bulldog, each led by experienced telecom professionals; and

- in May 2005 we completed the first phase of Bulldog' s unbundling programme to cover 30 per cent of UK households, just a year after acquisition.

We streamlined central management and relocated our head office to Bracknell, reflecting our reduced cost base and a culture where the centre drives performance across the Group. Worldwide we are a leaner organisation, in line with our aim to be the lowest cost provider in all our markets.

Industry context

The telecoms industry is experiencing profound structural changes. There are common challenges and opportunities across the Group that have shaped our strategic priorities. Revenues from traditional services continue to decline, so we must protect margins by further forcing down costs. At the same time, we are pursuing growth. As new broadband, IP and mobile services replace legacy services we are investing to win customers in these highly competitive growth areas.

UK Group

Our UK operations are focused around the customer segments of Enterprise, Business and Carrier Services. At present, 67 per cent of our revenues in the UK are generated by switched voice services, however, we have adopted targeted strategies for each customer segment as they migrate to new technologies. These customers are also supported by our operations in Europe, Asia, and the US.

Back to Contents

Chief Executive' s review

Enterprise

Enterprise provides integrated telecommunication services to large corporations and central government departments. The convergence of voice, data and internet access on IP-based services is reshaping the way many businesses operate. Migrating to IP offers lower costs and more sophisticated services, such as video-streaming, multi-party conferencing and remote access into corporate IT systems.

Enterprise won a number of new contracts with major customers. Although our current revenue is still generated primarily by traditional services – which are subject to continued decline – we have made solid gains in winning IP business, which now accounts for 13 per cent of Enterprise turnover.

Cable & Wireless has the network and the capabilities to support our biggest customers as they make the transition to new generation, IP-based technologies.

Business

Business addresses a market that includes a wide range of customers. In the last year we have focused on the top end of the segment and saw new business wins with Damovo, easyJet, Lothian Health Board and Littlewoods. Overall, however, revenue was reduced by severe competition. Pressure on revenues in legacy services has been higher than in Enterprise reflecting the fact that, as many customers only buy switched voice, they have higher price sensitivity and propensity to switch.

Take-up of IP is growing among our small business customers. We are developing a new portfolio of packaged and bundled products such as Intelligent Voice and Straight Talk. The services, including IP, are being designed for ease of implementation and use.

Carrier Services

Cable & Wireless has worldwide coverage across 200 countries and is one of the world' s largest carriers of international voice and data. Carrier Services generates 45 per cent of UK revenue and operates in a highly competitive market that continues to suffer from over-capacity and declining margins, although these have been partially offset by increased volumes. Our innovative customer solutions

We continue to develop new services for mobile carriers and launched MMX, a platform to exchange pictures and multimedia messages developed with Vodafone. We operate one of the largest Global 3G roaming exchanges and support email roaming for a third of the world' s mobile networks. We also launched our Global Carrier multi-protocol label switching ("MPLS") service, which can transmit any type of traffic in IP format, including time-sensitive and business-critical information and we have already signed up eight significant carriers.

Revenue declined following a fall in mobile termination rates, imposed on all carriers in the UK by Ofcom, but had no impact on profits. In Europe we downsized and refocused on the demands of a customer base of fewer, larger clients.

Bulldog

The acquisition in May 2004 of Bulldog, the broadband operator, was an important step in advancing our UK access strategy. Local loop unbundling ("LLU") strengthens our presence in the valuable access network, while Bulldog' s appeal to the residential and small/home office market (the so-called SoHos) broadens our UK customer base. This additional traffic increases use of the existing core network and can, in future, migrate very simply to our Next Generation Network.

Through LLU, Bulldog puts its own equipment inside BT' s local exchanges to take control of the "last mile" copper link (the "local loop") into the customer' s home or office. Access to this last mile improves our end-to-end control of the network resulting in lower outpayments to BT and, hence, higher gross margins. It also allows us to innovate, differentiate and control the end-to-end quality of our services to business and residential customers.

LLU enables Cable & Wireless to redefine its position in the telecom industry away from the alternative network model. We have the capability, the core network, and the funding to exploit unbundling. LLU enables us to make the most of these advantages to differentiate our business from our competitors.

Our unbundling programme has made rapid progress. We reached our initial target of 400 exchanges in May 2005, have won notable contracts. We now enable the Post Office to provide a fixed phone line service, and won an international termination deal with Skype, the Voice over IP ("VoIP") operator for which we now transport around 100 million minutes a year. This year we will expand our services to international customers by offering wholesale VoIP. By taking a Group-wide view of network assets, Carrier Services aims to improve utilisation of our international network.

seven months ahead of the original timetable. The Bulldog team, under its new Chief Executive, is now progressing with plans to extend its UK coverage and intends to unbundle an additional 200 exchanges by March 2006 and a further 200 exchanges in the first half of 2006/07 bringing the total number of exchanges unbundled to 800. This will increase planned investment and start-up losses in 2005/06.

Back to Contents

Profile

Bulldog' s dual super-fast 4Mbps broadband and voice telephony offer attracted early customer enthusiasm in the residential and SoHo markets and we quickly followed this with the release of 8Mbps across all 400 exchanges. As the roll-out progresses we have supported it with a broader commercial marketing programme. With the largest non-incumbent telecom network in the UK, our new end-to-end infrastructure has offered customers a real choice of total fixed voice and broadband provider for the first time.

Bulldog has similar characteristics to a start-up in the early days of mobile; it is marketing led, innovative, and offers customers a fast, convenient, good value service. For clarity of management and transparency, we are therefore reporting the results of Bulldog separately in our segmental analysis.

Next Generation Networks and Operations

In all our markets, we are an infrastructure-based competitor. Control of our own network is a key source of competitive advantage through which we can provide high-quality, cost-effective innovative services. The creation last year of an integrated management structure for network systems and operations has enabled us to enhance quality of service, identify investment priorities, reduce hand-offs and target cost reductions.

We have carried out a review of our existing UK network, and launched a programme to address operating costs, interconnection costs and loading. The first phase of this programme will cut costs by £50 million in 2006 enabling us to mitigate, to some extent, the continuing effects of price pressure.

The network review also demonstrated the significant benefits of moving to an IP-based Next Generation Network architecture, and the associated IT systems and processes. In April we announced investment of £190 million over three years to transform our core UK network into a single integrated IP platform, carrying voice, data and internet services.

This decision was driven by the shift in demand in all customer segments towards IP-based products, and the rapid advance in IP technologies. The development of new services will be supported by Bulldog' s expanding broadband access network, which will feed traffic into the IP core. We expect our new IP architecture to be in place by the end of 2008.

Over the next three years UK voice and data traffic will continue to migrate to IP. Cable & Wireless has the scale to lead this transformation. Our infrastructure size, combined with the efficiency of putting all traffic onto a single IP-based core network, will deliver significant economies. Our Next Generation Network will offer customers greater functionality and customised solutions, at an attractive price. The benefit for Cable & Wireless will be lower operating and maintenance costs, and a more flexible network that can accommodate significant growth in traffic at a much lower capital cost, offering the potential to achieve a higher margin.

Ofcom

The regulatory framework is fundamental to our business and our investment decisions. The strategic review by Ofcom, the telecom and media regulator, provides an opportunity to create a more transparent and effective regulatory regime in areas where BT still controls access to customers. The promised level playing field must become a reality. Establishing the appropriate structure and processes to obtain equality of access to BT' s local loop assets will enable the market to take the lead in setting prices for products and services where there is already competition.

We are encouraged by Ofcom' s emphasis on infrastructure-based competition. We are also pleased that the regulator has adopted the principle of equivalence as the tool to deliver parity in the market. Successfully implemented, this would require BT to offer regulated products to competitors at exactly the same price and quality of service as it does to BT' s own businesses. There should be no discrimination between non-BT customers and BT' s own operations when purchasing products such as wholesale broadband capacity and call origination. Our recent experience has shown considerable room for improvement in, for example, BT' s co-operation over local loop unbundling.

It is critical that equivalence is designed into BT' s planned 21st Century Network so that new barriers to entry are not created by BT' s migration to next generation systems. Fair infrastructure-based competition must be at the heart of the UK telecoms market if customers are to benefit from the variety of services that new technologies can offer and the UK is to recapture its pre-eminent position as a business location.

A large proportion of the anticipated £190 million capital expenditure on our Next Generation Network will replace expenditure that would otherwise have been needed to maintain our legacy system, leaving a net increase in planned investment over the three years of £35 million.

Chief Executive' s review

National Telcos

Cable & Wireless is the market leader in integrated fixed, broadband and mobile services in 34 countries. Our National Telcos have delivered solid results in the context of an increasingly liberalised environment. As at 31 March 2005 88 per cent of our National Telco revenues were generated by companies operating in liberalised markets although not all of these are yet fully competitive. Revenues increased by 10 per cent due to good performances in Panama and Rest of the World and the acquisition of Monaco Telecom. Mobile revenues grew by 26 per cent and data and IP revenues grew by 13 per cent year on year. (All revenue changes are expressed at constant currency.)

Our new leadership team aims to take advantage of the National Telcos' breadth of operations. We believe that this increased cross-business co-operation, and sharing of knowledge and expertise across our geographies, will continue to sharpen performance.

Our National Telcos' markets are at different stages of liberalisation. Each has its own customer profile but the competitive challenges they face are similar, and so must be the response:

- reducing the costs of legacy services, where margins are under pressure;

- investing further in the key growth services of broadband, IP and mobile; and

- developing sales and marketing skills to stay ahead of the competition.

In broadband and IP we are leaders in most of our markets and are investing to meet growing demand. Many of the countries in which we operate still have relatively low take-up of broadband and IP services, and we are well positioned to offer services that assist customers in the transition. We have started to invest in IP backbones in countries where traffic volumes justify the expenditure, including in the Caribbean where hurricane damage has accelerated infrastructure replacement. Upgrades are underway in Monaco, Macau, the Cayman Islands and Grenada.

The future

Over the last two years we have created a more focused and streamlined platform, better equipped to face the challenges and opportunities from the rapidly transforming telecommunications industry.

Our markets will remain very challenging, but I believe that we can build on our early achievements. In the UK, our reorganisation will sharpen our customer focus and strengthen our competitive position. The investment in Bulldog and our Next Generation Network will further distinguish us from other UK operators. In our overseas businesses, we will strive to maintain profitable market leadership.

Francesco Caio
Chief Executive Officer

Across all the National Telcos, we have established tight financial discipline and control over investment. This has sharpened our focus on initiatives that produce results. We intend to expand broadband and mobile services and this strategy will determine our investment decisions.

Business overview
Introduction

Cable & Wireless is a leading international telecommunications company with principal operations in the United Kingdom, the Caribbean, Panama, Macau and Monaco. Cable & Wireless provides voice, data, internet protocol ("IP") and mobile services to business and residential customers as well as to fixed and mobile telecommunications operators and content, application and internet providers.

Business overview
Cable & Wireless' strategy is to exploit growing demand for broadband, IP and mobile services in markets where it can achieve significant scale. As a result, Cable & Wireless intends to be the number one or two operator in the principal markets in which it operates. To continue to achieve this as the telecommunications industry faces unprecedented changes in customer behaviour, technology and market structure, the Group must protect margins by reducing costs whilst accelerating investment to position itself for profitable growth in new services.

During the past two years, Cable & Wireless has pursued this strategy, exiting markets where it did not have a relevant position, reshaping its operations, investing for growth and streamlining the central office.

Exit from US and Japan
In 2005, the Group completed its exit from the United States and Japan, two markets where it did not have sufficient scale to sustain a competitive position. To exit the US, the Group agreed, at the request of the purchaser, to sell its business through a Chapter 11 process under the United States Bankruptcy Code. In Japan, the Group conducted a competitive auction process culminating in the sale of the Group's Japanese subsidiary.

Reshaping the UK business
Following its review in 2004 of the dynamics of the UK market, the Group restructured its United Kingdom operations and in April 2005 announced a three-year plan to develop an

- the Carrier Services segment comprising large telecoms companies that provide long distance international voice services; mobile operators buying international voice and transport services; and operators, including resellers and ISPs. Cable & Wireless' objective in Carrier Services is to leverage the depth of its intercontinental network and advanced services to position the Group as the backbone of choice for mobile and other operators. In November 2004, management commenced a restructuring of its European operations to focus principally on Carrier Services;
- the SoHo/consumer segment which Cable & Wireless addresses through Bulldog. Bulldog provides high speed data and voice services in the UK via LLU.

The Group's remaining operations in the United States, Europe and Asia provide international services to UK-based Enterprise and Carrier Services customers.

Relocation of Group Head Office
Consistent with the steps taken to reshape and re-focus Cable & Wireless, the Group has relocated its head office from central London. This move has combined corporate and UK functions and has resulted in a shift towards a more customer oriented, responsive culture.

National Telcos
Almost all the 34 national markets in which the National Telcos operate are now fully or partially liberalised and present very similar competitive challenges. For this reason Cable & Wireless' strategy across the National Telcos is based on three principles: invest in key growth services of broadband, IP and mobile; lower costs on legacy services where margins are under pressure and develop sales and marketing skills.

In line with these principles, Cable & Wireless acquired Monaco Telecom in June 2004. Monaco Telecom is a fully integrated telecommunications company.

IP-based Next Generation Network. In addition, the Group acquired Bulldog Communications Ltd ("Bulldog") in May 2004, a UK-based broadband provider specialising in local loop unbundling ("LLU"). Through Bulldog and its investment in a Next Generation Network, Cable & Wireless is in the process of redefining its position in the UK telecom industry, moving away from the alternative network model. To effect this move, the UK is now structured around the following key customer segments:

- the Enterprise segment comprising businesses and institutions with the biggest telecoms spend in the UK. Cable & Wireless' objective in Enterprise is to be the partner of choice in transitioning customers to new generation, IP-based technologies;

- the Business segment, comprising small and medium-sized companies. Cable & Wireless aims to be a credible, strong supplier to small and medium-sized customers through targeted sales of bundled products, including IP services;

In addition, the Group completed the roll out of its GSM network across the National Telcos, improving coverage and services to residential and business customers across 22 businesses. The Group also launched proactive marketing initiatives to increase broadband penetration across the National Telcos.

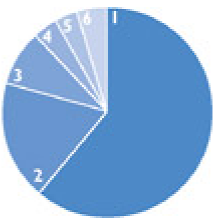
Going forward, the Group aims to take advantage of the National Telcos' breadth of operations, increasing cross-business cooperation and sharing knowledge and expertise across the National Telcos geographies to continue to improve performance.

Back to Contents

Business overview
Geographic operations

Cable & Wireless Group

Cable & Wireless 2005 Turnover by geography (Continuing operations)
Total turnover: £3,023 million



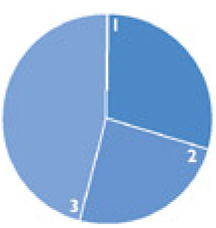
1. United Kingdom
2. Caribbean
3. Panama
4. Macau
5. Monaco
6. Rest of the World

Cable & Wireless has principal operations in the United Kingdom, the Caribbean, Panama, Macau and Monaco. The Group' s operations are managed and reported on a country-based structure.

The Caribbean, Panama, Macau, Monaco and Rest of the World are collectively referred to as the National Telcos. For a discussion of Cable & Wireless' turnover by geographic operation for the past three years, see Operating and financial review – Group turnover.

United Kingdom

United Kingdom 2005 Turnover by customer segment
Total turnover: £1,602 million



1. Enterprise
2. Business
3. Carrier services

Cable & Wireless is the largest fixed voice telecommunications service provider in the United Kingdom after BT, the incumbent telecom operator.

The UK operation is structured around three key customer segments known as Enterprise, Business and Carrier provides an outline of the operations that support the UK, the United States, Europe and Asia. For a discussion on Bulldog and on the United States, Europe and Asia see page 13.

UK Enterprise (2005 Turnover: £475 million)
Cable & Wireless defines Enterprise customers as large national and international organisations where significant customisation of their telecommunications services is required. Enterprise customers purchase voice and data telecommunications services.

Enterprise customers typically buy telecommunications services from a variety of suppliers, although many have a longer-term relationship with a primary supplier. Enterprise customers often require interconnection between multiple sites, so deep network reach is important. As a result, Cable & Wireless generally competes against other operators with large networks. Price pressure continues to be significant in this market.

Cable & Wireless' objective in the Enterprise market is to become the partner of choice for companies as they transition from voice and data services delivered over legacy platforms to new voice, data and integrated services delivered over IP-based platforms. Currently, fixed voice represents 54 per cent of total turnover for Enterprise customers in the UK.

Cable & Wireless addresses the needs of its UK-based Enterprise customers for international services through its presence in the United States, Europe and Asia.

UK Business (2005 Turnover: £394 million)
Cable & Wireless defines business customers as mid-sized companies who purchase voice and data services over legacy and IP-based platforms through direct or indirect sales channels. Often, Business customers are regional entities with one or a small number of sites. Cable & Wireless aims to serve these customers through standardised service offerings. This market attracts competition from operators with both large and relatively small networks.

Services. Additionally, the SoHo/Consumer customer segment is served through Bulldog. The UK sells voice and data services over fixed line networks using legacy and IP platforms.

The UK uses the United States ("CWAO"), Europe and Asia to provide services to UK-based Enterprise and Carrier Services customers with international service requirements. For this reason, the United States, Europe and Asia operations are managed from the UK and organised around the three relevant customer segments. This section discusses the customer segments in the UK and

Currently, fixed voice represents 39 per cent of total turnover for Business customers in the UK. Customers in the Business market are more easily able to switch providers, resulting in significant price pressure and high levels of churn across all services delivered over legacy platforms, particularly fixed voice services. The key area of growth in this market is voice, data and integrated services delivered over IP-based platforms. These platforms allow customers to access enhanced features such as voice, video and data provided through a single cost-effective platform.

UK Carrier Services (2005 Turnover: £733 million)
Cable & Wireless defines Carrier Services customers as large national and international telecommunications operators or resellers who purchase wholesale services mainly focusing on voice and data services delivered over legacy platforms.

Back to Contents

Profile

Carrier Services provide fixed voice and data services to the following types of customers:

- large international telecommunications operators, who buy fixed long distance and international fixed voice services;
- national mobile operators, who buy both international voice and data transport/backbone services to allow them to connect their radio networks via the fixed infrastructure. To serve mobile operators in their migration to new “3G” networks, we have launched services that support international data roaming;
- regional and domestic telecommunications operators to whom we sell fixed voice and data services;
- virtual telecommunications operators and resellers, who purchase voice services using Carrier Pre-Select (“CPS”). CPS allows consumer calls to be automatically connected from the incumbent operator network to the network of a competing operator. Virtual operators purchase CPS services from Cable & Wireless and re-sell them under their own brands to residential customers; and
- Internet Service Providers (“ISP”), who buy data and internet transport services.

Currently, fixed voice represents 91 per cent of total UK Carrier Services turnover. The Carrier Services market is highly competitive and price sensitive. As a result, significant price declines have been seen in all key service areas.

Driven by the requirements of its Carrier Services customers, Cable & Wireless leverages its presence in the United States, Europe and Asia as well as the National Telcos to provide voice and data services internationally.

SoHo/Consumer (Bulldog)
2005 Total turnover: £11 million
In May 2004 Cable & Wireless acquired 100 per cent of Bulldog in order to capture the growth opportunity in broadband, leverage the Cable & Wireless backbone network and expand the Group’ s IP network.

The ability to deliver IP services using its own network provides Bulldog with technological advantages over competitors reselling the incumbent’ s products. This allows Bulldog to differentiate its service offerings, maintain full bandwidth control and own the customer from end-to-end.

In September 2004, Cable & Wireless announced the initial LLU plan for Bulldog including the target to unbundle 400 exchanges by December 2005. Bulldog had completed LLU on 252 exchanges as at 31 March 2005 and completed LLU on 400 exchanges in May 2005.

Cable & Wireless believes LLU is more than an opportunity to offer fast internet access. LLU can also provide a cost effective platform from which Cable & Wireless can launch a wide range of new and existing telecom services from voice to video.

United States (“CWAO”)
2005 Total turnover: £16 million
Cable & Wireless operates in the United States through its subsidiary Cable & Wireless Americas Operations, Inc. (“CWAO”).

CWAO operates a small, efficient and predominantly international network. The business provides US connectivity for data and IP services to Enterprise customers principally those based in the UK.

Europe
2005 Total turnover: £186 million
Cable & Wireless’ operations in continental Europe are in Germany, France, Spain and Italy, together with smaller operations in Russia, Belgium, The Netherlands, Switzerland and Sweden.

The continental European operations are focused on Carrier Services, and also support UK Enterprise customers. Carrier Services represents over 80 per cent of turnover in continental Europe. The main Carrier Services customers are mobile operators and other telecommunications operators.

Asia
2005 Total turnover: £39 million
Cable & Wireless’ operations in Asia span Australia, China,

Bulldog provides IP services by way of broadband internet access to SoHo and residential customers. Bulldog uses full LLU to connect directly to customers, providing voice telephony and high speed internet access services independent of the incumbent operator.

Full LLU refers to the process by which providers, such as Bulldog install their own Digital Subscriber Line (“DSL”) equipment in rented space within an incumbent operator’ s local exchanges. DSL technology allows Bulldog to deliver broadband capabilities to customers over ordinary copper telephone lines.

Hong Kong, India, Japan and Singapore and focus on Carrier Services and Enterprise segments. The Group’ s network of 33 nodes in 13 countries provides a footprint across the entire region.

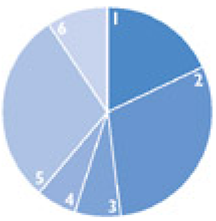
Following the disposal of the Group’ s domestic business in Japan in February 2005, the Asia operations have been focused on serving Enterprise customers that require IP and managed data services to and from Asia (principally those based in the UK) and Carrier Services customers in Asia that require voice, IP and data services to the rest of the world.

Business overview
Geographic operations

National Telcos

National Telcos 2005 Turnover by service

Total turnover: £1,191 million



1. International Voice
2. Domestic Voice
3. Data
4. IP
5. Mobile
6. Other

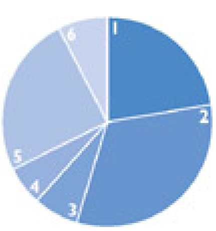
In the National Telcos, Cable & Wireless typically operates the domestic fixed line telecom network and associated international interconnect facilities. Its fixed and mobile voice, data and IP services meet the needs of corporate and residential customers, including the fast-growing demand for internet access through dial-up IP and broadband ADSL connections.

Almost all the 34 markets in which Cable & Wireless operates are fully or partially liberalised. The principal exception is Monaco Telecom which has an exclusive concession to operate international, domestic, data and mobile services until 2023. As competition has intensified across the National Telcos, Cable & Wireless has transformed its organisation, taking on its new competition by investing in innovation, such as GSM networks, managing and reducing costs, and marketing proactively.

Caribbean

Caribbean 2005 Turnover by service

Total turnover: £550 million



1. International Voice
2. Domestic Voice
3. Data
4. IP
5. Mobile
6. Other

services. Liberalisation is at an advanced stage across the Caribbean with nearly all markets either fully liberalised or in transition to competitive markets. Further discussion on liberalisation is in Regulatory framework.

In response to growing competition and to customer demand, Cable & Wireless is increasingly focused on developing and enhancing its mobile and IP service offerings, whilst retaining its position in fixed voice services.

In order to develop and enhance mobile services in the Caribbean, Cable & Wireless continued its expansion of GSM mobile services to reach all 13 of the countries in which Cable & Wireless holds mobile licences. Cable & Wireless continues to enhance network coverage, capacity and roaming capabilities, enabling the launch of new products and services, including mobile email, prepaid pan-Caribbean roaming and mobile messaging services ("MMS").

At 31 March 2005, there were over 900 GSM equipped sites in the Caribbean with land mass coverage on most islands between 65 per cent and 99 per cent. During the year, Cable & Wireless total mobile subscribers in these countries increased from 1,141,000 to 1,367,000.

During 2005, Cable & Wireless expanded its broadband capabilities across the Caribbean. Sales and marketing activities have been focused on the rebranding of broadband services. Investment has been focused on increasing the number of fixed lines enabled to deliver broadband service, average prices have been reduced and line speeds increased. DSL customers at 31 March 2005 were approximately 38,000, an increase of over 125 per cent from 31 March 2004.

In the Caribbean countries where Cable & Wireless provides domestic voice services, customers at 31 March 2005 totalled 735,000, an overall decrease of approximately 12 per cent in the year. This reduction is a result of customers substituting mobile services for fixed line services.

Overview

Cable & Wireless operates in 16 Caribbean countries providing domestic and international voice, data and IP services to residential and business customers. The Caribbean's principal businesses are subsidiary operations in Jamaica, Barbados, and the Cayman Islands and an equity holding in Trinidad and Tobago.

In nearly all the Caribbean countries in which it operates, Cable & Wireless is the incumbent operator, providing domestic and international fixed and mobile voice and data services and IP

Jamaica

Cable & Wireless Jamaica Limited ("Cable & Wireless Jamaica"), a subsidiary of Cable & Wireless, is the incumbent operator and is the largest of Cable & Wireless' Caribbean operations (by turnover) generating 37 per cent of the Caribbean's turnover in 2005. Cable & Wireless Jamaica is the largest telecommunications company in Jamaica.

Cable & Wireless Jamaica provides domestic and international fixed and mobile voice and data services and IP services to residential and business customers.

The Jamaican market has been liberalising since March 2000. In addition to Cable & Wireless Jamaica, there are currently two active competitors in the mobile sector, 10 active ISPs (out of a total of 76 licensed parties), 32 licensed data service providers and two competitors in the domestic voice sector. The international carrier

Back to Contents

market has been liberalised since March 2003 and now comprises 68 licensed carriers, of which six are active and interconnect with Cable & Wireless Jamaica. Nine ISPs offer internet services to end customers over Cable & Wireless' network.

Barbados

Cable & Wireless (Barbados) Limited ("Cable & Wireless Barbados"), a subsidiary of Cable & Wireless, is the incumbent operator and provides domestic and international fixed and mobile voice and data services and IP services to residential and business customers. Cable & Wireless Barbados generated 18 per cent of the Caribbean's turnover in 2005. Cable & Wireless Barbados is the largest telecommunications company in Barbados.

The Barbados domestic fixed and mobile voice markets have been liberalising since August 2003, while liberalisation in the data and IP market has been longstanding. The domestic voice telecommunications market is now fully liberalised with three licensed operators, none of which were active at 31 March 2005. International services were liberalised in February 2005 with two licences issued and both operators active in the market using their own international facilities. Three mobile licences have been issued to competitors in Barbados and two are currently active in the market. Seven ISPs offer internet services to end customers over Cable & Wireless' network.

Cayman Islands

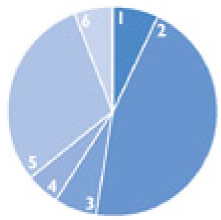
Cable and Wireless (Cayman Islands) Limited ("Cable & Wireless Cayman Islands"), a wholly owned subsidiary of Cable & Wireless, is the incumbent operator and provides domestic and international fixed and mobile voice and data services and IP services to residential and business customers in the Cayman Islands. Cable & Wireless Cayman Islands generated 11 per cent of the Caribbean's turnover in 2005. Cable & Wireless Cayman Islands is the largest telecommunications company in the Cayman Islands.

The Cayman Islands market was fully liberalised in early 2004. At 31 March 2005, 18 new entrants have been licensed in various telecommunications, broadcasting and other communication market sectors. Most licensees have multiple licences. In addition to Cable & Wireless Cayman Islands, Trinidad and Tobago to ensure an orderly liberalisation.

Panama

Panama 2005 Turnover by service

Total turnover: £257 million



1. International Voice
2. Domestic Voice
3. Data
4. IP
5. Mobile
6. Other

Cable & Wireless Panama S.A. ("Cable & Wireless Panama"), a subsidiary of Cable & Wireless, is the incumbent operator and provides domestic and international voice, data and IP services to residential and business customers in Panama. Cable & Wireless Panama is the largest telecommunications company in Panama.

The telecoms market in Panama has been liberalising since 2003. International and domestic fixed line services are now fully liberalised, whilst Cable & Wireless Panama operates in a duopoly in the mobile market (with Telefonica) until 2008. Competition in fixed line voice services is concentrated in international and long distance services with 56 and 32 operators licensed in each segment, respectively. IP services have been liberalised for many years with 84 licensees.

In light of the increased competition and in line with customer demand Cable & Wireless Panama continues to focus on the development of its mobile and IP capabilities as well as maintaining high standards in customer service and retaining its market leading position in fixed line services.

In the year to March 2005, Cable & Wireless Panama continued its investment in GSM services to enable an expansion of capacity in order to meet the increase in demand for its services. Total mobile customers increased to 634,000 at 31 March 2005, an increase of 25 per cent over the prior year.

there are currently two active competitors in the mobile sector (out of the six licensed); two active ISPs; three active fixed-wireless providers; and one active reseller of telephony services.

Trinidad and Tobago

Telecommunications Services of Trinidad and Tobago Limited ("TSTT"), a 49 per cent equity investment of Cable & Wireless, is the incumbent operator and provides domestic and international fixed and mobile voice and data services and IP services to residential and business customers. TSTT is the largest telecommunications company in Trinidad and Tobago.

The process of liberalisation is under way in the Trinidad and Tobago market although no additional licences have been issued. TSTT and Cable & Wireless are in negotiations with the government of

Cable & Wireless Panama has also invested in DSL services in the year. This investment has enabled the launch of a range of bundled IP solutions for business as well as an increase in access for residential customers. At the 31 March 2005, DSL customer numbers were 38,000 an increase of over 123 per cent in the year.

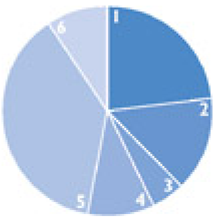
During the year to March 2005, Cable & Wireless Panama has continued to focus on retaining its market leading position in fixed line. Activities have focused on customer service improvement and customer retention. Fixed line customers in Panama have increased from 360,000 at 31 March 2004 to 383,000 at 31 March 2005.

Back to Contents

Business overview
Geographic operations

Macau

Macau 2005 Turnover by service
Total turnover: £117 million



1. International Voice
2. Domestic Voice
3. Data
4. IP
5. Mobile
6. Other

Companhia de Telecomunicações de Macau S.A.R.L. ("CTM"), a subsidiary of Cable & Wireless, is the incumbent operator in Macau offering international and domestic fixed and mobile voice and data and IP services to business and residential customers. In addition, CTM provides an international transit service through its nodes in Hong Kong and Singapore serving national and international carriers. CTM is the largest telecommunications company in Macau.

CTM is the exclusive provider of domestic fixed voice services in Macau, with the licence expiring in 2011. The remaining market segments are fully liberalised with active competition in most sectors from local and international operators.

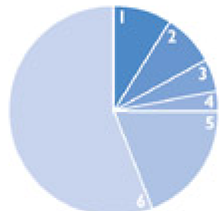
In the mobile market Macau has issued two further licences for GSM technology and one other licence for CDMA technology.

The internet market was liberalised in October 2000. CTM is the leading provider with only one competitor in the dial-up internet access market, at present there is no active competition in the broadband DSL access market.

In response to changes in the competitive environment and customer demand, CTM continues to focus on enhancing its fixed line voice and data services whilst further developing capabilities in mobile and IP services.

Monaco Telecom

Monaco Telecom 2005 Turnover by service
Total turnover £100 million (9.5 months)



1. International Voice
2. Domestic Voice
3. Data
4. IP
5. Mobile
6. Other

Monaco Telecom S.A.M. ("Monaco Telecom"), a subsidiary of Cable & Wireless, was acquired on 18 June 2004. Monaco Telecom was created in 1997 following the privatisation of the incumbent operator. Monaco Telecom provides fixed and mobile voice and data services as well as IP services. It holds an exclusive licence to provide domestic and international fixed and mobile voice services, internet access and cable services in Monaco until 2023.

The focus within Monaco is on the quality of service while maintaining pricing parity with neighbouring countries. Outside Monaco, it is developing its international activities in network management and satellite services.

The primary growth opportunities within Monaco are focused on mobile and DSL. Since acquisition, mobile subscribers have increased 21 per cent to 35,000. During the same period, the DSL lines have increased 17 per cent to 7,500.

Monaco Telecom is also focused on maintaining its fixed turnover contribution from fixed to mobile substitution by creating value added services, customer service improvements, and high value product bundles. In addition, Monaco Telecom intends to leverage its wide portfolio of telecommunication services in the Principality by offering convergent communication services and billing.

Outside the Principality, Monaco Telecom has provided network services to a mobile network in Kosovo under a

The Macau government is considering the issue of a Third Generation Wireless (“3G”) licence. Licensing procedures for 3G are expected to be announced in the fourth quarter of calendar 2005.

management contract since 2000. At the beginning of 2003, Monaco Telecom was awarded the second GSM licence in Afghanistan as the strategic partner in a consortium 51 per cent owned by the Aga Khan Fund for Economic Development. These contracts are included in Other turnover for financial reporting purposes.

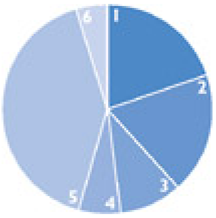
[Back to Contents](#)

Profile

Rest of the World

Rest of the World 2005 Turnover by service

Total turnover: £167 million



1. International Voice
2. Domestic Voice
3. Data
4. IP
5. Mobile
6. Other

Overview

Rest of the World comprises Cable & Wireless' subsidiary operations in Guernsey and the Maldives together with smaller operations in the Seychelles, Bermuda, Sakhalin in Russia, Diego Garcia, Falkland Islands, Fiji, Ascension, St Helena, Vanuatu, Solomon Islands, Jersey and the Isle of Man. Cable & Wireless also has an associate holding in Bahrain. Guernsey and the Maldives account for 60 per cent of the Rest of the World turnover.

In the geographies where Cable & Wireless operates, it is typically the incumbent operator, providing domestic and international fixed and mobile voice and data services as well as IP services. The status of liberalisation across the Rest of the World is varied. Most businesses however are currently in transition to liberalised markets. Further details on the liberalisation status of the Rest of the World can be found in the regulatory section on page 22.

Guernsey

Cable & Wireless operates in Guernsey through its wholly owned subsidiary Cable and Wireless Guernsey Ltd ("Cable & Wireless Guernsey"). Cable & Wireless Guernsey is the incumbent operator in Guernsey providing domestic and international fixed and mobile voice and data services and IP services to all residential, business and government customers.

The States of Guernsey liberalised the market in 2002. At 31 March 2005, in addition to Cable & Wireless Guernsey, there were two competitors for domestic and international voice and one competitor for mobile.

Bahrain

Cable & Wireless operates in Bahrain through its associate Bahrain Telecommunications Company B.S.C. ("Batelco"). Batelco provides domestic and international fixed and mobile voice and data and IP services to residential and business customers.

In Bahrain, competition in domestic mobile, in the form of MTC Vodafone, was introduced in 2003. Internet services were liberalised on a similar timeframe. In the summer of 2004 the market for international services and facilities was liberalised. In the second half of 2004 a licence to provide national fixed line services was put up for sale but as yet no additional licences have been awarded, resulting in Batelco currently being the only licence holder for the provision of domestic fixed line services and IP.

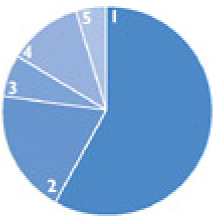
Maldives
Cable & Wireless operates in the Maldives through its subsidiary Dhivehi Raajjeyge Gulhun Private Limited ("Dhiraagu"). Dhiraagu is the incumbent operator and provides domestic and international voice and mobile services and IP services to residential and business customers.

The Maldives began liberalisation in 2002. At 31 March 2005, in addition to Dhiraagu, there was one competitor in the IP market and one licence issued in the mobile market with competition expected to begin in the next fiscal year.

Back to Contents

Business overview
Services

Cable & Wireless 2005 Turnover by service
(Continuing operations)
Total turnover: £3,023 million



1. Voice
2. Data
3. IP
4. Mobile
5. Other

Cable & Wireless provides voice, data, and IP services to business and residential customers across the world. The Group delivers these services over fixed line and mobile networks. The majority of services are delivered over traditional legacy platforms, with a small but growing proportion being delivered over IP-based platforms.

The term legacy platform generally refers to the existing communications and transmission infrastructure that underpins most telecom operator networks across the world that were deployed up until the late 1990's. Each family of service delivered over legacy technology generally requires a proprietary platform to deliver service, resulting in multiple overlapping telecommunication networks.

The term internet protocol ("IP") generally refers to a set of protocols or rules that govern how interconnected devices communicate. IP-based devices share data in 'packets,' or discrete bundles of data. IP networks allow the delivery of voice, video and data over the same network, allowing simplification of network design and operation, and supporting the delivery of new integrated services.

Historically, in many operations, Cable & Wireless was the incumbent operator, focusing on voice and data services over fixed lines on legacy platforms. Today, most markets in which Cable & Wireless operates have liberalised. New voice and data services delivered over mobile and IP networks are growing and over time, replacing services on our fixed line networks.

Voice services

Fixed voice

Cable & Wireless offers domestic and international voice services to residential, corporate and other telecommunication companies and service providers. In the UK, Cable & Wireless also provides services to non-telecommunication companies who provide residential telephony, but do not have their own network infrastructure.

The majority of fixed voice turnover is delivered over legacy platforms, using traditional copper telephone lines and switch networks.

Cable & Wireless also offers IP-based voice services, such as voice over IP ("VoIP"). These services can provide enhanced end user functionality (for example, providing better integration between customers' own voice and data networks) at reduced cost.

Mobile voice

Cable & Wireless offers domestic and international mobile voice services to residential and business customers outside the United Kingdom. Cable & Wireless delivers voice services to mobile handsets through wireless technologies such as GSM.

Global system for mobile communications ("GSM") is a standard for digital mobile telephone transmissions that allows global roaming and enhanced features for data transmission as compared with time division multiple access ("TDMA") networks. Because of the increased turnover potential associated with GSM technologies, Cable & Wireless has been expanding its GSM networks throughout the National Telcos in recent years.

Data services

Fixed data

Cable & Wireless offers data services to businesses that operate over fixed-line networks using legacy platforms, including leased line services, and networking services based on Frame Relay and asynchronous transfer mode ("ATM") technology.

New IP-based platforms allow Cable & Wireless to deliver new types of integrated service that blur the old boundaries between voice and data/fixed and mobile and deliver seamless integrated communications to end users.

Leased line services predominantly utilise a technology known as synchronous digital hierarchy ("SDH") to deliver data from point-to-point.

Frame Relay and ATM services provide an additional layer of intelligence and functionality beyond leased lines, allowing customers to build and manage complex networks across multiple locations and to prioritise traffic flows through their network.

Cable & Wireless also offers 'next generation' data services, such as IP virtual private networks ("IP-VPN") and internet services that are delivered over IP-based networks.

IP-VPN allows customers to replace traditional private data networks with virtual private networks ("VPN") which can reduce the expense and complexity of private networks, while providing enhanced services such as the bundling of voice, video and data.

Back to Contents

Mobile data
Cable & Wireless offers a range of data services for its mobile customers utilising SMS and MMS based technologies.

IP Services
Cable & Wireless provides customised services to many of its large corporate customers. Typically, these involve the development of integrated voice, data transmission and/or data storage solutions that are uniquely configured for individual customers.

Increasingly, these service solutions are offered using IP-based platforms and technologies and include voice services such as VoIP and data services such as IP-VPN.

IP access solutions provide security services (such as managed firewalls), intrusion detection, scanning and analysis (such as email virus protection), and authentication and encryption services to control access into customers' networks.

IP contact centres enable our customers to manage all contact with their customers including incoming and outbound calls, emails or web contact requests.

Bulldog and the National Telcos provide broadband services that include voice and internet access as well as dial-up narrowband internet access, that allow business and residential customers to access the internet from their business or home.

Back to Contents

Business overview
Regulatory framework

Cable & Wireless, like other international telecommunication providers around the world, faces various regulatory and market access constraints in various countries resulting from laws, public policies and licensing requirements. This reflects the perception of telecommunications as a public service, a history of special or exclusive rights to provide services and often, a move towards liberalisation. Generally, specialist telecommunications regulation is administered through enforcement of conditions contained in 'authorisations' or in operating and service licences held by the Group and its subsidiaries.

Most of the markets in which Cable & Wireless operates are fully liberalised although some are in transition to competitive markets, and a few small geographies are expected to remain monopolies for the foreseeable future. Where countries have moved to competitive environments, Cable & Wireless has actively engaged with governments in order to facilitate an orderly transition to a fully competitive environment. The discussions involve negotiating fair regulatory arrangements that provide for equal treatment during the transitional period and beyond.

In all jurisdictions where it operates, Cable & Wireless is required to comply with regulations that affect its business. The Group believes it complies in all material respects with all material regulatory obligations and where regulatory compliance issues emerge it takes action to ensure compliance.

Licensing

Cable & Wireless provides international and domestic telecommunications services under general authorisation regimes or licences in the jurisdictions in which it operates. These licences are either held by Cable & Wireless itself or by local operating entities owned either wholly or partly, directly or indirectly, by Cable & Wireless.

The Group believes it has all licences material to the running of its business. It is possible that from time to time, as further products and services are deployed or changed, additional licences or authorisations will be required. Where the Group regulatory regime. Cable & Wireless will continue to offer telecommunications services subject to obligations set forth in general conditions as dictated by the relevant electronic communications directive and individual member states.

Outside the European Union, Cable & Wireless operates in Guernsey, the Isle of Man, Monaco, Norway, Russia and Switzerland with relevant licences and authorisations.

Some licences provide that, upon their termination, the relevant government may purchase, or have the option to purchase, the property, plant and equipment of the licensee in that territory at a fair market value. In some cases, where the Group owns an operating company jointly with government, that government has the right to purchase, at specified times, the whole or part of the Group's shareholding in the operating company.

The international trend is for telecommunications liberalisation and the replacement of exclusive licences with non-exclusive licences alongside rules governing competition between operators. Jurisdictions that currently support monopoly provision may also decide to promote competition, and Cable & Wireless anticipates that some existing exclusive licences will not be renewed on an exclusive basis, or that governments will seek to withdraw their exclusivity before the licence expires, replacing the current operating licence with a non-exclusive licence.

The Group is committed to participating in discussions on the introduction of competition in any territory where its government wishes to do so.

There is no guarantee that an agreement to provide either a monopoly or franchised service will remain in effect for the full term of the agreement.

Regulation by jurisdiction

The regulatory institutions and policies of the jurisdictions in which the Group operates are varied.

identifies the need for further licences or authorisations, it intends to acquire such licences. The terms of the Group' s licences vary, although most remain in effect for a fixed period of 10 to 25 years, or for an indefinite period subject to notice of termination after a specified minimum period. Licence fees are sometimes required, either as a fixed annual fee or a fee equal to a percentage of the revenue or profits arising from the licence.

In 2003 the European Union established a harmonised framework for licensing laid out under the electronic communications directives. This has been transposed into national law by most of the member states. As a result these member states will no longer issue individual telecommunications licences to companies except in exceptional circumstances such as the allocation of spectrum. Therefore, for Cable & Wireless, most of the telecommunications licences it holds in EU member states, including those in the UK, have been revoked and replaced by the relevant general authorisations under the new

Europe

The regulatory framework in member states of the European Union is harmonised by EU directives, though there are divergences in regulatory policy and practice between member states. Many member states have implemented, or are implementing, the directives of the European Union 2003 electronic communications package. This package seeks to harmonise telecommunications across the European Union, and involves the concept of Significant Market Power to determine which operators should have prior obligations placed on them, on the grounds that such operators might exploit that market position to the detriment of competition and therefore consumers. This speed of adoption of the electronic communications package varies significantly across the EU and this can affect the ability of the non-incumbents to compete.

Profile

United Kingdom

The telecommunications market in the United Kingdom is governed by the EU communications package (described above) which has been transposed into national law by the Communications Act 2003 ("UK Comms Act"). The UK Comms Act sets the framework for the regulation of telecommunications and broadcasting markets as well as the civilian use of spectrum in the United Kingdom. Insofar as it applies to telecommunications markets, it updates the Telecommunications Act 1984 and transposes the EU electronic communications directives into UK law. It also lays out the powers and duties of the industry regulator, the Office of Communications ("Ofcom").

Following reviews by Ofcom, BT has been designated as having Significant Market Power in a number of markets. BT is therefore required to provide cost-based interconnection for switched voice services and leased line access circuits (Partial Private Circuits) to providers of public electronic communications networks such as Cable & Wireless on non-discriminatory terms. Such services are subject to network charge controls. The network charge controls applying to BT are in the process of being reviewed. It is not yet clear what form the new controls will take given that over the likely four-year period of the next cap BT will be migrating from legacy to next generation networks.

Following the review of wholesale International Direct Dial ("IDD") markets, Cable & Wireless has a designation of Significant Market Power on wholesale IDD routes from the United Kingdom to four destinations: Ascension, Diego Garcia, Montserrat and Turks & Caicos. The obligations associated with this designation are minimal.

In addition, in common with all other providers of fixed public voice networks in the United Kingdom, Cable & Wireless has been designated as having Significant Market Power ("SMP") in the markets for geographic call termination on the UK network. As this designation has been applied to all operators, obligations are likely to be minimal and the Group expects that there will be little or no impact.

In early 2004, Ofcom undertook a Strategic Review of the UK Telecommunications market. This review is nearly complete, with Ofcom now consulting on its decision to accept BT' s

BT has committed to provide products delivered over its Next Generation Network that are in markets where BT has been designated with SMP on an EoI basis. This is subject to some restrictions where provision of those products on an EoI basis would not be reasonably practical.

In addition, BT has committed to set up an Access Services Division under separate management, which would control and operate the local access network separately from other network assets.

BT' s undertakings, if accepted by Ofcom, would become legally binding, with breaches enforced through the High Court.

In those markets where BT has been designated with SMP and is subject to regulatory obligations, the designation and obligations will continue to remain in force subject to the standard process for removal of such obligations.

The Caribbean

Cable & Wireless has businesses in 16 countries in the Caribbean. Whilst in the past Cable & Wireless was exclusively licensed in the majority of these territories, nearly all are now either fully liberalised or are in transition to competitive markets. Cable & Wireless is engaged in ongoing dialogues with host governments and regulators to ensure that the regulatory environment is fair and consistent.

The regulatory frameworks in which the most significant Cable & Wireless Caribbean businesses operate are described in this section.

Cable & Wireless Jamaica operates in a fully liberalised market, regulated by the Office of Utilities Regulation.

Cable & Wireless Barbados is now operating in a fully liberalised market since the issuance of international licences to competitors in February 2005. The regulatory authority for fixed telecommunications in Barbados is the Fair Trading Commission. The Ministry of Industry and International Business regulates mobile telecommunications.

Cable & Wireless Cayman Islands operates in a fully liberalised market. Cable & Wireless Cayman Islands is voluntary undertakings in lieu of a reference to the Competition Commission pursuant to Section 154 of the Enterprise Act 2002.

BT' s undertakings offer to provide a number of existing regulated products on an Equivalence of Inputs ("EoI") basis. This means that BT' s own business and other communications providers (such as Cable & Wireless) would be supplied with the same product, at the same price, using the same operational processes and systems. Where products are provided on an EoI basis, other communications providers would be in a position to compete more effectively with BT than today. The timetable for implementation of the Strategic Review recommendations is scheduled to continue to 2010.

subject to the regulation of the Information and Communications Technology Authority. Five member states of the Organisation of Eastern Caribbean States (Dominica, Grenada, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines) are contracted in a single jurisdiction for telecommunications regulation with a regional regulator, the Eastern Caribbean Telecoms Authority ("ECTEL"), and are also subject to the jurisdiction of national regulators, the National Telecoms Regulatory Committees. Telecommunications markets in the ECTEL states are fully liberalised.

Japan

Following the sale of Cable & Wireless IDC Inc., Cable & Wireless UK applied for its own telecommunications registration with the Japanese Ministry of Internal Affairs and Communications. Cable & Wireless UK (Japan branch) was registered in September 2004 and

Business overview
Regulatory framework

is authorised to provide certain telecommunications services in Japan including international and domestic data services, IP access and leased circuits.

The separation of telecommunication business licences between Type I (facilities) and Type II (services) was abolished in 2004. Telecommunication licences now are classified as notified or registered telecommunication licences.

United States

Cable & Wireless Americas Operations, Inc. provides international communications services to customers who require service to, from or through the United States. Under US law, the Federal Communications Commission ("FCC") regulate interstate and international telecommunications services while state commissions regulate intrastate services. Non-dominant service providers such as CWAO are subject to a lesser degree of regulation than designated dominant service providers. CWAO also provides information services, which generally are not regulated in the United States.

The regulated telecommunications services provided by CWAO may be classified as either common carrier or private carrier services depending upon the nature of the service offering. As a general matter, US law requires that common carrier services be offered (a) upon reasonable request, (b) on rates, terms and classifications which are just and reasonable, (c) without unjust discrimination or undue preferences basis, and (d) pursuant to authorisation of the FCC. Private carriers generally are not subject to these requirements, but are required to make contributions to the federal universal service fund based on international and interstate telecommunications revenues, in the same manner as common carriers. Intrastate telecommunications services are subject to regulation by the relevant state public utility commission and may be subject to licensing requirements, tariffs, and/or subsidy mechanisms.

Other markets

Cable & Wireless Panama operates in a partially liberalised market. The regulator is Ente Regulador De Los Servicios

Cable & Wireless acquired Monaco Telecom in June 2004 with exclusive rights to provide fixed line, mobile, IP and cable services in Monaco. Monaco Telecom is regulated by the Direction de Telecommunications de Monaco, which is within the Ministry of State of the Principality of Monaco.

Batelco, a Cable & Wireless associate company in which Cable & Wireless has a holding of 20 per cent, operates in Bahrain where the market has been liberalised since July 2003. The Telecommunications Regulatory Authority regulates Batelco.

Cable & Wireless has smaller operations and interests in other countries, which are at varying stages of liberalisation.

Publicos. Cable & Wireless Panama is a full service provider across fixed line and mobile markets for business and residential customers. There has been increasing regulatory activity on the broadband front in 2005 with wholesale broadband services already being available and plans in place to introduce local loop unbundling. In the area of mobile the regulator has recently sought to introduce indirect access over mobile.

CTM has an exclusive concession agreement to provide fixed national and international services until 2011, however, a review will be undertaken in 2006 to determine the way forward in 2011. Mobile and IP services were liberalised in 2001. CTM is subject to the regulation of the Office for the Development of Telecommunications and Information Technology.

Back to Contents

Business overview

History and development of Cable & Wireless

Cable & Wireless is an international telecommunications business with customers in some 80 countries. Its principal operations are in the United Kingdom, the Caribbean, Panama, Macau and Monaco. Cable & Wireless provides voice, data, and IP services to business and residential customers and wholesale services to fixed and mobile telecommunications operators, and content, application and internet providers.

For 130 years, Cable & Wireless has provided telecommunications services, networks and equipment to customers around the world. Except for 34 years as a state-owned company after the Second World War, Cable and Wireless plc has been incorporated in England and Wales as a public limited company.

Historically, in many of our operations, Cable & Wireless was the sole telecommunications provider ('incumbent' operator), focusing on switched voice and data services delivered over traditional phone lines ('legacy' platforms). Today, most markets in which Cable & Wireless operates have opened to competition ('liberalised') and market trends are moving away from these legacy platforms, toward new services delivered over IP networks.

Recent events

On 9 September 2005, Cable & Wireless announced that it intends to terminate its American Depository Receipt ("ADR") programme on 13 December 2005 and to delist voluntarily from the New York Stock Exchange. ADR holders will be able to exchange their ADRs for Ordinary Shares in accordance with the timetable set out in the announcement as available on the Company' s website.

Following consumer issues in July and August, on 31 August 2005, the UK regulator Ofcom opened an investigation into Bulldog which will consider whether Bulldog contravened either General Condition 11.1, which prohibits Communications Providers from billing customers for services that have not beeen provided, or General Condition 14.2, ("Energis") on a debt and cash free basis save for Energis' £37 million of finance lease obligations, for an initial cash consideration of £594 million. In addition, Cable & Wireless has agreed to pay contingent consideration of up to £80 million in the third year after completion. Completion of the acquisition is subject to Office of Fair Trading approval.

The contingent consideration will be paid in either cash or Cable & Wireless shares at the option of Cable & Wireless and will be determined by the level of Cable & Wireless' share price in the third year after completion. On completion of the acquisition, Cable & Wireless may inject up to £35 million in cash to meet Energis' short-term working capital needs.

Energis reports under UK GAAP and therefore the information available to prepare the following forward looking information is in accordance with UK GAAP. The combined entity will report under IFRS for fiscal year 2006. As a result, the forward looking information presented may differ on an IFRS basis.

The combination of Cable & Wireless' UK operation and Energis is expected to enable total annual synergies of approximately £55 million in 2007 (£40 million operating cost and £15 million capital expenditure) rising to £80 million in 2008 (£55 million operating cost and £25 million capital expenditure) and to reduce headcount by around 700 by March 2008.

The expected capital expenditure synergies were determined on the basis that the two legacy networks would not be integrated but that the single NGN platform, being developed by Cable & Wireless, would serve the customer base of the combined business. The full potential of synergy benefits will be realised with completion of NGN in 2009.

One-off costs to realise the synergy benefits are expected to be between £75 million and £100 million over three years.

which requires Communications Providers to establish and maintain complaints-handling procedures that conform to a Code of Practice. Cable & Wireless does not anticipate the outcome of this investigation will have a material effect on the results of the Group.

On 17 August 2005, Cable & Wireless announced that its subsidiary Great Eastern Telecommunications Limited ("GET") signed a conditional agreement for the sale of its entire shareholding in MobileOne Limited ("M1") representing approximately 12.1% of the issued and paid up capital of M1, for a total consideration of S$260.8 million (£87 million) of which S$133 million (£44.4 million) relates to Cable & Wireless' 51% holding in GET.

Completion is conditional upon the purchaser obtaining approval for the acquisition of the stake in M1 from The Infocomm Development Authority of Singapore, which is anticipated by the end of September.

On 16 August 2005, Cable & Wireless announced an agreement to acquire 100% of the issued share capital of Chelys Limited

In 2005, Energis had revenue of £720 million and gross assets of £670 million. Cable & Wireless expects the performance of the Group in the second half of the 2005/06 financial year to be impacted by the transaction in the following ways:

- Elimination of the inter-company trading between the Group and Energis of approximately £10 million;

- A reduction in combined UK earnings before interest, tax, depreciation and amortisation of approximately £5 million, due to the potential loss of certain dual sourcing reseller customers, likely retail customer terminations, initial disruption on order intake due to short-term uncertainty during integration together with a planned review of unprofitable commercial contracts following completion;

- Realisation of estimated capital expenditure synergies of £15 million;

Back to Contents

Business overview
History and development of Cable & Wireless

- Integration charges of £40 million; and
- A reduction in depreciation of Energis' fixed assets of approximately £5 million to £10 million, subject to review following completion.

Although Cable & Wireless continues to implement the previously announced cost reduction programmes, the integration of Energis is expected to delay some of the benefits of these initiatives. For this reason, savings in the UK and corporate are expected to be reduced by £15 million in the second half of the year.

As at 31 March 2005, Cable & Wireless had completed £75 million of its £250 million share repurchase programme, outlined in November 2004. Following the Energis acquisition the programme will remain in place but is unlikely to be used in the short term.

On completion of the Energis acquisition, John Pluthero will be appointed Executive Director UK Business and will join the Board of Cable & Wireless. He will be responsible for the combined UK operations of Cable & Wireless and Energis, excluding Bulldog Communications.

On 13 July 2005, Cable & Wireless announced the sale of its 61.4% interest in closed joint stock company Sakhalin Telecom Mobile ("STM") and its participation interest of 60% in the limited liability company joint venture Sakhalin Telecom Limited ("ST") to open joint stock company Vimpel-Communications for total consideration of £25 million (US$44 million), £23.8 million (US$41.8 million) of which was cash and £1.2 million (US$2.2 million) of which was a loan to be repaid within 70 days of completion.

On 17 February 2005, Cable & Wireless sold its Japanese domestic business, Cable & Wireless IDC Inc. ("IDC") to Softbank Corp, for a consideration of £71.7 million comprising £62.3 million of cash and the assumption by Softbank of debt of £9.4 million. Results for IDC are included in discontinued operations.

Cable & Wireless has also entered into a shareholders' agreement with the Principality of Monaco, which contains, among other provisions, a prohibition on either Cable & Wireless or the Principality (subject to certain limited exceptions) selling their shares in Monaco Telecom for five years, mutual pre-emption rights on transfer of shares and certain other limited rights in favour of the Principality. The Principality has a put option entitling it to put its 45 per cent shareholding in Monaco Telecom to Cable & Wireless at certain times after 1 January 2008. The exercise price under the put option is fair market value, taking into account the nature of the minority stake in Monaco Telecom.

Results for Monaco Telecom are discussed separately in the Operating and financial review.

On 28 May 2004, Cable & Wireless acquired 100 per cent of Bulldog Communications Limited ("Bulldog"), a company specialising in providing residential and business broadband services over its own network in the UK, for a consideration of £18.6 million. Results for Bulldog are discussed separately in the Operating and financial review.

In June 2003, Cable & Wireless announced that it planned to withdraw from the US domestic market. At the request of the purchaser of the Group's US assets, certain of the Group's US subsidiaries (Cable & Wireless Internet Services, Inc. and Cable & Wireless USA, Inc., collectively referred to as "CWA") filed for Chapter 11 bankruptcy protection under the US Bankruptcy Code.

As a result of the subsequent auction process, on 23 January 2004, SAVVIS Communications Corporation ("SAVVIS") entered into an agreement with CWA for SAVVIS to acquire substantially all of the assets of CWA for a sum of US$155 million in cash and approximately US$12.4 million of assumed liabilities.

In order to provide US connectivity for data and IP services to Cable & Wireless' multinational customers based in the United Kingdom and other regions, Cable & Wireless continues to operate in the United States through its

On 28 January 2005, Cable & Wireless sold its 3.4 per cent stake in Intelsat (the satellite communications company) for cash consideration of £56 million (US$104.8 million).

On 18 June 2004, Cable & Wireless acquired 55 per cent of Monaco Telecom S.A.M. ("Monaco Telecom"), a Monaco based telecommunication service provider from Vivendi Universal, for a total consideration of £108 million (162 million).

Simultaneously with the acquisition, Cable & Wireless transferred legal ownership of six per cent of the shares of Monaco Telecom to Compagnie Monegasque de Banque S.A.M. ("CMB"), an unrelated third party. Cable & Wireless contractually retained voting and economic rights in the shares as part of the arrangement. In addition, the six per cent interest is subject to certain put and call options that, together with the retained voting and economic rights, provide full management control of Monaco Telecom to Cable & Wireless.

subsidiary Cable & Wireless Americas Operations, Inc. ("CWAO").

On 13 July 2004, as part of the ongoing bankruptcy process to which CWA is subject, the US Bankruptcy Court confirmed a bankruptcy Plan of Liquidation (the "Liquidation Plan") which provided for the transfer of the assets remaining in the bankruptcy estate to a liquidating trust for the benefit of creditors, named the Omega Liquidating Trust. The Omega Liquidating Trust's operating committee includes a representative of Cable and Wireless plc. The Omega Liquidating Trust is in the process of determining final claim amounts and distributing the assets of the bankruptcy estate to the creditors. The process is expected to continue through 2006 and possibly beyond.

Back to Contents

Profile

Also, on 13 July 2004, as part of the Plan of Reorganisation ("Reorganisation Plan"), the US Bankruptcy Court approved a Global Settlement Agreement between Cable and Wireless plc and certain of its affiliates (collectively referred to as the "Named Participants"), CWA and the committee of unsecured creditors. Pursuant to the Global Settlement Agreement, as implemented by the Reorganisation Plan, the Named Participants agreed to reduce certain of their claims against CWA in exchange for releases from any liability from CWA and to assign a portion of the distributions to which they would otherwise be entitled in respect of their remaining claims to individual unsecured creditors who would grant the Named Participants individual releases for any claims they might have against them. More than 90 per cent in value of the unsecured claimants agreed to provide the release to the Named Participants. Under the asset purchase agreement with SAVVIS (completed on 8 March 2004 following SAVVIS' success in the Chapter 11 based auction process for CWA assets), the Named Participants agreed to remain contingently liable until 5 September 2007 (subject to the earlier occurrence of certain events) for up to approximately US$104 million of guarantees and letters of credit in favour of CWA landlords, which SAVVIS has agreed in the asset purchase agreements to reimburse in the event of a call for payment. SAVVIS has also agreed to replace the Named Participants' guarantees and letters of credit with direct SAVVIS guarantees and letters of credit by 23 July 2007.

Organisational structure

Cable & Wireless is a consolidated group of companies comprising subsidiaries, associates and joint ventures around the world. The companies listed below represent the largest of these:

	Country of incorporation	Ownership interest per cent
Subsidiary[a]		
Bulldog Communications Limited	England	100
Cable & Wireless Americas Operations, Inc.	USA	100
Cable & Wireless (Barbados) Limited	Barbados	81
Cable and Wireless (Cayman Islands) Limited	Cayman Islands	100
Cable and Wireless Guernsey Ltd	Guernsey	100
Cable & Wireless Jamaica Limited	Jamaica	82
Cable & Wireless Panama, S.A.	Panama	49
Cable & Wireless UK	England	100
Companhia de Telecomunicacoes de Macau, S.A.R.L.	Macau	51
Dhivehi Raajjeyge Gulhun Private Limited	Maldives	45
Monaco Telecom S.A.M.	Monaco	49
Joint venture[b]		
Telecommunications Services of Trinidad and Tobago Limited	Trinidad and Tobago	49
Associate[c]		
Bahrain Telecommunications Company B.S.C.	Bahrain	20

[a] Subsidiaries are entities that Cable & Wireless controls through a majority of voting rights, a majority of representation on the Board or through the right or actual exercise of management control over the operating and financial policies of the subsidiary with a view to gaining economic benefit from its activities. Results are consolidated for financial reporting purposes.

[b] Joint ventures are entities in which Cable & Wireless holds an interest on a long-term basis and are jointly controlled by Cable & Wireless and one or more others under a contractual arrangement. Results are accounted for under the gross equity method for financial reporting purposes. The gross

equity method differs from the equity method only in that it requires additional disclosures of the share of gross assets and liabilities of 'Interest in net assets of joint ventures' and 'Turnover of the Group including its share of joint ventures' on the face of the balance sheet and profit and loss account respectively.

[c.] Associates are entities for which Cable & Wireless has at least a 20 per cent interest in the voting rights of the entity, held on a long-term basis and over which Cable & Wireless exercises significant influence, but not management control. Results are accounted for under the equity method for financial reporting purposes.

Back to Contents

Corporate governance

Corporate governance

Corporate governance
Corporate and social responsibility report

Cable & Wireless is committed to effective management of social, ethical and environmental matters.The Board manages and monitors corporate responsibility through the Corporate Responsibility Steering Group, chaired by the Executive Deputy Chairman, Lord Robertson of Port Ellen.

Business principles
The Cable & Wireless Board Code of Business Principles, (December 2004) provides standards and guidelines for business conduct across the Group. It commits the business to ethical conduct and includes clear guidance on:

- corporate governance;
- community investment;
- employee relations and development;
- human rights;
- management of the Group's environmental impact;
- occupational health & safety; and
- supplier, customer and other stakeholder relations.

The Board additionally has a Code of Ethics specifically applicable to the Chief Executive Officer and senior financial officers. Employees are encouraged to report any breach of the codes and can do so confidentially and anonymously through the Group's whistle-blowing procedures. Both codes are available on the Company's website.

Community investment
Cable & Wireless is committed to contributing positively to the communities around it.The Group's community investments are run in partnership with voluntary and community based organisations, governments and charities and directed by a cross Group Community Investment Committee.

Addressing the digital divide
Cable & Wireless works with governments, charities and voluntary organisations to enable those from underprivileged communities to use and benefit from access to ICT.

- Bracknell's popular Cable & Wireless After School ICT Academy is based at the Group's head office in Bracknell and helps 11 to 14 year olds to develop confidence in the use of technology and gain new skills. Cable & Wireless' staff are volunteer mentors to the scheme;
- through WebPlay, Cable & Wireless enabled more than 3,000 underprivileged 8 to 12 year olds to learn through the creative use of ICT. The initiative supports national curriculum targets in literacy, technology and citizenship.Volunteer mentors from Cable & Wireless support the project;
- in October 2004, Cable & Wireless supported Age Concern's four-week Silver Surfers Festival.This provided free internet taster sessions for older people across 100 Age Concern centres in the UK;
- the Cable & Wireless Panama Foundation works with the Ministry of Education to provide PCs and internet connectivity for 20,000 pupils in 14 schools across the country.The Foundation helped create a new IT suite in a rural primary school in Pacora, hailed by the Minister of Education as the country's first 'Technological Innovation Classroom'.The government hopes to replicate the model in schools across Panama; and
- Cable & Wireless India has worked with the Christel House School, Bangalore to provide pupils with an internet-ready, fully equipped and maintained computer laboratory.

Using the internet safely
The internet offers exciting opportunities but can have hidden dangers. Cable & Wireless works with its partners to protect

In 2005, Cable & Wireless' total Group-wide community contributions were valued at £7.7 million, of which £6.4 million were cash charitable contributions. Of the total, £1.7 million was spent in the UK.

Most of Cable & Wireless' business units undertake charitable and community initiatives with significant activity at Group level and in the UK, Barbados, Jamaica and Panama. Cable & Wireless has established charitable foundations in Panama, Jamaica and the Seychelles.

The Cable & Wireless community investment programme currently focuses on three main areas: addressing the "digital divide"; promoting safety and security in the use of the internet and information and communication technologies ("ICT"); and encouraging positive use of ICT.

children from unsuitable content and raise understanding of internet safety.

Run with internet charity Childnet International, the Cable & Wireless Childnet Academy 2005 highlighted positive use of the internet by young people, through an international web development competition for young people which attracted entries from 49 countries.The programme offered specialist web support, technical advice and leadership training.The winning websites can be seen at www.childnetacademy.org

Alongside the Childnet Academy 2005, the Cable & Wireless Jamaica Foundation, Childnet International and the British Council hosted a 180 strong policy conference to examine safe use of the internet by children and young people in Jamaica in March 2005. Policy makers, teachers and industry representatives shared best practice to ensure that young people in the Caribbean can use the internet safely.The Kidsmart Internet safety programme, supported by Cable & Wireless, offered internet safety guidelines to teachers, parents and pupils.

Corporate governance
Corporate and social responsibility report

Disaster response
Following Hurricane Ivan in the Caribbean and the Asian Tsunami, Cable & Wireless made two US$1 million donations during 2005.

The first provided relief and reconstruction work in Cayman, Grenada and Jamaica following the devastation in September 2004. Cable & Wireless also provided immediate humanitarian supplies, telecoms equipment and expert help in the immediate aftermath of the hurricane and sent 30 tonnes of relief supplies to the affected region.

The second donation was made towards the reconstruction of the Maldives following the Tsunami in December 2004. Again this was in addition to support from Cable & Wireless' engineers in restoring the communications networks to the devastated islands.The Maldives' national telecommunications company, Dhiraagu, which is 45 per cent owned by Cable & Wireless, made a further US$1 million donation.

Employment
Workforce profile
At 31 March 2005, Cable & Wireless had 14,781 employees comprising - UK (4,499), US (41), Europe (423), Asia (221), Bulldog (505), Caribbean (4,147), Panama (1,818), Macau (932), Monaco (458), Rest of the World (1,411) and Other (326). In March 2005, across the Group, the male/female mix of the workforce was 66 per cent male to 34 per cent female.

Employment policies
Cable & Wireless' employment policies comply with local requirements and meet standards of occupational health, safety and environment ("OHSE"), business ethics, diversity, disability, performance management and employee relations.

Cable & Wireless is committed to providing a working environment in which employees can realise their potential and contribute to business success.The Group aims to ensure that no employee, job applicant, customer or supplier is discriminated against.

Employees may join employee representative bodies or trade unions. Cable & Wireless recognises unions for collective bargaining purposes in some, but not all, the countries in which it operates.

Career development
We have introduced personal development plans for employees to help them reach their career development goals.The Group offers training and development opportunities to employees at all levels.

Human rights
Cable & Wireless supports the Universal Declaration of Human Rights and the ILO Core Conventions relating to freedom of association, the abolition of forced labour and the elimination of child labour.

Occupational health, safety and environment
Cable & Wireless has a comprehensive occupational health, safety and environmental programme to minimise the risks detailed below. OHSE process is the responsibility of the Group's Corporate Responsibility Steering group chaired by the Executive Deputy Chairman, Lord Robertson.

The integrated OHSE Management System sets common Group standards, based on international standards (OHSAS 18001 and ISO 14001).These are supported by detailed local policies and procedures to ensure compliance with local legal requirements. The Group's continual risk assessment procedures identify and manage potential hazards appropriately.

Performance targets
Cable & Wireless has identified key OHSE risks. In 2004 the Group set OHSE objectives in each of these areas:

- zero occupational health, safety, fire or environment prosecutions or notices from enforcing authorities;

- zero fatal injuries to employees, customers, partners or contractors;

The Group' s employment philosophy is underpinned by the principles of fostering diversity in its workforce.This enables the business to access the broadest possible pool of talent and sustain high-performance teams and to meet its aim of offering opportunities to all the local cultures in which we operate.

Employee consultation and employee relations

Cable & Wireless has formal and informal channels for employee consultation and communication.The Group values the participation of its employees and keeps them informed about the Group' s development. Cable & Wireless undertakes regular surveys to ascertain employee satisfaction and feeds back results to employees. In the UK and Europe employees are represented through the Employee Consultation Forum ("ECF").There were no strikes or formal disputes during 2005.

- major injuries and lost time accidents to be reduced by 20 per cent before 2010 (against the 2003 baseline);
- at least 25 per cent of National Businesses to attain ISO 14001 Environmental Management Standard certification by the end of 2008;
- reduce energy consumption by 5 per cent during 2005 based on the 2003 baseline consumption;
- increase the procurement of renewable energy to 25 per cent by 2010 (from 2004);
- develop and report progress on plans to remove all HCFCs Group-wide by the end of 2010;
- remove all CFCs and Halons Group-wide by the end of 2010;

Back to Contents

- assess suppliers of defined goods and services to ensure their ability to manage OHSE risks; and

- complete and report OHSE internal audits of all substantial national businesses.

Performance Data

OHSE performance is measured via an annual data collection exercise. In 2005, Cable & Wireless recognised that, due to significant change in the business, a new approach to data collection was required. Accordingly, we limited data collection to four main areas of the business; UK, Caribbean, Panama and Macau.Thirteen of our businesses submitted data, equivalent to 79 per cent of the total business by turnover and 75 per cent of the total business by number of employees.

This change in the data collection process brings improved efficiency but means figures are not directly comparable with previous years' results.

Further information can be found in the Cable & Wireless Occupational Health and Safety Report (OHSE) 2005, which will be available on the Company's website in July 2005.

Performance against targets during 2005 is summarised as follows:

	Target	2005 Actual[1a]	2004 Actual[1b]	On target
Occupational Health and Safety				
Prosecutions	0	0	0	Yes
Enforcement notices	0	1[2]	0	No
Fatal injury accidents (Cable & Wireless employees)	0	0[3a]	0[3b]	Yes
Lost time incident rate (per 10,000 employees)[4]	Reduce by 20% by			
	end 2010 over 2003 baseline	67.6[5]	88.4	Yes
Environmental management				
Per cent of businesses by turnover with ISO14001	25% of businesses with			
	certification by end 2008	12.4%	8.3%	Yes
Energy and transport				
CO_2 per unit turnover (tonnes CO_2/£1million turnover)	Reduce by 5% in 2004/ 2005			
	against 2003 baseline	74.9	59.0	No
Per cent of electricity from renewable energy	Increase use to 25% by 2010	14.3%	–	Yes
HCFCs stored (kg)	Remove all by 2010	13,535	31,500	Yes
CFCs stored (kg)	Remove all by 2010	4,122	5,900	Yes
Halons stored (kg)	Remove all by 2010	27,544	52,400	Yes
Supplier and business unit assessment				
Per cent of suppliers of defined goods audited	Assess 100% of suppliers of			
	defined goods	100%	10.8%	Yes
Per cent of businesses by turnover conducting				
OHSE internal audits	Audit 100% of substantial			

businesses	94.5%	–	Yes

Notes:

[1a] All normalised data is normalised against, or shown as a per cent of, the turnover of businesses participating in the data collection exercise.

[1b] All normalised data is normalised against the turnover of the total Group businesses.

[2] Cable & Wireless UK was served with one improvement notice in October 2004 (see 'Significant OHSE Incidents').

[3a] There were no fatalities in Cable & Wireless businesses during the 2005 financial year. One incident was reported in which a contractor died as a result of a fall while working at one of Cable & Wireless' sites in St Lucia. A full investigation following the accident demonstrated that Cable & Wireless bore no responsibility.

[3b] There were no fatalities in Cable & Wireless businesses during the 2004 financial year. Although an incident was reported in which two contractor employees died in a mud slide on a road, the full investigation showed that the employees were not engaged in work on behalf of Cable & Wireless, though the contractor had undertaken work for us in the past.

[4] A lost time incident (LTI) is defined as any incident which results in an employee being absent for one day or more due to incapacity or ill health arising out of the incident and occurring within 24 hours of the incident.The lost time incident rate is defined as the number of LTI's in the past 12 months divided by the working population, expressed as a rate per 10,000 employees.

[5] This lost time incident rate is comparable with other telecom industry performance.

Back to Contents

Corporate governance
Corporate and social responsibility report

Significant OHSE incidents

Cable & Wireless was served an improvement notice in October 2004 relating to the use of a domestic extractor within a UK office building. Although Cable & Wireless has fully complied with the improvement notice, the Company understands that the local council has initiated proceedings against the Company in respect of this incident. An internal investigation has been conducted and all recommendations for improvement have been implemented.

In January 2005 an oil spill occurred at a Cable & Wireless technical site in the UK. Cable & Wireless co-operated fully with the Environment Agency in the clean-up operation. An internal investigation into the incident has been conducted and recommendations for improvement are being implemented.

Purchasing and supply chain

Cable & Wireless is committed to fair relations with suppliers, customers and business partners.The Group' s purchasing and supply chain function has made significant effort in 2005 to encourage suppliers to respect the Group' s business principles and maintain high standards of social, ethical and environmental conduct.

The Group' s Responsible Procurement Policy is being piloted from April 2005. Suppliers and contractors will be requested to comply with the policy through amended contract terms.

All new suppliers will be required to comply with the policy and Cable & Wireless will work with existing suppliers unable to comply with the policy to help them to meet its requirements over a reasonable period.The full policy can be found on the Company' s website.

The Cable & Wireless Supplier Related Ethics Policy sets out rules and guidelines to ensure that all dealings with suppliers are entirely ethical.This policy has been communicated to all relevant UK employees and will be rolled out across the Group during 2006.

Internet acceptable use

Cable & Wireless has an Internet Acceptable Use Policy ("AUP"). This confirms the sole responsibility of Cable & Wireless' customers for their content and messages. It defines the activities which customers are prohibited from undertaking, such as those which violate the law or threaten the integrity of any network or computer system.The AUP is available on the Company' s website.

Stakeholder dialogue

Cable & Wireless engages with many external organisations, including non-governmental organisations, fund managers and rating agencies, regarding the Group' s corporate responsibility performance.

Cable & Wireless continues to be a constituent member of the FTSE4Good Index. Cable & Wireless performance during 2005 led to an improvement in the Group' s corporate responsibility rating by two of Europe' s leading rating agencies,Vigeo and Core Ratings.

Cable & Wireless scored 84.5 per cent in the Business in the Environment 2004 Index of Corporate Environmental Engagement. The average index score was 79 per cent.

Mobile phone safety

Cable & Wireless monitors and manages issues related to concerns about possible adverse effects to human health from mobile phone use.

The Group tracks scientific and medical research, media, legal, regulatory and other developments as well as the public perception of risk arising from the use of mobile phones.

The scientific research on mobile phones and health has been reviewed by a number of independent expert scientific panels. None of these panels has concluded that the use of mobile phones is harmful.

Back to Contents

Corporate governance
Board of Directors

The following are the Company' s Directors and Company Secretary as at the date of this report.

Richard Lapthorne[N] (62)

Non-executive Chairman; Chairman, Nominations Committee

Richard Lapthorne was appointed Chairman in January 2003. He is a Non-executive Chairman of Morse PLC, Arlington Securities Ltd and the New Look Group. He is a Non-executive Director of Oasis International Leasing in Abu Dhabi. Mr Lapthorne joined the Board of Amersham International plc in 1988 as a Non-executive Director and was Chairman from 1999 until May 2003. He was Finance Director of British Aerospace plc from July 1992 and Vice Chairman from April 1998 until he retired in September 1999 having previously been Finance Director of Courtaulds plc from 1986 to 1992. Richard Lapthorne was awarded the CBE for services to the British aerospace industry in 1997.

Francesco Caio[N] (48)

Chief Executive Officer

Francesco Caio was appointed Chief Executive Officer in April 2003. Prior to his appointment, Francesco Caio founded Netscalibur Italia, the European business telecommunications and internet service provider, in 2000 having previously been Chief Executive Officer of Merloni Elettrodomestici from 1997 to 2000. In 1996 he was Chief Executive Officer of Olivetti having previously headed its telecommunications and multimedia divisions. He led the creation and launch of Omnitel Pronto, Italy' s second largest mobile phone company before its acquisition by Vodafone, and was its first Chief Executive Officer from 1994 to 1996. He has also worked with McKinsey in London. He is a Non-executive Director of Netscalibur Italia SpA and a former Non-executive Director of Equant from 1998 to 2000, of Merloni Elettrodomestici from 2000 to 2004, and of Motorola from 2000 to 2003.

The Right Honourable Lord Robertson of Port Ellen KT, GCMG (59)

Executive Deputy Chairman

Robert (Rob) Rowley (56)

Executive Deputy Chairman

Rob Rowley was appointed a Non-executive Director in September 2002 and became Chairman of the Audit Committee on 1 January 2003. Following a restructuring of the Board, he relinquished chairmanship of the Audit Committee and was appointed as Executive Deputy Chairman on 21 January 2003. He is a Non-executive Director of Prudential plc, where he is also Chairman of the Audit Committee,Taylor Nelson Sofres plc and Liberty International plc. He was on the Board of Reuters Group plc from 1990, serving as Finance Director from 1990 until 2000, then as Chief Executive of Reuterspace until he retired in 2001.

George Battersby (59)

Executive Director, Human Resources

George Battersby was appointed as Executive Director of Human Resources in July 2004. He has held senior human resources positions in a number of FTSE 100 companies over the past 20 years. Prior to joining Cable & Wireless he was Group Human Resources Director and a member of the Board of Amersham International plc. He is a Non-executive Director of SHL Group plc, a leading international HR consultancy, where he is Chairman of the Remuneration Committee and the Senior Independent Director.

Charles Herlinger (49)

Chief Financial Officer

Charles Herlinger was appointed Chief Financial Officer in December 2003. Prior to joining Cable & Wireless, he worked for Siemens AG, most recently as Corporate Vice President and Group Controller. He joined the Siemens Group in 1987 and was Director of the Overseas Mergers and Acquisitions Group between 1990 and 1993, Controller of Siemens Corporation from 1993 to 1995 and Chief Financial Officer and Executive Vice President of Siemens Energy and Automation from 1995 to 1998. From 1985 to 1987 he was Assistant Controller of L' Oréal in the United States. He qualified as a chartered accountant in the United Kingdom

Lord Robertson of Port Ellen was appointed Executive Deputy Chairman in February 2004. He was Secretary General of NATO and Chairman of the North Atlantic Council from October 1999 to December 2003, Secretary of State for Defence from 1997 to 1999 and Member of Parliament for Hamilton and Hamilton South from 1978 to 1999. He is a Non-executive Director of the Weir Group PLC and Smiths Group PLC, Strategic Advisor to the Royal Bank of Canada, Europe, a member of the Advisory Board of Englefield Capital and an advisor to BP plc.

and as a certified public accountant in the United States with KPMG, for whom he worked from 1977 to 1985.

Harris Jones (43)

Executive Director, International Business

Harris Jones was appointed as Executive Director of International Business in December 2004. He has international experience in the telecoms industry as Chief Executive Officer of T-Mobile UK after its acquisition by Deutsche Telekom and, previously, as a senior executive with Omnipoint Communications and Sprint Spectrum. He is a Non-executive Director of Caracal, Inc.

Corporate governance
Board of Directors

Bernard Gray[A N R] (44)

Non-executive Director; Chairman, Remuneration Committee

Bernard Gray was appointed a Non-executive Director in January 2003. He is Chief Executive of CMP Information, the UK publishing and events division of United Business Media and United Advertising Publications ("UBM"). Previous roles have included Special Adviser to the Secretary of State for Defence from 1997 to 1999 during the UK' s Strategic Defence Review and almost ten years with the Financial Times Group, including two years on the Lex column. He began his career in capital markets in London and New York.

Graham Howe[A N R] (44)

Non-executive Director; Senior Independent Director

Graham Howe was appointed a Non-executive Director in May 2003. Until 30 April 2003 he was Deputy Chief Executive Officer and Chief Operating Officer of Orange S.A., having joined them in 1992 as a founding Director. His previous experience includes senior positions at Hutchison Telecom, First Pacific Company and Touche Ross Management Consultants. He is also Chairman of Promethean Technologies Group Limited.

Kate Nealon[A R] (52)

Non-executive Director

Kate Nealon was appointed a Non-executive Director on 18 January 2005. She is a US-qualified lawyer and has practised international banking and regulatory law in New York. She was Group Head of Legal and Compliance for Standard Chartered plc until 2004 and is currently Non-executive Director of HBOS plc, Monitor (the independent regulator of the NHS Foundation trusts) and a senior associate of the Judge Institute of Management at Cambridge University.

Anthony (Tony) Rice[A N] (53)

Non-executive Director; Chairman, Audit Committee

Tony Rice was appointed a Non-executive Director and Chairman of the Audit Committee in January 2003. He was a member of the Remuneration Committee until 1 May 2005. He has been Chief Executive of Tunstall Holdings Ltd since 2002. Prior to this role his career was largely spent with British Aerospace plc where he was Group Treasurer, Group

Agnès Touraine[A] (50)

Non-executive Director

Agnès Touraine was appointed a Non-executive Director on 18 January 2005. Based in France, Agnès is Managing Partner of Act III Consultants, a Board member of Fondation de France and a Non-executive Director of Lastminute.com. She was previously Chairman and CEO of Vivendi Universal Publishing and held various senior executive positions with Lagardere Group. She began her career with McKinsey in Paris.

Clive Butler[A R] (59)

Non-executive Director

Clive Butler was appointed a Non-executive Director on 1 May 2005. He was Corporate Development Director at Unilever until May 2005 and had served on the main board since 1992. During that period he also undertook the roles of Personnel Director and Category Director for Unilever' s Home and Personal Care division. He was a Non-executive Director of the Lloyds TSB group from 1996 until 2003 following the acquisition by Lloyds Bank of the TSB group, where he had been a Non-executive Director since 1993. He joined Unilever in 1970 and has worked with the company ever since, in a variety of marketing and general management roles, including positions in the USA, Zimbabwe and The Philippines.

Dr. Janet Morgan

Retired 22 July 2004.

Kevin Loosemore

Resigned 1 December 2004.

Andrew Garard (38)

Group General Counsel and Company Secretary

Andrew Garard was appointed Company Secretary in May 2004.

[A] Denotes membership of Audit Committee

[N] Denotes membership of Nominations Committee

[R] Denotes membership of Remuneration Committee

Managing Director Commercial Aircraft and was involved in the financing and flotation of Orange SA.

Kasper Rorsted[A] (43)
Non-executive Director, Chairman, Community Investment Committee

Kasper Rorsted was appointed a Non-executive Director in May 2003. He was a member of the Remuneration and Nominations Committees until 22 February 2005. He is Executive Vice President at Henkel KGaA having previously been Senior Vice President and General Manager, EMEA for Hewlett Packard following its merger with Compaq. He held various other senior management positions with Compaq since 1995 and has previous experience with Oracle, Digital and Ericsson.

Corporate governance
Directors' report

The Directors submit their report and accounts for Cable and Wireless plc, together with the consolidated accounts of the Cable & Wireless Group of companies, for the year ended 31 March 2005. The Directors' corporate governance and remuneration reports are set out on pages 35 and 42 respectively.

Principal activities and business review
Cable & Wireless is an international telecommunications company. Its principal operations are in the United Kingdom, the Caribbean, Panama, Macau and Monaco. Cable & Wireless provides voice, data and IP services to business and residential customers and wholesale services to carriers, mobile operators and content, application and internet providers.

Details of the Group's performance during the year are contained in the Operating and financial review on pages 59 to 65.

Overseas trading branches of the Company exist in Ascension, Diego Garcia, Falkland Islands, Singapore and St. Helena.

Share capital
Details of shares issued during the year are shown in Note 23 to the accounts.

Acquisitions and disposals
Details of acquisitions and disposals in the year are set out in Business overview – Recent acquisitions and disposals on pages 23 to 24.

Results and dividends
The Group's profit for the year after taxation and minority interests amounted to £302 million.

The Board recommended a final dividend for 2005 of 2.64 pence per Ordinary Share which was approved by shareholders at the 2005 Annual General Meeting ("AGM"),

Directors
The following served as Directors of the Company during the year and subsequent to the year-end:

Richard Lapthorne
Francesco Caio
Lord Robertson of Port Ellen
Rob Rowley
George Battersby (appointed 27 July 2004)
Charles Herlinger
Harris Jones (appointed 1 December 2004)
Bernard Gray
Graham Howe
Kate Nealon (appointed 18 January 2005)
Tony Rice
Kasper Rorsted
Agnès Touraine (appointed 18 January 2005)
Clive Butler (appointed 1 May 2005)
Kevin Loosemore (resigned 1 December 2004)
Dr Janet Morgan (retired 22 July 2004)

Biographical details for the current Directors are set out on pages 31 to 32.

In accordance with the Company's Articles, any Director appointed since the last AGM is required to retire and seek election by the shareholders at the next following AGM. Accordingly, George Battersby, Clive Butler, Harris Jones, Kate Nealon and Agnès Touraine, having been appointed Directors since the 2004 AGM retired at the 2005 AGM and, being eligible, were elected. The unexpired portion of the service contracts for George Battersby and Harris Jones is disclosed on page 46.

The Articles also require all Directors to retire every third year from when last elected by shareholders. In view of the fact that the Board of Directors has been reconstituted since January 2003, and to help stagger the re-election of Directors going forward, Francesco Caio, Bernard Gray and Tony Rice were re-elected as Directors of the Company at the 2005 and was paid on 11 August 2005 to shareholders on the register at 8 July 2005. The total dividend for the year is 3.8 pence per Ordinary Share.

The Company offered a Scrip Dividend alternative for the final dividend payable on 11 August 2005. Full details are contained in the Scrip Dividend brochure which can be obtained from the Company's Registrar, from the Company Secretary or from the Company's website.

AGM. All three are now subject to re-election at the 2008 AGM. The unexpired portion of the service contract for Francesco Caio is disclosed on page 46.

Disclosable interests

The Directors have no interest in the Ordinary Shares of the Company's subsidiaries. The beneficial interests of the Directors and their immediate families in the Ordinary Shares of the Company are shown in the Directors' remuneration report on page 48.

Employment policies

Details of employment policies are set out in Corporate and social responsibility report – Employment.

Back to Contents

Charitable and political donations

Details of charitable donations made during the year are given on page 27 in the Corporate and social responsibility report – Community investment.

The Group does not make any political donations and has no intention of making donations to what are generally regarded as political parties. As a precautionary measure and in light of the wide definitions of political organisations in The Political Parties, Elections and Referendums Act 2000 (the Act), a resolution to permit the Company to make political donations and incur political expenditure was passed at the 2004 AGM. The purpose of the resolution was to ensure that the Company did not unintentionally breach the Act.That resolution is valid for a period of four years from 22 July 2004 or until the date of the 2008 AGM, if earlier.

Payments to suppliers

In the United Kingdom, the Group agrees payment terms with its suppliers when it enters into binding purchase contracts.The Group seeks to abide by the payment terms agreed whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.The Group seeks to treat all its suppliers fairly according to a standard which deals specifically with the payment of suppliers.The Group's e-procurement procedure which is being adopted worldwide, standardises the procedures for procuring goods and services and the internal authorisations required to approve spending and supplier selection.

The Company had 53 days' purchases (2004 – 65 days' purchases) outstanding at 31 March 2005 based on the average daily amount invoiced by suppliers during the year ended 31 March 2005.

Acquisition of own shares

Following completion of the Group's exit from the US, its decision to exit Japan and the realisation of cash through the sale of other investments, the Board decided to return £250 million to shareholders through a rolling share buyback programme. Following receipt of shareholder approval at the

2005	Number of Cable & Wireless Ordinary Shares	Percentage of Issued Ordinary Share capital
Shareholder		
The Trustees of the BT Pension Scheme	107,151,284	4.46
Legal & General Group plc	75,783,472	3.15

2004	Number of Cable & Wireless Ordinary Shares	Percentage of Issued Ordinary Share capital
Shareholder		
Legal & General Group plc	106,545,863	4.47
The Trustees of the BT Pension Scheme	79,356,278	3.33

2003	Number of Cable & Wireless Ordinary Shares	Percentage of Issued Ordinary Share capital
Shareholder		
Franklin Resources, Inc.	108,105,460	4.54
FMR Corporation & Fidelity International Ltd.	93,127,830	3.91
Legal & General Investment Management	80,687,822	3.39

The Company's major shareholders do not have different voting rights from other holders of the Company's Ordinary Shares.

Related Party Transactions

Transactions with joint ventures and associated companies

All transactions with joint ventures and associated companies arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services, network and access charges.The aggregate transactions recorded by Cable & Wireless with joint ventures and associated companies, which are considered to be material, 2004 AGM, the Company commenced the share buyback programme on 16 November 2004. Between 16 November 2004 and 31 March 2005, the Company acquired 60,500,000 Ordinary Shares in the Company for an aggregate cost of £75 million.This number of Ordinary Shares represents 2.53 per cent of the Company' s total issued share capital as at 31 March 2005. As at 31 March 2005 and 26 August 2005, all Ordinary Shares purchased are held in treasury.

Substantial shareholdings

Except for the holdings of Ordinary Shares listed below, the Directors are not aware of any person or organisation holding 3 per cent or more of the Ordinary Share capital of the Company as at 26 August 2005, the latest practicable date prior to the issue of this report. Comparative figures for 2004 and 2003 are also given.

are disclosed below and in Notes 17, 19, 21 and 32 to the Financial statements.

Loans to joint ventures and associated companies, amounts owed by joint ventures and associated companies and owed to joint ventures and associated companies are set out in Note 32 to the Financial statements.

Transactions with Directors

Except as disclosed in the Directors' remuneration report, as of 26 August 2005, neither the Company nor any of its subsidiaries was a party to any material transactions, or proposed transactions, in which any Director, any other Executive Officer, any spouse or child under 18 years of age of a Director or Executive Officer had or was to have a direct or indirect material interest.

During the years ended 31 March 2003, 31 March 2004 and 31 March 2005, and as of 26 August 2005, no Director nor any other Executive Officer, nor any associate of any Director or any other Executive Officer was indebted to the Company or any of its subsidiaries.

Corporate governance

Corporate governance

The Company is listed on the London Stock Exchange and also has a secondary listing on the New York Stock Exchange. As such, it is required to comply with the listing rules of the United Kingdom Listing Authority ("UKLA") and with many of the provisions of the Sarbanes-Oxley Act ("Sarbanes-Oxley") as well as the New York Stock Exchange's corporate governance rules.

The Financial Services Authority requires UK listed companies to disclose whether they have complied with the provisions set out in section 1 of the UKLA's Combined Code on Corporate Governance ("Combined Code") and, where the provisions have not been complied with, to provide an explanation. Companies are also required to explain how they have applied the principles set out in the Combined Code.

The Board confirms that the Company was fully compliant with all the provisions of section 1 of the Combined Code throughout the period except as explained below.The Statement of Directors' responsibilities in respect of the preparation of the financial statements is set out on page 55.

The Board

The Board firmly believes in good corporate governance and particularly that strong governance controls improve the performance of the business and enhance shareholder value.The Board's role includes:

- deciding and reviewing on the strategy of the Group;
- increasing shareholder value by assessing business opportunities and measuring and controlling associated risks;
- ensuring compliance with legal, regulatory and corporate governance requirements;
- promoting and maintaining good corporate citizenship and high standards of ethical behaviour by the Group's employees;
- providing the Chief Executive Officer with appropriate support to drive and improve the performance of the Group;

Port Ellen are both Executive Deputy Chairmen. Charles Herlinger is Chief Financial Officer, George Battersby is Group Human Resources Director and Harris Jones is Executive Director of International Business. During the year to 31 March 2005, there were seven independent Non-executive Directors, namely: Bernard Gray, Graham Howe, Dr Janet Morgan (retired 22 July 2004), Kate Nealon (appointed 18 January 2005),Tony Rice, Kasper Rorsted and Agnès Touraine (appointed 18 January 2005). Clive Butler was appointed as an additional Non-executive Director on 1 May 2005. The Senior Independent Director is Graham Howe who is available to shareholders should they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. Full biographical details of each of the Directors are set out on pages 31 to 32.

The Combined Code states that at least half the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent.The Company did not comply with this provision for the period from 22 July 2004 to 17 January 2005.

During the period from 1 April 2004 to 22 July 2004 the Board comprised five Executive Directors namely, Francesco Caio, Charles Herlinger, Kevin Loosemore, Lord Robertson of Port Ellen and Rob Rowley and five Non-executive Directors, namely Bernard Gray, Graham Howe, Dr Janet Morgan,Tony Rice and Kasper Rorsted.

Dr Janet Morgan retired from the Board on 22 July 2004 at the conclusion of the Company's 2004 AGM, on 27 July 2004 George Battersby was appointed as an additional Executive Director and on 1 December 2004, Harris Jones replaced Kevin Loosemore on the Board.

During the period from 22 July 2004 to 17 January 2005 the Nominations Committee undertook a formal and rigorous process to identify additional Non-executive candidates who possessed the skills, knowledge and experience required by the Company. Following the conclusion of that process Kate Nealon and Agnès Touraine were appointed as Non-executive Directors of the Company on 18 January 2005.

- setting and monitoring challenging performance objectives and benchmarks for the Chief Executive Officer and the executive team;

- setting an appropriate control environment within which executive management can operate;

- constituting subcommittees of the Board covering remuneration, nominations and audit matters; and

- the appointment and removal of the Company Secretary.

The Board is chaired by Richard Lapthorne and Francesco Caio is the Chief Executive Officer. Rob Rowley and Lord Robertson of

The Chairman' s role is to lead and manage the business of the Board of Directors in setting the strategy and delivering performance of the Group to its shareholders and other key stakeholders.The Chief Executive Officer is responsible for the performance of the Group to its shareholders and other key stakeholders.The division of responsibilities between the Chairman and Chief Executive Officer has been approved by the Board of Directors and is set out in writing. A copy of this is available from the Company Secretary or the Company' s website.The Board has nine scheduled meetings a year concentrating on strategy, financial and business performance. Additional Board meetings may be called as required to deal with specific matters. During the year under review there were no additional Board meetings.

The agendas for Board meetings are set by the Chairman in consultation with the Chief Executive Officer, Chief Financial Officer

Corporate governance
Directors' report

and Company Secretary. Formal minutes recording decisions of all Board and Committee meetings are prepared and circulated to each Director as appropriate. If a Director objects to a particular proposal this will be recorded in the minutes of Board or Committee meetings.There were no such objections during the year under review.

The Board considers that all of the Non-executive Directors who served during the year ended 31 March 2005, namely Bernard Gray, Graham Howe, Dr Janet Morgan (retired 22 July 2004), Kate Nealon (appointed 18 January 2005),Tony Rice, Kasper Rorsted and Agnès Touraine (appointed 18 January 2005) are independent. The Non-executive Directors come from diverse business backgrounds and have unique expertise covering finance, telecoms, IT and government relations. Each of the Non-executive Directors is of independent mind and character and actively contributes to the effective performance of the Board and its Committees.This combination of skills and expertise materially enhances the judgement and overall performance of the Board.

To enable Directors to perform their duties properly and to ensure the effective functioning of the Board and its Committees, they are given full and timely access to all relevant information. In addition, each of the Directors has access to the advice and services of the Company Secretary.

The Board has also adopted a procedure whereby Directors, including Non-executive Directors, may, in the furtherance of their duties, take independent professional advice on any matter at the Company's expense.

On the appointment of a new Director, the Chairman is responsible for ensuring that an appropriate induction, involving meetings with other Directors, senior management and key advisers, is undertaken. In addition, the new Directors are provided with appropriate background materials covering the business, the financial performance of the Group and the legal and corporate governance environment. The Directors further receive appropriate ongoing briefings and information to enable them to perform their roles both on the

- contracts and expenditure over a certain financial limit;
- Board membership and other senior management appointments;
- Director and senior executive remuneration;
- delegation of authority; and
- corporate governance.

A copy of the formal schedule of matters reserved for the Board is available from the Company Secretary or the Company's website.

The Board has delegated the responsibility for the day-to-day management of the Group to the Chief Executive Officer.The Chief Executive Officer is supported in this by the Executive Committee, which he chairs.The Executive Committee comprises all the Executive Directors of the Company together with the Group Director Strategy and Business Development, the Group Director Corporate and Public Affairs, the Group General Counsel, the Group Director Operations, the Group Director Sales and Marketing and the Head of Wholesale.

Additionally, specific responsibilities have been delegated to the Audit, Remuneration and Nominations Committees.

Under the direction and control of the Chairman, the Board considers its performance both as a group, as individual members and its various sub-committees.This involves regular discussions between the individual Board members and external support where necessary.

As part of the evaluation process, the Non-executive Directors meet independently to consider management performance and succession issues. The independent Non-executive Directors also appraise the Chairman's performance and review the relationship between the Chairman and Chief Executive Officer to ensure that the relationship is working to promote the creation of shareholder value.

Board and its principal Committees, involving internal briefings and external training where appropriate. On request, the Company is prepared to offer major shareholders the opportunity to meet new Non-executive Directors.

The Company maintains Directors' and Officers' liability insurance.

The Board has a formal schedule of matters reserved to it for decision including approval of matters such as:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- internal controls;

Statement from Independent Directors

During the year ended 31 March 2005, the Independent Directors met three times, in addition to Board meetings, to formally discuss governance issues: once with the Chairman and Chief Executive Officer present, once with the Chairman present and once on their own. After the third meeting, as during the previous year, Graham Howe, Senior Independent Director, provided feedback to the Board on the Independent Directors' collective views of the following:

- the perceived quality of the relationship between the Chairman and the Chief Executive Officer;
- the degree of openness between the Chief Executive Officer and the Board;

Back to Contents

- the visibility of checks and balances within the Executive Directors' team; and
- whether all questions asked by the Non-executive Directors in the Board have been adequately addressed.

The Independent Directors believe that the Company has an effective Board.

During the year under review, there has been greater emphasis placed on tackling real business issues rather than fire fighting on legacy which has led to a greater clarity of direction. Significant progress has also been made to create a more balanced management team both at the Board and the level below. Challenges remain, particularly around the pace that will be required to execute the priorities identified for the Group.

The Independent Directors believe that the quality of the relationship between the Chairman and the Chief Executive Officer remains a good one, characterised by mutual trust and frankness. The Chairman and Chief Executive Officer have complementary skill sets creating a balanced partnership.Their relationship continues to evolve as more of the initiative for strategic direction has now transferred to the Chief Executive Officer.

The Independent Directors continue to be comfortable with the degree of openness between the Chief Executive Officer and the Board.The quality of papers circulated to the Board prior to meetings and the presentations made at Board meetings have improved allowing more time to be allocated to discussion and debate.

During the year, the Executive team has been strengthened with Charles Herlinger, Chief Financial Officer, being in place for the full year (thereby improving internal procedures and financial disciplines), by the appointment of George Battersby as Group Human Resources Director and by the appointment of Harris Jones to provide leadership to the Group's international businesses. A Group Executive has been reconstituted to provide a formal framework for the Executive Directors to provide checks and balances on each other but at the Board this role is still largely undertaken by the Chairman and Chief Executive Officer.

The Independent Directors believe that all questions asked by them in the Board have been answered in an honest and constructive manner.Where some uncertainty has existed around questions not capable of being fully answered, the Independent Directors believe the answers given were appropriate to the circumstances.

Throughout the year ended 31 March 2005, a continued period of change for the Company, the significant efforts of the Board of Directors, its principal committees and the senior management team have satisfied the Independent Directors that the appropriate corporate governance controls have been effective.

An annual audit of investor opinion was commissioned on behalf of the Board.The audit took the form of structured interviews with individual, mainly institutional, investors through an independent external adviser.The report gathered opinion on strategy, operational performance, corporate governance and management capability from investors in the UK, Europe and North America. The non-attributable opinions, which were subsequently reported to the Board, gave the Board direct access to investor feedback.

Attendance

The Board requires all members to use their best endeavours to attend Board and Committee meetings and to devote sufficient time to the work of the Board to discharge their duties. A schedule setting out the attendance of Directors at Board and Committee meetings during the year (including those Directors who resigned during the year) is given below.

	Board meetings		Remuneration Committee meetings		Nominations Committee meetings		Audit Committee meetings	
	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
Richard Lapthorne	9	9	–	–	4	4	1	1

Francesco Caio	9	9	–	–	4	4	–	–
Lord Robertson of Port Ellen	9	9	–	–	–	–	–	–
Rob Rowley	8	9	–	–	–	–	–	–
George Battersby	6	6	–	–	–	–	–	–
Charles Herlinger	9	9	–	–	–	–	–	–
Harris Jones	4	4	–	–	–	–	–	–
Bernard Gray	9	9	5	5	4	4	5	5
Graham Howe	9	9	5	5	4	4	5	5
Kate Nealon	2	2	1	1	–	–	1	1
Tony Rice	9	9	5	5	4	4	5	5
Kasper Rorsted	9	9	4	4	4	4	4	5
Agnès Touraine	2	2	–	–	–	–	1	1
Kevin Loosemore	5	5	–	–	–	–	–	–
Janet Morgan	3	3	2	2	1	1	2	2

Corporate governance
Directors' report

Board Committees

Remuneration Committee

The Remuneration Committee determines and recommends to the Board the framework or broad policy for the remuneration and long-term incentive arrangements of the Company's Chairman, Executive Directors and senior executives.The Remuneration Committee's full terms of reference are available either from the Company Secretary or the Company's website.

During the year ended 31 March 2005, the membership of the Remuneration Committee comprised Bernard Gray (Chairman), Graham Howe, Kate Nealon (appointed 22 February 2005), Dr Janet Morgan (resigned 22 July 2004),Tony Rice and Kasper Rorsted (resigned 22 February 2005). Subsequent to the year-end, Clive Butler was appointed and Tony Rice resigned from the Remuneration Committee on 1 May 2005.

The Chairman, Chief Executive Officer, Chief Financial Officer and Group Human Resources Director may be invited to attend and speak at meetings of the Remuneration Committee, but do not participate in any matter which impacts upon their own remuneration arrangements. Representatives from the Company's remuneration consultants, New Bridge Street Consultants, attend meetings by invitation. Meetings are scheduled in February, March, May and June each year but may be held at other times.There were five meetings in the year ended 31 March 2005.

The Remuneration Committee is authorised to engage the services of external advisors as it deems necessary at the Company's expense in order to carry out its function.

The Directors' remuneration report on pages 42 to 54 includes details on remuneration policy, practices and the remuneration of the Directors.

Nominations Committee

The Nominations Committee reviews the composition of, and succession to, the Board and recommends to the Board appointments of Executive and Non-executive Directors

Until 22 February 2005, the Nominations Committee comprised Richard Lapthorne, who chairs the Nominations Committee, Francesco Caio (Chief Executive Officer) and any three of the following independent Non-executive Directors: Bernard Gray, Graham Howe, Kasper Rorsted and Tony Rice. From 22 February 2005 the composition of the Nominations Committee was amended to Richard Lapthorne (Chairman of the Committee), Francesco Caio (Chief Executive Office), Bernard Gray, Graham Howe and Tony Rice.

The Nominations Committee met four times during the year under review.

Audit Committee

The Audit Committee comprises all the independent Non-executive Directors of the Company, namely:Tony Rice (Chairman), Clive Butler (appointed 1 May 2005), Bernard Gray, Graham Howe, Dr Janet Morgan (retired 22 July 2004), Kate Nealon (appointed 18 January 2005), Kasper Rorsted and Agnès Touraine (appointed 18 January 2005).The Company's Chairman, Richard Lapthorne, was a member of the Audit Committee until 5 May 2004 and the Company was not therefore compliant with the Combined Code principle on the membership of Audit Committees during the period 1 April to 5 May 2004. Since 5 May 2004 the Chairman and Executive Directors attend Audit Committee meetings by invitation but are not members.The Group Director of Internal Audit, Group General Counsel and representatives of the external auditors also attend by invitation. Other employees of the Company may be invited to attend as and when required.

The Combined Code requires the Board to be satisfied that at least one member of the Audit Committee has recent and relevant financial experience.The Board considers that there is a strong breadth of financial expertise across the Audit Committee and that, collectively, the members have the requisite skills and attributes to enable the Audit Committee to properly discharge its responsibilities, so it has concluded that it will not name any single member as having such experience.

following a formal and rigorous review process.This involves an ongoing assessment of the overall balance and performance of the Board and its individual members ensuring a strong executive and independent non-executive team, taking account of existing and proposed corporate governance requirements and emerging best practice.

The Nominations Committee in particular considers the experience and skills of individuals who may be suitable as Directors.

Members of the Nominations Committee abstain when matters affecting their own appointments are discussed.

The Nominations Committee' s full terms of reference are available either from the Company Secretary or the Company' s website.

The Nominations Committee is authorised to engage the services of external advisors as it deems necessary at the Company' s expense in order to carry out its function.

The Audit Committee is authorised to engage the services of external advisers, as it deems necessary, at the Company' s expense in order to carry out its function.

The Audit Committee' s objectives are:

- to assist the Company in meeting its responsibilities in ensuring an effective system of internal control and compliance and accurate external financial reporting; and
- to assist management in conducting and reporting the effective risk management of the Company and Group' s activities.

The full written terms of reference of the Audit Committee are available from the Company Secretary or from the Company' s website. In summary the Audit Committee:

- reviews the financial integrity of the financial statements of the Company;

Back to Contents

- reviews the Company' s compliance with legal and regulatory requirements arising from its listings in London and New York;
- reviews material complaints regarding accounting, internal controls and auditing raised by the Company' s employees;
- monitors the Company' s whistle-blowing procedures;
- reviews the internal audit programme and considers the effectiveness of the internal audit function;
- makes recommendations to the Board on the appointment of the Company' s auditors;
- determines the level of audit fees and the scope of the audit in accordance with the authority given by the Company' s shareholders at every AGM;
- assesses the independence of the auditors; and
- reviews and agrees the process of the approval of audit and non-audit services provided by the auditors.

Meetings
The Audit Committee met five times during the year under review. Attendance at these meetings is shown in the table on page 37.

Prior to each meeting, the Chairman of the Audit Committee meets with the Group Director of Internal Audit, Director of Group Accounting Services and with the external auditors without the presence of Executive management.The Chairman of the Audit Committee also has private meetings with the Chief Financial Officer before each Audit Committee meeting. In addition, the entire Committee will meet (i) the external auditors without the presence of management, and (ii) management without the presence of external auditors, at least annually.

The Audit Committee receives the following standing reports at each scheduled meeting:

- Report of the Chief Financial Officer;
- Report of the external auditors;
- half year results and Press Release and quarterly trading statements;
- presentation of the Group' s opening IFRS balance sheet in March 2005;
- Group Risk Review updates;
- the effectiveness of the employee "whistle-blowing" programme and resolution of matters raised through the whistle-blowing line and other channels;
- corporate governance developments in UK and US arising from the revised Combined Code and the Sarbanes-Oxley Act 2002 including regular updates on the work being undertaken in connection with section 404 of the Sarbanes-Oxley Act;
- developments in accounting standards including the preparation for adoption of International Financial Reporting Standards;
- register of interests for Board and Senior Management; and
- the effectiveness of the Internal Audit function and the external auditors.

The Committee also received presentations on business continuity, fraud control, security and health and safety issues.

Financial reporting
The Audit Committee reviews and, where necessary, challenges the actions and judgements of management in relation to the interim and full year financial statements before submission to the Board. Particular attention is paid to critical accounting policies and practices and any changes; clarity of disclosure; compliance with accounting standards, stock exchange and other legal and regulatory requirements. In this, the Audit Committee is assisted by the Disclosure Committee, which is primarily responsible for identifying and considering disclosure control issues in connection with the preparation of all releases containing material financial information.

- Report of the Group Director of Internal Audit; and

- Litigation Report,

In addition, during the year under review, the Audit Committee considered and discussed the business set out below and made recommendations to the Board where appropriate:

- the full year results and Press Release together with the Annual Report and Accounts;

Internal audit

The Group monitors its internal controls through a programme of internal audits.The Internal Audit function is headed by the Group Director of Internal Audit who is supported by a team of auditors based in the UK and Jamaica.The Group' s Internal Audit function has a formal charter approved by the Board that describes its purpose, authority and responsibility. Its annual audit plan is approved by the Audit Committee and reporting to the Audit Committee is achieved through the submission and discussion of regular formal reports as well as private meetings between the Chairman of the Audit Committee and the Group Director of Internal Audit.

External audit

KPMG Audit Plc has acted as auditors for the Company since 1991. The Audit Committee has established a policy which is intended to

Corporate governance
Directors' report

maintain the independence of the Company's auditors when acting as auditor of the Group accounts.The policy governs the provision of audit and non-audit services provided by the auditor and its associates to the Company and its subsidiaries.The policy clearly identifies those services which are permitted, and those which are prohibited from being provided by the auditor. In addition, the policy clearly sets out the procedure to be followed for the approval of all audit and non-audit services; all engagements with an expected value in excess of £250,000 require the prior approval of the Chairman of the Audit Committee. For the year ended 31 March 2005, fees for audit and audit related services of £4.6 million, of which £0.3 million related to the prior year, were approved by the Audit Committee. During the year, fees for non-audit work of £1.5 million were approved.The non-audit work mainly comprised tax compliance services.

Annual General Meeting

The Company's Annual General Meeting ("AGM") was held at the Queen Elizabeth II Conference Centre in London on 22 July 2005. Business at the Company's AGM covered the Annual Report and Accounts, Directors' Remuneration Report, final dividend, election/re-election of Directors, re-appointment of the auditors and authorisation for the Directors to set the auditors' fees. Special business covered amendments to the rules of the Incentive Plan and Deferred Short Term Incentive Plan, a share buy back authority, an increase in the cap on total fees to Directors and amendments to the Articles of Association.

Full details and an explanation of these resolutions are set out in the Chairman's Letter and Notice of AGM. At the AGM, a business review was presented to shareholders by the Chief Executive Officer. All Directors including the Chairman of the Audit and Remuneration Committees attended and were available to answer shareholders' questions. All resolutions at the AGM were approved on a poll, in accordance with best practice. Results were announced to the London Stock Exchange and published on the Company's website.

The Board considers that the Group's system of internal control is appropriately designed to manage, rather than eliminate, the risk of failure to achieve business objectives and provides reasonable but not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of a control procedure should not exceed the expected benefits. Reviews of the Group's systems of internal control are undertaken to improve them as necessary, taking into account emerging best practice. During the year and up to the date of this report procedures were in place throughout the Group to ensure compliance with the report of the Turnbull Committee.

Using a common risk management framework, each principal business and functional unit identifies risks that could impede the achievement of their objectives and records them in a Risk Register. For each significant risk, line managers document an overview of the risk, consider the effectiveness of the current mitigating controls in place and identify any improvement actions required. In addition to this, the Group's Executive Directors monitor all significant risks through a structure of Risk Review Boards in each of the major business units.The Risk Review Boards comprise the Chief Executive Officer, Chief Financial Officer and other relevant senior executives of the business unit. A schedule of the Group's risks, which covers significant operational, financial and strategic risks, is reviewed by the Audit Committee.

The past few years have been transitional ones for the Group, with the Company making a number of acquisitions and disposals and having undergone a number of restructurings. As with all acquisitions or reorganisations, the Company has dedicated resource to embed processes and controls across its businesses consistent with the standards acceptable to the Group. Over the last year this has been supported by the roll-out of a Financial Controls Toolkit to reinforce the standardisation of financial controls across the Group. Business units are now required to sign off compliance with the requirements of the Financial Controls Toolkit on an annual basis.

Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Accounts or the Annual Review and Summary Financial Statements and interim financial statements.The Company’s website contains investor relations’ material including results presentations, dividends and share capital history. Additionally, the Company communicates with its institutional shareholders via regular briefings throughout the year but particularly at the time of the interim and year-end results. The Company clearly recognises the importance of maintaining a regular dialogue with shareholders to ensure that the Company’s strategy and performance are understood.

Internal control and risk management

The Board is responsible for the Group’s system of internal control and for reviewing its effectiveness on an ongoing basis.The Board has adopted a process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the guidance of the Turnbull Committee on Internal Control.

A control self-assessment exercise is conducted annually to complement the work of Group Internal Audit, the risk management framework and the external auditors.This exercise requires management to assess the effectiveness of their fundamental operating controls over all aspects of their operations, in addition to the financial controls covered by the Financial Controls Toolkit. Group Internal Audit considers the results of this exercise in planning their work for the forthcoming year.

At the end of the financial year, the finance and general management of operating units are required to sign a letter of representation to confirm that their financial reporting is based on sound data, that they are fully aware of their responsibility to operate internal control systems and that their results are properly stated in accordance with Group and statutory requirements.Additionally, a structure has been developed to assess the Group’s corporate social responsibility including social, environmental and ethical matters and this is covered in ‘Corporate governance – Corporate and social responsibility report’ on page 27.

These procedures reflect the Group' s commitment to ensuring it has policies in place that ensure high standards of integrity and transparency throughout its operations. Further, when these procedures detect unauthorised management practices, the Group is committed to the correction of such events. The Group is also committed to analysing its internal controls to make them more robust and further limit the risk of such incidents. The Board believes such action properly reflects the Group' s commitment to financial discipline and integrity at all levels.

The responsibility for internal control procedures within joint ventures and associates rests, on the whole, with the senior management of those operations. Cable & Wireless monitors its investments and exerts influence through Board representation.

Under the US Sarbanes-Oxley Act of 2002, new and enhanced standards of corporate governance, and business and financial disclosure, apply to US public companies and non-US companies, including the Company, with securities registered in the United States. Where applicable the Group has developed policies and procedures to enable it to comply with the provisions of the Sarbanes-Oxley Act. The Group also has ongoing programmes in place, relating in particular to section 404, to enable it to comply with provisions of the Sarbanes-Oxley Act that will come into force in the future.

Going concern

After making enquiries the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the Financial statements on pages 97 to 152.

By order of the Board of Directors.

Andrew S Garard
Company Secretary
3 June 2005

Controls and procedures

The Company carried out an evaluation under the supervision and with the participation of the Company' s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company' s disclosure controls and procedures as of 31 March 2005.There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the Company' s evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures as of 31 March 2005 were effective.

There were no changes in the Company' s internal control over financial reporting during the year ended 31 March 2005 that have materially affected, or are reasonably likely to materially affect, the Company' s internal control over financial reporting.

Corporate governance
Directors' remuneration report

This report sets out the policy and disclosures in relation to Directors' remuneration. The Remuneration Report was approved at the Annual General Meeting ("AGM") of the Company held on 22 July 2005 in accordance with the Directors' Remuneration Report Regulations 2002. Full details of the resolution are set out in the Notice of AGM.

Composition and terms of reference of the Remuneration Committee

The Remuneration Committee makes recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and on the specific remuneration of the Chairman and Executive Directors. The Remuneration Committee also monitors remuneration paid to members of the Executive Committee. During the year the Board approved all recommendations from the Remuneration Committee without amendment. The terms of reference for the Remuneration Committee are obtainable from the Company's website or from the Company Secretary.

During the year ended 31 March 2005, the Remuneration Committee was comprised of independent Non-executive Directors, namely: Bernard Gray (Chairman), Graham Howe, Dr Janet Morgan (retired 22 July 2004), Tony Rice, Kasper Rorsted (until 22 March 2005) and Kate Nealon (from 22 March 2005).

In forming their recommendations, the Remuneration Committee received advice and information from the Chairman, the Chief Executive Officer, the Group Human Resources Director and the Group Director of Performance and Reward. The Remuneration Committee has appointed independent consultants, New Bridge Street Consultants LLP ("NBSC"), to provide advice on remuneration and share plans both for Executive Directors and the wider executive population. In addition they provide the Company with measurement of it's relative total shareholder return ("TSR") performance. NBSC's terms of engagement are available on request from the Company Secretary.

- total reward levels should reflect the markets in which the Group competes. The Group's competitive position is regularly monitored by independent analysis against comparator groups of companies selected on the basis of relevant size, business and geographic focus;
- fixed salaries and benefits should be set with reference to the mid-market level compared with similar types of company;
- the majority of total remuneration should only be receivable as a result of the Group achieving demanding performance targets;
- an appropriate mix of short and long-term incentives should be set so that Directors are incentivised to maximise performance over both the short and medium term; and
- the remuneration structure for Directors should be cascaded down to other senior executives in a consistent manner.

During the year, the Remuneration Committee reviewed the current remuneration structure. A number of changes are proposed as a result of this review. These changes have been discussed with leading shareholders and their representative bodies, who have been generally supportive. In summary, proposals (outlined more fully below) comprise:

- Fixed remuneration (i.e. salary and pension) – frozen;
- Annual bonus – potential unchanged;
- Long-term incentives – restructured. Principal changes are a reduction in the proportion of awards vesting for median performance, the granting of performance shares to selected senior executives and an enhanced potential share match to encourage executive share investment.

The overall impact of these changes is illustrated in the graph below for Francesco Caio. The graph demonstrates that for target performance, total remuneration would be enhanced by no more than a five per cent increase in base salary, however

The Chairman, Executive Directors and officers attending a meeting abstain from any discussion or decision on their own remuneration.

Statement of remuneration policy

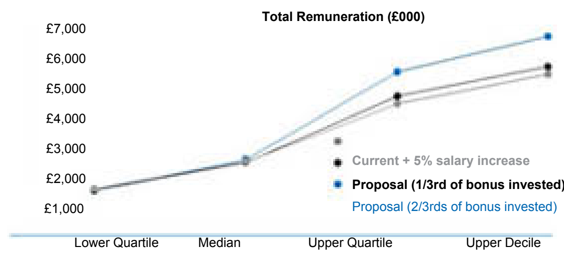
Remuneration philosophy

Cable & Wireless is an international company, trading in some 80 countries around the world. Attracting, retaining and motivating high quality people is key to the Group' s success. Remuneration arrangements are designed to enable the Group to maintain a competitive position in each country in a cost-effective way and are reviewed annually against best practice.

The Company' s remuneration philosophy for Directors is based upon creating a strong link between performance and reward, underpinned by the following guiding principles:

superior levels of performance would merit higher levels of reward.

Illustration of impact of proposal for Francesco Caio

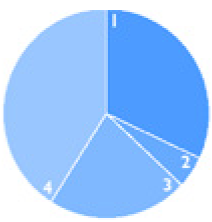


Back to Contents

Elements of remuneration
Executive Directors' remuneration consists of salary, pension and other benefits, annual bonus and long-term incentives.

The Remuneration Committee believes that the majority of Executive Directors' potential remuneration should be performance related. The appropriate mix and level of performance related awards may vary from year to year and between each Executive Director according to the judgement of the Remuneration Committee. The actual value delivered is dependent upon the achievement of stretching performance conditions. The chart below illustrates the average proportion of Executive Directors' potential remuneration for 2006 that will be performance related.

Split of potential total remuneration



1. Salary
2. Pension
3. Performance-related annual bonus
4. Performance-related long-term incentives

Figures reflect 'on-target' payment potential under the annual bonus plan and the 'expected' value of long-term incentive awards at the time of grant. It is assumed that one-third of the annual bonus is deferred into shares under the Deferred Short Term Incentive Plan.

Base salary

Base salaries are reviewed by reference to the mid-market of comparator groups of companies selected on the basis of comparable size, geographic spread and business focus. Individual salary decisions take into account personal contribution, business performance and the level of salary increases across the Group as a whole. Salaries are generally reviewed on an annual basis to take effect from 1 July or following a significant change in responsibilities.

Salaries were not increased in 2004 or on 1 July 2005 following the latest review. Accordingly, salaries for the forthcoming year will be:

Francesco Caio	£ 700,000
Harris Jones	£ 500,000
Charles Herlinger	£ 400,000
George Battersby	£ 350,000
Rob Rowley	£ 250,000
Lord Robertson of Port Ellen	*£250,000

* With effect from 1 March 2005, the Company increased the minimum working days for Lord Robertson from 80 to 100 per annum, resulting in a pro-rata salary increase from £200,000 to £250,000 per annum.

Executive Directors' pensions are based only on their base salaries.

Short Term Incentive Plan and Deferred Short Term Incentive Plan

Short Term Incentive Plan ("STIP")
Individual awards under the STIP for 2006 will be based upon individual performance targets and annual performance against the following objective financial targets: profit before tax, revenue and net cash flow. The specific measures and targets are reviewed and set annually by the Remuneration Committee to reflect the key business priorities for the year in question.

The structure of the STIP for 2006 is set out below:

Director	Personal performance[1]	Financial performance[1] Target	Financial performance[1] Maximum	Maximum bonus potential[1]
Francesco Caio/ Harris Jones	up to 37.5 %	67.5%	112.5%	150%
Other Executive Directors	up to 25 %	45%	75%	100%

1 As a percentage of salary.

Corporate governance
Directors' remuneration report

Deferred Short Term Incentive Plan
Currently the Executive Directors and selected senior executives may elect to re-invest up to half of any STIP bonus into the Deferred Short Term Incentive Plan ("Deferred STIP"). Shareholder approval was obtained at the AGM to adjust the plan so that this executive population is required to compulsorily invest a third of any STIP bonus into the Deferred STIP and is given the opportunity to invest up to a further third.

The Deferred STIP is designed to encourage participants to invest in shares to align their interests more closely with those of shareholders. Under this plan any bonus deferred is used to purchase shares in the Company, which are held in trust for three years before being released to the participant.

Participants may also be awarded up to two matching shares for every one purchased share based on the relative TSR performance of the Company measured over a three-year period (see Performance conditions for share based awards). A dividend award supplement also operates on the Deferred STIP. Dividends that would have been paid on the purchased shares and the actual award of matching shares during the performance period are reinvested in additional shares.

Currently the matching award is provided on a net of tax basis. Shareholder approval was obtained at the AGM to adjust the plan so that the match is provided on a gross basis i.e. for every £100 of gross of tax bonus invested in the Deferred STIP, participants would be able to receive matching shares worth up to £200.

Long-term incentive awards under the Incentive Plan 2001
Under the Incentive Plan 2001, the Remuneration Committee can make awards of share options, performance shares and restricted shares to Executive Directors and other senior executives. The Remuneration Committee's intended award policy for 2006, which has been determined after considering personal and Group performance and total reward within comparator companies is outlined below.

The vesting of share options granted under the SOP is subject to relative TSR performance conditions (see Performance conditions for share based awards).

Performance Share Plan ("PSP")
Under the PSP, Executive Directors and other senior executives can receive awards of performance shares at nil cost.

The plan rules limit the value of shares that can be granted to an individual in any year to 100 per cent of salary. For the 2006 financial year, the Remuneration Committee currently intends to award shares worth 50 per cent of salary to Executive Directors shortly after the AGM.

The vesting of performance shares is subject to relative TSR performance conditions (see Performance conditions for share based awards). A dividend award supplement operates on the PSP. Dividends that would have been paid on the performance shares which vest, will be regarded as having been re-invested in additional shares.

Restricted Share Plan ("RSP")
The RSP provides for awards of restricted shares, primarily as a retention or a recruitment tool to compensate for the forfeiture of long-term incentive arrangements when transferring to the Company. The Remuneration Committee, taking into account the previous arrangements of the new recruit, will set the quantum, performance measures and vesting schedule for any restricted share awards. There is currently no intention to make awards to any Executive Director in the forthcoming financial year.

Other plans
The Stock Appreciation Rights Plan ("SARP") is used to exactly replicate the plans described above but rewards are delivered as a cash equivalent. It is used in exceptional cases only for countries in which tax or legal issues preclude the use of real shares or share options. No Executive Director has ever received awards under this plan.

Share Option Plan ("SOP")

The SOP is the principal vehicle for long-term retention and incentivisation of the Executive Directors and other senior executives.

The plan rules limit the face value of shares that can be optioned to an individual in any year to 600 per cent of salary for the Chief Executive and 400 per cent of salary for other Executive Directors.

For the 2006 financial year, the Remuneration Committee currently intends to grant options over shares worth 300 per cent of salary to the Chief Executive and 250 per cent of salary to the other Executive Directors shortly after the AGM.

Performance conditions for share based awards

TSR is the main performance measure used in the SOP, the Deferred STIP and the PSP as it provides an objective external measure of financial performance.

The Remuneration Committee believes that it is important to measure and reward relative performance against an appropriate set of companies. The Company' s relative TSR performance is assessed against a comparator group comprising the FTSE Global Telecoms Sector Index ("FTSE GTSI"), which provides a global benchmark of independently selected industry peers.

TSR is share price growth adjusted for dividends and capital actions. TSR performance is averaged over a three-month period at the beginning and end of the performance period. This moderates the effect of short-term share price volatility.

Back to Contents

Awards vest depending upon the Company's TSR ranking relative to the comparator group at the end of a single three-year performance period.

Following feedback from leading investors, the vesting schedules outlined below for future SOP and PSP awards have been made significantly more challenging than was previously the case under these plans.

Future vesting schedule

	Level of vesting under		
Ranking	Deferred STIP	SOP	PSP
Below median	No match	0%	0%
Median	1:2 match	33.33%	33.33%
Upper quartile	2:1 match	100%	100%

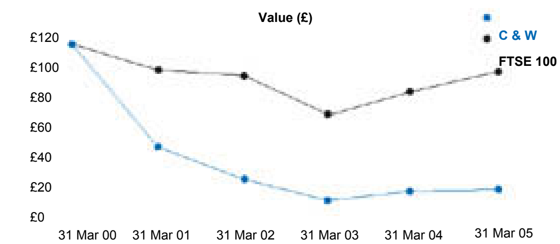
Previous vesting schedule

	Level of vesting under		
Ranking	Deferred STIP	SOP	PSP
Below median	No match	0%	0%
Median	1:2 match	50%	40%
Upper quartile	2:1 match	100%	100%

In order for any matching shares, share options or performance shares to vest, the Remuneration Committee has now decided that it must also be satisfied that the underlying financial performance of the Group warrants the release of the shares determined by the Company's TSR performance. The Committee has up to 12 months after the end of the performance period to judge the underlying performance. Specific Committee decisions will be explained in future Remuneration Reports.

Changes to the 2001 Incentive Plan to incorporate these tougher targets were approved by shareholders at the AGM.

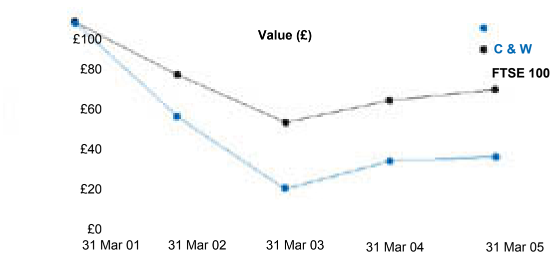
Total shareholder return **Source: *Thomson Financial***



This graph looks at the value, by 31 March 2005, of £100 invested in Cable & Wireless on 31 March 2000 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year-ends.

The following graph shows the change in value of a hypothetical £100 holding in Cable & Wireless Ordinary Shares over four years against the FTSE GTSI. The FTSE GTSI is the comparator group against which relative performance is assessed under the SOP, Deferred STIP and PSP. This index was only created in February 2001, therefore comparative TSR performance can only be provided for the last four financial years

Total shareholder return ***Source: Thomson Financial***



This graph looks at the value, by 31 March 2005, of £100 invested in Cable & Wireless on 31 March 2001 compared with the value of £100 invested in the FTSE Global Telecoms Index. The other points plotted are the values at intervening financial year-ends.

Dilution

The Remuneration Committee ensures that at all times the number of new shares which may be issued under any share option or share-based plans, including all-employee plans,

Performance graphs

The graph below shows the change in value of a hypothetical £100 holding in the Company' s Ordinary Shares over five years relative to a broad equity market index. The FTSE 100 index was considered by the Remuneration Committee to be the most relevant index for this purpose as the Company is a constituent of the index and a five-year history is available.

does not exceed the dilution limit of 10 per cent of the Company' s issued share capital over any ten-year rolling period. As at 31 March 2005, 2.7 per cent of the issued shared capital was available for issue under the Company' s share-based plans.

Awards under the various plans are funded by a mix of purchased and newly issued shares, as determined by the Remuneration Committee. Newly issued shares are subject to the dilution limit outlined above. Purchased shares, which are held by the Cable & Wireless Employee Share Ownership Plan Trust, are subject to a limit of 5 per cent of the issued Ordinary Share capital of the Company.

Pension and other benefits

Francesco Caio, Harris Jones, Charles Herlinger and George Battersby participate in the Cable & Wireless Lifetime Benefits Plan,

Corporate governance
Directors' remuneration report

a defined contribution scheme approved by the Inland Revenue. Robert Rowley and Lord Robertson of Port Ellen do not receive any Company provided pension benefits. Further details of the pension benefits earned in the year to 31 March 2005 can be found in the Directors' Remuneration table on pages 49 to 50.

The Executive Directors are eligible to participate in employee benefit programmes including life, disability and health insurance plans and, where appropriate, receive relocation expenses. The value of these benefits is included in the Directors' Remuneration table on pages 49 to 50.

Executive Directors are also eligible to participate in all-employee share schemes and savings plans applicable in their home countries. These include the Cable & Wireless Savings Related Share Options Scheme and the Cable & Wireless Share Purchase Plan – further details can be found in Note 23 to the Financial Statements.

Executive Directors' service contracts

Policy

The Remuneration Committee's policy is that new Executive Directors' service contracts should contain a maximum notice period of one year. A longer notice period may apply initially, where this is required to secure the services of high calibre executives in exceptional circumstances, but in all cases the notice period will reduce to one year or less after two years.

In the event of early termination, the Remuneration Committee will, within legal constraints, determine the approach to be taken according to the circumstances of each individual case, taking full account of the departing Executive Director's obligation to mitigate loss. Except in cases of early termination for cause, the Remuneration Committee will take into account the relevant Executive Director's current salary, notice period and contractual benefits when calculating any liability of the Company. The principal contractual benefits provided in addition to salary are pension and life insurance. Annual bonuses and long-term incentives are granted at the discretion of the Remuneration Committee and therefore would be dealt with in accordance with the rules of the

Current Directors

Directors' service contracts continue until their normal retirement date.

The service contracts of Executive Directors contain a clause that governs a change of control. In the event of a change of control of the Company, if the executive's employment is adversely changed, then a change of control provision will be triggered.

In these circumstances, the executive will receive a payment equal to their notice period and a pro-rated bonus under the STIP (to the extent that the executive would have been awarded a bonus in respect of the year during which their employment terminates). The executive's entitlements under the Deferred STIP, the PSP, the SOP and the RSP will be those applicable in the case of termination of employment by reason of redundancy or early retirement under the prevailing rules of each plan.

The Executive Directors' service contracts contain no other provisions for compensation payable on early termination.

Former Directors

Kevin Loosemore's contract was dated 2 April 2003 and continued until his departure as an employee on 31 March 2005. The notice period under contract was two years until 2 April 2005 and one year thereafter, however he agreed to a reduced period of one year. He resigned from the Board on 1 December 2004.

Chairman

The Chairman, Richard Lapthorne, has been appointed for an initial fixed term of three years from 10 January 2003 and continuing until terminated by either party. The appointment will be terminable by either party serving not less than six months' prior written notice expiring on the anniversary of the appointment, save that no notice can take effect prior to the expiry of the initial three-year term. Richard Lapthorne receives an annual fee of £386,000, which is fixed for the three-year term.

relevant schemes. A significant proportion of each Executive Director' s total remuneration is subject to performance conditions and therefore will not be payable to the extent that the relevant targets are not met.

The Chairman is committed to retaining at least 500,000 Ordinary Shares throughout his service as a Director.

If Richard Lapthorne' s appointment is terminated by reason of death

Current Directors

	Date of contract	Notice period
Francesco Caio	2 April 2003	One year
Harris Jones	29 November 2004	Two years until June 2005, reducing to one year by June 2006
Charles Herlinger	26 July 2003	Two years until December 2005, one year thereafter
George Battersby	27 July 2004	One year
Lord Robertson of Port Ellen	1 February 2004	Fixed term until February 2007, one year thereafter
Rob Rowley	1 February 2003	Fixed term until August 2005, six months thereafter

or by the Company otherwise than by due notice or if there is a change of control, he or his personal representatives shall be entitled to an immediate payment equivalent to his fee for the balance of the period ending on the earliest date on which the appointment would have been terminated if the Company had given the requisite prior written notice, unless in the case of a change of control he remains a Chairman of the Company on similar terms.

Non-executive Directors

The Non-executive Directors do not have service contracts with the Company, but instead have letters of appointment, which are available at the Company's registered office. Their fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-executive Directors abstaining from any discussion or decision on their fees. Fee levels reflect the Directors' responsibilities, the committees on which they serve and the general market conditions for their services. Full details of the fees paid in the year ended 31 March 2005 are set out in the Directors' Remuneration table and the associated notes on pages 49 to 50. The Non-executive Directors do not receive any pension.

Base fees paid to each Non-executive Director have been fixed for a three-year period from 1 March 2004 or date of appointment if later than 1 March 2004 at the following levels:

Tony Rice	£90,000[1]
Bernard Gray	£75,000[2]
Graham Howe	£65,000
Kasper Rorsted	£65,000
Kate Nealon	£65,000
Agnès Touraine	£65,000

1 Includes £25,000 for role as Chairman of the Group Audit Committee

2 Includes £10,000 for role as Chairman of the Remuneration Committee

Bernard Gray and Tony Rice have been appointed for a three-year term commencing on 21 January 2003, with the expectation that a further three-year term will follow.

on 4 June 2004, 4 June 2005 and 4 June 2006 at 103.5 pence per Ordinary Share:

Director	Number of Ordinary Shares
Bernard Gray	100,000
Graham Howe	100,000
Tony Rice	100,000
Kasper Rorsted	30,000

The Non-executive Directors are expected to hold the purchased Ordinary Shares for a minimum period of three years from the date of purchase and to hold a minimum of 30,000 shares throughout their service as a Director. None of the benefits under the arrangement is pensionable. There is no intention to offer similar share purchase arrangements to Non-executive Directors in the future.

Executive Directors' shareholding requirement

The Company operates a policy of encouraging Executive Directors (including the Chief Executive) to closely align their interests with shareholders by requiring them to build up and maintain a holding of Ordinary Shares in the Company to the value of at least twice their base salary. This is to be achieved through the retention of any net awards received from the short and long-term incentive plans described above.

External Directorships

The Company allows Executive Directors to hold Non-executive directorship and retain the fees received from that role. Full time Executive Directors including the CEO, are only entitled to hold up to one external directorship.

The following provides details of Non-executive directorships held, and the annual fees for the financial year 2004/05.

Francesco Caio	
Non-executive Director of Netscalibur Italia SpA	**No fee**
Harris Jones	
Non-executive Director of Caracal Inc	**No fee**
Lord Roberston	
Non-executive Director of Weir Group Plc including membership of the Nomination Committee	**£32,000**
Non-executive Director of Smiths Group Plc	

Graham Howe and Kasper Rorsted have been appointed for a three-year term commencing on 27 May 2003, with the expectation that a further three-year term will follow.

Kate Nealon and Agnès Touraine have been appointed for a three-year term commencing on 18 January 2005, with the expectation that a further three-year term will follow.

After two three-year terms, the period may be extended on an annual basis at the invitation of the Chairman. Termination of the appointment may be earlier at the discretion of either party on one month' s written notice.

None of the Non-executive Directors are entitled to any compensation if their appointment is terminated.

Of these Non-executive Directors the following have undertaken to purchase the following number of Ordinary Shares in the Company

including membership of the Audit and Nomination Committee	**£40,000**
Rob Rowley	
Non-executive Director of Prudential Plc including Chairmanship of the Audit Committee	**£90,000**
Non-executive directorship of Liberty International Plc, including membership of the Chairman' s Committee	**£24,390**
Non-executive directorship of Taylor Nelson Sofres plc including membership of the Audit, Remuneration and Nomination Committees and senior Independent Directorship	**£38,750**
George Battersby	
Non-executive Director of SHL Group Plc including Chairmanship of the Remuneration Committee	**£25,000**

Back to Contents

Directors' shareholdings

The beneficial interests of the Directors and their immediate families in the Ordinary Shares of the Company were as follows:

Director	As at 1 April 2004 (or date of appointment if later)	Shares acquired	As at 31 March 2005	Per cent of class
Richard Lapthorne[2]	2,600,000	–	2,600,000	*
Francesco Caio[1 3]	383,632	41,667	425,299	*
Lord Robertson of Port Ellen[1 3]	–	3,009	3,009	
Rob Rowley[1 3]	436,214	61,156	497,370	*
George Battersby[1]	–	1,318	1,318	
Charles Herlinger[1 3]	–	31,401	31,401	
Harris Jones[1]	220,750	–	220,750	
Bernard Gray	–	100,000	100,000	
Graham Howe	–	100,000	100,000	
Kate Nealon	–	–	–	
Tony Rice	–	100,000	100,000	
Kasper Rorsted	–	30,000	30,000	
Agnès Touraine	–	–	–	

[1] As potential beneficiaries from outstanding awards, which may be satisfied by shares held by the Cable & Wireless Employee Share Ownership Trust, Francesco Caio, Charles Herlinger, Harris Jones, George Battersby, Lord Robertson of Port Ellen and Rob Rowley are deemed, by the Companies Act 1985, to have an interest in all of the Ordinary Shares held by the Trust, which at 31 March 2005, amounted to 54,759,057 shares.

[2] 1,000,000 of Richard Lapthorne' s shares will be returned to the Company if, before 10 January 2006, he ceases to be Chairman of the Company or fails to retain beneficial ownership of the 1,000,000 Ordinary Shares he acquired on 10 January 2003.

[3] Included in the shares acquired during the year are shares purchased under the Deferred STIP and any dividends received on the purchased shares which are converted into additional shares.

* Less than one per cent

Between 31 March 2005 and 26 August 2005 there were the following changes to the Directors' shareholdings: Rob Rowley purchased 479 Ordinary Shares, Charles Herlinger purchased 21 Ordinary Shares and George Battersby purchased 22 Ordinary Shares all under the Share Purchase Plan.

Back to Contents

Directors' remuneration

The following sections of the Directors' Remuneration Report have been subject to audit.

Name of Director	Salary and fees £	Bonuses £	Other benefits Note 2 £	Compensation for loss of office £	Pension cash allowance Note 5 £	Total 2005 £	Total 2004 £	Employer pension contribution 2005 Note 5 £	Employer pension contribution 2004 £
Chairman									
Richard Lapthorne	386,000	–	10,520	–	–	**396,520**	394,949	–	–
Current Executive Directors									
Francesco Caio	700,000	854,000	195,907	–	175,000	**1,924,907**	2,188,278	–	116,666
Harris Jones (from 1 December 2004)	170,454	197,137	55,956	–	42,614	**466,161**	–	–	–
Charles Herlinger Note 6	400,000	320,000	408,487	–	56,000	**1,184,487**	278,112	**44,012**	14,666
George Battersby (from 27 July 2004) Note 7	238,636	283,500	11,070	–	31,023	**564,229**	–	**32,136**	–
Lord Robertson of Port Ellen	204,167	202,500	14,934	–	–	**421,601**	64,800	–	–
Rob Rowley	250,000	202,500	184	–	–	**452,684**	958,673	–	–
Current Non-executive Directors									
Bernard Gray	75,000	–	1,204	–	–	**76,204**	58,098	–	–
Graham Howe	65,000	–	–	–	–	**65,000**	43,674	–	–
Kate Nealon (from 18 January 2005)	13,412	–	–	–	–	**13,412**	–	–	–
Tony Rice	90,000	–	–	–	–	**90,000**	76,250	–	–
Kasper Rorsted	65,000	–	1,824	–	–	**66,824**	43,674	–	–
Agnès Touraine (from 18 January 2005)	13,412	–	–	–	–	**13,412**	–	–	–
Former Directors									
Kevin Loosemore (until 1 December 2004) Note 3	326,667	367,500	34,741	612,500	77,681	**1,419,089**	1,238,424	**4,000**	6,000
Dr Janet Morgan (until 22 July 2004)	20,189	–	134	–	–	**20,323**	51,365	–	–
Totals	**3,017,937**	**2,427,137**	**734,961**	**612,500**	**382,318**	**7,174,853**	**5,396,297**	**80,148**	**137,332**

Corporate governance
Directors' remuneration report

Notes

1. The aggregate emoluments of the Directors, which exclude compensation for loss of office, were £6,562,353 (2004 – £6,319,991).

2. In compliance with the Companies Act 1985, 'Other benefits' includes the reimbursement of costs associated with staff entertaining, relocation and the value of benefits in kind relating to Company provided life assurance, professional advice, travel and accommodation.

3. Kevin Loosemore resigned as a Director of the Company on 1 December 2004 but remained as an employee until 31 March 2005. The figures in the table above represent his earnings as a director. He also received salary of £163,333 and pension and other benefits of £41,124 (excluding bonus) as an employee during this financial year. Kevin Loosemore was contractually entitled to compensation for a notice period of two years but agreed to a reduced settlement. Compensation for loss of office in the table above, therefore, represents one year's salary and employer's pension contributions.

4. David Prince resigned as a Director of the Company on 30 November 2003 but remained an employee until 3 June 2004. He received a salary of £72,212, pension benefits of £16,236 and annual bonus of £201,771 as an employee during this financial year.

5. 'Employer pension contributions' list the Company contributions paid into Directors' defined contribution pension plans. Company pension contributions that would otherwise have breached the Inland Revenue's funding limit have instead been paid to the Director as an annual cash allowance. An amount of £12.5 million (2004 – £12.1 million) is included in provisions to cover the cost of former Directors' pension entitlements.

6. Charles Herlinger was reimbursed for relocation and moving related expenses during the financial year that were incurred in 2003/04.

7. The performance bonus for George Battersby has not been pro-rated for the nine months that he served as a director. The Remuneration Committee felt that this was appropriate given the significant amount of time that he spent on Company business in the months prior to joining the Board on 27 July 2004 and for which he did not receive payment.

Back to Contents

Directors' share options

Name of Director	Scheme	Grant date	Date from which first exercisable	Date of expiry of option	Exercise price (pence)	Shares under option at 1 April 2004 (or date of appointment if later)	Granted between 1 April 2004 and 31 March 2005	Exercised	Lapsed cancelled or forfeited	Shares under option at 31 March 2005 (or date of leaving if earlier)
Francesco Caio										
	SOP Approved	26/6/03	26/6/06	25/6/10	103.7	28,929	–	–	–	28,929
	SOP Unapproved	26/6/03	26/6/06	25/6/10	103.7	2,671,167	–	–	–	2,671,167
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	–	1,946,000	–	–	1,946,000
	SAYE	4/7/03	1/9/06	28/2/07	89	10,393	–	–	–	10,393
						2,710,489	**1,946,000**	–	–	**4,656,489**
Harris Jones	SOP Approved	1/12/04	1/12/07	30/11/11	113.55	26,420	–	–	–	26,420
(from 1 December 2004)	SOP Unapproved	1/12/04	1/12/07	30/11/11	113.55	1,734,918	–	–	–	1,734,918
						1,761,338	–	–	–	**1,761,338**
Charles Herlinger	SOP Approved	15/12/03	15/12/06	14/12/10	135.7	22,107	–	–	–	22,107
	SOP Unapproved	15/12/03	15/12/06	14/12/10	135.7	1,156,964	–	–	–	1,156,964
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	–	927,000	–	–	927,000
	SAYE	30/6/04	1/9/07	29/2/08	102.6	–	9,186	–	–	9,186
						1,179,071	**936,186**	–	–	**2,115,257**
George Battersby	SOP Approved	3/8/04	3/8/07	2/8/11	108	–	27,777	–	–	27,777
(from 27 July 2004)	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	–	783,223	–	–	783,223
						–	**811,000**	–	–	**811,000**

Kevin Loosemore	SOP Approved	26/6/03	26/6/06	25/6/10	103.7	28,929	–	–	–	28,929
(until 1 December 2004)						Note 4				
	SOP Unapproved	26/6/03	26/6/06	26/6/10	103.7	1,861,139	–	–	–	1,861,139
						Note 4				
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	–	1,135,000	–	(914,306)	220,694
						–	Note 4			
	SAYE	4/7/03	1/9/06	28/2/07	89	10,393	–	–	–	10,393
						Note 4				
						1,900,461	**1,135,000**	–	**(914,306)**	**2,121,155**
Lord Robertson of Port Ellen	SOP Approved	6/2/04	6/2/07	5/2/11	143.25	20,942	–	–	–	20,942
	SOP Unapproved	6/2/04	6/2/07	5/2/11	143.25	537,522	–	–	–	537,522
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	–	463,000	–	–	463,000
						558,464	**463,000**	–	–	**1,021,464**
Rob Rowley	SOP Approved	26/6/03	26/6/06	25/6/10	103.7	28,929	–	–	–	28,929
	SOP Unapproved	26/6/03	26/6/06	25/6/10	103.7	935,391	–	–	–	935,391
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	–	579,000	–	–	579,000
	SAYE	4/7/03	1/9/08	28/2/09	89	17,893	–	–	–	17,893
						982,213	**579,000**	–	–	**1,561,213**

Back to Contents

Notes

1. SOP Approved and Unapproved – Inland Revenue approved and unapproved grants respectively made under the Share Option Plan (see page 44 for details). The vesting of options awarded under the SOP is subject to relative TSR performance conditions. Full vesting occurs only if the Company's TSR performance ranks at or above the upper quartile of a comparator group comprising FTSE Global Telecoms companies. For median ranking, 50 per cent of the award vests. A sliding scale operates between median and upper quartile, and nothing vests for TSR performance below the median. For awards granted after May 2004, performance will be measured over a single three-year performance period. For earlier grants, performance is able to be re-tested until the fifth anniversary of the grant.

2. C&W SAYE – Cable & Wireless Save As You Earn share option scheme. These options are not subject to performance conditions because this is an all-employee scheme governed by specific tax legislation.

3. Nil price was paid by Directors for the award of the options listed in the table above.

4. In accordance with the rules of the SOP prevailing at the date of grant, the 2003 option grant for Kevin Loosemore is exercisable for 12 months until 31 March 2006. The outstanding 2004 option grant has been time pro-rated and will be exercisable for 24 months following the end of the normal performance period but only to the extent that the TSR performance condition is satisfied. In accordance with the rules of the SAYE scheme, these options are exercisable for 6 months until 30 September 2005.

5. The closing mid-market price of an Ordinary Share on 31 March 2005 was 129.25 pence. The highest closing mid-market price of an Ordinary Share during the year was 133.5 pence and lowest closing mid-market price was 96.50 pence.

6. No Directors had any gains on the exercise of share options in the years ended 31 March 2004 or 31 March 2005.

7. On 25 August 2005 the following Directors were granted Share Options in accordance with the Cable & Wireless Incentive Plan (see page 43 for details). The Options are exercisable from 25 August 2008 to 24 August 2012 subject to performance conditions during the performance period starting on 1 July 2005 and ending on 30 June 2008.

Francesco Caio	1,364,522
Harris Jones	812,215
Charles Herlinger	649,772
George Battersby	568,551
Rob Rowley	406,107
Lord Robertson of Port Ellen	406,107

Back to Contents

Corporate governance

Directors' Deferred Short Term Incentive Plan ("STIP") and Restricted Share Plan Awards

Name of Director	Scheme	Award date	Vesting date	Market price on date of award (pence)	Shares under award at 1 April 2004 (or date of appointment if later)	Shares awarded between 1 April 2004 and 31 March 2005	Shares vested	Shares lapsed, cancelled or forfeited	Shares under award at 31 March 2005 (or date of cessation if earlier)
Francesco Caio	Restricted	4/6/03	4/6/06	97.75	383,632	–	–	–	383,632
	Share Plan				Note 1				
	Deferred STIP	17/08/04	25/6/07	105.75	–	80,182	–	–	80,182
	(matching shares)					Note 6			
	Deferred STIP	13/8/04	25/6/07	102.25	–	2,340	–	–	2,340
	(matching dividend shares)								
	Deferred STIP	11/2/05	25/6/07	130	–	812	–	–	812
	(matching dividend shares)								
					383,632	**83,334**	**–**	**–**	**466,966**
Harris Jones	Restricted	1/12/04	1/12/07	113	220,750	–	–	–	220,750
(from 1 December 2004)	Share Plan				Note 2				
	(matching shares)								
	Restricted share plan	1/12/04	1/12/07	113	441,500	–	–	–	441,500
	(performance shares)				Note 3				
					662,250	**–**	**–**	**–**	**662,250**
Charles Herlinger	Restricted	15/12/03	1/12/06	135.7	250,000	–	–	–	250,000
	Share Plan				Note 4				
	Deferred STIP	17/08/04	25/6/07	105.75	–	57,944	–	–	57,944
	(matching shares)					Note 6			
	Deferred STIP	13/8/04	25/6/07	102.25	–	1,691	–	–	1,691
	(matching dividend shares)								

	Deferred STIP	11/2/05	25/6/07	130	–	586	–	–	586
	(matching dividend shares)								
					250,000	**60,221**	**–**	**–**	**310,221**
Kevin Loosemore	Restricted	4/6/03	4/6/06	97.75	383,632	–	383,632	–	–
(until 1 December 2004)	Share Plan								Note 7
Note 7									
	Restricted	31/7/03	31/7/06	113.5	110,132	–	110,132	–	–
	Share Plan								Note 7
	Deferred STIP	17/08/04	25/6/07	105.75	–	85,186	–	63,890	21,296
	(matching shares)					Note 6			
	Deferred STIP	13/8/04	25/6/07	102.25	–	2,486	–	–	2,486
	(matching dividend shares)								
	Deferred STIP	11/2/05	25/6/07	130	–	862	–	–	862
	(matching dividend shares)								
					493,764	**88,534**	**493,764**	**63,890**	**24,644**
Rob Rowley	Restricted	4/6/03	4/6/06	97.75	383,632	–	–	–	383,632
	Share Plan				Note 5				
	Deferred STIP	17/08/04	25/6/07	105.75	–	115,104	–	–	115,104
	(matching shares)					Note 6			
	Deferred STIP	13/8/04	25/6/07	102.25	–	3,360	–	–	3,360
	(matching dividend shares)								
	Deferred STIP	11/2/05	25/6/07	130	–	1,166	–	–	1,166
	(matching dividend shares)								
					383,632	**119,630**	**–**	**–**	**503,262**
Lord Robertson of Port Ellen	Deferred STIP	17/08/04	25/6/07	105.75	–	5,792	–	–	5,792
	(matching shares)					Note 6			
	Deferred STIP	13/8/04	25/6/07	102.25	–	169	–	–	169
	(matching dividend shares)								

	Deferred STIP (matching dividend shares)	11/2/05	25/6/07	130	–	58	–	–	58
					–	**6,019**	–	–	**6,019**

Back to Contents

Notes

1. Subject to Francesco Caio remaining an employee of the Company and retaining beneficial ownership until 4 June 2006 of the 383,632 Ordinary Shares he acquired on 4 June 2003, the Company will deliver these restricted shares to him. No performance conditions are attached to this award since it represents compensation for arrangements forfeited on leaving his previous employer.

2. Subject to Harris Jones remaining an employee of the Company and retaining beneficial ownership until 1 December 2007 of the 220,750 Ordinary Shares he acquired on 1 December 2004, the Company will deliver these restricted shares to him. No performance conditions are attached to this award, as it was part of the terms felt to be necessary to secure his employment with the Company.

3. These performance share awards will be delivered by the Company to Harris Jones on the third anniversary of grant if he is still an employee of the Company, if he has retained beneficial ownership of the 220,750 Ordinary Shares he acquired on 1 December 2004 and if the Company' s TSR performance against a comparator group of FTSE Global Telecoms companies has been at least upper quartile. If TSR performance has been median, 25 per cent of the shares will be delivered, for performance between median and upper quartile, shares will be delivered on a pro-rata basis. No shares will be delivered for below median performance.

4. Subject to Charles Herlinger remaining an employee of the Company until December 2006 the Company will deliver these restricted shares to him. No other performance conditions are attached to this award.

5. Subject to Robert Rowley remaining an employee of the Company and retaining beneficial ownership until 4 June 2006 of the 383,632 Ordinary Shares he acquired on 4 June 2003, the Company will deliver these restricted shares to him. No other performance conditions are attached to this award.

6. These Deferred STIP matching awards will be delivered by the Company to the executive on the third anniversary of grant if the executive is still an employee of the Company, if the executive has retained beneficial ownership of the required number of Ordinary Shares and if the Company' s TSR performance against a comparator group of FTSE Global Telecoms companies has been at least upper quartile. The matching shares are based on one matching share for two purchased shares for median TSR performance, rising to two matching shares for one purchased share for performance at upper quartile or above. No matching shares are awarded for below median performance. A dividend award supplement also operates on the Plan. Dividends that would have been paid on purchased shares and the actual award of matching shares during the performance period are re-invested in additional shares.

7. Following the cessation of Kevin Loosemore' s employment on 31 March 2005, the Restricted Share Award with a value of £638,190 vested in full. The outstanding Deferred STIP awards (matching and dividend shares) were time pro-rated and remains subject to a TSR condition and will vest at the end of the performance period only to the extent that the condition is satisfied.

8. On 25 August 2005 the following Directors were granted performance share awards in accordance with the Cable & Wireless Incentive Plan (see page 43 for details). These awards will vest from 30 June 2008 subject to the performance conditions during the performance period starting on 1 July 2005 and ending on 30 June 2008.

Francesco Caio	227,420
Harris Jones	162,443

Charles Herlinger	129,954
George Battersby	113,710
Rob Rowley	81,221
Lord Robertson of Port Ellen	81,221

On behalf of the Board
Bernard Gray
Chairman, Remuneration Committee
3 June 2005

Back to Contents

Statement of Directors' responsibilities in respect of the preparation of the financial statements

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company or the Group will continue in business.

The Directors are also responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements, and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Performance

Operating and financial review

Financial statements

Back to Contents

Overview

The following discussion on Operating and financial performance should be read in conjunction with the Business overview, the Financial statements and the notes thereto.

The Group's continuing operations reported a profit before taxation and exceptional items of £361 million in 2005 as compared with £319 million in 2004 and £96 million in 2003. The Board has recommended the payment of a full year dividend of 3.8 pence per share. This represents a 21 per cent increase in the total dividend for 2005 compared with 2004.

Continuing operations[1]

	2005 £m	2004 £m	2003 £m
Group turnover	**3,023**	3,130	3,377
Profit before taxation and exceptional items	**361**	319	96

[1] The full profit and loss account for the Group, which is prepared in accordance with UK GAAP, and from which the information above is extracted, is set out on pages 97 to 99 of the Financial statements. A reconciliation of 'Continuing operations – Profit/(loss) before taxation and exceptional items' to 'Total Group – Profit/(loss) on ordinary activities before taxation' for the three years presented, is set out on page 87 of the Operating and financial review.

The markets in which the Group operates continued to suffer from excess capacity and price pressure. In this context, the Group has set priorities in efficiency and cost cutting as well as investing to continue to shift its revenue mix toward broadband, IP and mobile services.

In the year ended 31 March 2005, the Group completed the exit of its US domestic business, sold its Japanese business

On 18 June 2004, the Group acquired a 55 per cent economic interest in Monaco Telecom S.A.M ("Monaco Telecom") for a total consideration of £108 million (162 million). Monaco Telecom contributed turnover of £100 million and a total operating profit of £17 million for the period from acquisition to 31 March 2005.

On 17 February 2005, the Group completed the sale of its Japanese business, Cable & Wireless IDC Inc. ("IDC") to Softbank Corp. for a consideration of £71.7 million comprising £62.3 million of cash and Softbank's assumption of £9.4 million of debt. IDC contributed turnover of £199 million and a total operating profit of £13 million, from 1 April 2004 to disposal.

On 28 January 2005, the Group sold its 3.4 per cent stake in Intelsat (the satellite communications company) for cash consideration of £56 million (US$104.8 million).

United Kingdom

Total operating profit before exceptional items increased by £50 million to £82 million in 2005. The improvement in performance reflected reductions in operating costs and a lower depreciation charge following impairment write downs in the prior year. Turnover at £1,602 million was £59 million lower than 2004 primarily due to regulatory changes in fixed to mobile termination rates.

To reduce costs and protect margins, an in-depth review of the UK network was carried out and a programme was designed to address operating costs, interconnection costs and loading. As a result it is expected that the first phase of the programme will cut costs by £50 million in 2006. The Group believes these savings will mitigate the impact of continued pricing pressure.

This network review also supported the Group's view of the benefits that can be achieved by moving to IP-based Next Generation Network architecture, and the associated IT systems and processes. In April 2005 we announced a programme to invest £190 million over three years to and entered the UK broadband market through the acquisition of Bulldog Communications Limited ("Bulldog").

In the UK, the business has been reshaped around three customer-focused segments – Enterprise, Business and Carrier Services with Bulldog focused on the SoHo/Consumer segment. UK customers are also supported by the Group's operations in Europe, Asia, and the US (CWAO), which are managed centrally from the UK.

The National Telcos have become more proactive in dealing with competition and have focused efforts on competing profitably in mobile and broadband, while continuing to pursue cost reduction. The National Telcos are seeking to reduce costs through a variety of initiatives including the ongoing consolidation of property portfolios and data centres, outsourcing the mobile supply chain in the Caribbean and leveraging the strengths of Group wide procurement.

Acquisitions and disposals

On 28 May 2004, the Group acquired Bulldog for a consideration of £18.6 million. Bulldog contributed turnover of £11 million and a total operating loss of £34 million for the period from acquisition to 31 March 2005.

transform the core UK network into a single integrated IP platform. A large proportion of the planned expenditure is expected to replace expenditure that would otherwise have been necessary to maintain legacy UK systems. As a result the incremental spend associated with this Next Generation Network over the next three years is expected to be £35 million. The Group believes the benefit of this investment will give the ability to deliver next generation customer services over a less complex, highly scalable network capable of accommodating significant growth with lower operating and maintenance costs. The Group also believes the UK Next Generation Network will support customer demand for new services providing greater functionality and customised solutions on a competitive basis.

Back to Contents

Operating and financial review
Overview

Bulldog
The acquisition of Bulldog was an important step in advancing the Group's access strategy. Local loop unbundling ("LLU") strengthens Cable & Wireless' presence in the access network market and addresses the needs of the SoHo/ Consumer customer segment. The additional traffic would also increase the use of the existing core UK network.

LLU allows Bulldog to put its own equipment inside BT's local exchanges to take control of the "last mile" copper link (the "local loop") to the customer's home or office. The Group believes access to the "last mile" improves end-to-end control of the network resulting in lower outpayments to BT and, hence, higher gross margins. The Group further believes this allows it to innovate, differentiate and control the end-to-end quality of services to business and residential customers.

In May 2005, Bulldog reached its initial target of unbundling 400 exchanges giving Bulldog coverage of 30 per cent of UK households.

It is now planned to unbundle an additional 200 exchanges by March 2006 and a further 200 exchanges in the first half of 2006/07 bringing the total number of exchanges unbundled to 800. This will increase the Group's planned investment and start-up losses in 2006.

National Telcos
The National Telco markets are at different stages of liberalisation and each has its own customer profile, but their competitive challenges are similar. We expect to continue to respond to these challenges by:

- reducing the costs of legacy services, where margins are under pressure;

- investing further in the key growth services of broadband, IP and mobile; and

- developing sales and marketing skills to stay ahead of the competition.

Presentation of results
The analysis and commentary included in this Operating and financial review is based on the Group's geographic operations and reflects the manner in which the business has been organised and managed. The results for IDC have been classified as discontinued and prior periods have been amended accordingly.

The Group's operations are all considered to fall into one class of business, namely telecommunications.

The following sections set out, for each of the three years ended 31 March 2005, turnover, operating costs and operating profit or loss of the Group and of the operations: United Kingdom; CWAO; Europe; Asia; Bulldog; Caribbean; Panama; Macau; Monaco and Rest of the World.

Many of the countries in which the National Telcos operate have relatively low take-up levels for broadband and IP. Cable & Wireless believes it is well positioned to offer services that assist customers in the transition. The Group has started to invest in IP backbones in those countries where traffic volumes justify the expenditure, including in the Caribbean where hurricane damage accelerated infrastructure replacement. Network upgrades are also under way in Monaco, Macau, the Cayman Islands and Grenada.

Hurricane Ivan adversely impacted Cayman and Grenada and, to a lesser extent, Jamaica. This resulted in exceptional operating costs of £18 million together with £3 million of asset write-offs and adversely impacted the Caribbean' s total operating profit before exceptional items by approximately £11 million.

Performance

Group financial performance[a]

	2005 £m	2004 £m	2003 £m
Turnover			
Continuing operations	**3,023**	3,130	3,377
of which: continuing operations	**2,912**	3,130	3,377
acquisitions[1]	**111**	–	–
Discontinued operations[2]	**199**	541	1,014
Group turnover	**3,222**	3,671	4,391
Outpayments and network costs	**(1,763)**	(2,005)	(2,453)
Staff costs	**(554)**	(664)	(915)
Other	**(413)**	(554)	(689)
Operating costs before depreciation, amortisation and exceptional items	**(2,730)**	(3,223)	(4,057)
Depreciation (before exceptional items)	**(194)**	(252)	(735)
Amortisation (before exceptional items)	**(7)**	3	(126)
Share of operating profits in joint ventures and associates	**40**	41	75
Total operating profit/(loss) before exceptional items	**331**	240	(452)
of which: continuing operations (including 2005 acquisitions of (loss of £17 million))	**317**	272	(15)
discontinued operations	**14**	(32)	(437)
Exceptional operating costs:			
– depreciation	**(8)**	(526)	(2,381)
– amortisation	**–**	(10)	(2,725)
– other operating costs	**(145)**	(244)	(442)
Total operating profit/(loss)	**178**	(540)	(6,000)
of which: continuing operations (including 2005 acquisitions of (loss of £17 million))	**165**	(361)	(3,936)
discontinued operations	**13**	(179)	(2,064)
Profit less (losses) on sale or termination of operations: non exceptional	**3**	–	–
exceptional	**116**	250	(147)
Profit less (losses) on disposal of fixed assets: non-exceptional	**5**	25	–
exceptional	**23**	28	62
Exceptional amounts written off investments	**–**	–	(274)

Profit/(loss) on ordinary activities before interest	**325**	(237)	(6,359)
Net interest and other similar income/(charges)	**38**	13	102
Profit/(loss) on ordinary activities before taxation	**363**	(224)	(6,257)
Tax on profit/(loss) on ordinary activities	**14**	12	(36)
Profit/(loss) on ordinary activities after taxation	**377**	(212)	(6,293)
Equity minority interests	**(75)**	(25)	(124)
Profit/(loss) for the financial year	**302**	(237)	(6,417)

[1] The Group acquired interests in Monaco Telecom and Bulldog Communications during the year. The effect of these acquisitions on the results for the year is set out on page 75.

[2] The Group sold its holdings in Cable & Wireless IDC Inc. ("IDC") in Japan effective 17 February 2005. Under FRS 3 – "Reporting Financial Performance", this business has been classified as discontinued. Comparatives for the years ended 31 March 2004 and 31 March 2003 have been amended accordingly.

[a] "Operating costs before depreciation, amortisation and exceptional items" is presented on the face of the profit and loss account. This is a non-UK GAAP financial measure which is used by management as a key performance measure. A reconciliation of the non-UK GAAP financial measure "Operating costs before depreciation, amortisation and exceptional items" to the GAAP financial measure of "Total operating costs", by major geography, is set out on page 88 of the Operating and financial review. In accordance with guidance from the US Securities and Exchange Commission, as the Company presents an income statement with subtotals that exclude depreciation and amortisation, a reformatted condensed income statement in accordance with UK GAAP is included in the Summary of differences between United Kingdom and United States GAAP in Note 35.

Back to Contents

Operating and financial review
Group financial performance

Year ended 31 March 2005 compared with year ended 31 March 2004
Cable & Wireless reported a profit for the year of £302 million compared with a loss for the year of £237 million in 2004, an improvement of £539 million. Depreciation and amortisation charges were £576 million lower in 2005 following significant impairment charges in 2004. The results in 2005 were further improved because of reduced other exceptional costs in 2005 at £145 million, compared with £244 million in 2004. Against this, the Group recorded exceptional credits of £116 million in 2005 compared with £250 million in 2004.

Continuing operations achieved a total operating profit before exceptional items of £317 million in 2005, compared with £272 million in 2004, an improvement of £45 million. The main drivers of the Group's improved performance were the stronger UK performance together with the contribution from Monaco Telecom. These improvements were partially offset by the £11 million adverse impact on total operating profit before exceptional items in the Caribbean from Hurricane Ivan.

Total operating profit before exceptional items for discontinued operations was £14 million compared with losses of £32 million in 2004. In 2004, discontinued operations included the results of the Group's operations in Japan (£(2) million), the US (£(40) million) and TeleYemen (£10 million).

Year ended 31 March 2004 compared with year ended 31 March 2003
Cable & Wireless reported a loss for the year of £237 million in 2004 compared with £6,417 million in 2003.

The Group's total operating loss was £540 million in 2004, £5,460 million lower than in 2003 of which £1,885 million was attributable to the discontinued operations, mainly the United States.

Continuing operations reported a total operating loss of £361 million compared with £3,936 million in 2003. Tangible fixed asset and goodwill impairment charges of £414 million were lower than in 2003. A significant element of the National Telcos' turnover and costs are denominated in currencies that are linked to the US dollar. As a consequence, reported results were adversely impacted by a 9 per cent strengthening of sterling against the US dollar and a 31 per cent strengthening against the Jamaica dollar. At constant currency, operating profit from continuing operations before exceptionals in 2004 more than doubled when compared with 2003.

Group turnover

	2005 £m	2004 £m	2003 £m
United Kingdom	**1,602**	1,661	1,684
CWAO	**16**	11	–
Europe	**186**	262	304
Asia	**39**	32	79
Bulldog	**11**	–	–
National Telcos			
Caribbean	**550**	633	756
Panama	**257**	265	279
Macau	**117**	128	146
Monaco	**100**	–	–
Rest of the World	**167**	161	159
Total National Telcos	***1,191***	*1,187*	*1,340*
Inter-segment turnover	**(22)**	(23)	(30)
Continuing operations	**3,023**	3,130	3,377
Discontinued operations	**199**	541	1,014
Group turnover	**3,222**	3,671	4,391

Year ended 31 March 2005 compared with year ended 31 March 2004
Group turnover at £3,222 million in 2005 was £449 million, or 12 per cent, lower than in 2004. Turnover from continuing operations at £3,023 million, including £111 million from

recognised at 31 March 2004 and principally related to the businesses in the Caribbean, £207 million, the United Kingdom, £119 million and Panama, £65 million. This compares with tangible fixed asset and goodwill impairment charges of £3,770 million for continuing operations in 2003. In 2004, competition in the Caribbean and the consequent acceleration of the GSM roll-out led to a downward revision of expected cash flows from older TDMA assets. In the United Kingdom under-utilised cabling was written-down.

Total operating profit before exceptional items for continuing operations was £272 million in 2004 compared with a total operating loss before exceptionals in 2003 of £15 million. Charges for depreciation and amortisation before exceptional items decreased by £449 million, mainly reflecting the lower fixed asset base following asset impairments in 2003. Operating profit in continuing operations, before depreciation, amortisation and exceptional items was £453 million, £128 million or 22 per cent

acquisitions made in the year, was £107 million or 3 per cent, lower in 2005 compared with 2004. At constant currency turnover from continuing operations was stable year on year.

Turnover in the United Kingdom at £1,602 million was £59 million lower in 2005 compared with 2004. This was principally due to the decline in Carrier Services turnover by 4 per cent to £733 million in 2005 following the regulated reduction in mobile termination rates from 1 September 2004. Business turnover in 2005 declined by 11 per cent, to £394 million, reflecting the high price erosion and churn levels experienced in this customer segment.

These reductions were partly offset by Enterprise turnover, which increased by 5 per cent to £475 million in 2005 as a result of continued expansion of sales to key financial services customers.

Back to Contents

The Caribbean turnover at £550 million in 2005 decreased by £83 million, or 13 per cent, compared with 2004. At constant currency, the Caribbean's turnover decreased by 3 per cent in 2005 compared with 2004, reflecting the decline in international and domestic voice turnover throughout the year as well as the adverse impact of Hurricane Ivan, offset by growth in mobile turnover in 2005.

In Panama, international voice turnover fell by 22 per cent (14 per cent at constant currency) to £18 million and domestic voice turnover fell by 16 per cent (8 per cent at constant currency) to £117 million in 2005 due to increasing competition following the liberalisation of international and domestic voice services from 2 January 2003. These declines were in part offset by continued strong growth in mobile turnover which increased by 35 per cent (48 per cent at constant currency) to £77 million in 2005 reflecting strong growth in GSM mobile subscribers and an increase in the mobile market penetration in Panama. Data and IP and other turnover remained broadly stable at £45 million in 2005.

European turnover fell from £262 million in 2004 to £186 million primarily due to the full year impact of disposals of certain domestic businesses in continental Europe in 2004.

In 2005, discontinued operations included the turnover from the Group's business in Japan. In 2004 and 2003, discontinued operations included the turnover of the Group's discontinued operations in Japan, the US and Yemen.

Year ended 31 March 2004 compared with year ended 31 March 2003

Group turnover in 2004 was £3,671 million; £720 million or 16 per cent lower than in 2003. Of total turnover, £541 million related to discontinued operations in Japan, the United States and Yemen. Turnover from continuing operations decreased by £247 million, or 7 per cent, to £3,130 million in 2004 compared with 2003.

Caribbean turnover at reported rates was £123 million, or 16 per cent, lower in 2004 compared with 2003. At constant currency rates there was an underlying decrease of 1 per cent. International turnover at constant currency was 26 per

Operating costs before depreciation, amortisation and exceptional items

	2005 £m	2004 £m	2003 £m
Outpayments and network costs[1]	**1,763**	2,005	2,453
Staff costs	**554**	664	915
Other	**413**	554	689
Total	**2,730**	3,223	4,057
of which:			
United Kingdom	**1,452**	1,560	1,568
CWAO	**21**	27	–
Europe	**198**	268	347
Asia	**33**	33	100
Bulldog	**39**	–	–
National Telcos			
Caribbean	**388**	442	467
Panama	**151**	156	143
Macau	**67**	70	86
Monaco	**73**	–	–
Rest of the World	**85**	89	79
Total National Telcos	***764***	*757*	*775*
Other and eliminations	**40**	32	6
Continuing operations	**2,547**	2,677	2,796
Discontinued operations	**183**	546	1,261
Total	**2,730**	3,223	4,057

1 Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with 31 March 2004.

Total operating costs before depreciation, amortisation and exceptional items were £2,730 million in 2005, £493 million or 15 per cent lower than 2004. Excluding discontinued operations, there was a decrease in 2005 of £130 million or 5 per cent compared with 2004.

cent lower reflecting increased competition in Jamaica following liberalisation and pre-emptive tariff reductions in other markets. There were offsetting increases in mobile, where the rollout of GSM in all major regions supported an increase in customer numbers, and domestic, due to rate rebalancing and increased volumes of interconnect as the number of competitors increased.

Turnover in Europe was £42 million or 14 per cent lower than in 2003. Increased Enterprise turnover was more than offset by a decline in Carrier Services and Business as a result of increased competition and the sale of domestic operations in some countries.

Turnover in the United Kingdom in 2004 was broadly in line with 2003 following several years of decline. Increased Carrier Services and Enterprise turnover was offset by reduced turnover from the Business segment.

Outpayments and network costs for continuing operations at £1,649 million were £96 million, or 6 per cent lower in 2005 compared with 2004. The increase of £68 million of outpayments and network costs associated with the consolidation of Monaco Telecom and Bulldog was more than offset by reductions in the United Kingdom (£92 million), Europe (£55 million) and Caribbean (£20 million). The reduction in costs was driven by reducing interconnect prices (regulatory and competition), cost savings initiatives and the full year impact of disposal of certain domestic businesses in continental Europe in 2004.

Staff costs for continuing operations increased marginally from £524 million in 2004 to £527 million in 2005, including £25 million of costs associated with Bulldog and Monaco Telecom. Adjusting for this, staff costs reduced by 4 per cent in 2005 compared with 2004.

Other costs for continuing operations fell by £37 million, or 9 per cent to £371 million, before adjusting for the impact of consolidating

Back to Contents

Operating and financial review
Group financial performance

Monaco Telecom and Bulldog (£19 million). The reduction predominantly related to one-off charges in 2004 together with the result of cost reduction initiatives across the Group.

Year ended 31 March 2004 compared with 31 March 2003
Total operating costs before depreciation, amortisation and exceptional items were £3,223 million in 2004, £834 million or 21 per cent lower than 2003. Excluding discontinued operations, there was a decrease in 2004 of £119 million or 4 per cent compared with 2003.

Outpayments and network costs for continuing operations at £1,745 million were £64 million lower in 2004 compared with 2003. Reductions in Europe (£44 million), Asia (£62 million) and the Caribbean (£37 million), were partly offset by a £48 million increase in the United Kingdom and a £23 million increase in respect of the newly created CWAO network. In Europe, network costs and outpayments fell reflecting the exit from domestic business and network rationalisation. The decrease in the Caribbean was primarily due to the impact of currency translation. UK network costs included £34 million in relation to an IBM contract that was terminated.

Staff costs for continuing operations at £524 million in 2004 were £67 million, or 11 per cent, lower than in 2003 reflecting the benefit of a 3,150 net reduction in headcount across the Group. In the UK, headcount at 31 March 2004 was 1,284 lower than at 31 March 2003 despite recruitment of an additional 603 staff to enhance the skills mix.

Other costs for continuing operations were broadly consistent year on year.

Headcount – continuing operations[1]

	2005	2004	2003
United Kingdom	4,499	4,398	5,682
CWAO	41	60	–
Europe	423	519	1,136
Asia	221	173	240
Bulldog	505	–	–
National Telcos			
Caribbean	4,147	4,254	5,073
Panama	1,818	1,881	2,218
Macau	932	881	947
Monaco	458	–	–
Rest of the World	1,411	1,414	1,449
Total National Telcos	*8,766*	*8,430*	*9,687*
Other	326	285	270
Total	14,781	13,865	17,015

[1] Headcount in the table above is stated at 31 March. Employee numbers set out in Note 6 to the Financial statements are based on the average monthly number of employees in each business, as required by the UK Companies Act.

The increase in the United Kingdom headcount from 1 April 2004 to 31 March 2005 is attributable to the insourcing of an IT contract during the year together with the transfer of the Group IT department to the United Kingdom towards the end of 2005.

The net increase in the headcount for Other during the year is due to the formation of a National Telcos head office function, the insourcing of Coventry College, a training facility for the Group, and other one-off projects.

Back to Contents

Depreciation before exceptional items

	2005 £m	2004 £m	2003 £m
United Kingdom	60	68	413
Europe	–	1	28
Asia	1	1	3
Bulldog	2	–	–
National Telcos			
Caribbean	58	76	74
Panama	31	39	45
Macau	15	18	18
Monaco	6	–	–
Rest of the World	18	20	22
Total National Telcos	*128*	*153*	*159*
Other	1	2	3
Continuing operations	192	225	606
Discontinued operations	2	27	129
Total	194	252	735

Year ended 31 March 2005 compared with year ended 31 March 2004

Depreciation before exceptional items at £194 million in 2005 was £58 million, or 23 per cent lower than in 2004. This decrease was mainly attributable to the lower fixed asset base following the impairments recorded in previous years.

Year ended 31 March 2004 compared with year ended 31 March 2003

Depreciation before exceptional items at £252 million in 2004 was £483 million lower than in 2003. This decrease was mainly attributable to the lower fixed asset base following the impairments in September 2002 and March 2003.

Goodwill and other intangibles amortisation before exceptional items

	2005 £m	2004 £m	2003 £m
United Kingdom	–	–	62
Asia	–	–	4
Bulldog	4	–	–
National Telcos			
Caribbean	–	–	1
Monaco	5	–	–
Rest of the World	(2)	(3)	(2)
Total National Telcos	*3*	*(3)*	*(1)*
Continuing operations	7	(3)	65
Discontinued operations	–	–	61
Total	7	(3)	126

Year ended 31 March 2005 compared with year ended 31 March 2004

An amortisation charge of £9 million was recorded in respect of the goodwill and other intangibles arising on the acquisition of Monaco Telecom and Bulldog in 2005. The amortisation credit of £2 million relates to the negative goodwill arising on the acquisition of Guernsey in 2003.

Year ended 31 March 2004 compared with year ended 31 March 2003

Following the write-off of substantially all of the Group' s goodwill at 31 March 2003, the Group reported a goodwill credit of £3 million. The credit mainly relates to the amortisation of negative goodwill arising on the acquisition of Guernsey in 2003.

Share of operating profits in joint ventures and associates

	2005 £m	2004 £m	2003 £m
United Kingdom	(8)	(1)	–

National Telcos			
Caribbean	**19**	30	33
Monaco	**1**	–	–
Rest of the World	**28**	12	29
Total National Telcos	***48***	*42*	*62*
Other	–	–	13
Total	**40**	41	75

Year ended 31 March 2005 compared with year ended 31 March 2004

The Group' s share of operating profits in joint ventures and associates decreased by £1 million from £41 million in 2004 to £40 million in 2005. In the UK the loss of £8 million was primarily due to the impairment of a sub-sea cable held by the Apollo joint venture.

Back to Contents

Operating and financial review
Group financial performance

TSTT, the Group' s joint venture in Trinidad and Tobago recorded a redundancy provision in the second half of 2005. The Group' s share of this charge was £11 million. This accounted for the decline in the reported results for the Caribbean.

The increase in Rest of the World is due to the strong performance of Batelco, the Group' s associate in Bahrain.

Year ended 31 March 2004 compared with year ended 31 March 2003
The Group' s share of operating profits in joint ventures and associates fell by £34 million from £75 million in 2003 to £41 million in 2004. Rest of the World declined from £29 million in 2003 to £12 million mainly due to lower contribution from associates in Bahrain and Fiji reflecting increased competition and an impairment in the carrying value of associates.

Exceptional operating costs before taxation

	2005 £m	2004 £m	2003 £m
Depreciation	**8**	526	2,381
Amortisation	**–**	10	2,725
Other	**145**	244	442
Total	**153**	780	5,548
United Kingdom	**66**	266	3,570
CWAO	**(6)**	–	–
Europe	**38**	7	298
Asia	**1**	8	16
National Telcos			
Caribbean	**21**	245	19
Panama	**–**	73	14
Macau	**–**	2	–
Rest of the World	**1**	1	1
Total National Telcos	***22***	*321*	*34*
Other	**31**	31	3

In addition to the exceptional restoration charges noted above, the Group wrote off £3 million of assets that were damaged by the hurricane and tsunami and a further impairment charge of £5 million relating to the fixed assets of the Group' s European operations.

Year ended 31 March 2004 compared with year ended 31 March 2003
Exceptional operating costs of £780 million were charged in 2004. Fixed assets were impaired by a further £526 million: TDMA assets were impaired across the Caribbean and in Panama as the roll-out of GSM was accelerated to improve service levels; in Japan over-capacity and price reductions led to a downwards reassessment of future cash flows and in the United Kingdom under-utilised cabling was written off. Other exceptional operating costs of £244 million in 2004 related to the cost of restructuring Group businesses and included £113 million of redundancy costs and £92 million of property costs.

Exceptional profit/(loss) on disposal or termination of operations

	2005 £m	2004 £m	2003 £m
Profit/(loss) on disposal or termination of operations	**116**	250	(147)

Year ended 31 March 2005 compared with year ended 31 March 2004
The Group realised an exceptional profit on disposal of its operations in Japan of £42 million in 2005. An exceptional credit of £66 million was recorded in respect of US domestic operations that were discontinued in the year ended 31 March 2004, principally comprising cash refunded to the Group as part of the Chapter 11 process. In addition, a gain of £8 million was recorded in respect of the sale or termination of Group operations being the net of previously accrued costs no longer required of £42 million partially offset by additional charges in the year of £34 million.

Continuing operations	**152**	633	3,921
Discontinued operations	**1**	147	1,627
Total	**153**	780	5,548

Year ended 31 March 2005 compared with year ended 31 March 2004

Exceptional other operating costs of £145 million were charged in 2005. These costs include £68 million in respect of redundancy costs in continuing operations (United Kingdom £29 million, Europe £29 million, Asia £1 million, Other £9 million), £54 million in respect of property costs principally relating to the United Kingdom and Europe.

Hurricane Ivan and the Asian tsunami adversely impacted the Group' s operations in the Caribbean and Maldives, respectively. Exceptional restoration costs of £19 million were incurred in rectifying damage caused to the network and other assets of these operations.

Year ended 31 March 2004 compared with year ended 31 March 2003

The Group realised an exceptional profit on disposal or termination of operations of £250 million in 2004, of which £191 million relates to the exit from the US business. In addition, £57 million of accrued costs relating to disposals in previous years, principally the disposal of the Group' s former UK cable business, have been released.

Back to Contents

Profits less (losses) on disposal of fixed assets

	2005 £m	2004 £m	2003 £m
Non-exceptional	**5**	25	–
Exceptional	**23**	28	62
Total	**28**	53	62

Year ended 31 March 2005 compared with year ended 31 March 2004

Non-exceptional profits on disposal of fixed assets largely relate to the sale of various trade investments and associates including the Group' s 3.4 per cent stake in Intelsat (the satellite communications company) and RTC, a Bulgarian associate.

The exceptional profit on disposal of fixed assets primarily relates to the disposal of a trade investment by the Japanese business prior to its disposal by the Group.

Year ended 31 March 2004 compared with year ended 31 March 2003

Non-exceptional profits on disposal of fixed assets primarily relate to the sale of various satellite interests and other investments. The exceptional profit on disposal of fixed assets includes £16 million, relating to the disposal of certain properties in the United States as part of the restructuring of the US business prior to its filing for Chapter 11, and £12 million mainly relating to the sale of properties in the United Kingdom and the Caribbean as part of the Group' s restructuring.

Exceptional amounts written off investments

	2005 £m	2004 £m	2003 £m
Exceptional amounts written off investments	–	–	(274)
Total	–	–	(274)

The profit and loss account in 2003 has been amended to reverse the £116 million impairment in respect of the Company' s Employee Share Option Plan Trust ("ESOP") following the change in UK accounting rules in respect of ESOPs. See Note 24 of the Financial statements for further explanation.

Taxation

	2005 £m	2004 £m	2003 £m
Profit/(loss) on ordinary activities before taxation	**363**	(224)	(6,257)
Tax credit/(charge) on profit/(loss) on ordinary activities	**14**	12	(36)
Effective tax rate	**(3.9)%**	5.4%	(0.6)%

Year ended 31 March 2005 compared with year ended 31 March 2004

Including the impact of exceptional items, the effective tax rate for 2005 was (3.9) per cent compared to an effective tax rate in 2004 of 5.4 per cent. The effective tax rates excluding the impact of exceptional items and an exceptional tax credit in 2005 were 19.9 per cent in 2005 and 21.9 per cent in 2004.

The principal reason for the difference in the rates is the mix of profits and losses between countries with different tax rates.

The exceptional tax credit of £85 million relates to the settlement and clarification of various longstanding overseas tax items at less than their expected cost.

Year ended 31 March 2004 compared with year ended 31 March 2003

Tax credits of £12 million were generated in 2004 on a loss before tax of £224 million. The main reason for the tax rate of 5.4 per cent being lower than the UK standard rate of tax of 30 per cent was due to tax losses for which no benefit had been recognised in the year as realisation of the benefit was

Year ended 31 March 2005 compared with year ended 31 March 2004

There were no exceptional amounts written off investments during 2005.

Year ended 31 March 2004 compared with year ended 31 March 2003

There were no exceptional amounts written off investments during 2004.

The current asset investments principally relating to PCCW Limited were written down by £274 million to market value at 31 March 2003. The PCCW shares were sold during the year ended 31 March 2004 for consideration of £229 million resulting in a loss of less than £1 million.

not considered probable. The losses were carried forward to future periods. Exceptional items on which tax relief is denied were lower than 2003 resulting in a positive tax rate in 2004 compared to a negative tax rate in 2003.

Back to Contents

Operating and financial review

Review by division

This section provides a discussion of Cable & Wireless' results by division.

United Kingdom

	2005 £m	2004 £m	2003 £m
Turnover	**1,602**	1,661	1,684
Costs			
Outpayments and network costs[1]	**(1,066)**	(1,158)	(1,110)
Staff costs	**(248)**	(254)	(292)
Other	**(138)**	(148)	(166)
	(1,452)	(1,560)	(1,568)
Depreciation before exceptional items	**(60)**	(68)	(413)
Amortisation before exceptional items	–	–	(62)
Joint ventures and associates	**(8)**	(1)	–
Total operating profit/(loss) before exceptional items	**82**	32	(359)
Exceptional operating items			
– depreciation	–	(119)	(1,302)
– amortisation	–	–	(2,194)
– other costs	**(66)**	(147)	(74)
Total operating profit/(loss)	**16**	(234)	(3,929)

1 Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004

Total operating profit before exceptional items was £82 million in 2005 compared to £32 million in 2004. This improvement was primarily due to increased focus on cost savings during 2005. In addition, total operating profit before exceptional items was positively impacted by an £8 million depreciation benefit from the impairment taken in prior years.

difficult trading conditions, recent initiatives undertaken in the UK have resulted in some noteworthy wins. For example, in April 2005 the UK executed a three-year contract with Scottish and Newcastle plc, valued at £2.1 million, to provide IP-VPN quality of service to integrate 66 of its manufacturing, distribution and sales sites to a single data network. Management anticipates the key areas of focus in Enterprise in 2006 include increased upselling to existing customers, particularly with new IP-based services.

Carrier Services turnover also declined from £763 million in 2004 to £733 million in 2005. This reduction was largely due to the regulated reduction in mobile termination rates in the UK from September 2004. Adjusting for this, Carrier Services turnover was stable in 2005 compared with 2004. To combat the loss of turnover following the reduction in mobile termination rates, the UK will seek to increase volumes in most of the key product sets and has extended contracts with existing customers such as Centrica and the Post Office in fixed line voice services. In 2006, management anticipates Carrier Services will continue to exploit its geographical reach and focus on driving improvements to cash margins.

Outpayments and network costs declined by 8 per cent in 2005 compared with 2004, due to the reduction in mobile termination rates referred to above and an increased focus on cost savings through network efficiency and vendor renegotiation programmes.

While staff and other costs declined by approximately 4 per cent in 2005 compared with 2004, staff costs increased in the second half of 2005 as a result of the transfer of costs relating to Cable & Wireless Group IT staff to the UK' s operating cost base.

The reduction in the non-exceptional depreciation charge from £68 million in 2004 to £60 million in 2005 is primarily attributable to the lower fixed asset base following the impairment of assets in 2004.

Turnover at £1,602 million decreased by £59 million, or 4 per cent, in 2005 compared with 2004. Growth in Enterprise turnover was more than offset by declines in Carrier Services and Business turnover.

Enterprise turnover increased by 5 per cent to £475 million in 2005 as a result of the continued expansion of sales to key financial services customers. Against this, Business turnover declined to £394 million, a decrease of 11 per cent, compared with 2004 reflecting the high price erosion and churn levels experienced in this customer segment. Notwithstanding the

The loss of £8 million arising on joint ventures and associates was primarily due to the impairment of a sub-sea cable held by one of the UK' s joint ventures.

The UK reported a total operating profit of £16 million in 2005 compared with operating losses of £234 million in 2004. This was primarily due to a reduction in the total amount of exceptional charges from £266 million in 2004 to £66 million in 2005 together with the benefit of cost initiatives as set out above. The exceptional charges in 2005 relate to the costs of the ongoing restructuring of the UK business. This restructuring will continue through 2006.

Back to Contents

Year ended 31 March 2004 compared with year ended 31 March 2003

The UK reported a total operating profit before exceptional items of £32 million in 2004 compared with losses of £359 million in 2003. This improvement was primarily driven by the decrease in non-exceptional depreciation and amortisation charges in 2004 compared with 2003 (attributable to the reduced asset base following exceptional impairment charges in 2003) and the reduction in staff costs in 2004 compared with 2003 following the reduction in headcount year-on-year.

Turnover at £1,661 million in 2004 was broadly in line with 2003. Turnover in the six months to 31 March 2004 was £836 million, 1 per cent higher than in the first half of 2004.

A £79 million decline in Business turnover was partly offset by improvements in Carrier Services and Enterprise segments (£39 million and £17 million respectively).

The decline in UK Business turnover reflected the continued impact of customer churn and tariff erosion. However, action taken in the year, including increased investment in the sales acquisition team and the launch of new simplified products, stopped the downward trend of the last two years with second half 2004 Business turnover broadly in line with the first half.

Carrier Services turnover were £39 million higher in 2004 than in 2003. Voice was 5 per cent higher mainly reflecting increases in mobile transit traffic and sales to 118 (directory enquiry) service providers. The benefit of these increases was partly reduced by lower telebusiness and data services.

Operating costs before depreciation, amortisation and exceptional operating items were £8 million lower at £1,560 million in 2004.

Outpayments and network costs were £48 million higher in 2004 and included £34 million relating to an IBM contract. Staff costs were £38 million lower in 2004 compared with 2003 mainly due to the headcount reduction programme. Headcount at 31 March 2004 was 4,398 compared with 5,682 at 31 March 2003. Other costs were £18 million lower than in 2003 and included an £8 million reduction in property costs

CWAO

	2005 £m	2004 £m	2003 £m
Turnover	16	11	–
Costs			
Outpayments and network costs[1]	(14)	(23)	–
Staff costs	(4)	(4)	–
Other	(3)	–	–
	(21)	(27)	–
Total operating loss before exceptional items	(5)	(16)	–
Exceptional operating items			
– other costs	6	–	–
Total operating profit/(loss)	1	(16)	–

[1] Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004

Cable & Wireless Americas Operations, Inc (CWAO) started trading on 1 September 2003.

The US reported a total operating profit before exceptional items of £1 million in 2005 compared with losses of £16 million in 2004. The improvement in performance was primarily due to the successful migration of customers from the former Cable & Wireless US network (now owned by SAVVIS Communications) to CWAO' s purpose built network together with the release of £6 million of provisions held in respect of costs associated with the exit of the Group' s domestic US business in 2004.

Turnover in 2005 was £16 million, an increase of 45 per cent at reported rates (59 per cent at constant currency) compared with 2004. This was driven by a longer trading period in 2005, reflecting the benefits of property rationalisation. Depreciation and amortisation charges before exceptional items were £407 million lower in 2004 than 2003, largely due to the lower asset base following the 2003 impairment charges.

Total operating losses at £234 million in 2004 were £3,695 million lower than in 2003, primarily due to a £3,377 million reduction in the charge for fixed asset and goodwill impairments. Exceptional operating costs of £147 million in 2004 arose primarily as a consequence of the UK restructuring and related to property exit costs and severance payments.

the successful migration of customers as noted above and the acquisition of Enterprise and Carrier customers.

Outpayments and network costs in 2005 declined by 39 per cent (33 per cent at constant currency) to £14 million compared with 2004. Taking into account the longer period in 2005 this significant reduction in cost followed the migration of the CWAO network.

Staff costs were stable at reported rates and declined by 9 per cent at constant currency due to headcount reductions during the year, offset by the longer trading period.

Operating and financial review
Review by division

Year ended 31 March 2004
In line with its strategy to withdraw from its US domestic operations, Cable & Wireless formalised the ongoing commercial dealings between its US business ("CWA") and the rest of the Cable & Wireless Group in September 2003. Under these arrangements, each party agreed to provide certain services to the other, including network capacity, for an interim period.

To facilitate the separation of CWA from the Group, Cable & Wireless incorporated a wholly owned subsidiary, Cable & Wireless Americas Operations, Inc. ("CWAO") to provide ongoing US connectivity for data and IP services to Cable & Wireless' multinational customers based in other regions (primarily those served by the UK, Europe and Asia operations). In addition, CWAO built a core network in the US comprising seven nodes in five cities and entered into access arrangements with third party carriers in order provide end-to-end services.

CWAO turnover of £11 million was derived from the provision of services to CWA from October 2003 together with the provision of services to other Cable & Wireless Group customers. Outpayments and network costs of £23 million included within operating costs represent the costs of CWAO's core network plus amounts paid to CWA in accordance with the interim service arrangements described above.

Europe

	2005 £m	2004 £m	2003 £m
Turnover	**186**	262	304
Costs			
Outpayments and network costs[1]	**(143)**	(198)	(242)
Staff costs	**(31)**	(40)	(55)
Other	**(24)**	(30)	(50)
	(198)	(268)	(347)
Depreciation before exceptional items	–	(1)	(28)
Total operating loss before exceptional items	**(12)**	(7)	(71)
Exceptional operating items			
– depreciation	**(5)**	–	(262)
– other costs	**(33)**	(7)	(36)
Total operating loss	**(50)**	(14)	(369)

1 Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004
Total operating losses before exceptional operating items for 2005 were £12 million compared to £7 million in 2004 due primarily to the decline in turnover, particularly in the Enterprise and Carrier Services customer segments.

Turnover for the year fell by £76 million to £186 million, a decline of 29 per cent compared with 2004. Enterprise turnover for the year declined by 45 per cent, or £18 million, to £22 million, reflecting the loss of a major contract and the full year impact of disposals of domestic operations in Sweden, Belgium, the Netherlands, Italy, Switzerland, France and Germany and the domestic data business in Russia. Business turnover also declined from £14 million in 2004 to

£9 million in 2005 as a result of the full year impact of the disposals.

Carrier Services turnover at £155 million decreased by £53 million, or 25 per cent, in 2005 compared with 2004 as a result of aggressive price competition together with a shift in turnover mix from high turnover to low turnover destinations. Despite this decline, Europe has continued to market to new customers, recently winning a new contract with Belgacom to provide carrier multi-protocol label switching ("MPLS") services.

Outpayments and network costs declined by £55 million, or 28 per cent, to £143 million in 2005 compared with 2004. This reduction in costs was primarily due to increased focus on cost savings through network efficiency and vendor renegotiation programmes as well as the impact of reducing the scale of operations in Europe.

Performance

Staff costs at £31 million fell by £9 million, or 23 per cent compared with 2004 due to the full year impact of staff reductions achieved in 2005. Headcount in Europe has been reduced by 18 per cent from 1 April 2004 to 31 March 2005.

The fall in other costs in 2005 compared with 2004 reflects the reduction in the scale of operations in continental Europe.

Europe' s total operating loss increased from £14 million in 2004 to £50 million in 2005. The exceptional costs of £33 million recorded in 2005 related to the restructuring of the European operations to focus on Carrier Services. An exceptional depreciation charge of £5 million was recognised as a consequence of the restructuring. A headcount reduction of 46 per cent was announced in November 2004 and is scheduled to be completed by March 2006. Further reductions planned through 2006 are expected to lower costs in Europe by an annualised £15 million by end of 2006.

Year ended 31 March 2004 compared with year ended 31 March 2003

Total operating losses before operating exceptional items were £64 million lower in 2004 at £7 million: a £27 million reduction in the non-exceptional depreciation charge reflecting the prior year asset impairments, together with a £20 million reduction in other costs, more than offset a £42 million reduction in turnover.

Turnover in continental Europe in 2004 was £42 million, or 14 per cent, lower than in 2003. A £21 million increase in Enterprise turnover, reflecting the roll out of major contracts, was more than offset by declines in Carrier Services and Business as a result of increased competition and the disposal of domestic operations in Sweden, Belgium, the Netherlands, Italy, Switzerland, France and Germany and the domestic data business in Russia.

Continental Europe' s operating costs before depreciation, amortisation and exceptional operating items were £79 million or 23 per cent lower in 2004 than 2003. At constant currency rates, there was an underlying reduction of 29 per cent. Cost savings were achieved as a result of a reduction in employee numbers, property disposals and network rationalisation as

Asia

	2005 £m	2004 £m	2003 £m
Turnover	**39**	32	79
Costs			
Outpayments and network costs[1]	**(19)**	(21)	(83)
Staff costs	**(7)**	(8)	(10)
Other	**(7)**	(4)	(7)
	(33)	(33)	(100)
Depreciation before exceptional items	**(1)**	(1)	(3)
Amortisation before exceptional items	**–**	–	(4)
Total operating profit/(loss) before exceptional items	**5**	(2)	(28)
Exceptional operating items			
– depreciation	**–**	(4)	(10)
– other costs	**(1)**	(4)	(6)
Total operating profit/(loss)	**4**	(10)	(44)

[1] Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004

Following the disposal of the Group' s Japanese subsidiary, Cable & Wireless IDC Inc., on 17 February 2005, the Group continues to conduct business in the Enterprise and Carrier Services segments in Australia, China, Hong Kong, India, Japan and Singapore, together referred to as "Asia".

Asia reported a total operating profit before exceptional items of £5 million in 2005 against losses of £2 million in 2004. The improvement in performance was predominantly driven by growth in turnover together with maintenance of the cost base through tight cost control. Asia' s total operating loss of £10 million in 2004 was after exceptional charges of £8 million in well as the exit from domestic operations as described above. Headcount in continental Europe was 519 at 31 March 2004 compared with 1,136 at 31 March 2003.

Total operating losses at £14 million in 2004 were £355 million lower than in 2003 of which £262 million reflected exceptional asset impairments in 2003 that were not repeated in 2004.

that year. In 2005 Asia reported a total operating profit of £4 million.

Turnover at £39 million, increased by 22 per cent (34 per cent at constant currency) compared to 2004. The growth in turnover was driven by a strong performance in both the Carrier Services and Enterprise customer segments. Enterprise turnover increased by £7 million to £34 million in 2005 due to improved marketing including the launch of new multi-protocol label switching ("MPLS") and Managed Network Services within the region. Carrier Services turnover increased by £2 million to £5 million in 2005. The Business segment was sold as part of Cable & Wireless IDC Inc., resulting in a loss of £2 million of turnover year on year.

Operating and financial review
Review by division

Outpayments and network costs declined by 10 per cent (1 per cent at constant currency) from 2005 compared with 2004 due to cost reduction initiatives. These initiatives also enabled a reduction in staff costs which declined by 13 per cent (4 per cent at constant currency) year on year.

Year ended 31 March 2004 compared with year ended 31 March 2003
Total operating losses before exceptional items for Asia were £2 million in 2004 compared with £28 million in 2003, a reduction of £26 million. The reduction was primarily due to the termination of the provision of local services in Hong Kong and the benefit of a reduction in headcount in 2004 compared with 2003. These factors together with the reduction in exceptional operating costs in 2004 compared with 2003 contributed to the reduction in total operating losses from £44 million in 2003 to £10 million in 2004.

Turnover fell from £79 million in 2003 to £32 million in 2004, a reduction of £47 million. The decline in turnover was primarily due to the termination of the provision of local services in Hong Kong and pricing pressures on globally managed contracts.

The migration of legacy accounts noted above also drove the fall in outpayments and network costs in 2004 compared with 2003 together with the benefit of a 28 per cent reduction in headcount from 1 April 2003 to 31 March 2004, lower property costs and a reduction in the bad debt charge.

Caribbean

	2005 £m	2004 £m	2003 £m
Turnover	**550**	633	756
Costs			
Outpayments and network costs[1]	**(183)**	(203)	(240)
Staff costs	**(92)**	(97)	(120)
Other	**(113)**	(142)	(107)
	(388)	(442)	(467)
Depreciation before exceptional items	**(58)**	(76)	(74)
Amortisation before exceptional items	**–**	–	(1)
Joint ventures and associates	**19**	30	33
Total operating profit before exceptional items	**123**	145	247
Exceptional operating items			
– depreciation	**(3)**	(197)	–
– amortisation	**–**	(10)	–
– other costs	**(18)**	(38)	(19)
Total operating profit/(loss)	**102**	(100)	228

[1] Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004
Total operating profit before exceptional items declined from £145 million in 2004 to £123 million in 2005, a reduction of £22 million. In particular, the Caribbean's performance was adversely affected by Hurricane Ivan with total operating profit before exceptional items being adversely impacted in the year by approximately £11 million. In addition, TSTT, a joint venture in Trinidad and Tobago, recorded a redundancy provision in the second half of 2005. The Group's share of this charge was £11 million, further explaining the decline in

the Caribbean' s total operating profit before exceptional items in 2005 compared with 2004.

The Caribbean' s turnover decreased to £550 million, a decrease of £83 million, or 13 per cent, in 2005 compared with 2004. At constant currency, the Caribbean' s turnover decreased by 3 per cent in 2005 compared with 2004. International voice turnover fell by £37 million, or 23 per cent (15 per cent at constant currency) to £123 million in 2005. This reflects the ongoing pressure on international settlement rates across all Caribbean markets and, specifically, a full year' s competition in Cayman, rate reductions in the East Caribbean as well as the regulatory reductions in international settlement rates implemented in Jamaica in June 2004. The Group expects continued pressure on international settlement rates as competition and the number of liberalised markets increase.

Domestic voice turnover declined by £26 million to £178 million, a fall of 13 per cent (3 per cent at constant currency) compared to 2004 due to rate reductions in the East Caribbean as well as fixed to mobile substitution across the Caribbean. Patterns in more competitively mature markets indicate that fixed to mobile substitution is likely to continue.

Mobile turnover at £136 million increased by 6 per cent at constant currency (a 5 per cent decline at reported rates) compared with 2004. The East and North Caribbean delivered the strongest performances reflecting growth in GSM customer numbers and increases in international call turnover. Enhanced roaming capabilities and partnerships have also driven strong growth in roaming turnover across the Caribbean. Data and IP turnover at £71 million increased by 1 per cent (13 per cent at constant currency) in 2005 compared with 2004, due to ongoing growth in dial-up and ADSL customers partially offset by the impact of Hurricane Ivan. Against this, other turnover declined to £42 million in 2005 compared with £56 million in 2004.

Total operating costs before depreciation, amortisation and exceptional operating items were £388 million in 2005, a decline of 12 per cent (2 per cent at constant currency) compared with 2004. In line with the National Telcos broader objectives, the Group is working to continue to reduce operating costs going forward.

Outpayments and network costs were stable against 2004 at constant currency compared to a 3 per cent decline in turnover year on year, at constant currency, primarily reflecting increasingly aggressive international competition.

Staff costs at £92 million in 2005 decreased by 5 per cent at reported rates compared with 2004. At constant currency staff costs increased by 5 per cent in 2005 compared with 2004. This reflects efforts to increase the skill base of employees, together with wage inflation in Jamaica.

Other operating costs at £113 million fell by 20 per cent (12 per cent at constant currency) in 2005 compared with 2004. Adjusting for one-off charges in 2004, other operating costs

Year ended 31 March 2004 compared with year ended 31 March 2003

Reported total operating profit before exceptional items in 2004 was £145 million, £102 million or 41 per cent lower than in 2003. Many of the Caribbean businesses operate in territories that have currencies linked directly or indirectly to the US dollar. Consequently, a 9 per cent strengthening of sterling against the US dollar and a 31 per cent strengthening against the Jamaica dollar had a significant impact on the reported results of the Caribbean. At constant currency, total operating profit before exceptional items in 2004 was 32 per cent lower than in 2003.

Turnover in 2004 was £633 million, 16 per cent lower than 2003 at reported rates and 1 per cent lower at constant currency.

International turnover declined by 26 per cent at constant currency reflecting increased competition following the liberalisation of the international fixed line market in Jamaica on 1 March 2003 and pre-emptive tariff reductions in other markets. Domestic turnover increased by 5 per cent at constant currency reflecting the impact of rate rebalancing and increased volumes of interconnect traffic driven by increasing numbers of competitors in the market. Mobile turnover increased by 19 per cent at constant currency due to increased customer numbers, supported by the launch of GSM services in all major regions. The mobile customer base at 31 March 2004 was 1,141,000 compared to 943,000 at 31 March 2003. Data and IP continued to deliver strong growth with turnover rising by 17 per cent at constant currency.

Operating costs before depreciation, amortisation and exceptional operating items at £442 million in 2004, were £25 million, or 5 per cent, lower than in 2003. At constant currency rates there was an underlying increase of 12 per cent compared with 2003.

Outpayments and network costs increased by 2 per cent at constant currency rates reflecting increased mobile handset subsidy costs as a result of intensified competition and the launch of GSM services in major regions.

were broadly flat at constant currency in 2005 compared with 2004.

Non-exceptional depreciation fell from £76 million in 2004 to £58 million in 2005, a decrease of £18 million, or 24 per cent. This reduction is attributable to the lower fixed asset base following the impairment of assets in 2004.

Total operating profit was £102 million in 2005 compared with losses of £100 million in 2004. The improvement was primarily due to a £204 million reduction in the charge for exceptional fixed asset and goodwill impairments in 2005 compared with 2004. The exceptional operating costs of £18 million in 2005 related to restoration of damage caused by Hurricane Ivan. In addition, exceptional asset write-downs of £3 million were recorded in respect of assets damaged by the hurricane.

Staff costs were £23 million lower in 2004 compared with 2003. At constant currency rates, staff costs were 6 per cent lower than 2003 reflecting the reduction in headcount to 4,254 from 5,073 in the prior year.

The Caribbean recorded a total operating loss of £100 million in 2004 compared with a profit of £228 million in 2003. Exceptional items of £245 million were charged in 2004 comprising a £197 million impairment charge, primarily due to the write-off of TDMA assets following the accelerated GSM roll-out in the region, and £38 million of restructuring costs.

Back to Contents

Operating and financial review
Review by division

Panama

	2005 £m	2004 £m	2003 £m
Turnover	**257**	265	279
Costs			
Outpayments and network costs[1]	**(90)**	(74)	(69)
Staff costs	**(23)**	(27)	(33)
Other	**(38)**	(55)	(41)
	(151)	(156)	(143)
Depreciation before exceptional items	**(31)**	(39)	(45)
Total operating profit before exceptional items	**75**	70	91
Exceptional operating items			
– depreciation	–	(65)	–
– other costs	–	(8)	(14)
Total operating profit/(loss)	**75**	(3)	77

[1] Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004

Panama reported a total operating profit before exceptional items of £75 million in 2005 compared with £70 million in 2004.

Turnover at £257 million decreased by £8 million, or 3 per cent, in 2005 compared with 2004. At constant currency, turnover increased by 6 per cent in 2005 compared with 2004. This overall increase represents growth in Panama' s mobile and data and IP turnover during the year.

Domestic turnover fell by £22 million, or 16 per cent to £117 million and international turnover fell by £5 million, or 22 per cent to £18 million in 2005 compared with 2004. This was due

Data and IP turnover rose by 13 per cent at constant currency (3 per cent increase at reported rates) to £30 million in 2005 due to the completion of a number of major corporate projects now generating turnover and continued strong growth in internet turnover, particularly in ADSL service.

Operating costs before depreciation and exceptional items were £151 million, in 2005, a decrease of 3 per cent compared with 2004. At constant currency operating costs increased by 6 per cent in 2005 compared with 2004.

Outpayments and network costs increased by 22 per cent compared with 2004, reflecting changes in the sales mix as higher margin voice turnover was substituted for lower margin mobile and data and IP turnover. Further, competition has driven an increase in outpayments as more traffic now terminates on third party networks.

Staff costs fell by 15 per cent to £23 million in 2005 reflecting the impact of a 3 per cent reduction in headcount in 2005 compared with 2004 together with a reduction in temporary payroll.

Other costs at £38 million in 2005 decreased by £17 million, or 31 per cent compared with 2004. This reduction in costs is primarily due to cost reduction initiatives and the effect of a one-off charge for legal costs in 2004 associated with the settlement of legal proceedings in that year.

Non-exceptional depreciation fell by 21 per cent to £31 million in 2005 compared with 2004 due to the reduction in the fixed asset base following the impairment of assets in 2004. Nevertheless, there was an increase of 10 per cent at constant currency in the second half of 2005 as a result of new investments in GSM and ADSL networks.

Total operating profits of £75 million were reported in 2005 against losses of £3 million in 2004. The 2004 exceptional losses were after including exceptional charges of £73 million.

Year ended 31 March 2004 compared with year ended 31 March 2003

to increasing competition following the liberalisation of international and domestic voice services from 2 January 2003. In addition, domestic voice turnover was adversely affected by fixed to mobile substitution, which particularly impacted payphone turnover.

The decline in international and domestic turnover was offset by continued strong growth in mobile turnover which increased by £20 million, or 35 per cent (48 per cent at constant currency) to £77 million in 2005 reflecting strong growth in GSM mobile subscribers and an increase in the mobile market penetration in Panama.

Total operating profit before exceptional items at £70 million in 2004 was £21 million, or 23 per cent, lower than in 2003. At constant currency rates, there was an underlying reduction of 16 per cent.

Turnover fell by 5 per cent in the year to £265 million but, at constant currency rates, rose by 4 per cent. Strong growth in mobile, reflecting the introduction of GSM, and data and IP turnover was only partly offset by lower international and domestic turnover due to increased competition following the liberalisation of these markets from January 2003.

Performance

Operating costs before depreciation and exceptional items in 2004 were £13 million, or 9 per cent, higher than in 2003. There was an underlying increase of 19 per cent at constant currency rates. Outpayments and network costs increased by 17 per cent at constant currency rates reflecting changes in the sales mix and a consequent increase in mobile subscriber acquisition costs, and higher outpayments as more traffic terminated on third party networks following the introduction of competition. Staff costs fell as headcount was reduced from 2,218 to 1,881. Other costs in 2004 included a one-off £9 million cost associated with the settlement of a lawsuit.

Panama reported a total operating loss of £3 million in 2004 compared with a profit of £77 million in the prior year, mainly due to a £65 million exceptional impairment of fixed assets in 2004, together with an £8 million exceptional charge relating to staff rationalisation. These charges were required to write down assets and reduce staff costs to mitigate the absence of universal service law protection in Panama.

Macau

	2005 £m	2004 £m	2003 £m
Turnover	**117**	128	146
Costs			
Outpayments and network costs[1]	**(48)**	(51)	(57)
Staff costs	**(11)**	(12)	(15)
Other	**(8)**	(7)	(14)
	(67)	(70)	(86)
Depreciation before exceptional items	**(15)**	(18)	(18)
Total operating profit before exceptional items	**35**	40	42
Exceptional items			
– depreciation	**–**	(2)	–
Total operating profit	**35**	38	42

[1] Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004

Total operating profit before exceptional items at £35 million decreased by £5 million, or 13 per cent, at reported rates in 2005 compared with 2004. At constant currency, total operating profit declined by 4 per cent year on year.

Turnover decreased by £11 million, or 9 per cent, to £117 million in 2005. At constant currency turnover was flat year on year.

Operating costs before depreciation and exceptional items at £67 million, decreased by 4 per cent in 2005 compared with 2004. At constant currency operating costs before depreciation and exceptional items increased by 5 per cent compared with 2004. In 2005, outpayments and network costs rose by 3 per cent at constant currency due to an increase in cost of sales relating to enterprise solutions and mobile handsets sales. Staff costs were broadly consistent at constant currency. Other costs increased by 25 per cent at constant currency from 2004 due to higher marketing costs and repairs and maintenance.

Year ended 31 March 2004 compared with year ended 31 March 2003

Total operating profit before exceptional items in Macau fell by 5 per cent from £42 million in 2003 to £40 million in 2004. Turnover declined by 12 per cent or 4 per cent at constant currency rates reflecting increased competition.

Operating costs before depreciation, amortisation and exceptional items were £16 million lower in 2004 or 11 per cent at constant currency rates. This reduction included the benefit of lower marketing costs, reduced headcount, and general tightening of other operating expenses.

Rest of the World

	2005 £m	2004 £m	2003 £m
Turnover	**167**	161	159
Costs			
Outpayments and network costs[1]	**(39)**	(40)	(35)
Staff costs	**(27)**	(27)	(28)
Other	**(19)**	(22)	(16)
	(85)	(89)	(79)
Depreciation before exceptional items	**(18)**	(20)	(22)
Amortisation before exceptional items	**2**	3	2
Joint ventures and associates	**28**	12	29
Total operating profit before exceptional items	**94**	67	89
Exceptional operating items	**(1)**	(1)	(1)
Total operating profit	**93**	66	88

[1] Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Year ended 31 March 2005 compared with year ended 31 March 2004

Rest of the World comprises Cable & Wireless' businesses in Guernsey, Bahrain and the Maldives, together with smaller operations in the Seychelles, Bermuda, Sakhalin in Russia, Diego Garcia, Falkland Islands, Fiji, Ascension, St Helena, Vanuatu and Solomon Islands. Guernsey and the Maldives account for 60 per cent of the Rest of the World turnover.

Rest of the World reported a total operating profit before exceptional items of £94 million in 2005 compared with £67 million in 2004, an increase of £27 million, or 40 per cent. The increase was primarily due to a strong performance from Batelco, in Bahrain, an associate of the Group together with growth in turnover in the period.

Turnover increased by £6 million, or 4 per cent (11 per cent at constant currency), in 2005 compared with 2004. This

Year ended 31 March 2004 compared with year ended 31 March 2003

The total operating profit before exceptional items for the Rest of the World was £67 million in 2004 compared with £89 million in 2003.

Operating costs before depreciation, amortisation and exceptional items increased by 13 per cent from £79 million in 2003 to £89 million in 2004, including an increase in licence fee payments and administrative costs. The income from joint ventures and associates fell by 59 per cent from £29 million to £12 million due to increased competition and the impairment in carrying value of associates.

turnover growth was due to the ongoing demand for mobile services in Sakhalin, the Maldives and Guernsey which offset a decline in international voice turnover.

Operating costs before depreciation, amortisation and exceptional items at £85 million, decreased by 4 per cent. However, at constant currency, total operating costs were broadly in line with 2004.

Back to Contents

Acquisitions

Bulldog

	2005 £m
Turnover	11
Costs	
Outpayments and network costs[1]	(13)
Staff costs	(12)
Other	(14)
	(39)
Depreciation before exceptional items	(2)
Amortisation before exceptional items	(4)
Joint ventures and associates	–
Total operating loss before exceptional items	(34)
Exceptional operating items	–
Total operating loss	**(34)**

1 Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Cable & Wireless acquired Bulldog Communications on 28 May 2004.

Turnover for the ten months to 31 March 2005 was £11 million, reflecting strong demand in the SoHo/Consumer (small office or home office) and customer market for the high speed broadband services offered by Bulldog. In particular, Bulldog has seen high demand for its Inter@ctive and Super@ctive products both of which provide 4 Mbps broadband plus national and local phone calls.

Outpayments and network costs of £13 million represent the costs of Bulldog' s UK broadband network, including payments to Cable & Wireless UK for the utilisation of its voice and backbone network.

Monaco

	2005 £m
Turnover	100
Costs	
Outpayments and network costs[1]	(55)
Staff costs	(13)
Other	(5)
	(73)
Depreciation before exceptional items	(6)
Amortisation before exceptional items	(5)
Joint ventures and associates	1
Total operating profit before exceptional items	17
Exceptional operating items	–
Total operating profit	**17**

1 Outpayments and network costs include customer acquisition costs and the cost of goods sold.

Cable & Wireless acquired a 55 per cent economic interest in Monaco Telecom on 18 June 2004. Monaco Telecom is the national telecom operator in Monaco and reported a total operating profit before exceptional items of £17 million.

Monaco Telecom' s turnover for the nine months to 31 March 2005 of £100 million was derived from the provision of domestic fixed line, mobile and cable TV services together with the provision of mobile services in Afghanistan and Kosovo, as well as satellite and call centre services.

International and domestic voice turnover of £17 million were affected by fixed to mobile substitution within the Monaco Telecom customer base, as well as the reduction in internet dial-up as customers migrated from this service offering to the

Staff costs of £12 million represent the recruitment and salary costs of the employee base that has grown significantly since the company's acquisition.

Bulldog's investment in advertising and marketing to increase its brand awareness, as well as the costs of external expertise engaged to review and develop Bulldog's operational processes, are the most substantial components of the £14 million within other costs.

The depreciation charge of £2 million relates to the capital investment being made in the expansion of Bulldog's local loop unbundled network and associated systems.

The amortisation charge of £4 million relates to the goodwill arising on the acquisition of Bulldog.

company's ADSL offering (Data and IP turnover was £8 million). Mobile turnover at £19 million was driven by an increase in both prepaid and postpaid subscribers. Additionally, turnover of £56 million was earned from Monaco Telecom's managed service contracts in Afghanistan and Kosovo together with satellite and call centre activities.

The outpayments and network costs of £55 million represent the costs of Monaco Telecom's domestic and international network including payments to other operators for interconnect and roaming charges.

The staff and other costs of £18 million represent the salary costs of the employee base, as well as general administrative costs.

Depreciation of £6 million relates to the domestic and international networks of Monaco.

The amortisation charge of £5 million relates to the goodwill and other intangibles recorded on the acquisition of Monaco Telecom.

Back to Contents

Operating and financial review
Review by division – summary

The table below sets out a summary of the turnover and operating profit/(loss) before non-operating items, interest and taxation for continuing and discontinued operations.

Turnover and total operating profit/(loss) before non-operating items, interest and taxation by division

	2005		2004		2003	
	Turnover £m	Total operating profit/(loss) £m	Turnover £m	Total operating profit/(loss) £m	Turnover £m	Total operating profit/(loss) £m
United Kingdom	**1,602**	**16**	1,661	(234)	1,684	(3,929)
CWAO	**16**	**1**	11	(16)	–	–
Europe	**186**	**(50)**	262	(14)	304	(369)
Asia	**39**	**4**	32	(10)	79	(44)
Bulldog	**11**	**(34)**	–	–	–	–
National Telcos						
Caribbean	**550**	**102**	633	(100)	756	228
Panama	**257**	**75**	265	(3)	279	77
Macau	**117**	**35**	128	38	146	42
Monaco	**100**	**17**	–	–	–	–
Rest of the World	**167**	**93**	161	66	159	88
Total National Telcos	***1,191***	***322***	*1,187*	*1*	*1,340*	*435*
Other	**(22)**	**(94)**	(23)	(88)	(30)	(29)
Continuing operations	**3,023**	**165**	3,130	(361)	3,377	(3,936)
Discontinued operations	**199**	**13**	541	(179)	1,014	(2,064)
Total	**3,222**	**178**	3,671	(540)	4,391	(6,000)

Liquidity and capital resources

Treasury policy

The Group's treasury operations are managed on the basis of objectives, policies and authorities approved by Cable and Wireless plc's Board of Directors.

Day-to-day management of treasury activities is delegated to the Chief Financial Officer and the Group Treasurer, within specified financial limits for each type of transaction and counterparty.

To the extent that subsidiary operating companies undertake treasury transactions, these are governed by Group policies and delegated authorities. Material subsidiary positions are approved and monitored by the Group treasury function. Where appropriate, each position and transaction is reported to the Board. All subsidiaries are required to report details of their cash, debt and hedging positions to Group treasury on a monthly basis.

The key responsibilities of the treasury function include funding, investment of cash and the management of interest rate and foreign currency risk. The majority of the Group's funding (approximately 89 per cent at 31 March 2005) and cash resources (approximately 86 per cent at 31 March 2005) are managed centrally.

Wherever possible individual companies in the Group are funded in, and operate in, their functional currency, many of which are linked, directly or indirectly, to the US dollar.

Cable & Wireless only uses derivatives and financial instruments including forward foreign exchange contracts, interest rate swaps, cross currency swaps and options in the management of its foreign currency and interest rate exposures in accordance with strategies agreed from time to time by the Treasury Management Committee (comprising of the Chief Financial Officer, Group Treasurer and other senior financial managers as required) and subject to policies approved by the Board. Derivatives are not used for trading or speculative purposes and all material derivative transactions and positions are monitored and reported to the Board on a

In certain circumstances, it has been efficient to use surplus funds to repurchase bonds. To date £19.9 million of the £200 million 8.625 per cent bonds due 2019 have been bought back at an average price of 99.83 pence and £16 million of the £200 million 8.75 per cent bonds due 2012 have been bought back at an average price of 101.625 pence.

During 2005 the Group purchased £80 million of Credit Linked Notes issued by AA-rated banks and referenced to the Company's £200 million bond which matures in 2012. This transaction has a similar economic effect to repurchasing the bonds for the period of the investment. Further information on these transactions is given in Note 20 to the Financial statements.

Certain foreign subsidiaries operate in jurisdictions which restrict the ability to repatriate cash to the parent company. £55 million of cash held in restricted jurisdictions is not included in Cash, current asset investments and short-term deposits at 31 March 2005 (2004 – £40 million). Included within short-term deposits are £42 million which is pledged as a cash collateral against bank loans and guarantees and £30 million held in the Group's insurance subsidiary Pender against potential claim settlements.

Funding

At 31 March 2005, Cable & Wireless had gross debt of £824 million (2004 – £919 million, 2003 – £1,546 million).

The Group's debt comprises both bank debt and publicly quoted bonds. Cable & Wireless' debt has an average maturity of approximately seven years.

Approximately 75 per cent of the Group's debt is represented by public bonds denominated in sterling. Two sterling denominated bonds of £184 million (after bonds bought back of £16 million) and £180 million (after bonds bought back of £20 million) mature in 2012 and 2019 respectively. The Group anticipates that the Group's £258 million Unsecured Convertible Bonds will be redeemed at their principal amount monthly basis. The Group does not have material derivative positions outstanding at 31 March 2005 as detailed in Note 25 to the Financial Statements.

Liquidity

At 31 March 2005, Cable & Wireless had Cash, Current asset investments and short-term deposits of £2,166 million (2004 – £2,367 million). This amount included £14 million (2004 – £12 million) of treasury instruments and £80 million (2004 – £50 million) of Credit Linked Notes.

This cash is a significant component of the Group's overall liquidity and capital resources.

At 31 March 2005, approximately 86 per cent of the Group's cash is held centrally and is predominantly invested in short-term bank deposits, commercial paper up to one year in maturity and AAA-rated money market funds.

in 2010 unless purchased, redeemed or converted to ordinary shares prior to maturity.

The remainder of the Group's debt is made up of a loan of £121 million maturing in 2006, with the balance being mainly amortising loans.

Cable & Wireless believes that its capital resources are sufficient to meet its current and planned requirements for at least the next 12 months. The Group's ability to meet long-term capital requirements beyond this 12-month period will depend on many factors both inside and outside of its control. Cable & Wireless cannot be certain that additional financing, if required, will be available on terms favourable to the Group, if at all.

Share Buy-Back Programme

During the year, a £250 million share buy-back programme was initiated. Shares repurchased are held as treasury shares. To date 60.5 million shares have been bought back at an average price of 124.41 pence (£75 million).

Back to Contents

Operating and financial review
Liquidity and capital resources

Interest rate management
At 31 March 2005, approximately 82 per cent of Group debt has been raised at fixed rates of interest with approximately 75 per cent raised as fixed rate bonds. As at 31 March 2005 the Group did not have any derivative contracts outstanding in relation to interest rate exposures arising from its debt (2004 – £10 million).

The Group's cash resources currently earn interest at floating rates. In prior years, in a falling interest rate environment, the Group has actively hedged its return on cash resources with the use of interest rate swaps and forward rate agreements. No such hedges were used during 2005 and as at 31 March 2005 there are no derivative contracts outstanding in relation to the Group's investments.

Exchange rate management
As at 31 March 2005 the Group has £23 million (2004 – £50 million, 2003 – £12 million) notional value of forward foreign exchange contracts for the purchase of currencies and £6 million (2004 – £28 million, 2003 – £nil) notional value of forward foreign exchange contracts for the sale of currencies.

As at 31 March 2005 the Group has £121 million (2004 – £121 million, 2003 – £502 million) notional value of cross currency swaps used in the management of its foreign currency debt obligations.

Borrowing facilities
The Group does not have any significant undrawn committed facilities as at 31 March 2005.

Credit ratings
The Company's long-term credit ratings remained below investment grade during the year. Credit ratings at 26 August 2005 are detailed in the table below:

Cable and Wireless plc's debt ratings

Standard & Poor's	BB
Moody's	Ba3
Fitch	BB+

Other loans and contractual obligations under leases
Cable & Wireless' loans and contractual obligations under finance and operating leases are analysed in Notes 21 and 27 to the Financial statements.

None of the above funding arrangements and facilities have covenants that are expected to restrict normal business activities.

Off-balance sheet arrangements
Operating leases

In the normal course of its business, Cable & Wireless and its subsidiaries enter into operating leases, relating to property, customer terminating equipment and other operational commitments. Minimum lease terms range from 1 year to 50 years. The effect such obligations are expected to have on liquidity and cash flow in future periods is set out in the contractual obligations table below.

Other commitments and contingent liabilities

Other commitments and contingent liabilities that have or are reasonably likely to have a current or future material effect on the Group's financial condition, changes in financial condition, turnover or expenses, results of operations, liquidity, capital expenditures or capital resources are set out in Note 26 to the Financial Statements.

Contractual obligations

The following table sets out the Group's known contractual obligations as at 31 March 2005:

	Payments due by period				
	Total £m	Less than 1 year £m	2-3 years £m	4-5 years £m	After 5 years £m
Long-term debt, including current maturities	823	22	158	13	630
Capital lease obligations	1	1	–	–	–
Operating leases	446	89	121	85	151
Other	49	49	–	–	–

Total	**1,319**	**161**	**279**	**98**	**781**

Credit ratings below investment grade may limit future access to the debt capital markets and may increase both the future cost of funding and impact adversely the terms on which debt may be available. In addition, cash collateral or guarantees may be required to support any future credit terms.

The credit ratings do not have any impact on the interest cost of existing debt.

Operating lease commitments represent future minimum rental payments required under operating leases that have initial or remaining non cancellable lease terms in excess of one year at 31 March 2005.

The Group enters into a number of arrangements with other international carriers relating to the reciprocal transfer of telecommunications traffic between countries. Under these arrangements both parties are committed to transferring a minimum level of International Direct Dial traffic for termination on the other party's network. Typically there is no net outflow of cash as a result of these transactions. These transactions are not included in the above table.

Back to Contents

Performance

Capital expenditure

Capital expenditure on plant, equipment and property totalled £344 million in 2005 compared with £342 million in 2004 and £810 million in 2003.

All capital expenditure has been funded internally.

	2005 £m	2004 £m
United Kingdom	**138**	101
CWAO	–	–
Europe	**2**	7
Asia	**2**	3
Bulldog	**27**	a
National Telcos		
Caribbean	**86**	134
Panama	**41**	27
Macau	**9**	16
Monaco	**5**	a
Rest of the World	**20**	18
Total National Telcos	***161***	*195*
Other	**2**	20
Continuing operations	**332**	326
Discontinued operations	**12**	16
Group capital expenditure	**344**	342

[a] Acquired in 2005, therefore no 2004 or 2003 capital expenditure.

2003 capital expenditure (as previously reported) was £544 million in Cable & Wireless Global (United Kingdom, CWAO, Europe and Asia), £264 million in Cable & Wireless Regional (Caribbean, Panama, Macau and Rest of the World) and £2 million in Other.

In the next three years, Cable & Wireless plans to invest £190 million in a UK Next Generation Network (“NGN”), with £80 million planned to be spent in 2006. It is expected a large proportion of the NGN expenditure will replace legacy expenditure that the Group believes would otherwise have been required to maintain the efficiency of the current network. As a result, over the three-year period the Group expects a net increase in capital expenditure of approximately £35 million associated with NGN.

Contracts placed for ongoing capital expenditure totalled £49 million at 31 March 2005.

The UK spent £138 million (2004 – £101 million) on capital expenditure in 2005 of which £48 million was spent on network, £39 million was spent on equipment required to connect customers to the network, £24 million was spent on business process transformation and £27 million was spent on other related business projects.

Asia spent £2 million (2004 – £3 million) on capital expenditure in 2005.

Bulldog spent £27 million on capital expenditure in 2005 on the expansion of its LLU network across the UK.

National Telcos spent £161 million (2004 – £195 million) on capital expenditure in 2005. Capital expenditure was primarily related to expanding and upgrading the existing GSM mobile and IP services.

Back to Contents

Operating and financial review

Cash flow

Summary consolidated cash flow statement

	2005 £m	2004 £m	2003 £m
Net cash inflow from operating activities	**346**	73	95
Dividends, return on investments and servicing of finance	**15**	(32)	65
Taxation paid	**(60)**	(43)	(438)
Capital expenditure	**(344)**	(342)	(810)
Financial investment	**76**	301	595
Acquisitions and disposals	**(35)**	(118)	110
Equity dividends paid	**(97)**	–	(119)
Movement in liquid resources	**75**	932	(1,040)
Net financing repaid	**(153)**	(582)	(578)
(Decrease)/increase in cash in the year	**(177)**	189	(2,120)

Year ended 31 March 2005 compared with year ended 31 March 2004

The decrease in cash of £177 million in the year is principally reflective of an equity dividend paid of £97 million, financing repayments of £153 million and £75 million of cash transferred from liquid resources.

Other operating and investing activities resulted in a broadly cash neutral position, including cash inflows from operating activities of £346 million, cash inflows from financial investment of £76 million, cash outflows in respect of capital expenditure £344 million and taxation paid £60 million.

Operating activities generated £346 million of cash in 2005, an increase of £273 million against the prior period principally due to improved performance following the exit of the Group' s US domestic operations.

Tax paid in 2005 relates in the main to settlement of liabilities in the Caribbean and other overseas businesses.

Capital expenditure of £344 million in the year was in line with 2004. In 2005, the Group continued to expand and enhance

The Group reinstated dividends in 2004 and in 2005 paid £97 million to its shareholders in respect of the final 2004 dividend and interim 2005 dividend.

Net financing repaid in 2005 of £153 million included the repurchase of shares for £74 million together with the repayment or repurchase of debt of £86 million.

Year ended 31 March 2004 compared with year ended 31 March 2003

The increase in cash of £189 million in the year principally reflects the transfer from liquid resources of cash totalling £932 million and the realisation of financial investments of £301 million, net of finance repayments of £582 million, capital expenditure of £342 million and net disposal costs of £118 million.

Operating activities generated £73 million of cash in 2004, a decline of £22 million against the prior period principally due to a reduction in working capital.

Tax paid in 2004 relates in the main to settlement of liabilities in the Caribbean and Rest of the World.

Capital expenditure of £342 million declined by £468 million from 2003. This reflects continued focus on the management of capital expenditure and its ability to generate a satisfactory return on investment.

Investment in the year included GSM networks rollout of £111 million in the Caribbean and Panama, together with expenditure on billing systems, network management systems, customer premises equipment and network terminating equipment.

Financial investment generated net cash of £301 million in 2004 of which £229 million related to the proceeds on disposal of the Group' s shareholding in PCCW Limited.

Liquid resources decreased by £932 million in 2004. On 1 April 2003 £1.5 billion held in escrow was released into cash.

its mobile networks across the National Telcos in response to continued growth in customer demand. There has also been a shift to investment in fixed network, in particular in respect of local loop unbundling by Bulldog. Further, the Group' s focus on its restructuring and transformation has driven spend on systems improvements.

The cash inflow of £76 million in respect of financial investments relates to the disposal of non-core trade investments including the Group' s 3.4 per cent interest in Intelsat. In 2004 £229 million of financial investment cash inflows related to the proceeds on disposal of the Group' s shareholding in PCCW Limited.

Net financing repaid in 2004 of £582 million included long-term debt repayments of £863 million offset by long-term debt issued of £280 million.

Back to Contents

Property and network infrastructure

As at 31 March 2005, Cable & Wireless and its subsidiaries leased or owned some 241 principal properties. The majority of these properties are located in the United Kingdom, Panama and the Caribbean although the spread of properties extends across continental Europe, Asia, and islands in the Atlantic and Indian Oceans.

In addition to these properties, Cable & Wireless owns or leases in excess of 2,000 small technical sites that house equipment necessary to support its operations. In general, Cable & Wireless' technical properties enjoy the protection of telecommunications legislation, which has the aim of ensuring the continuity of Cable & Wireless' networks.

The size of Cable & Wireless' property portfolio has increased marginally from the last financial year primarily as a consequence of the acquisition of additional technical sites in the Caribbean for the purposes of GSM rollout. Additional properties were also incorporated into the portfolio through the acquisition of Monaco Telecom.

A continuing rationalisation programme is still ongoing generally focusing on reducing office space to match Cable & Wireless' reduced headcount and ongoing operational requirements, including the closure of the Group's London headquarters and relocation to Bracknell. Acquisition of both office and technical sites occurs where required as referred to above.

In the Caribbean, Panama, Macau, Monaco and Rest of the World, Cable & Wireless typically operates as the domestic incumbent, owning and operating the domestic legacy switched voice networks and associated international interconnect facilities. Cable & Wireless also has international and domestic network facilities in the United Kingdom, Europe and the United States.

Cable & Wireless operates significant international submarine cable, and satellite systems. Many of Cable & Wireless' subsidiaries and associates also own and operate mobile networks. Examples include Jamaica (GSM and TDMA) and

Trinidad and Tobago (GSM and TDMA) in the Caribbean as well as Panama (GSM and TDMA), Macau (GSM), Monaco (partly owns and operates GSM, owns, but does not yet operate, UMTS), the Maldives (GSM) and Bahrain (GSM).

Cable & Wireless companies operate 20 data centres within its national and international operations offering a wide selection of web-based and hosting services.

Operating and financial review
Disclosures about market risk

Credit risk
Cash deposits and other financial instruments give rise to credit risk, which represents the loss that would be recognised if a counterparty failed to perform as contracted.

The counterparties to all but a small proportion of the Group's financial instruments are entities rated A1 short-term and/or AA- long-term by Standard and Poor's (or equivalent by Moody's and/or Fitch). The credit rating of these counterparties is monitored on an ongoing basis. The types of instrument used for investment of funds are prescribed in Group treasury policies approved by the Board with limits on the exposure to any one counterparty.

Interest rate risk
The Group is exposed to movements of interest rates on its debt, cash balances and derivative instruments. The treasury function seeks to reduce volatility by fixing a proportion of this interest rate exposure whilst taking account of prevailing market conditions as appropriate. There were no derivatives in place as at 31 March 2005 to manage the interest rate exposure on the Group's investments or debt.

The Group has net floating rate investments of £2,020 million (£2,166 million of investments less £146 million of debt) hence, a 50 basis point decrease in average interest rates to which the Group is exposed (predominantly sterling) would reduce net interest income by approximately £10 million, impacting both earnings and cash flow. By way of illustration, between 31 March 2004 and 31 March 2005 sterling 3 month LIBOR increased from approximately 4.36 per cent to 4.98 per cent.

A reduction in interest rates would have an unfavourable impact upon the fair value of the Group's fixed rate debt. However, no debt is held for trading purposes and it is intended that it will be kept in place until maturity, hence the exposure to fair value loss has not been modelled.

Exchange rate risk
Cable & Wireless trades in some 80 countries and much of its turnover is from international traffic flows settled in major

Where it is deemed appropriate the Group will undertake hedges to minimise the exposure to individual transactions that create significant foreign exchange exposures for the Group. In addition, overseas subsidiaries are generally financed in their domestic currency to minimise the impact of translation of foreign currency denominated borrowings.

As at 31 March 2005, the Group had in place net forward foreign exchange contracts amounting to £17 million, being £23 million bought and £6 million sold in the same currency against sterling. Consequently, there is no material exposure to movements in exchange rates on these instruments.

The reported profits of the Group are translated at average rates of exchange ruling during the year. Overseas earnings are predominantly in US dollars or currencies linked to the US dollar. In broad terms, based on the 2005 mix of profits, if the average sterling : US dollar rate for the year had been 5 cents higher, the effect would have been to reduce the reported operating profit before exceptional items by approximately £8 million. The Group does not undertake profit translation hedging activities.

As part of the overall policy of managing the exposure arising from foreign exchange movements relating to the net carrying value of overseas investments, the Group may, from time to time, elect to match certain foreign currency liabilities against the carrying value of foreign investments. Currently there are no external foreign currency liabilities matched against the carrying value of foreign investments.

The Group currently does not undertake any hedges of long-term currency trading flows.

currencies, principally US dollars. In addition, many of the currencies of the countries in which Cable & Wireless operates are linked, directly or indirectly, to the US dollar.

The Group is exposed to movements in exchange rates in relation to foreign currency payments, dividend income from foreign subsidiaries, reported profits of foreign subsidiaries and the net asset carrying value of foreign investments.

Where appropriate the Group manages its exposure to movements in exchange rates on a net basis and uses forward foreign exchange contracts and other derivative and financial instruments to reduce the exposures created where currencies do not naturally offset in the short term.

Back to Contents

Performance

Five year summary

	2005 £m	2004[5] £m	2003[5] £m	2002[5] £m	2001[5] £m
	(in £m except per share and per ADR data)				
Profit and loss account year ending 31 March					
Amounts in accordance with UK GAAP[1]					
Group turnover	**3,222**	3,671	4,391	5,748	7,851
Group operating profit/(loss)	**138**	(581)	(6,075)	(5,025)	(382)
Profit/(loss) before taxation	**363**	(224)	(6,257)	(4,549)	3,516
Profit/(loss) after taxation	**377**	(212)	(6,293)	(4,860)	2,996
Minority interests	**(75)**	(25)	(124)	(94)	(258)
Profit/(loss) for the financial year	**302**	(237)	(6,417)	(4,954)	2,738
Basic earnings/(loss) per share (EPS)	**13.0p**	(10.2)p	(275.4)p	(181.2)p	100.3p
Basic earnings/(loss) per ADR[2]	**39.0p**	(30.6)p	(826.2)p	(543.6)p	300.9p
Diluted EPS	**12.3p**	(10.2)p	(275.4)p	(181.2)p	99.2p
Diluted earnings/(loss) per ADR[2]	**36.9p**	(30.6)p	(826.2)p	(543.6)p	297.6p
Dividends per share[3]	**3.8p**	3.15p	1.6p	16.5p	16.5p
Dividends per ADR[2]	**11.4p**	9.45p	4.8p	49.5p	49.5p
Amounts in accordance with US GAAP[1]					
Net profit/(loss)	**333**	(371)	(6,239)	(5,371)	2,716
Basic EPS	**14.3p**	(15.9)p	(267.8)p	(196.5)p	99.5p
Basic earnings/(loss) per ADR[2]	**42.9p**	(47.7)p	(803.3)p	(589.5)p	298.5p
Diluted EPS	**12.5p**	(15.9)p	(267.8)p	(196.5)p	98.4p
Diluted earnings/(loss) per ADR[2]	**37.5p**	(47.7)p	(803.3)p	(589.5)p	295.2p
Income from Continuing Operations[6]					
Group turnover	**3,023**	3,130	3,377	3,758	3,720
Group operating profit/(loss)	**125**	(402)	(4,011)	(2,641)	(309)
Group profit before taxation and exceptional items[7]	**361**	319	96	240	316
Balance sheet data as at 31 March					
Amounts in accordance with UK GAAP[1]					
Current assets[4]	**3,017**	3,280	4,906	7,890	10,480
Total assets	**5,000**	4,926	7,324	16,074	24,240
Net assets	**2,137**	1,952	2,482	9,234	16,356
Loans and obligations under finance leases:					
- amounts falling due within one year	**23**	44	825	237	567
- amounts falling due after more than one year	**801**	875	721	2,022	2,364
Other creditors falling due within one year	**1,511**	1,624	2,450	3,734	4,069
Creditors and provisions	**2,863**	2,974	4,842	6,840	7,884
Equity shareholders' funds	**1,818**	1,703	2,111	8,835	15,225

Number of shares issued (million of shares)	**2,395**	2,385	2,383	2,382	2,801
Amounts in accordance with US GAAP[1]					
Shareholders' equity	**1,987**	1,787	2,125	9,158	16,190

[1] The Financial Statements are prepared in accordance with UK GAAP, which differs in significant respects from US GAAP. See Note 35 "Summary of differences between United Kingdom and United States GAAP" to the Financial Statements.

[2] ADR (American Depositary Receipt) amounts have been computed on the basis that one ADR represents three Ordinary Shares of 25p each in the Company ("Ordinary Shares").

[3] Dividends per share and per ADR are based on interim and final dividends paid per Ordinary Share before deduction of withholding taxes. See "Shareholder Information - Taxation".

[4] Current assets exclude debtors due after more than one year.

[5] The balance sheets for 2004, 2003, 2002 and 2001 have been amended to reflect the change in accounting for ESOPs in light of the adoption of UITF 38 "Accounting for ESOP trusts". The profit and loss account in 2003 has also been amended to reverse the £116 million impairment in the ESOP recognised in this year. The adoption of UITF 17 "Employee share schemes" did not have a material impact on the Group's profit and loss account for the four years ended 31 March 2004. Accordingly, the profit and loss account has not been amended for the adoption of UITF 17.

[6] The Group sold its Japanese operations effective 17 February 2005. Under FRS 3 "Reporting Financial Performance", these businesses have been classified as discontinued. Comparatives for the years ended 31 March 2001 to 31 March 2004 have been adjusted accordingly.

[7] This is a non-UK GAAP financial measure which is used by management as a key performance measure. A reconciliation is set out on page 87.

Operating and financial review
Critical accounting policies

In the preparation of Cable & Wireless' consolidated financial statements a number of estimates and assumptions are made relating to the reporting of results of operations and financial condition. Results may differ significantly from those estimates under different assumptions and conditions. Cable & Wireless believes that the following discussion addresses its most critical accounting policies, which are those that are most important to the presentation of its consolidated financial condition and results. These particular policies require subjective and complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The policies below distinguish between UK GAAP and US GAAP accounting treatments where there are significant differences.

Valuation of tangible fixed assets and intangible assets (excluding goodwill)

Under UK GAAP, Cable & Wireless assesses the impairment of fixed assets and intangible assets (excluding goodwill) whenever events or changes in circumstances indicate that the carrying value may not be recoverable or otherwise as required by accounting standards. Factors that are considered important which could trigger an impairment review include the following:

- significant under-performance relative to expected historical or projected future operating results;
- significant changes in the use of its assets or the strategy for its overall business;
- significant changes in technology and regulatory environments;
- significant negative industry or economic trends; and
- significant decline in its stock price for a sustained period and its market capitalisation relative to net book value.

Recoverability of assets that are held and used is measured by comparing the sum of the future undiscounted cash flows derived from an asset group to their carrying value. If the carrying value of the asset group exceeds the sum of the future undiscounted cash flows, impairment is considered to exist and an impairment charge is recognised for the amount by which the carrying value exceeds the present value of the estimated future cash flows.

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets of reporting units requires management to make significant judgements concerning the identification and validation of impairment indicators, the timing and amount of expected cash flows and applicable discount rates.

Valuation of assets for purchase accounting

Cable & Wireless allocates the cost of acquired companies to tangible and identifiable intangible assets and liabilities acquired by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. Any value assigned to the identifiable assets is determined by reference to an active market, independent appraisal, or estimated by our management based on cash flow projections which include estimates and judgment regarding expectations for the economic useful lives of the products and technology acquired. In the latter situation, where appropriate, third party valuation specialists are involved.

The allocation of costs to identifiable assets under US GAAP may differ from the allocation under UK GAAP. Under UK GAAP, certain intangible assets are not distinguished by Cable & Wireless, such as brand name and customer base. Under US GAAP, these elements are recognised as separate intangible assets.

Accounting for valuation and recovery of goodwill

Goodwill usually arises in business combinations as noted above. Under UK GAAP, the useful life assigned to goodwill is an estimate that is based on the judgment of management at the time of acquisition. Goodwill is then amortised on a

Cable & Wireless determines any impairment by comparing the carrying values of each of Cable & Wireless' income-generating units to their recoverable amounts (the higher of net realisable value and the present value of the future cash flows obtainable as a result of an asset's continued use). During 2005, Cable & Wireless impaired tangible fixed assets by £8 million (2004 – £526 million, 2003 – £2,381 million). The impairment represented the amount by which the carrying value exceeded the present value of the estimated future cash flows.

Future cash flows were determined with reference to Cable & Wireless' projections using discount rates from 8 per cent to 40 per cent which represent the estimated weighted average cost of capital for the respective businesses.

Under US GAAP, Cable & Wireless reviews long-lived assets, including property, plant and equipment and amortising intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

straight-line basis over its useful life. For US GAAP, goodwill is not amortised, but tested at least annually for impairment.

As noted above Cable & Wireless reviews, on a regular basis, the performance of its income generating units. Under UK GAAP, goodwill is allocated to the relevant income generating unit and assessed for impairment in the manner described under "Valuation of tangible fixed assets and intangible assets (excluding goodwill)".

US GAAP requires that goodwill be tested for impairment at least annually using a two-step approach at the reporting unit level. In the first step, the fair value of the reporting unit is compared to its carrying value, including goodwill. The determination of fair value of each reporting unit, which requires significant judgement, is generally based on the present value of future cash flows. If the fair value exceeds the carrying value, no impairment loss is recognised. In the case that the fair value of the reporting unit is less than its carrying value, a second step is performed, which compares the implied fair value to the implied carrying value of the reporting units' goodwill. The implied fair value of goodwill is determined based upon the difference between the fair value of the reporting unit and the fair value of the identifiable assets and liabilities of the reporting unit. If the implied fair value of goodwill is less than its carrying value, the difference is recorded as an impairment charge.

Depreciation and amortisation of fixed assets

Cable & Wireless assigns useful lives to fixed assets based on periodic studies of actual asset lives and the intended use for those assets for example, related to fixed assets purchased for specific customer contracts. Changes in circumstances such as technological advances, prospective economic utilisation and physical condition of the assets concerned could result in the actual useful lives differing from initial estimates. Where Cable & Wireless determines that the useful life of property and equipment should be shortened, Cable & Wireless depreciates the net book value in excess of the residual value over the revised remaining useful life, thereby increasing depreciation expense. Any change in asset lives would be reported in Cable & Wireless' financial statements when the change in estimate is determined.

Revenue recognition

Revenue, which excludes value added tax or other sales taxes, represents the amount receivable in respect of telecommunications services provided to customers and is accounted for on the accruals basis to match revenue with provision of service. Revenue is recognised monthly as services are provided. Revenue in respect of services invoiced in advance is deferred and recognised on provision of the service. Revenue in respect of unbilled services is accrued.

Management's judgement is required in assessing the application of the principles and the specific guidance in respect of Group revenues, including the presentation of turnover as principal or as agent in respect of income received from transmission of content provided by third parties.

experience. Changes to the provision may be required if the financial condition of Cable & Wireless' customers was to improve or deteriorate. An improvement in financial condition may result in lower actual write-offs. Historically, changes to the estimate of losses have not been material to the Group's financial position and results.

Taxation

Cable & Wireless' tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of Cable & Wireless' total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profit and loss and/or cash flow variances.

The resolution of issues is not always within the control of Cable & Wireless and it is often dependent on the efficiency of the administrative and legal processes in the relevant taxing jurisdictions in which Cable & Wireless operates. Issues can, and therefore often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the tax charge in the profit and loss account and tax payments.

Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of timing differences can be deducted. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

Non-discounting of deferred tax assets and liabilities

UK GAAP permits, and US GAAP prescribes, calculating deferred taxation assets or liabilities on an undiscounted basis. It is Cable & Wireless' accounting policy to measure deferred taxation on an undiscounted basis.

Interconnection with other operators

In Cable & Wireless' normal course of business it interconnects its networks with other telecommunications operators. In certain instances it uses estimates to determine the amount of income receivable from or payments to these other operators. The prices at which these services are charged are sometimes regulated and may be subject to retrospective adjustment. Estimates are used in assessing the likely effect of these adjustments. These interconnect transactions are distinguished from capacity sales which represent sales of Indefeasible Rights of Use ("IRUs"). IRUs give the purchaser the right to use a cable fibre or wavelength for a specified period of time.

Provision for bad and doubtful debts

The provision for bad and doubtful debts reflects management's estimate of losses arising from the failure or inability of Cable & Wireless' customers to make required payments. The provision is based on the ageing of customer accounts, customer credit worthiness and Cable & Wireless' historical write-off

Back to Contents

Operating and financial review
Critical accounting policies

Exceptional items
Under UK GAAP, the Company classified the following income/(costs) as exceptional items:

	2005 £m	2004 £m	2003 £m
Exceptional operating costs	**(145)**	(244)	(442)
Exceptional depreciation	**(8)**	(526)	(2,381)
Exceptional amortisation	**–**	(10)	(2,725)
Exceptional profits less (losses) on sale or termination of operations	**116**	250	(147)
Exceptional amounts written off investments	**–**	–	(274)
Exceptional profits on disposal of fixed assets	**23**	28	62
Exceptional tax credit	**85**	–	–

Judgement is required to classify such items as exceptional items. The Company is guided by FRS 3 "Reporting Financial Performance" which provides that material items which derive from events or transactions that fall within the ordinary activities are disclosed as exceptional items by virtue of their size or incidence such that the financial statements give a true and fair view.

Exceptional operating costs
In the year ended 31 March 2005 exceptional items included in other operating costs related principally to redundancy and reorganisation costs incurred. These provisions are based on various assumptions, including future severance costs, sublease or disposal costs and contractual termination costs. Such estimates are judgemental and may change based on actual experience.

Liabilities
The Company complies with FRS 12 "Provisions, contingent liabilities and contingent assets". A provision is recognised when there is a constructive obligation in respect of a past event. Provisions and liabilities are recognised in respect of tax, pensions, transactions and restructurings.

The expected cost of providing these defined benefit pensions will depend on an assessment of such factors as:

- the life expectancy of the members;
- the length of service;
- the rate of salary progression;
- the rate of return earned on assets in the future; and
- the rate used to discount future pension liabilities.

The assumptions used by Cable & Wireless are set out in Note 8 to the Financial statements and are estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice but are comparable to the median estimates in this regard used by other FTSE 100 companies. Changes to these assumptions could materially impact the size of the defined benefit schemes deficits of £185 million, calculated under FRS 17, "Retirement Benefits", disclosed in Note 8.

International Financial Reporting Standards ("IFRS")
EU regulated companies are required to file consolidated financial statements that have been prepared in accordance with IFRS for accounting periods beginning on or after 1 January 2005. Accordingly, IFRS will apply for the first time to Cable & Wireless' consolidated financial statements for the year ending 31 March 2006. Consequently, all the Group's public reporting in respect of accounting periods beginning on or after 1 April 2005 will be prepared in accordance with IFRS.

As reported last year, the Group has had in place a project to convert the Group's financial statements together with the related underlying processes and systems to IFRS. The restatement of key financial information for the years ended 31 March 2004 and 2005 to IFRS is well under way. Unaudited IFRS financial information for the year ended 31 March 2004 was released on 31 March 2005 and is available on the Company's website. Full 2005 IFRS information will

Management' s judgement is required to quantify such amounts.

Pensions

The regular cost of providing benefits under defined benefit schemes is charged to operating profit over the expected remaining service lives of the members of the schemes so as to achieve a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal defined benefit schemes are allocated to operating profit over the expected remaining service lives of the members.

be released before the Group' s interim announcement in November 2005.

The SEC has issued an accommodation for foreign private issuers preparing their first set of financial statements under IFRS which allows issuers to file two rather than three years of information. Cable & Wireless expects to take advantage of the accommodation and hence the Group' s date of transition to IFRS will be 1 April 2004. As noted above, the Group previously issued unaudited information to investors outlining the impact of the change to international standards on the financial statements for the year ended 31 March 2004; this assumed a transition date of 1 April 2003. The change in transition date to 1 April 2004 will have no effect on the net income from continuing activities reported under IFRS for the year ended 31 March 2005 or on net assets as at that date.

Back to Contents

Reconciliation of US GAAP and of non-GAAP measures

US GAAP reconciliation

The Company prepares its consolidated financial statements in accordance with UK GAAP, which differs in significant respects from US GAAP, see Note 35 "Summary of differences between United Kingdom and United States GAAP". A comparison of net loss and shareholders' equity of Cable & Wireless when applying UK and US GAAP is provided in the table below:

Net profit/(loss)	UK GAAP £m	US GAAP £m
Year ended 31 March 2005	**302**	**333**
Year ended 31 March 2004	(237)	(371)
Year ended 31 March 2003	(6,417)	(6,239)

Shareholders' equity	UK GAAP £m	US GAAP £m
As at 31 March 2005	**1,818**	**1,987**
As at 31 March 2004	1,703	1,787

Reconciliation of non-GAAP measures

Investors should consider non-GAAP financial measures in addition to, and not as a substitute for or as superior to, financial measures presented in accordance with GAAP.

Continuing operations – Profit/(loss) before taxation and exceptional items

Cable & Wireless uses 'Continuing operations – Profit/(loss) before taxation and exceptional items', a non-UK GAAP financial measure, as one of the key performance indicators for evaluating the underlying trading performance of the Group. Profit before taxation and exceptional items is also taken into account in assessing incentive payments. The Group believes that 'Continuing operations – Profit/(loss) before taxation and exceptional items' provides an important measure of the underlying trading performance of the Group.

The table below sets out a reconciliation of 'Continuing operations – Profit/(loss) before taxation and exceptional items' to 'Total Group – Profit/(loss) on ordinary activities before taxation'.

	2005			2004			2003		
	Continuing £m	Discon-tinued £m	Total Group £m	Continuing £m	Discon-tinued £m	Total Group £m	Continuing £m	Discon-tinued £m	Total Group £m
Profit/(loss) on ordinary activities before taxation and exceptional items	361	16	377	319	(41)	278	96	(446)	(350)
Less: Net interest and other similar income	(39)	1	(38)	(21)	8	(13)	(111)	9	(102)
Profit/(loss) on ordinary activities before interest, taxation and exceptional items	322	17	339	298	(33)	265	(15)	(437)	(452)
Exceptional operating costs	(144)	(1)	(145)	(219)	(25)	(244)	(151)	(291)	(442)

Exceptional depreciation	(8)	–	(8)	(404)	(122)	(526)	(1,574)	(807)	(2,381)
Exceptional amortisation	–	–	–	(10)	–	(10)	(2,196)	(529)	(2,725)
Exceptional profits less (losses) on sale and termination of operations	(14)	130	116	2	248	250	–	(147)	(147)
Exceptional profits less (losses) on disposal of fixed assets	7	16	23	12	16	28	62	–	62
Exceptional asset writedown	–	–	–	–	–	–	(274)	–	(274)
Profit/(loss) on ordinary activities before interest and taxation	163	162	325	(321)	84	(237)	(4,148)	(2,211)	(6,359)
Net interest and other similar income/(charges)	39	(1)	38	21	(8)	13	111	(9)	102
Profit/(loss) on ordinary activities before taxation	**202**	**161**	**363**	**(300)**	**76**	**(224)**	**(4,037)**	**(2,220)**	**(6,257)**

Back to Contents

Reconciliation of US GAAP and of non-GAAP measures

Operating costs before depreciation, amortisation and exceptional items

As noted earlier, the Group presents ‘Operating costs before depreciation, amortisation and exceptional items’. This is a non-UK GAAP financial measure that is used by management as a key performance measure. Cable & Wireless believes it appropriate to show operating costs excluding depreciation and amortisation because these items are non-cash in nature. This presentation is also consistent with the way that the Group’s financial performance is measured by management and Cable & Wireless believes this presentation allows a more meaningful comparison to be made of the trading results of the Group for the three years presented.

The reconciliation of the non-UK GAAP financial measure of ‘Operating costs before depreciation, amortisation and exceptional items’ to the GAAP financial measure of ‘Total operating costs’, by major geography, is set out below:

Year ended 31 March 2005

	UK	CWAO	Europe	Asia	Bulldog	National Telcos	Other	Discontinued	Total Group
Total operating costs before depreciation, amortisation and exceptional items	1,452	21	198	33	39	764	40	183	2,730
Exceptional items	66	(6)	38	1	–	22	31	1	153
Depreciation	60	–	–	1	2	128	1	2	194
Amortisation	–	–	–	–	4	3	–	–	7
Total operating costs	**1,578**	**15**	**236**	**35**	**45**	**917**	**72**	**186**	**3,084**

Year ended 31 March 2004

	UK	CWAO	Europe	Asia	National Telcos	Other	Discontinued	Total Group
Total operating costs before depreciation, amortisation and exceptional items	1,560	27	268	33	757	32	546	3,223
Exceptional items	266	–	7	8	321	31	147	780
Depreciation	68	–	1	1	153	2	27	252
Amortisation	–	–	–	–	(3)	–	–	(3)
Total operating costs	**1,894**	**27**	**276**	**42**	**1,228**	**65**	**720**	**4,252**

Year ended 31 March 2003

	UK	CWAO	Europe	Asia	National Telcos	Other	Discontinued	Total Group

Total operating costs before depreciation, amortisation and exceptional items	1,568	–	347	100	775	6	1,261	4,057
Exceptional items	3,570	–	298	16	34	3	1,627	5,548
Depreciation	413	–	28	3	159	3	129	735
Amortisation	62	–	–	4	(1)	–	61	126
Total operating costs	**5,613**	**–**	**673**	**123**	**967**	**12**	**3,078**	**10,466**

Operating and financial review
Risk factors

In addition to the other information contained in this Annual Report, investors in Cable & Wireless should consider carefully the risks described below. The Group's financial condition or results of operations could be materially adversely affected should any of these risks arise.

Risks specific to Cable & Wireless' business

1. The restructuring of the Group may not result in an improvement to performance and financial position.
In June 2003 Cable & Wireless announced that it was undertaking, over a three year period, a restructuring of its businesses to improve its position in a rapidly changing market place. Cable & Wireless' restructuring plans continue to be implemented and developed. In November 2004, a Group re-organisation was announced, which is intended to result in £35 million annualised cost savings by March 2006. Key elements of the reorganisation include a planned headcount reduction of 600 in the European business and head office and it is also planned to reduce headcount in the UK sales channels by 480 over the same period. Delays in implementation and integration of businesses may distract management from being able to concentrate on developing their businesses with certainty, or to pursue opportunities in their respective marketplaces. The forecast of savings for the year ending March 2006 was recently revised downward to £20 million in connection with the recently announced proposed acquisition of the share capital of Energis. As with the previously announced reorganisation, cost savings and operating synergies anticipated from the proposed Energis acquisition may not be realised in full; in addition, costs incurred in connection with integration and restructuring efforts may be higher than estimated.

In April 2005, Cable & Wireless announced the investment of £190 million, over the next three years, on a Next Generation Network ("NGN") in the UK. NGN is designed to, among other things, protect margins in the UK. As highlighted in connection with the proposed acquisition of Energis, Cable & Wireless intends to migrate Energis customers to NGN, and the corresponding cost savings and capital expenditure

The Group has in the past dedicated, and expects in the future to dedicate, significant resources to integrate any businesses that it has or will acquire and to effect any rationalisation of its operations. Implementation of both these elements is complex, time-consuming and expensive, and without proper planning and execution, could significantly disrupt the Group's business.

In addition, the acquisition of Bulldog is an important step in advancing the Group's access strategy. We believe LLU strengthens the Group's presence in the access network market by enabling Bulldog to take control of the "last mile" copper link to the customer's home or office. Our initiatives with Bulldog and LLU could fail and our investment in LLU may not achieve the expected return on investment or access to new markets.

The proposed acquisition of Energis is expected to generate significant synergy with the Group's UK business, including through lower operating costs and capital expenditures for the combined business. If the synergies and savings are not realised, the Group may not achieve the expected benefits from the proposed acquisition.

3. Technological changes in communication and information technology may render the Group's products and services obsolete or non-competitive resulting in an adverse impact on financial results.
The telecommunications industry is subject to rapid and significant changes in technology. The development of new technologies could render its current services obsolete and non-competitive and require the Group to write-down further the book values of investments it has made in existing technologies.

The Group's business plan contemplates the introduction of services using new technologies and it may have to make substantial additional investments in new technologies in order to remain competitive. In particular, Cable & Wireless is investing in a broadband access network through Bulldog and synergies from the proposed acquisition therefore depend in part on NGN. However, NGN may fail to achieve the cost savings and synergies expected either from Cable & Wireless or Energis, costs incurred may be higher than expected and the efforts may fail to attract and keep new customers. Furthermore, any delay in the development or implementation of NGN could defer or reduce cost savings and synergies.

2. Transformation initiatives by the Group may not be successfully implemented.

The Group has been in rapid transition in the past few years, acquiring and disposing of a number of businesses, as well as adapting to a changing telecommunications business environment, and implementing a number of reorganisation initiatives as a result. In June 2003 Cable & Wireless announced its intention, over time, to expand its investment in national telecommunications operations, such as the Group' s investment in June 2004 in Monaco Telecom and its agreement to acquire the entire issued share capital of Energis announced in August 2005. This may include acquiring further entities and businesses.

a Next Generation Network in the UK, and has also invested in a GSM mobile network in the National Telcos. Such new technologies that the Group chooses to invest in may not prove to be successful, and the cost of implementation for emerging and future technologies could be significant and constitute a negative return on the investment.

In addition, Cable & Wireless may not receive the necessary licences to provide services based on new technologies in jurisdictions in which it operates. It may also be forced to change its product and service offerings or pay higher costs if the third-party technology that it employs changes or if the price of such technology increases. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs to maintain its customer base.

4. Network and critical IT system failures may expose the Group to potential liability or loss of customers.

The Group' s operations are dependent upon networks which may or may not be controlled by Cable & Wireless. In addition, the Group is dependent on a number of critical IT systems to be able to conduct its business and process financial information. Catastrophic network failure, a major network interruption or an IT

Operating and financial review
Risk factors

system failure may occur as a result of natural disasters, a loss of a major element of the network, security breaches, terrorist action or computer viruses. Such catastrophic failures or interruptions could result in the loss of customers as well as exposure to potential claims from customers based on the loss of service. A failure or interruption could also require expensive repairs or modifications to the Group' s assets and infrastructure.

5. Uninsured exposure to natural catastrophe (including Caribbean windstorm) insurance may continue to increase.
Due to increased levels of hurricane activity in certain areas in which the Group operates, the availability of windstorm, flood and earthquake insurance has decreased. Insurance deductibles for windstorm, flood and earthquake damage for certain areas in which the Group operates have increased and as a result, uninsured exposure to such losses will be higher in fiscal year 2006 than in prior years. In addition, certain other exclusions, including overhead cabling apply, which also increase the Group' s uninsured exposure.

Regulatory risk

6. Unforeseen changes in regulation and government policy in the countries in which Cable & Wireless operates may result in planned business objectives not being met.
The Group operates in some highly regulated markets, and its flexibility to manage its business can be constrained by regulation in these markets.

The Group' s ability to provide telecommunications services depends, in most countries, on receiving and maintaining government licences and authorisations.

Compliance with these licences and applicable local laws requires that Group companies obtain consents or approvals from regulatory authorities for certain activities.

Furthermore, regulatory regimes in some countries in which the Group operates are less well established than in other countries where competition in the telecommunications sector have a material adverse effect on the Group' s financial results.

In the UK, the LLU initiative through Bulldog is an important step in advancing the Group' s access strategy. Ofcom' s commitment to ensuring "equality of access" is key to Bulldog' s success in LLU. However, there is no guarantee Ofcom will have the power to make the required changes to the regulatory or competitive framework to be able to deliver the competitive environment necessary, and therefore Bulldog may not reach the financial success it expects from LLU.

7. Exposure to other telecommunications operators and the behaviour of other market participants may have a detrimental effect on the Group' s operations.
The Group' s operations are, in part, dependent upon access to networks that it does not own or entirely control. In these cases, Cable & Wireless' operations depend on network operators to provide interconnection services for the origination, carriage and/or termination of some of its telecommunications services.

The Group has experienced interconnection capacity shortages in the past, and it may do so again if it is unable to obtain and maintain the necessary interconnection and other transmission services in a timely fashion and on acceptable commercial terms in each country in which it intends to introduce or continue to offer its telecommunications services.

The Group may also be subject to the constraints, including financial constraints, of the relevant network operator, which may be unable to provide any or all of the capacity that the Group requests. If it cannot obtain the capacity it requires to adequately serve all of its existing customers or to connect all of its potential new customers, the Group may lose them to its competitors. All of this could have a material adverse effect on the Group' s financial results.

8. The Group may lose revenue if unlicensed operators are able to gain access to the Group' s network.
In certain markets where the Group operates, unlicensed

has been established for longer. As a result, the Group's business in these countries could be subject to unexpected political, economic or legal developments that impact telecommunications regulations and lead to the Group being unable to acquire or retain the regulatory approvals necessary to its business. Failure to acquire and retain such consents and approvals or in other ways to comply with regulatory requirements could have a material adverse effect on its results or operations either in that jurisdiction or in aggregate.

Future regulation may materially impact the Group, for example by resulting in changes to the terms of interconnection agreements with other network operators and other similar agreements; imposing market-access barriers; setting price caps or other forms of price regulation; imposing limitations or investment obligations on construction of new facilities and restrictions on repatriation of cash. The number of regulatory measures may also significantly increase, or become significantly more onerous where jurisdictions in which the Group operates reform their telecommunications and related laws and regulations. Complying with new or more onerous regulations and restrictions may be costly for the Group, and may operators may seek to gain access to the Group's network unlawfully without paying for such access and/or usage. The Group has processes in place to identify and prevent such occurrences, but actions available to it may be limited by local regulation. To the extent that the Group's efforts to prevent the unlawful conduct are not wholly successful, it may lose revenue and the Group's financial performance may be adversely impacted.

Risks specific to the telecommunications industry

9. The Group's operations could suffer from adverse effects of competition and price pressures on the demand for products and services.

The Group faces competition and downward pressure on prices in many areas and markets of its business. The Group's competitors may be able to expand their network infrastructures and service offerings more quickly than the Group. The Group also believes the sector may experience consolidation in the near future, which could result, amongst other things, in competitors with greater scale that would make it more difficult for Cable & Wireless to compete effectively.

As the markets for some of the Group's services expand in certain locations, additional competition may emerge and existing competitors may commit more resources to the markets in which it participates. For example, governments in various countries in which the Group provides telecommunications services, in some cases on an exclusive basis and in others where it until recently provided services on an exclusive basis, have begun liberalising the telecommunications industry by introducing regulated competitive markets for some products and services in place of exclusive licences. The Group is not able to predict accurately the extent to which it will lose market share to some of the competitors entering the market as a result of this transformation and its operating results and revenues may be adversely affected.

10. Continued overcapacity and other factors could lead to lower prices for the Group's products and services.
Many of the markets in which Cable & Wireless operates are experiencing considerable levels of overcapacity. Coupled with low levels of demand growth this has contributed to a severe price decline in these markets. This continuing trend could compel the Group to lower prices to prevent erosion of its market share or to continue attracting new customers.

If the current overcapacity situation is not resolved or worsens, prices may continue to decline in the affected regions and such price decline could have a material adverse effect on the Group's financial results.

11. Mobile communications devices may pose health risks.
Media reports have suggested that radio frequency emissions from mobile telephone handsets and transmission facilities may pose various health risks, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies into the health risks posed by mobile telephone handsets and transmission facilities are ongoing. Cable & Wireless provides mobile services principally in the Caribbean, Panama, Macau and Monaco and also provides national and international network capacity to mobile operators. Cable & Wireless continues to monitor scientific and medical research and

- exposure to adverse publicity and damage to reputation.

Legal and Other

12. The historic activities of the Group's insurance subsidiary may result in material claims.
Pender Insurance Limited ("Pender") is the company's Isle of Man domiciled captive insurance company. Since its establishment in 1990 it has underwritten global insurances for both Cable & Wireless, and in later years, third party companies. It ceased to underwrite any new business from April 2003.

The insurances provided included property damage, business interruption, natural catastrophe, general liability, professional indemnity and directors' and officers' liability.

Pender purchased reinsurance for many of the risks it underwrote, including, from 2003, reinsurance via a telecommunications insurance industry mutual ("the Mutual"). Pender remains liable for all policies it underwrote in the first instance notwithstanding the reinsurances.

Pender has an independent board of directors and is managed by Thomas Miller Risk Management (Isle of Man). Pender's risk exposures are identified and regularly monitored by the directors.

The significant key risks identified are as follows:

- failure of reinsurance (including reinsurances secured via the Mutual post-April 2003);

- deterioration in known claims; and

- notification of new claims under long tail "losses occurring" liability policies.

Certain of Pender's re-insurers have instituted proceedings seeking a declaration that they are entitled to avoid some of their re-insurance obligations.

If any of these risks materialise Pender may be subject to significant liabilities which its assets may not be sufficient to meet. Moreover, there can be no assurance that these studies, media, legal, regulatory and other developments, as well as the public perception of risk arising from the use of mobile telephone handsets. Scientific research on mobile telephone handsets and health has been reviewed by a number of independent expert scientific panels. None of these panels has concluded that the use of mobile telephone handsets is harmful to health.

Nonetheless, increased speculation regarding health risks associated with mobile telephone handsets and transmission facilities or any subsequent substantiation of such risks could have a material adverse effect on the Group's business including through:

- a reduction in the number of actual and potential customers;
- reduced usage per customer;
- exposure to potential litigation or other liability;
- regulatory intervention and new legislation; or

arrangements will not have a material adverse effect on the financial condition of the Cable & Wireless Group.

The suit commenced by Cable and Wireless plc and Pender on 30 March 2004, against five companies and six individuals (five of whom were former Cable & Wireless employees) has now been widened to cover seven corporate defendants and nine individuals. Three of these defendants have lodged a counter-claim against the Company. The Cable & Wireless Board continues to believe that the circumstances giving rise to this suit have not had nor will have a material adverse effect on the Cable & Wireless Group.

13. The ongoing US Securities Act Class action might adversely impact the Group's financial condition.
The class action detailed in "Operations and financial review – Legal proceedings" on page 93 was filed against the Company in the

Operating and financial review
Risk factors

United States. If the settlement agreement for which all parties are seeking the Court's approval does not reach the stage of receiving final Court approval for any reason, the plaintiffs may seek to appeal the initial decision of the District Court.

In addition, Cable & Wireless is from time to time involved in other material litigation, which if decided adversely to the Group could, individually or in the aggregate, adversely impact its financial condition or reputation.

14. The Group's withdrawal from the US domestic market may result in unforeseen claims against Cable & Wireless.
Details of the Group's withdrawal from the US domestic market through a Chapter 11 bankruptcy process of its US subsidiaries are set out in the Business overview – Acquisitions and disposals on page 23.

Although the Plan of Liquidation is ongoing and, as part of that plan, Cable and Wireless has taken measures to reduce its exposure to third party claims (by means of measures including the reduction of its claims against CWA in exchange for releases from any liability from CWA; and the assignment of a portion of the distributions, to which it would otherwise have been entitled, to individual unsecured creditors in exchange for individual releases for claims against the Company), there is no guarantee that Cable and Wireless plc will not be the target of claims from third parties who believe they might have contractual or other rights enforceable directly against the Company. In addition, despite the existence of contractual rights in its favour from SAVVIS in relation to the guarantees and letters of credit in favour of CWA landlords (as described in the Business overview), Cable and Wireless plc is subject to the risk that SAVVIS is unable to meet its contractual obligations to reimburse it for payments made under those guarantees and letters of credit.

15. Changes in the pension regulatory framework and volatility in the financial markets may require the Group to provide further cash funding to its pension funds.
Cable & Wireless currently maintains a number of defined

16. Fluctuations in currency exchange rates in the countries where Cable & Wireless operates may adversely affect the Group's reported results and financial condition.
A significant percentage of Cable & Wireless' business is conducted outside the United Kingdom. The Group is thus exposed to movements in exchange rates in relation to foreign currency receipts and payments, dividend and other income from foreign subsidiaries, reported profits of foreign subsidiaries and the net asset carrying value of foreign investments.

The Group manages its exposure to movements in exchange rates on a net basis, and where appropriate, uses forward foreign exchange contracts and other derivative and financial instruments to reduce the exposure.

To the extent that this hedging activity does not cover the exposure, then the Group's results of operations, cash generation and financial condition may be negatively impacted by currency exchange rate movements.

benefit plans, which cover various categories of employees and retirees. The Group' s obligations to make contributions to fund benefit obligations under these plans are based on actuarial valuations, which themselves are based on certain assumptions about the long-term operation of the plans, including employee turnover and retirement rates, the performance of the financial markets, interest rates and expected longevity/mortality. If the actual operation of the plans differs from the assumptions, additional contributions may be required. The equity markets can be, and recently have been, volatile, and therefore the estimate of future contribution requirements can change significantly in a short period of time. Similarly, changes in interest rates may also impact funding requirements. In the UK, which has the most significant defined benefit scheme, changes to the regulatory environment, and the introduction of the Pension Act 2004 may also lead to an increasingly conservative actuarial valuation approach and investment strategy. If the Group is required to make significant contributions to fund the defined benefit plans, the financial position could be materially and adversely affected and the cash flow available for other uses may be significantly reduced.

Operating and financial review
Legal proceedings

Class action litigation against Cable and Wireless plc

Between December 2002 and February 2003, ten shareholder class action lawsuits were filed in the United States District Court for the Eastern District of Virginia naming Cable and Wireless plc and several of its officers and directors as defendants.

In March 2003, the Court consolidated all the cases into one action, styled as In re Cable and Wireless plc Securities Litigation, Civil Action No. 02-1860-A.

In May 2003, the lead plaintiffs filed a consolidated complaint that alleged violations of certain sections of the Securities and Exchange Act of 1934 and the rules promulgated thereunder. A central allegation was that the defendants made false and misleading statements about the Company's financial condition by failing to disclose on a timely basis the existence of a tax indemnity and a ratings trigger to place money in escrow until any liability which the Company may have had under the tax indemnity was finally determined. The indemnity and ratings trigger appeared in an agreement reached in 1999 between the Company and Deutsche Telekom for the sale of the Company's interest in the mobile telephone company that operated under the name One2One.

In addition to the allegations relating to the tax indemnity, the consolidated complaint also alleged that the defendants made false and misleading statements by: (1) failing to disclose certain lease liability commitments and (2) improperly recognising revenue received from sales of capacity to other carriers.

The plaintiffs sought unspecified money damages in their complaints.

The Company and the individual defendants filed motions to dismiss the class action complaint, which were heard on 31 October 2003. In March 2004 the Court issued orders granting the Company's and the individual defendants' motions to dismiss the complaint (but denying the settlement. The Court of Appeals accordingly referred the case back to the District Court on 21 March 2005, for consideration of the settlement agreement. The District Court granted preliminary approval of the settlement by order dated 13 May 2005 and final approval by order dated 23 July 2005 thereby bringing the proceedings to a close.

Claim against the Minister of Finance and Economy, Panama

On 16 December 2002, a complaint was filed by two Panamanian lawyers exercising a public action at the Third Chamber of the Supreme Court of Justice of Panama questioning the law governing and rules of Public Bid No. 06 96 won by INTEL, S.A. (now Cable & Wireless Panama, S.A.). Complaints filed at the Third Chamber of the Supreme Court of Justice must be filed against the public officer who enacted the relevant regulation or act. This complaint was filed against the Minister of Finance and Economy in Panama specifically alleging that the Operating Agreement executed between Cable and Wireless (CALA Management Services) Limited and INTEL, S.A. (now Cable & Wireless Panama, S.A.) as part of the privatisation agreements was null and void *ab initio*, on the grounds that it had not been published in the Official Gazette in Panama.

The Operating Agreement enables Cable & Wireless Panama, S.A. to use the technical and management know-how of Cable and Wireless (CALA Management Services) Limited to fulfil more effectively its obligations under the concession granted to it by the Government of Panama to install, operate and exploit telecommunication services in Panama. Cable & Wireless Panama, S.A., due to its close interest in the outcome of the complaint, requested recognition by the Court and permission to participate in the proceedings. The Court agreed to this.

On 21 March 2003, the Court permitted the claim to proceed. Cable & Wireless Panama, S.A. filed an appeal against the admission of the claim to proceed, however the Court defendants' motion to dismiss the claims of foreign (non-US) purchasers for lack of subject matter jurisdiction). On 4 May 2004 and 5 June 2004, the Court issued memoranda opinions with regard to its previous orders. On 15 June 2004, the Court entered judgement for the Company and the individual defendants consistent with its March 2004 orders and memoranda opinions.

On 16 April 2004, plaintiffs filed an appeal of the District Court' s decision to the US Court of Appeals for the Fourth Circuit. On 3 May 2004, defendants filed a notice of cross-appeal with respect to the District Court' s order denying their motion to dismiss the claims of foreign (non-US) purchasers for lack of subject matter jurisdiction. While the case was pending on appeal, on 7 January 2005, the parties reached a preliminary agreement to settle the complaint on the basis of the defendants making a payment of US$7 million (£3.7 million) to the plaintiff class (with the support of the Company' s insurers) in full and final settlement of the complaint.

On 1 March 2005, the parties filed a stipulation with the Court of Appeals requesting that the Court of Appeals remand the case to the District Court for the limited purpose of considering the parties'

confirmed its decision to permit the claim to proceed on 17 March 2004.

As required by Panamanian law, the Administrations General Attorney has provided an opinion to the Court in defence of the law or regulation, which is the subject of the complaint. The Administrations General Attorney has opined that the Operating Agreement complied with all the requirements established by the law and by the rules of Public Bid No. 06 96 and was countersigned by the General Comptroller acting with due authorisation.

On 1 April 2005, Cable & Wireless Panama, S.A. tendered its response to the claim and submitted evidence for consideration by the Court. The plaintiff has requested that the effect of the Operating Agreement be suspended temporarily – an issue which the Court rejected on 10 March 2005. On 7 September 2005, the submission of evidence before the Court was completed. The Court is currently waiting to hear closing arguments.

Back to Contents

Operating and financial review
Legal proceedings

Panamanian counsel considers this claim to be without merit and none of Cable and Wireless plc, Cable & Wireless Panama, S.A. or Cable and Wireless (CALA Management Services) Limited is party to the complaint. If the complaint were to be successful, the concession under which Cable & Wireless Panama, S.A. operates would not be affected. However the Operating Agreement could be declared null and void and then the complainants could file a complaint against Cable and Wireless (CALA Management Services) Limited requiring the return of all management fees collected under the agreement since its execution on 20 May 1997. This would amount to approximately £60 million. In the event that this complaint should be successful, Cable & Wireless and its subsidiaries intend to vigorously pursue any legal recourse available to them.

Telecarrier Inc. vs. Cable & Wireless Panama, S.A.

On 5 May 2004, Telecarrier Inc. lodged a claim in the Sixth Circuit Civil Court of Panama alleging non-compliance by Cable & Wireless Panama, S.A. ("Cable & Wireless Panama") with the Interconnection Agreement between the parties in connection with the invoicing and collection process. Telecarrier Inc. requested the Court to order the continued provision of a pre-determined billing and charging process and to prevent Cable & Wireless Panama from using an alternative process. They also claimed US$18 million (£9.6 million) damages and costs.

On 9 September 2004, Cable & Wireless Panama submitted a defence to the claim and on 30 December 2004, the parties presented a petition for suspension of the process for a period of 45 days to allow them to negotiate with each other. In a resolution dated 30 December 2004, the Court admitted the petition and negotiations with the plaintiff were initiated. The suspension period has expired. Negotiations between Cable & Wireless Panama and Telecarrier Inc. concluded and no agreement was reached. The Court re-opened proceedings on 13 May 2005. The process is pending the submission of evidence to the Court. On 25 August 2005, Telecarrier Inc. petitioned the Court to join the unjust enrichment claim brought by Cable & Wireless Panama with

Arbitration between PT Cable, Inc., Cable and Wireless plc, Cable & Wireless IDC, Inc. and others

PT Cable, Inc., ("PT Cable") the US end owner of NPC Cable System (spanning from the United States to Japan), initiated an ICC arbitration proceeding against Cable and Wireless plc, Japan Telecom IDC, Inc. ("IDC") and other users of capacity on that system for unpaid operations and maintenance fees with respect to the US end. Cable & Wireless and all 14 other US end owners counter-claimed against PT Cable for overcharging operation and maintenance fees. PT Cable then cross-claimed against Cable & Wireless and IDC in their capacity as maintenance authorities and alleges that Cable & Wireless and IDC should be liable to contribute to any damages the Arbitrator may award against PT Cable.

Potential exposure of PT Cable is between US$13 million (£6.9 million) and US$33 million (£17.6 million). PT Cable's counter-claim against Cable & Wireless and IDC is for an unquantified proportion of that amount.

PT Cable failed to pay its arbitration filing fees and earlier this year was placed into Chapter 7 liquidation proceedings. The arbitration is therefore currently stayed.

On 28 January 2005, AT&T Corp and Alascom, Inc. ("Claimants") filed a Request for Arbitration before the ICC against Cable and Wireless plc and IDC ("Respondents") relating to the Respondents' alleged duties as Founding Signatories and Maintenance Authorities under the Construction and Maintenance Agreement for the NPC. The Claimants allege breach of contract, fraud, breaches of fiduciary duty and similar claims against the Respondents in connection with alleged overcharging of operations and maintenance fees by PT Cable. The complaint is for unquantified damages. The Company's US Counsel has advised that, in their opinion, all of the Claimants' claims are weak. The Company has filed its Answer to the Request for Arbitration and arbitrators are currently being selected.

As far as quantum of damages is concerned, AT&T's claim is duplicative of the counter-claim by PT Cable in the first arbitration above (save that AT&T has claimed punitive its non-compliance claim against Cable & Wireless Panama discussed above.

In a separate action, on 25 August 2004, Cable & Wireless Panama lodged a claim against Telecarrier Inc. in the Seventeenth Circuit Civil Court of Panama claiming unjustified enrichment by Telecarrier Inc. through the use of Cable & Wireless Panama' s fixed telephone network to allow the rerouting of traffic for internet public use. Cable & Wireless Panama is claiming US$14 million (£7.5 million).

The claim was admitted by the Court on 2 September 2004. On 23 December 2004, the parties agreed to suspend the process for a period of 30 days to allow for a period of negotiation – a move endorsed by the Court on 23 December 2004. Negotiations between Cable & Wireless Panama and Telecarrier Inc. concluded and no agreement was reached. The proceedings are pending the submission of evidence before the Court.

damages). Therefore Cable & Wireless believes its exposure remains within the parameters of the estimate set out above.

Cable & Wireless will continue to vigorously defend its position in each of the arbitration proceedings brought against it.

Back to Contents

Performance

Pender Insurance Limited

Australia-Japan Cable Limited ("AJC"), a policyholder of Pender Insurance Limited ("Pender") has brought proceedings in London against Pender and Cable & Wireless. AJC claims that it is entitled to insurance cover for loss of revenue following damage caused to an undersea cable by a cargo vessel. It also claims that, if it does not have such cover, Pender or Cable & Wireless is liable for its losses because of representations made to AJC that it was entitled to such insurance cover. The claim is for US$92 million (£49 million). Pender and Cable & Wireless have been advised by legal council that the claim is unmeritorious and accordingly are defending it vigorously. Certain of Pender's re-insurers of the AJC risk have instituted proceedings seeking a declaration that they are entitled to avoid their obligations. Pender is also vigorously defending these proceedings.

On 3 June 2005, QBE International Insurance Limited ("QBE") issued Pender with a request for arbitration on account of insurance premium payments of £36 million allegedly outstanding. Pender has received advice that this claim is substantially without merit and intends to defend it vigorously.

Pender has also been advised that, in the unlikely event of QBE recovering any funds as a result of this claim, it would be contractually obliged to pass such funds (less a small fee) under retrocession arrangements to Messenger Insurance PCC Limited ("Messenger"), one of the defendants to the proceedings brought by Pender and Cable and Wireless plc described on page 91. Pender has been advised that, given the strength of its misfeasance claims against Messenger, it would have a strong chance of recovering any such sums paid by QBE to Messenger arising out of the subject matter of the arbitration request.

Other litigation

From time to time, the Company and its subsidiaries are subject to legal or regulatory claims, proceedings, investigations or reviews. Other than the above, there are no pending claims, proceedings, investigations or reviews against the Company or any of its subsidiaries, which the Company believes will, if determined adversely to the Group, have a material adverse effect on the Group' s liquidity or operations.

Back to Contents

Report of the independent public accounting firm

To the Shareholders and Directors of Cable and Wireless plc

We have audited the accompanying consolidated balance sheets of Cable and Wireless plc and subsidiaries as of 31 March 2005 and 2004, and related consolidated profit and loss accounts, statements of cash flows, statements of total recognised gains and losses and reconciliations of movements in shareholders' funds for each of the years in the three-year period ended 31 March 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cable and Wireless plc and subsidiaries as of 31 March 2005 and 2004 and the results of their operations and cash flows for each of the years in the three-year period ended 31 March 2005 in conformity with generally accepted accounting principles in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 35 to the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

3 June 2005, except Note 35 to the consolidated Financial Statements which is as of 9 August 2005.

Back to Contents

Consolidated profit and loss accounts

For the year ended 31 March

	Note	2005 £m	2004 £m	2003 £m
Turnover of the Group including its share of joint ventures and associates	3	**3,409**	3,868	4,651
Share of turnover of – joint ventures	17	**(127)**	(136)	(195)
– associates	17	**(60)**	(61)	(65)
Group turnover*	3, 4	**3,222**	3,671	4,391
Operating costs before depreciation, amortisation and exceptional items	5	**(2,730)**	(3,223)	(4,057)
Exceptional operating costs	5, 10	**(145)**	(244)	(442)
Operating costs before depreciation and amortisation		**(2,875)**	(3,467)	(4,499)
Depreciation before exceptional items	5, 16	**(194)**	(252)	(735)
Exceptional depreciation	5, 10, 16	**(8)**	(526)	(2,381)
Depreciation		**(202)**	(778)	(3,116)
Amortisation before exceptional items	5, 15	**(7)**	3	(126)
Exceptional amortisation	5, 10	**–**	(10)	(2,725)
Amortisation		**(7)**	(7)	(2,851)
Total operating costs	5	**(3,084)**	(4,252)	(10,466)
Group operating profit/(loss)*		**138**	(581)	(6,075)
Share of operating profits in joint ventures	17	**16**	23	53
Share of operating profits in associates	17	**24**	18	22
Total operating profit/(loss)		**178**	(540)	(6,000)
Profits less (losses) on sale and termination of operations before exceptional items		**3**	–	–
Exceptional items	10	**116**	250	(147)
Profits less (losses) on sale and termination of operations		**119**	250	(147)
Profits less (losses) on disposal of fixed assets before exceptional items	9	**5**	25	–
Exceptional items	10	**23**	28	62
Profits less (losses) on disposal of fixed assets		**28**	53	62
Exceptional amounts written off investments	10	**–**	–	(274)
Profit/(loss) on ordinary activities before interest		**325**	(237)	(6,359)
Net interest and other similar income/(charges)				
– Group	11	**38**	13	103
– Joint ventures and associates	17	**–**	–	(1)
Total net interest and other similar income		**38**	13	102

Profit/(loss) on ordinary activities before taxation		**363**	(224)	(6,257)
Tax on profit/(loss) on ordinary activities	12	**14**	12	(36)
Profit/(loss) on ordinary activities after taxation		**377**	(212)	(6,293)
Equity minority interests		**(75)**	(25)	(124)
Profit/(loss) for the financial year		**302**	(237)	(6,417)
Dividends	13	**(87)**	(73)	(37)
Profit/(loss) for the year retained	24	**215**	(310)	(6,454)
Basic earnings/(loss) per Ordinary Share	14	**13.0p**	(10.2)p	(275.4)p
Diluted earnings/(loss) per Ordinary Share	14	**12.3p**	(10.2)p	(275.4)p
Dividends per Ordinary Share		**3.8p**	3.15p	1.6 p

The accompanying notes are an integral part of these Financial statements.

*Refer to page 98 for continuing operations analysis and page 99 for discontinued operations analysis.

Back to Contents

Consolidated profit and loss accounts: Continuing operations

For the year ended 31 March

	Note	Continuing operations £m	Continuing operations Acquisitions £m	2005 Continuing operations Total £m	2004 Continuing operations £m	2003 Continuing operations £m
Turnover of the Group including its share of joint ventures and associates	3	**3,099**	**111**	**3,210**	3,327	3,637
Share of turnover of – joint ventures	17	**(127)**	–	**(127)**	(136)	(195)
– associates	17	**(60)**	–	**(60)**	(61)	(65)
Group turnover	3, 4	**2,912**	**111**	**3,023**	3,130	3,377
Operating costs before depreciation, amortisation and exceptional items	5	**(2,435)**	**(112)**	**(2,547)**	(2,677)	(2,796)
Exceptional operating costs	5, 10	**(144)**	–	**(144)**	(219)	(151)
Operating costs before depreciation and amortisation		**(2,579)**	**(112)**	**(2,691)**	(2,896)	(2,947)
Depreciation before exceptional items	5,16	**(184)**	**(8)**	**(192)**	(225)	(606)
Exceptional depreciation	5, 10, 16	**(8)**	–	**(8)**	(404)	(1,574)
Depreciation		**(192)**	**(8)**	**(200)**	(629)	(2,180)
Amortisation before exceptional items	5, 15	**2**	**(9)**	**(7)**	3	(65)
Exceptional amortisation	5, 10	–	–	–	(10)	(2,196)
Amortisation		**2**	**(9)**	**(7)**	(7)	(2,261)
Total operating costs	5	**(2,769)**	**(129)**	**(2,898)**	(3,532)	(7,388)
Group operating profit/(loss)		**143**	**(18)**	**125**	(402)	(4,011)
Share of operating profits in joint ventures	17	**15**	**1**	**16**	23	53
Share of operating profits in associates	17	**24**	–	**24**	18	22
Total operating profit/(loss)		**182**	**(17)**	**165**	(361)	(3,936)
Exceptional profits less (losses) on sale and termination of operations	10	**(14)**	–	**(14)**	2	–
Profits less (losses) on disposal of fixed assets before exceptional items	9	**5**	–	**5**	26	–
Exceptional items	10	**7**	–	**7**	12	62
Profits less (losses) on disposal of fixed assets		**12**	–	**12**	38	62
Exceptional amounts written off investments	10	–	–	–	–	(274)
Profit/(loss) on ordinary activities before interest		**180**	**(17)**	**163**	(321)	(4,148)

The accompanying notes are an integral part of these Financial statements.

Back to Contents

Consolidated profit and loss accounts: Discontinued operations

For the year ended 31 March

	Note	2005 Discontinued operations £m	2004 Discontinued operations £m	2003 Discontinued operations £m
Turnover of the Group including its share of joint ventures and associates	3	**199**	541	1,014
Share of turnover of – joint ventures	17	–	–	–
– associates	17	–	–	–
Group turnover	3, 4	**199**	541	1,014
Operating costs before depreciation, amortisation and exceptional items	5	**(183)**	(546)	(1,261)
Exceptional operating costs	5, 10	**(1)**	(25)	(291)
Operating costs before depreciation and amortisation		**(184)**	(571)	(1,552)
Depreciation before exceptional items	5, 16	**(2)**	(27)	(129)
Exceptional depreciation	5, 10, 16	–	(122)	(807)
Depreciation		**(2)**	(149)	(936)
Amortisation before exceptional items	5, 15	–	–	(61)
Exceptional amortisation	5, 10	–	–	(529)
Amortisation		–	–	(590)
Total operating costs	5	**(186)**	(720)	(3,078)
Group operating profit/(loss)		**13**	(179)	(2,064)
Share of operating profits in joint ventures	17	–	–	–
Total operating profit/(loss)		**13**	(179)	(2,064)
Profits less (losses) on sale and termination of operations before exceptional items		**3**	–	–
Exceptional items	10	**130**	248	(147)
Profits less (losses) on sale and termination of operations		**133**	248	(147)
Profits less (losses) on disposal of fixed assets before exceptional items	9	–	(1)	–
Exceptional items	10	**16**	16	–
Profits less (losses) on disposal of fixed assets		**16**	15	–
Profit/(loss) on ordinary activities before interest		**162**	84	(2,211)

The accompanying notes are an integral part of these Financial statements.

Back to Contents

Consolidated balance sheets

At 31 March

	Note	2005 £m	2004 £m
Fixed assets			
Intangible assets	15	**91**	(9)
Tangible assets	16	**1,379**	1,214
Interest in net assets of joint ventures*	17	**128**	132
Investments in associates	17	**80**	75
Loans to joint ventures and associates	17	**1**	1
Other investments	17	**20**	58
Total fixed asset investments		**229**	266
		1,699	1,471
Current assets			
Stocks	18	**35**	38
Debtors – due within one year	19	**816**	875
– due after more than one year	19	**284**	175
		1,100	1,050
Current asset investments and short-term deposits	20	**2,031**	2,229
Cash at bank and in hand		**135**	138
		3,301	3 ,455
Creditors: amounts falling due within one year	21	**(1,534)**	(1,668)
Net current assets		**1,767**	1,787
Total assets less current liabilities		**3,466**	3,258
Creditors: amounts falling due after more than one year			
Convertible debt	21	**(252)**	(252)
Other creditors	21	**(549)**	(623)
		(801)	(875)
Provisions for liabilities and charges	22	**(528)**	(431)
		(1,329)	(1,306)
Net assets		**2,137**	1,952
Capital and reserves			
Called up share capital	23	**599**	596
Share premium account	24	**8**	2
Special reserve	24	**1,736**	1,745
Capital redemption reserve	24	**105**	105
Profit and loss account	24	**(630)**	(745)
Equity shareholders' funds		**1,818**	1,703
Equity minority interests		**319**	249

Capital employed	**2,137**	1,952

* Interests in net assets of joint ventures include the Group' s share of gross assets of joint ventures of £189 million (2004 – £190 million) and the Group' s share of gross liabilities of joint ventures of £61 million (2004 – £58 million) – see Note 17

The accompanying notes are an integral part of these Financial statements.

Performance

Company balance sheets

At 31 March

	Note	2005 £m	2004 £m
Fixed assets			
Tangible assets	16	**11**	11
Investments in subsidiaries	17	**20,412**	19,700
Investments in associates	17	**19**	21
Loans to joint ventures and associates	17	**1**	1
Other investments	17	**–**	28
Total fixed asset investments		**20,432**	19,750
		20,443	19,761
Current assets			
Debtors – due within one year	19	**148**	123
– due after more than one year	19	**142**	102
		290	225
Current asset investments and short-term deposits	20	**1,819**	2,133
Cash at bank and in hand		**11**	35
		2,120	2,393
Creditors: amounts falling due within one year	21	**(332)**	(515)
Net current assets		**1,788**	1,878
Total assets less current liabilities		**22,231**	21,639
Creditors: amounts falling due after more than one year			
Convertible debt	21	**(252)**	(252)
Other creditors	21	**(18,686)**	(18,106)
		(18,938)	(18,358)
Provisions for liabilities and charges	22	**(184)**	(174)
		(19,122)	(18,532)
Net assets		**3,109**	3,107
Capital and reserves			
Called up share capital	23	**599**	596
Share premium account	24	**8**	2
Special reserve	24	**1,736**	1,745
Capital redemption reserve	24	**105**	105
Profit and loss account	24	**661**	659
Equity shareholders' funds		**3,109**	3,107

The accompanying notes are an integral part of these Financial statements.

Back to Contents

Consolidated cash flow statements

For the year ended 31 March

	Note	2005 £m	2004 £m	2003 £m
Net cash inflow from operating activities	28	**346**	73	95
Dividends from joint ventures and associates				
Dividends from joint ventures		**11**	12	13
Dividends from associates		**14**	13	15
		25	25	28
Returns on investments and servicing of finance				
Interest and similar income received		**89**	103	197
Interest paid		**(68)**	(89)	(88)
Net interest element of finance lease rentals paid		**–**	(1)	(2)
Dividends paid to minority interests		**(35)**	(75)	(70)
Income received from other investments		**4**	5	–
		(10)	(57)	37
Taxation		**(60)**	(43)	(438)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(344)**	(342)	(810)
Sale of tangible fixed assets		**9**	38	15
Purchase of current asset investments		**(1)**	(1)	(3)
Purchase of investments		**–**	(4)	(38)
Sale of current asset investments		**–**	229	600
Sale of investments		**68**	39	11
Investment in joint venture		**–**	–	10
		(268)	(41)	(215)
Acquisitions and disposals				
Disposal of subsidiary undertakings		**96**	(120)	14
Purchase of shareholdings in subsidiary undertakings		**(131)**	(5)	2
Receipts from sale of associates		**7**	7	94
Purchase of associate undertakings		**(7)**	–	–
		(35)	(118)	110
Equity dividends paid to shareholders		**(97)**	–	(119)
Management of liquid resources				
Movement in liquid resources (net)	30	**75**	932	(1,040)
Financing				
Purchase of own shares		**(74)**	–	–
Issue of ordinary share capital		**6**	2	1
Capital element of finance lease rental repayments		**–**	(1)	(18)
Other long term debt issued		**1**	280	88
Long term debt repaid		**(86)**	(863)	(649)
		(153)	(582)	(578)

(Decrease)/increase in cash in the year	29	**(177)**	189	(2,120)

The accompanying notes are an integral part of these Financial statements.

Back to Contents

Consolidated statements of total recognised gains and losses

For the year ended 31 March

	2005 £m	2004 £m	2003 £m
Profit/(loss) for the financial year	**302**	(237)	(6,417)
Currency translation differences on foreign currency net investments and related borrowings	**(37)**	(97)	(240)
Total gains/(losses) relating to the period	**265**	(334)	(6,657)
Prior year adjustment (Note 24)	**119**		
Total losses recognised since last annual report	**384**		

The accompanying notes are an integral part of these Financial statements.

Back to Contents

Reconciliation of movements in consolidated equity shareholders' funds

For the year ended 31 March

	2005 £m	2004 £m	2003 £m
Profit/(loss) for the financial year	**302**	(237)	(6,417)
Dividends – interim	**(27)**	–	(37)
– final	**(60)**	(73)	–
Profit/(loss) for the year carried forward	**215**	(310)	(6,454)
Other recognised gains and losses relating to the year	**(37)**	(97)	(240)
New share capital issued	**9**	2	1
Purchase of own shares (Note 23)	**(75)**	–	–
Own shares purchased and held in ESOP trust	**–**	(4)	(38)
Own shares released on vesting of share awards	**3**	1	7
Net increase/(decrease) in equity shareholders' funds	**115**	(408)	(6,724)
Opening equity shareholders' funds (prior year adjusted – Note 24)	**1,703**	2,111	8,835
Closing equity shareholders' funds	**1,818**	1,703	2,111

Reconciliation of movements in equity shareholders' funds for the Company

For the year ended 31 March

	2005 £m	2004 £m	2003 £m
Profit/(loss) for the financial year	**152**	585	(7,523)
Dividends – interim	**(27)**	–	(37)
– final	**(60)**	(73)	–
Profit/(loss) for the year carried forward	**65**	512	(7,560)
Other recognised gains relating to the year	**–**	–	17
Revaluation	**–**	(1,020)	223
New share capital issued	**9**	2	1
Purchase of own shares (Note 23)	**(75)**	–	–
Own shares purchased and held in ESOP trust	**–**	(4)	(38)
Own shares released on vesting of share awards	**3**	1	7
Net decrease in equity shareholders' funds	**2**	(509)	(7,350)
Opening equity shareholders' funds (prior year adjusted – Note 24)	**3,107**	3,616	10,966
Closing equity shareholders' funds	**3,109**	3,107	3,616

The accompanying notes are an integral part of these Financial statements.

Back to Contents

Statement of accounting policies

Basis of preparation

The Financial Statements are prepared in accordance with applicable accounting standards and the provisions of the Companies Act, and on the historical cost basis, except for the revaluation of investments in subsidiaries in the Company's accounts.

The accompanying consolidated Financial statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP) which differ in certain material respects from generally accepted accounting principles in the United States (US GAAP) (see Note 35 "Summary of differences between United Kingdom and United States GAAP").

The consolidated profit and loss accounts on pages 97 and 99 comply with UK GAAP and UK Companies Act requirements and the directors believe they are in the most appropriate format for shareholders to understand the results of our business. Depreciation and amortisation (including exceptional amounts) are presented on the face of the profit and loss accounts because these items are non-cash income. Exceptional operating costs are also presented on the face of the profit and loss accounts because these amounts relate to events that are not expected to recur. This presentation is also consistent with the way that the financial performance is measured by management and Cable & Wireless believes this presentation allows a more meaningful comparison to be made of the trading results of the Group for the three years presented.

Use of estimates

The preparation of Financial Statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

FRS 18, "Accounting policies" requires that a description of the impact of any change in estimation techniques should be provided where the change has a material impact on the reported results for the period.

New accounting standards

The following new accounting standards were adopted during the year:

The Group has adopted Urgent Issues Task Force (UITF) 38, "Accounting for ESOP trusts" and UITF 17 (revised), "Employee share schemes" in these Financial Statements. This has resulted in the adoption of a revised accounting policy for employee share awards in the year. Details of the effect of prior year adjustments are given in Note 24.

The adoption of UITF 38 resulted in a decrease to shareholders' funds representing the reclassification of shares by the ESOP trust held from fixed asset investments to the profit and loss reserve.

Under the revised UITF 17 accounting policy, the estimated cost of share awards is charged to the profit and loss account over the period from the grant date to the date of expected vesting (where there are no performance conditions) or the performance period where relevant. The accrued employee entitlement is recorded as a credit within shareholders' funds. The estimated cost of awards is based upon the market value of the shares at the grant date or the difference between the exercise price and the market price at the date of granting the award, adjusted to reflect the impact of performance conditions where applicable.

Where shares are satisfied by on-market purchases the cost of acquiring the shares is deducted from shareholders' funds. The difference between the consideration paid for the shares and the cost of the awards is transferred to retained earnings when the shares vest unconditionally.

In prior years the estimated cost of share awards was initially charged to profit and recorded as a provision using the market value of shares at the grant date. Where awards were satisfied by on-market purchases, the cost was subsequently adjusted to the actual consideration for shares purchased.

The Group has elected not to early adopt FRS 20, "Share based payment" for the year ended 31 March 2005.

Basis of consolidation

The Group Financial Statements comprise a consolidation of the accounts of the Company and all its subsidiaries and include the Group's share of the results and net assets of its joint ventures and associates. The accounts of principal subsidiaries, joint ventures and associates are made up to 31 March. In the year ended 31 March 2004 Cable & Wireless USA, Inc. and Cable & Wireless Internet Services, Inc. (together with certain of their affiliates), were deconsolidated on 8 December 2003 (the date on which these companies filed for Chapter 11 bankruptcy protection under the US Bankruptcy Code).

Where subsidiaries, joint ventures or associates have been acquired during the year, goodwill, being the difference between the fair value of consideration given and the fair values attributed to the separable net assets acquired, is capitalised on the balance sheet and amortised through the profit and loss account.

Foreign currencies

Average rates of exchange ruling during the year are used to translate the profit and loss accounts of overseas subsidiaries, joint ventures and associates. Foreign currency assets and liabilities are translated at year end rates and any exchange differences arising are dealt with through the profit and loss account.

Statement of accounting policies

The net investments in the Group’ s overseas subsidiaries, joint ventures and associates are translated into sterling at year end rates of exchange. Exchange differences resulting from the translation of opening net investments at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and year end rates, are dealt with as movements in Group reserves.

Where net investments are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the retranslation of such borrowings are also recorded as movements on Group reserves and any excess taken to the profit and loss account.

All other exchange differences are dealt with through the profit and loss account.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. The cost of fixed assets includes directly attributable labour and overhead costs. Interest that is directly attributable and incurred up to the time that separately identifiable major capital projects are ready for service is also capitalised as part of the cost of assets. Where the Group has a legal or constructive obligation to dismantle and remove its assets and restore the relevant sites, a provision is made for the estimated costs of the asset retirement obligation. The present value of the asset retirement obligation is capitalised as part of the initial cost of the asset.

Depreciation is not provided on freehold land or projects under construction. On other tangible fixed assets, depreciation is provided on the difference between the cost of tangible fixed assets and the estimated residual value, in equal annual instalments over the estimated useful lives of the assets. Depreciation commences when the assets are ready for use. Assets lives are:

	Lives
Cables	up to 20 years
Network equipment	3 to 25 years
Ducting	40 years
Freehold buildings	40 years
Leasehold land and buildings	up to 40 years or term of lease if less

Profits and losses on disposals of tangible fixed assets are determined by reference to sale proceeds and net book values.

Intangible fixed assets

From 1 April 1998 intangible fixed assets acquired have been recorded at cost and amortised on a straight line basis over their estimated useful life, not exceeding 20 years. Intangible fixed assets primarily comprise goodwill arising on the acquisition of businesses.

Goodwill arising on acquisition prior to 1 April 1998 was eliminated directly against reserves. This goodwill has been written off as a matter of accounting policy. The profit or loss on the disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any goodwill previously eliminated directly against reserves.

Asset impairment

Intangible and tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Where an impairment indicator is identified, the carrying value of the income generating unit is compared with its recoverable amount. Where the recoverable amount is less than the carrying value an impairment is recognised.

Fixed asset investments

Joint ventures and associates are accounted for in the Group accounts under the gross equity and equity methods of accounting respectively.

Other fixed asset investments in the Group accounts are stated at cost less amounts written off in respect of any impairments.

Investments in subsidiaries are included in the Company balance sheet at valuation.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Tax

The charge for tax is based on the result for the year and takes into account tax deferred due to timing differences between the treatment of certain items for tax and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets are regarded as recoverable to the extent that on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Back to Contents

Performance

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences that have arisen but not reversed at the balance sheet date.

Stocks

Stocks of equipment, held for use in the maintenance and expansion of the Group' s telecommunications systems, are stated at cost, including appropriate allocation of labour and overheads, less provision for deterioration and obsolescence. Stocks held for resale are stated at the lower of cost and net realisable value.

Discontinued operations

The Group complies with FRS 3 "Reporting financial performance", in determining the classification of operations as discontinued or continuing.

Group turnover

Group turnover, which excludes discounts, value added tax and similar sales taxes, represents the amount receivable in respect of telecommunications services and equipment provided to customers and is accounted for on the accruals basis. It includes sales to joint ventures and associated companies but does not include sales by joint ventures and associated companies or sales between Group companies.

Turnover from voice, data and IP services is recognised as the services are provided. In respect of services invoiced in advance, amounts are deferred until provision of the service.

Amounts payable by and to telecommunications operators of national and international networks are recognised as services are provided. Charges are negotiated separately and are subject to continual review. Turnover generated through the provision of these services is accounted for gross of any amounts payable to other telecommunications operators for interconnect fees.

Mobile turnover comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, the provision of other mobile telecommunications services, including data services and information provision and turnover from the sale of equipment, including handsets.

The Group earns revenue from the transmission of content on its network originated by third-party providers. The Group assesses whether revenue should be recorded gross as principal or net as agent, based on the features of such arrangements including the following indicators:

- whether the Group holds itself out as an agent;
- establishment of the price;
- provision of customer remedies;
- performance of part of the service; and
- assumption of credit risk.

Mobile monthly access charges are invoiced and recorded as part of a periodic billing cycle. Airtime, either from contract customers as part of the invoiced amount, or from pre-paid customers through the sale of pre-paid top-up cards, is recorded in the period in which the customer uses the service. Unbilled turnover resulting from mobile services provided to contract customers from the billing cycle date to the end of each period is accrued. Unearned monthly access charges relating to periods after each accounting period are deferred.

Turnover from sales of telecommunication equipment is recognised upon delivery to the customer.

The total consideration on arrangements with multiple turnover-generating activities (generally the sale of telecom equipment and ongoing service) is allocated to those components that are capable of operating independently based on the fair value of the components. Turnover from the sale of the telecom equipment and services is recognised on the basis set out above.

Sales of network capacity to third parties pursuant to IRUs are accounted for as sales and recognised at the time of delivery and acceptance where:

- the purchaser' s right of use is exclusive and irrecoverable;
- the asset is specific and separable;
- the term of the contract is for the major part of the asset' s useful economic life;
- the attributable costs of carrying value can be measured reliably;
- no significant risks are retained by the Group; and
- the asset is identified as held for sale and categorised to stock.

Turnover arising from the provision of other services, including maintenance contracts, is recognised evenly over the periods in which the service is provided.

Back to Contents

Statement of accounting policies

Pensions

The regular cost of providing benefits under defined benefit schemes is charged to operating profit over the expected remaining service lives of the members of the schemes so as to achieve a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal defined benefit schemes are allocated to operating profit over the expected remaining service lives of the members.

The cost of providing benefits under defined contribution schemes is charged as it becomes payable.

The Group has applied the transitional arrangements of FRS 17 "Retirement benefits" and appropriate additional disclosures have been included in Note 8.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Depreciation on the relevant assets and interest are charged to the profit and loss account. All other leases are operating leases and the rentals are charged to operating profit on a straight-line basis over the lease term.

Debt issue costs

The costs of issue of capital instruments are charged to the profit and loss account over the life of the instrument. Debt issued is initially recorded net of these issue costs.

Debtors

Debtors are stated at the invoiced amount less provisions for accounts that are estimated by management to be doubtful. Provisions are maintained in respect of bad and doubtful debts for estimated losses resulting from the inability of customers to make required payments. Estimates are based on the ageing of the debt balances and historical experience.

Derivatives

Swaps and forward rate agreements

The net interest paid or received under any interest rate and cross currency swaps and forward rate agreements ("FRAs") is recorded on an accruals basis and included within net interest in the profit and loss account.

The notional amounts of interest rate swaps and FRAs are not recorded on the balance sheet. Cross currency swaps are used to hedge the initial draw down and final repayment of certain foreign currency denominated debt, and the related foreign currency interest flows.

Forward exchange contracts

Forward exchange contracts are carried on the balance sheet at the difference between the amounts of the payable and receivable currency revalued at the closing exchange rate. The interest differential, being the difference between the contract rate and the spot rate on the date of entering into the forward exchange contract, is charged to the profit and loss account as interest over the life of the contract.

Exchange gains and losses

Exchange gains and losses on revaluation and maturity of any forward exchange contracts and cross currency swaps are treated according to the underlying exposure they hedge:

- for any contracts that hedge firm third party commitments the exchange gains and losses are recognised in the profit and loss account in the same period as the underlying transaction;
- for any contracts over underlying currency assets or liabilities the exchange gains and losses are offset against the equal and opposite exchange gains or losses arising on the retranslation of the underlying assets or liabilities;
- for any contracts taken out to hedge overseas equity investments the exchange gains and losses are taken to reserves to offset against the exchange differences arising on the retranslation of the net assets of the investments on consolidation; and
- for any contracts that hedge general trading flows the exchange gains or losses are taken to the profit and loss account in the period in which they arise.

Where the underlying exposure changes, or ceases to exist, the contract would be terminated and the exchange gain or loss arising taken to the profit and loss account.

Liquid resources

Liquid resources comprise current asset investments and short term deposits, which are readily convertible into known amounts of cash at or close to their carrying value.

Employee Share Option Plan Trust (ESOP)

The financial statements of the Group include the assets and related liabilities of the Cable & Wireless Employee Share Ownership Plan Trust. Under the requirements of UITF 38 “Accounting for ESOP trusts” are stated at cost and deducted from equity shareholders’ funds.

Notes to the financial statements

1 Company’ s profit and loss account

The Company has taken advantage of the exemption contained in s230 of the Companies Act 1985 from presenting its own profit and loss account. The profit for the year of the Company amounted to £152 million (2004 – £585 million, 2003 – loss of £7,523 million).

2 Historical cost profits and losses

There is no difference between the Group results as reported and on the historical cost bassis. Accordingly no additional note of historical cost profits and losses has been prepared.

3 Turnover

The Group’ s operations are all considered to fall into one class of business, namely telecommunications.

4 Segmental information

Cable & Wireless is an international telecommunications company. During the year ended 31 March 2005, the Group was organised into the following segments, namely the United Kingdom, CWAO, Europe (excluding Monaco), Asia, Bulldog (acquired during the year) and the National Telcos. Historically the results of Japan and Asia were reported as a separate segment. Following the disposal of Japan during the year, Asia is now reported as a separate segment. The results for Japan have been included in discontinued operations for all three years presented.

United Kingdom, CWAO, Europe and Asia, provide communications solutions to business and wholesale customers offering IP, data and voice products. Bulldog provides broadband and voice services to consumers and small businesses in the UK. The National Telcos companies that are located in the Caribbean, Panama, Macau, Monaco (acquired in the year), the Middle East, South East Asia and in the Pacific, Indian and Atlantic Oceans provide a full range of telecommunications services to both consumer and business customers, including fixed and mobile voice, data and IP.

Other and eliminations includes unallocated corporate expenses, inter-segment eliminations recorded on consolidation and net operating assets that are not allocated to segments. Turnover is reported in the geography in which the services are delivered. The segmental information below has been presented on that basis and comparative information has been amended accordingly. The accounting policies adopted by each of the segments are described in the “Statement of Accounting Policies”.

Details of Group turnover, contributions to profit/(loss) on ordinary activities before interest and taxation, net operating assets/(liabilities) by geographical region are as follows:

Turnover

Geographical area	2005 £m	2004 £m	2003 £m
United Kingdom	**1,602**	1,661	1,684
CWAO	**16**	11	–
Europe	**186**	262	304
Asia	**39**	32	79
Bulldog	**11**	–	–

National Telcos			
- Caribbean	**550**	633	756
- Panama	**257**	265	279
- Macau	**117**	128	146
- Monaco	**100**	–	–
- Rest of the World	**167**	161	159
Total National Telcos	**1,191**	1,187	1,340
Inter-segment turnover	**(22)**	(23)	(30)
Continuing operations	**3,023**	3,130	3,377
Discontinued operations	**199**	541	1,014
Group turnover	**3,222**	3,671	4,391

The Group turnover figure disclosed represents turnover of the Company and its subsidiaries allocated to the location to which telecommunications services were delivered. International telecommunications traffic which the Group may be responsible for carrying on part of its route would not necessarily originate in that location. The Group does not have access to information on the original source or ultimate destination of international telecommunications traffic.

Back to Contents

Notes to the financial statements

Discontinued operations comprise sales in Japan £199 million (2004 – Japan £254 million, United States £242 million and Yemen £45 million, 2003 – Japan £300 million, United States £644 million and Yemen £70 million).

There were no capacity sales recorded within turnover in 2005, 2004 and 2003.

Profit/(loss) on ordinary activities before interest

	2005			2004			2003		
	Profit/(loss) on ordinary operating activities before exceptional items and interest £m	Exceptional items £m	Profit/(loss) on ordinary activities before interest £m	Profit/(loss) on ordinary operating activities before exceptional items and interest £m	Exceptional items £m	Profit/(loss) on ordinary activities before interest £m	Profit/(loss) on ordinary operating activities before exceptional items and interest £m	Exceptional items £m	Profit/(loss) on ordinary activities before interest £m
Geographical area									
United Kingdom	**92**	**(66)**	**26**	33	(256)	(223)	(359)	(3,570)	(3,929)
CWAO	**(8)**	**6**	**(2)**	(16)	–	(16)	–	–	–
Europe	**(12)**	**(38)**	**(50)**	(4)	(2)	(6)	(71)	(298)	(369)
Asia	**5**	**(1)**	**4**	4	(8)	(4)	(28)	(16)	(44)
Bulldog	**(34)**	**–**	**(34)**	–	–	–	–	–	–
National Telcos									
– Caribbean	**108**	**(24)**	**84**	115	(243)	(128)	214	(19)	195
– Panama	**71**	**–**	**71**	70	(73)	(3)	91	(14)	77
– Macau	**37**	**–**	**37**	40	(2)	38	42	–	42
– Monaco	**16**	**–**	**16**	–	–	–	–	–	–
– Rest of the World	**66**	**(1)**	**65**	55	(1)	54	60	(1)	59
Total National Telcos	***298***	***(25)***	***273***	*280*	*(319)*	*(39)*	*407*	*(34)*	*373*
Other and eliminations	**(59)**	**(35)**	**(94)**	(40)	(34)	(74)	(39)	(269)	(308)
Joint ventures and associates	**40**	**–**	**40**	41	–	41	75	54	129
Continuing operations	**322**	**(159)**	**163**	298	(619)	(321)	(15)	(4,133)	(4,148)
Discontinued operations	**17**	**145**	**162**	(33)	117	84	(437)	(1,774)	(2,211)
	339	**(14)**	**325**	265	(502)	(237)	(452)	(5,907)	(6,359)

Discontinued operations include the profit/(loss) on ordinary activities before interest of Japan £71 million, United States £66 million, Other £22 million and Yemen £3 million (2004 – Japan £(127) million, United States £144 million, Other £57 million and Yemen £10 million, 2003 – Japan £(222) million, United States £(2,091) million, Other £84 million and Yemen £18 million.

The exceptional items are described fully in Note 10. Segmental information in respect of the Group' s investments in joint ventures and associates is given in Note 17.

Financing is dealt with at a Group level and therefore net interest and other similar income/(charges) has not been allocated to a geographic region.

Performance

Net operating assets/(liabilities)

	2005 £m	2004 £m
Geographical area		
United Kingdom	**(33)**	(176)
CWAO	**(7)**	(33)
Europe	**(70)**	(57)
Asia	**13**	12
Bulldog	**49**	–
National Telcos		
- Caribbean	**372**	370
- Panama	**252**	287
- Macau	**40**	48
- Monaco	**72**	–
- Rest of the World	**97**	88
Total National Telcos	***833***	*793*
Continuing operations	**785**	539
Discontinued operations	**–**	20
Net operating assets	**785**	559
Other and eliminations	**1,352**	1,393
Net assets	**2,137**	1,952

Other and eliminations comprise assets and liabilities that cannot practicably be divided between the segments. The assets and liabilities are:

	2005 £m	2004 £m
Tangible assets (including projects under construction)	**247**	194
Fixed asset investments	**229**	266
Debtors	**215**	203
Current asset investments and short-term deposits	**2,031**	2,229
Cash at bank and in hand	**5**	35
Creditors: amounts falling due within one year	**(335)**	(448)
Creditors: amounts falling due after more than one year	**(801)**	(875)
Provisions	**(239)**	(211)
	1,352	1,393

5 Operating costs

Profit/(loss) on ordinary activities is stated after charging/(crediting):

	Continuing operations before exceptional items		Discontinued operations before exceptional items	Operating exceptional items (Note 10)	2005
	£m	£m	£m	£m	£m
		Acquisitions			
Outpayments to other telecommunications administrations and carriers	1,054	53	93	–	**1,200**
Other network costs	199	14	14	8	**235**
Cost of sales relating to equipment sales and rentals	259	1	5	–	**265**
Employee costs	467	25	26	70	**588**
Pension costs	35	–	1	–	**36**
Property rentals, taxes and utility costs	70	2	15	56	**143**
Depreciation and impairment of owned tangible fixed assets	184	8	2	8	**202**
Amortisation and impairment of capitalised goodwill	(2)	9	–	–	**7**
Operating lease rentals:					
- network, plant and equipment	69	–	2	–	**71**
- other	40	1	–	–	**41**
Other operating costs	242	16	27	11	**296**
	2,617	129	185	153	**3,084**

Notes to the financial statements

Profit/(loss) on ordinary activities is stated after charging/(crediting):

	Continuing operations before exceptional items £m	Discontinued operations before exceptional items £m	Operating exceptional items (Note 10) £m	2004 £m	Continuing operations before exceptional items £m	Discontinued operations before exceptional items £m	Operating exceptional items (Note 10) £m	2003 £m
Outpayments to other telecommunications administrations and carriers	1,100	157	–	1,257	1,161	514	–	1,675
Other network costs	335	21	–	356	275	7	–	282
Cost of sales relating to equipment sales and rentals	232	1	13	246	276	18	–	294
Employee costs	482	135	110	727	549	303	90	942
Pension costs	43	4	3	50	42	21	–	63
Property rentals, taxes and utility costs	53	38	92	183	83	103	211	397
Depreciation and impairment of owned tangible fixed assets	225	27	526	778	607	118	2,381	3,106
Depreciation of tangible fixed assets held under finance leases (plant and equipment)	–	–	–	–	(1)	11	–	10
Amortisation and impairment of capitalised goodwill	(3)	–	10	7	65	61	2,725	2,851
Operating lease rentals:								
– network, plant and equipment	83	87	–	170	85	94	–	179
– other	59	34	–	93	52	43	28	123
Other operating costs	290	69	26	385	273	158	113	544
	2,899	573	780	4,252	3,467	1,451	5,548	10,466

The remuneration of the auditors and their associates in respect of audit services provided to the Group during the year was £3.2 million, including £0.3 million relating to 2004 (2004 – £3.2 million, 2003 – £4.9 million), and includes £0.8 million (2004 – £0.8 million, 2003 – £1.1 million) for the Company. Regulatory reporting fees principally related to compliance with International Financial Reporting Standards and the review of interim financial statements. The remuneration of the auditors and their associates in respect of non-audit services to the Company and its UK subsidiaries during the year was £0.9 million (2004 – £1.6 million, 2003 – £3.6 million) and to overseas subsidiaries £0.6 million (2004 – £1.5 million, 2003 – £1.4 million) as summarised below:

	2005 £m	2004 £m	2003 £m
Audit services			

– Statutory audit services	**3.2**	3.2	4.9
– Audit-related regulatory reporting	**1.4**	0.4	–
	4.6	3.6	4.9
Further assurance services	**0.2**	0.8	1.3
Tax services – Compliance	**1.0**	1.0	1.1
Tax services – Advisory services	**0.2**	1.2	1.4
Other services	**0.1**	0.1	1.2
	6.1	6.7	9.9

These services are subject to the Company` s policy for approving audit and non-audit services as set out on pages 39 to 40.

Performance

6 Employees

The average monthly number of persons employed by the Group during the year was:

	2005 Number	2004 Number	2003 Number
United Kingdom	**4,485**	4,991	6,147
CWAO	**44**	34	–
Europe	**474**	576	1,002
Asia	**221**	239	236
Bulldog (pro-rated)	**223**	–	–
National Telcos			
- Caribbean	**4,149**	4,363	5,198
- Panama	**1,894**	1,983	2,717
- Macau	**908**	922	947
- Monaco (pro-rated)	**434**	–	–
- Rest of the World	**1,426**	1,426	1,073
Total National Telcos	***8,811***	*8,694*	*9,935*
Other	**329**	237	377
Continuing operations	**14,587**	14,771	17,697
Discontinued operations (pro-rated)	**647**	2,659	5,694
	15,234	17,430	23,391

At the beginning of 2005, an IT contract was insourced, increasing the headcount within Other. Towards the end of 2005, this group was transferred to the UK. The movement of these personnel to and from Other during the year has led to the overall increase in the average number of employees within Other 2005 compared with 2004.

The aggregate remuneration and associated costs of Group employees, including amounts capitalised, were:

	2005 £m	2004 £m	2003 £m
Salaries and wages	**505**	675	895
Social security costs	**44**	61	71
Pension costs			
- Principal schemes (Note 8)	**23**	24	31
- Other costs including defined contribution schemes	**13**	26	32
	585	786	1,029

7 Directors' remuneration and shareholdings

Information covering Directors' remuneration (including pension entitlements), interest in shares and interests in share options (including in each case those arising under the Share Option Plan, Restricted Shares and Performance Share Plan) is included in the Directors' remuneration report on pages 42 to 54.

8 Pensions

Defined benefit schemes

The Company and its principal subsidiaries operate pension and other retirement schemes that cover the majority of employees of the Group. These schemes include both the defined benefit type, whereby retirement benefits are based on the employee's final remuneration and length of service, and defined contribution schemes, whereby retirement benefits reflect the accumulated value of agreed contributions paid by, and in respect of, employees. With the exception of the unfunded, unapproved retirement benefit schemes, the remaining schemes are funded through separate trustee administered schemes. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the schemes at regular intervals, usually triennially.

An actuarial valuation of the principal United Kingdom defined benefit pension scheme ("the Scheme") was prepared at 31 March 2002 for the purpose of UK Statement of Standard Accounting Practice 24 "Accounting for pension costs" ("SSAP 24").

Notes to the financial statements

The valuation of the Scheme disclosed a shortfall in the market value of the Scheme's assets compared with the accrued liabilities. This was principally due to the fall in the Scheme's asset values following the fall in global equity markets between 1 April 1999 and 31 March 2002. Thus, with agreement from the actuary, the Company increased its contributions to the Scheme to 20 per cent of salary with effect from 1 April 2002, and made a contribution to the Scheme of £47 million in December 2002 in respect of the shortfall. The latest actuarial valuation of the UK defined benefit scheme is in progress, based on the position at 31 March 2005. The Group contributed £100 million in February 2005 to the UK fund in anticipation of this valuation. The Scheme was valued using the projected unit method and the principal assumptions were that future investment returns on existing assets would, on average, be 3.2 per cent a year above the level of price inflation, that the return on new investments would be 3.9 per cent a year above price inflation, that general salary growth would be 1.7 per cent a year above price inflation, and that inflation related pension increases would generally be in line with price inflation. The market value of the Scheme's investments at the valuation date was £1,401 million. The Scheme also holds some insurance policies, which had an assessed value of £11 million. The total value of the assets was 97 per cent of the value of the aggregate benefits that had accrued to members of the Scheme, allowing for expected future earnings increases in the case of employees.

The assumptions used for calculating the pension cost for accounting purposes differ from the funding assumptions in that the assumed return on existing assets is 3.3 per cent a year above price inflation. In the Financial Statements, the deficit in the Scheme is spread over the remaining service lives of the employed members. Under those assumptions as at 31 March 2002, the total value of the investments was 99 per cent of the value of the aggregate benefits that had accrued to members of the Scheme.

The principal pension costs as shown in Note 6 comprise:

	2005 £m	2004 £m	2003 £m
Regular costs	**17**	17	22
Variation from regular costs (including interest)	**6**	7	9
	23	24	31

Pension schemes other than the Scheme are accounted for on the basis of local custom and practice. Pension prepayments relating to the Scheme of £202 million (2004 – £102 million, 2003 – £112 million) are included in other prepayments and accrued income (Note 19). Provisions for obligations to pay terminal gratuities on retirement to staff who are not members of the pension and retirement schemes are included in provisions for pensions (Note 22).

Defined contribution schemes

The pension cost for the year for the defined contribution schemes was £13 million (2004 – £26 million, 2003 – £19 million).

Disclosures in respect of FRS 17 – "Retirement benefits"

The above figures have been prepared in accordance with the requirements of SSAP 24. FRS 17 has been published in the United Kingdom, however, its full introduction has been deferred. The accounting requirements of FRS 17 are broadly as follows:

– pension scheme assets are valued at market values at the balance sheet date;

- pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on high quality (AA) corporate bonds of equivalent term and currency to the liability;
- for accounting periods beginning on or after 1 January 2005 the pension scheme surplus (to the extent it is considered recoverable) or deficit will be recognised in full and presented on the face of the balance sheet; and
- the movement in the scheme surplus/deficit will be split between operating charges, financing items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The transitional disclosures in respect of FRS 17 are set out below:

Performance

Qualified independent actuaries, Watson Wyatt LLP, updated the actuarial valuations of the major defined benefit schemes operated by the Group to 31 March 2005. The main financial assumptions in accordance with FRS 17 are as follows:

	At 31 March 2005		At 31 March 2004		At 31 March 2003	
	UK %	Rest of Group %	UK %	Rest of Group %	UK %	Rest of Group %
Inflation assumption	**2.7**	**3.9**	2.8	3.8	2.5	4.3
Rate of increase in salaries	**3.2**	**5.9**	4.6	5.4	4.3	5.6
Pension increases	**2.7-3.0**	**2.9**	2.8-3.0	3.5	2.5-3.0	3.6
Discount rate	**5.4**	**7.2**	5.5	6.4	5.5	6.9
Long term expected rate of return on:						
Equities	**8.0**	**8.3**	8.0	9.0	8.5	9.1
Bonds	**4.9**	**6.2**	5.0	6.6	5.0	7.1
Property	**6.5**	**5.2**	–	–	–	–
Other	**4.0**	**4.6**	4.0	4.8	4.0	4.8

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The assumptions shown above for the Rest of Group represent a weighted average of the assumptions used for the individual funds.

The UK defined benefit scheme is closed to new entrants and under the projected unit method for closed schemes the current service cost will increase as the members of the scheme approach retirement.

The assets and liabilities in respect of the defined benefit schemes operated by the Group are as follows:

	At 31 March 2005		At 31 March 2004		At 31 March 2003	
	UK £m	Rest of Group £m	UK £m	Rest of Group £m	UK £m	Rest of Group £m
Equities	**879**	**75**	965	84	855	61
Bonds	**539**	**52**	353	56	246	56
Property	**94**	**24**	–	–	–	–
Other	**103**	**65**	90	52	53	36
Total fair value of scheme assets	**1,615**	**216**	1,408	192	1,154	153
Present value of funded scheme liabilities	**(1,775)**	**(172)**	(1,744)	(213)	(1,630)	(207)
(Deficit)/surplus in funded defined benefit schemes	**(160)**	**44**	(336)	(21)	(476)	(54)
Unrecognisable surplus in funded defined benefit schemes	**–**	**(34)**	–	–	–	–
Deficit in unfunded schemes	**(20)**	**(15)**	(20)	(26)	(18)	(30)

Total deficit in defined benefit schemes	**(180)**	**(5)**	(356)	(47)	(494)	(84)
Deferred tax liability	–	**(3)**	–	–	–	–
Net liability	**(180)**	**(8)**	(356)	(47)	(494)	(84)

At 31 March 2005, the pension deficit calculated under FRS 17 for the funded defined benefit pension schemes was £160 million in respect of the principal UK scheme (2004 – £336 million, 2003 – £476 million) and a surplus/(deficit) of £10 million in respect of the Rest of the Group (2004 – £(21) million, 2003 – £(54) million). The deficit in unfunded defined benefit schemes at 31 March 2005 was £35 million in respect of the Group (2004 – £46 million, 2003 – £48 million), including £20 million in respect of the UK (2004 – £20 million, 2003 – £18 million), and £15 million in respect of the Rest of the Group (2004 – £26 million, 2003 – £30 million).

A deferred tax liability of £3 million would be recognised at 31 March 2005 if the pension deficit of the Rest of the Group was reflected in the Financial statements.

Back to Contents

Notes to the financial statements

If the above amounts were recognised in the Financial Statements, the Group's shareholders' funds at 31 March 2005, 31 March 2004 and 31 March 2003 would be as follows:

	2005 £m	2004 £m	2003 £m
Shareholders' funds as presented	**1,818**	1,703	2,111
Less: SSAP 24 net assets	**(176)**	(52)	(71)
Shareholders' funds excluding SSAP 24 net assets	**1,642**	1,651	2,040
FRS 17 retirement benefits net liability	**(188)**	(403)	(578)
Shareholders' funds including FRS 17 retirement benefits net liability	**1,454**	1,248	1,462

Under the transitional requirements of FRS 17, the following disclosures are given to show the impact on the profit and loss account and statement of total recognised gains and losses if FRS 17 had been adopted in full. These amounts have not been included in the profit and loss account or the statement of total recognised gains and losses.

Analysis of amounts that would be charged to operating profit for the years ended 31 March 2005, 31 March 2004 and 31 March 2003 in respect of defined benefit schemes is as follows:

	2005			2004			2003		
	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m
Current service cost	21	6	**27**	24	10	34	27	17	44
Past service cost	–	–	–	–	5	5	–	–	–
Total charged to operating profit	21	6	**27**	24	15	39	27	17	44

Analysis of other amounts that would be charged to the profit and loss account for the years ended 31 March 2005, 31 March 2004, and 31 March 2003 is as follows:

	2005			2004			2003		
	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m
Loss/(gain) on curtailment	1	(2)	**(1)**	1	(4)	(3)	–	(3)	(3)

Analysis of amounts that would be charged/(credited) to other finance income for the years ended 31 March 2005, 31 March 2004 and 31 March 2003 is as follows:

	2005			2004			2003		
	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m
Interest on pension scheme liabilities	95	12	**107**	90	15	105	84	14	98
Expected return on pension scheme assets	(97)	(16)	**(113)**	(86)	(11)	(97)	(102)	(12)	(114)
Net return	(2)	(4)	**(6)**	4	4	8	(18)	2	(16)

Back to Contents

Performance

Analysis of amounts that would be recognised in the statement of total recognised gains and losses for the years ended 31 March 2005, 31 March 2004 and 31 March 2003 is as follows:

	2005			2004			2003		
	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m	UK £m	Rest of Group £m	Total £m
Actual return less expected return on pension scheme assets	45	12	**57**	192	41	233	(380)	(16)	(396)
Experience gains/(losses) on scheme liabilities	35	9	**44**	47	(8)	39	(18)	(12)	(30)
Changes in the assumptions underlying the present value of the scheme liabilities	(1)	35	**34**	(91)	(3)	(94)	(111)	(7)	(118)
Gain arising from divestiture	–	10	**10**	–	–	–	–	–	–
Change in unrecognisable surplus	–	(35)	**(35)**	–	–	–	–	–	–
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses	79	31	**110**	148	30	178	(509)	(35)	(544)

History of experience gains and losses for the years ended 31 March 2005, 31 March 2004 and 31 March 2003 is as follows:

	2005					
	UK £m	%	Rest of Group £m	%	Total £m	%
Difference between expected and actual return on scheme assets	45	3	12	6	**57**	**3**
Experience gains/(losses) on scheme liabilities	35	2	9	5	**44**	**3**
Total actuarial gain recognised in the statement of total recognised gains and losses	79	4	31	11	**110**	**6**

	2004						2003					
	UK £m	%	Rest of Group £m	%	Total £m	%	UK £m	%	Rest of Group £m	%	Total £m	%
Difference between expected and actual return on scheme assets	192	14	41	21	233	15	(380)	(33)	(16)	(10)	(396)	(30)
Experience gains/(losses) on scheme liabilities	47	3	(8)	(3)	39	2	(18)	(1)	(12)	(5)	(30)	(1)

Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses	148	8	30	12	178	9	(509)	(31)	(35)	(15)	(544)	(29)

Analysis of movement in the balance sheet deficit as at 31 March 2005, 31 March 2004 and 31 March 2003 is as follows:

	2005			**2004**			**2003**		
	UK £m	**Rest of Group £m**	**Total £m**	**UK £m**	**Rest of Group £m**	**Total £m**	**UK £m**	**Rest of Group £m**	**Total £m**
Deficit at beginning of the year	(356)	(47)	**(403)**	(494)	(84)	(578)	(48)	(28)	(76)
Contributions made	117	11	**128**	19	19	38	72	15	87
Current service costs	(21)	(6)	**(27)**	(24)	(10)	(34)	(27)	(17)	(44)
Past service costs	–	–	–	–	(5)	(5)	–	–	–
Curtailment (loss)/gain	(1)	2	**1**	(1)	4	3	–	3	3
Other finance (charge)/income	2	4	**6**	(4)	(4)	(8)	18	(2)	16
Actuarial gain/(loss)	79	31	**110**	148	30	178	(509)	(35)	(544)
Other movements	–	–	–	–	(6)	(6)	–	(26)	(26)
Exchange gain	–	–	–	–	9	9	–	6	6
Tax charge	–	(3)	**(3)**	–	–	–	–	–	–
Deficit at end of the year	(180)	(8)	**(188)**	(356)	(47)	(403)	(494)	(84)	(578)

Other movements consist of acquisitions and certain immaterial overseas schemes, which had not previously been included.

Back to Contents

Notes to the financial statements

9 Profits less (losses) on disposal of fixed assets

Profits less (losses) on disposal of fixed assets before exceptional items amount to £5 million (2004 – £25 million, 2003 – £nil). The tax charge attributable is £nil (2004 – £nil, 2003 – £nil) and the minority interest is £1 million (2004 – £nil, 2003 – £nil).

10 Exceptional items

Exceptional items before exceptional tax credit (see Note 12), in 2005, 2004 and 2003 comprise:

		2005				2004			
	Note	Exceptional items £m	Taxation £m	Minority interest £m	Total £m	Exceptional items £m	Taxation £m	Minority interest £m	Total £m
Operating items									
Other operating costs	(i), (v)	(145)	4	3	**(138)**	(244)	9	9	(226)
Fixed asset impairment and amounts written off	(ii), (vi)	(8)	–	–	**(8)**	(526)	64	41	(421)
Goodwill impairment charge	(vi)	–	–	–	–	(10)	–	–	(10)
		(153)	4	3	**(146)**	(780)	73	50	(657)
Non operating items									
Profits less (losses) on sale and termination of operations	(iii), (vii)	116	–	–	**116**	250	–	–	250
Profits less (losses) on disposal of fixed assets	(iv), (viii)	23	–	–	**23**	28	–	–	28
		(14)	4	3	**(7)**	(502)	73	50	(379)

		2003			
	Note	Exceptional items £m	Taxation £m	Minority interest £m	Total £m
Operating items					
Other operating costs	(ix)	(442)	10	11	(421)
Fixed asset impairment and amounts written off	(x)	(2,381)	48	–	(2,333)
Goodwill impairment charge	(x)	(2,725)	–	–	(2,725)
		(5,548)	58	11	(5,479)
Non operating items					
Profits less (losses) on sale and termination of operations	(xi)	(147)	–	–	(147)
Profits less (losses) on disposal of fixed assets	(xii)	62	–	(33)	29
Investments amounts written of	(xiii)	(274)	–	–	(274)
		(5,907)	58	(22)	(5,871)

Year ended 31 March 2005

(i) Exceptional items included in other operating costs principally relate to the cost of restructuring Group businesses. These costs include £68 million in respect of redundancy costs in continuing businesses (United Kingdom £29 million, Europe £29 million, Asia £1 million, Other £9 million) and £54 million in respect of property costs (United Kingdom £23 million, Europe £10 million and Other £21 million).

Other exceptional operating costs include the net of provision releases of £15 million, charges of £11 million relating to onerous network costs in the UK business and other restructuring charges in the UK business of £8 million.

Hurricane Ivan and Asian tsunami adversely impacted the Group' s operations in the Caribbean and Maldives, respectively. Exceptional restoration costs of £19 million were incurred in rectifying damage caused to the network and other assets of these operations, comprising network related costs £12 million, employee costs £2 million, property £2 million and other £3 million.

(ii) In addition to the exceptional restoration charges noted above, an impairment charge of £3 million was recognised relating to fixed assets that were damaged by the hurricane and tsunami.

As a consequence of the restructuring in the Group' s European operations an impairment charge of £5 million was recognised in respect of fixed assets. This charge has been determined in accordance with FRS 11 "Impairment of fixed assets and goodwill" as part of a Group-wide impairment review, which involved, amongst other factors, using discount rates of 8 to 40 per cent depending on the cost of capital of the respective businesses.

Back to Contents

Performance

(iii) On 17 February 2005, the Group disposed of its Japanese operations, Cable & Wireless IDC, Inc. A gain of £42 million was recorded on disposal of this business within discontinued operations. An exceptional credit of £66 million was recorded in respect of US domestic operations that were discontinued in the year ended 31 March 2004, principally comprising cash refunded to the Group as part of the Chapter 11 process. In addition a net gain of £8 million was recorded in respect of the sale or termination of Group operations, being the net of previously accrued costs no longer required (£42 million) partially offset by additional charges in the year (£34 million).

(iv) The gain on the disposal of fixed assets comprises £16 million relating to the disposal of a trade investment by Cable & Wireless, IDC Inc. prior to its disposal by the Group, £10 million relating to the release of costs accrued on the disposal of investments in previous years no longer required offset by a £3 million write-off of assets physically destroyed by Hurricane Ivan.

Year ended 31 March 2004

(v) Exceptional items included in other operating costs principally relate to the cost of restructuring Group businesses. These costs include £93 million in respect of redundancy costs in continuing businesses (United Kingdom £48 million, Panama £7 million, Caribbean £25 million, Japan £5 million, Other £8 million), £92 million in respect of property costs principally relating to the United Kingdom and £24 million of other costs of restructuring incurred by the UK and European businesses.

Other exceptional costs include £13 million of customer acquisition costs no longer recoverable in light of circumstances that have given rise to certain fixed asset impairments.

Exceptional costs of restructuring the discontinued US business prior to its disposal totalled £22 million principally relating to employee costs.

(vi) The Group carried out a review to determine whether there has been an impairment of its fixed assets and goodwill. The carrying values of fixed assets of each of the Group’s income generating units have been compared with their recoverable amounts, represented by their value in use to the Group. The charge has been determined in accordance with FRS 11 “Impairment of fixed assets and goodwill” which involved, amongst other factors, using discount rates of between 10.5 and 20 per cent depending on the cost of capital of the respective businesses.

The result of this assessment was a charge of £10 million in respect of goodwill in Jamaica and £526 million in respect of depreciation of fixed assets throughout the Group. Tax credits of £64 million are available on the National Telecommunications companies’ depreciation impairment charges.

The depreciation impairment charge arose in the United Kingdom (£119 million), Japan (£126 million), Caribbean (£197 million), Panama (£65 million) and Macau and the Rest of the World (£19 million).

(vii) On 8 December 2003 the Group’s US business filed for Chapter 11 bankruptcy protection under the US Bankruptcy Code. The effect of the filing for Chapter 11 together with the sale agreement with Gores was that the Group’s ability to control Cable & Wireless USA, Inc. and Cable & Wireless Internet Services, Inc. and their subsidiaries (“CW America”) was severely restricted. Accordingly, the Group has deconsolidated Cable & Wireless USA, Inc. and Cable & Wireless Internet Services, Inc. and their subsidiaries from 8 December 2003.

The gain on the exit of the US business of £191 million reflects the deconsolidation of third party net liabilities net of costs of exit.

In addition, £57 million of accrued costs relating to disposals in previous years, principally the disposal of the consumer operations of Cable & Wireless Communications plc on 30 May 2000, have been released.

A £2 million gain arose on the disposal of certain European businesses after taking account of the release of provisions relating to these businesses.

(viii) The gain on the disposal of fixed assets comprises £16 million relating to the disposal of certain properties in the United States as part of the restructuring of the US business prior to deconsolidation, and £12 million principally comprising disposal of properties in the United Kingdom and the Caribbean as part of restructuring.

Year ended 31 March 2003

(ix) The Group announced a restructuring in the United Kingdom, United States, Japan/Asia and Europe on 13 November 2002. Exceptional costs in the period of £248 million associated with this restructuring include £182 million in respect of property costs, £52 million in respect of redundancy costs and £14 million of other costs.

Other exceptional costs relate to integration costs of Digital Island and the business activities of Exodus of £31 million, redundancy costs of £38 million principally in the Caribbean, Panama and Macau, £44 million of provisions in respect of rentals on vacant properties and £81 million in respect of onerous network contracts and distressed carrier asset write offs.

Back to Contents

Notes to the financial statements

(x) The Group carried out a review to determine whether there had been an impairment of its fixed assets and goodwill. The carrying values of fixed assets and goodwill of each of the Group' s income generating units was compared to their recoverable amounts, represented by their value in use to the Group. The charge was determined in accordance with FRS 11 which involved, amongst other factors, using a growth rate of 2.5 per cent after five years (based on a nominal increase in GDP for the countries in which the Group operates) and a discount rate of 14 per cent. The resulting charge was £12 million in respect of goodwill and £1,479 million in respect of fixed assets. This charge was in addition to the charge of £2,713 million in respect of goodwill and £787 million in respect of fixed assets recognised at the half year. Exceptional depreciation also includes the write off of redundant fixed assets of £58 million. Tax credits of £48 million were available on £191 million of the impairment charge, which was disclosed in the 2002 Group Financial Statements.

(xi) The Group has exited its US retail voice business, as announced on 15 May 2002. The exceptional costs associated with this amount to £288 million and include exit costs of £200 million, redundant fixed asset write downs of £57 million included in the exceptional depreciation charge and other write downs of £31 million. In addition, £84 million of accrued costs relating to disposals in previous years, principally the disposal of the consumer operations of Cable & Wireless Communications plc on 30 May 2000, have been released.

(xii) The profit of £62 million on disposal of fixed assets principally comprises a £54 million gain on the sale of part of the Group' s interest in MobileOne (Asia) Pte Ltd.

(xiii) The current asset investments principally relating to PCCW Limited have been written down by £274 million to market value at 31 March 2003.

11 Net interest and other similar income/(charges)

	2005 £m	2004 £m	2003 £m
Interest receivable and similar income			
Deposits and short-term loan interest and similar income	**103**	108	198
Exchange losses on retranslation of foreign currency denominated loans and deposits	–	(5)	(9)
Dividends from fixed asset investments	**4**	–	–
	107	103	189
Interest payable and other similar charges			
Finance charges on leases	–	(1)	(3)
Bank loans and overdrafts	**(9)**	(21)	(23)
Other loans	**(61)**	(63)	(62)
Unwinding of discount in provisions	**(1)**	(8)	(3)
	(71)	(93)	(91)
Less: Interest capitalised	**2**	3	5
	(69)	(90)	(86)

Net interest and other similar income	**38**	13	103

Tax relief of £nil is available on interest capitalised in the year ended 31 March 2005 (2004 – £nil, 2003 – £nil). Interest has been capitalised at a rate of 6 per cent (2004 – 6 per cent, 2003 – 6 per cent).

Back to Contents

Performance

12 Tax on profit/(loss) on ordinary activities

The charge for tax, based on the Group profit/(loss) for the year, comprises:

	2005			2004	2003
United Kingdom	Taxation before exceptional tax credit £m	Exceptional tax credit £m	Total £m	£m	£m
Corporate tax at 30% (2004 - 30%, 2003 - 30%)					
Current	4	–	4	28	39
Double taxation relief	(4)	–	(4)	(28)	(39)
Deferred	–	–	–	–	1
Adjustments in respect of prior years					
- current	–	–	–	(64)	(54)
- deferred	–	–	–	–	(7)
	–	–	–	(64)	(60)
Overseas					
Current	51	–	51	42	65
Deferred	8	–	8	(60)	26
Adjustments in respect of prior years					
- current	(11)	(85)	(96)	63	43
- deferred	16	–	16	(3)	(51)
	64	(85)	(21)	42	83
Joint ventures and associates					
Joint ventures	7	–	7	10	13
	7	–	7	10	13
Tax on profit/(loss) on ordinary activities	71	(85)	(14)	(12)	36

The Group's effective tax rate varies from the statutory tax rate as a result of the following factors:

	2005			2004	2003
	Taxation before exceptional tax credit %	Exceptional tax credit %	Total %	%	%

UK corporation tax rate	**30.0**	–	**30.0**	30.0	30.0
Income/expenses not taxable/allowable – permanent	**18.1**	–	**18.1**	(16.9)	(12.9)
Income/expenses not taxable/allowable – timing	**(26.3)**	–	**(26.3)**	(25.2)	(17.4)
Tax losses not utilised	**1.9**	–	**1.9**	(27.6)	(6.6)
Tax rate differences	**(5.6)**	–	**(5.6)**	13.1	5.7
Utilisation of tax losses brought forward	**(2.3)**	–	**(2.3)**	3.5	–
Adjustments to tax charge in respect of previous periods	**(2.9)**	**(23.4)**	**(26.3)**	0.4	0.2
Effective current tax rate on ordinary activities	**12.9**	**(23.4)**	**(10.5)**	(22.7)	(1.0)

The exceptional tax credit of £85 million relates to the settlement and clarification of various long-standing overseas tax items at less than their expected cost.

13 Dividends

	2005 £m	2004 £m	2003 £m
Interim paid	**27**	–	37
Final proposed	**60**	73	–
	87	73	37

The Cable & Wireless Employee Share Ownership Plan Trust waived its right to dividends on the shares held in the trust. During the year 14,076 of shareholders owning 105,537,992 of shares elected to take all or part of their dividends in shares (see Note 23).

Back to Contents

Notes to the financial statements

14 Earnings/(loss) per share

Basic earnings/(loss) per Ordinary Share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year, excluding those held in the employee share trust and Treasury shares (Note 24) which are treated as cancelled.

For diluted earnings per Ordinary Share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. The Group has two classes of dilutive potential Ordinary Shares: certain of the share options granted to employees and the shares issuable on conversion of the Group' s convertible debt.

The table below sets out the reconciliation of the earnings and weighted average number of shares used in the calculations:

	2005 £m	2004 £m	2003 £m
Profit/(loss) for the financial year attributable to shareholders	**302**	(237)	(6,417)
Effect of diluted securities			
Interest saved	**8**	–	–
Adjusted profit/(loss) (diluted EPS)	**310**	(237)	(6,417)
Basic weighted average number of shares	**2,322,458,697**	2,327,738,940	2,329,814,506
Effect of diluted securities			
Share options	**27,511,135**	–	–
Convertible loan note	**177,733,748**	–	–
Diluted weighted average number of shares	**2,527,703,580**	2,327,738,940	2,329,814,506
Basic earnings/(loss) per Ordinary Share	**13.0p**	(10.2)p	(275.4)p
Diluted earnings/(loss) per Ordinary Share	**12.3p**	(10.2)p	(275.4)p

Basic and diluted loss per Ordinary Share are equal in periods where there is no impact of dilution on the loss for the financial year nor the weighted average number of shares.

15 Intangible fixed assets

	Negative goodwill £m	Positive goodwill £m	Licences and other intangibles £m	Total £m
Cost				
At 1 April 2004	(14)	3,889	9	**3,884**
Acquisitions	–	91	12	**103**
Disposals	–	(276)	–	**(276)**
Exchange adjustments	–	4	–	**4**
At 31 March 2005	**(14)**	**3,708**	**21**	**3,715**
Amortisation				
At 1 April 2004	5	(3,889)	(9)	**(3,893)**

Disposals	–	276	–	**276**
Credit/(charge) for the year – amortisation	2	(7)	(2)	**(7)**
At 31 March 2005	**7**	**(3,620)**	**(11)**	**(3,624)**
Net book value				
At 31 March 2005	**(7)**	**88**	**10**	**91**
At 31 March 2004	(9)	–	–	(9)

Negative goodwill is being amortised on a straight-line basis over five years. The goodwill arising on the acquisitions of Monaco Telecom and Bulldog (see Note 31) is being amortised on a straight-line basis over 18.6 and 5 years, respectively. These periods are the periods over which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

Other intangible assets include intellectual property and international managed service contracts recognised in respect of the acquisition of XM Mobile B.V., and Monaco Telecom, respectively. These are being amortised on a straight-line basis over their useful economic lives (between 1 and 5 years).

Disposals relate to goodwill that arose on the acquisition of Cable & Wireless IDC Inc. This goodwill was fully impaired through the profit and loss account in prior years.

Back to Contents

Performance

16 Tangible fixed assets

	Group				Company			
	Land and buildings £m	Plant and equipment £m	Projects under construction £m	Total £m	Land and buildings £m	Plant and equipment £m	Projects under construction £m	Total £m
Cost								
At 1 April 2004	593	7,803	455	**8,851**	2	76	4	**82**
Additions	2	108	288	**398**	–	2	–	**2**
Acquisitions	–	33	–	**33**	–	–	–	–
Disposals	(55)	(583)	(13)	**(651)**	–	–	–	–
Transfers	4	410	(414)	–	–	1	(1)	–
Exchange and other adjustments	(7)	(44)	(7)	**(58)**	–	–	–	–
At 31 March 2005	**537**	**7,727**	**309**	**8,573**	**2**	**79**	**3**	**84**
Depreciation								
At 1 April 2004	383	7,100	154	**7,637**	1	70	–	**71**
Charge for the year	13	181	–	**194**	–	2	–	**2**
Impairment – exceptional depreciation	–	6	2	**8**	–	–	–	–
Disposals	(26)	(563)	(12)	**(601)**	–	–	–	–
Transfers	–	144	(144)	–	–	–	–	–
Exchange and other adjustments	(2)	(42)	–	**(44)**	–	–	–	–
At 31 March 2005	**368**	**6,826**	–	**7,194**	**1**	**72**	–	**73**
Net book value								
At 31 March 2005	**169**	**901**	**309**	**1,379**	**1**	**7**	**3**	**11**
At 31 March 2004	210	703	301	1,214	1	6	4	11

Included in the cost of plant and equipment is £6 million (2004 – £48 million) relating to assets held under finance leases. Accumulated depreciation on these assets is £1 million (2004 – £46 million).

Included within additions is interest and own work capitalised of £2 million (2004 – £3 million) and £43 million (2004 – £42 million) respectively.

The cumulative amount of interest capitalised in the total cost above is £43 million (2004 – £41 million).

	Group	Company

	2005 £m	2004 £m	2005 £m	2004 £m
Land and buildings at net book value				
Freeholds	**120**	175	1	1
Long leaseholds	**2**	2	–	–
Short leaseholds	**47**	33	–	–
	169	210	1	1

Back to Contents

Notes to the financial statements

17 Fixed asset investments

	Group			Company			
	Joint ventures and associates £m	Other investments £m	Total £m	Joint ventures and associates £m	Subsidiary undertakings £m	Other investments £m	Total £m
Cost/valuation							
At 1 April 2004 – see Note 24	71	80	**151**	26	16,272	28	**16,326**
Additions	14	4	**18**	–	–	–	–
Disposals	–	(41)	**(41)**	(2)	–	(28)	**(30)**
Revaluation	–	–	–	–	–	–	–
Exchange adjustments	(1)	(1)	**(2)**	–	–	–	–
At 31 March 2005	**84**	**42**	**126**	**24**	**16,272**	–	**16,296**
Loans							
At 1 April 2004	1	–	**1**	1	12,707	–	**12,708**
Additions	–	–	–	–	790	–	**790**
Loans repaid and transferred	–	–	–	–	(40)	–	**(40)**
At 31 March 2005	**1**	–	**1**	**1**	**13,457**	–	**13,458**
Provisions and amounts written off							
At 1 April 2004	(40)	(22)	**(62)**	(5)	(9,279)	–	**(9,284)**
(Increase)/decrease in year	(6)	4	**(2)**	–	(38)	–	**(38)**
Disposals	–	(4)	**(4)**	–	–	–	–
At 31 March 2005	**(46)**	**(22)**	**(68)**	**(5)**	**(9,317)**	–	**(9,322)**
Share of post acquisition reserves							
At 1 April 2004	176	–	**176**	–	–	–	–
Share of retained profit	8	–	**8**	–	–	–	–
Disposals	(9)	–	**(9)**	–	–	–	–
Exchange adjustments	(5)	–	**(5)**	–	–	–	–
At 31 March 2005	**170**	–	**170**	–	–	–	–
Net book value							
At 31 March 2005	**209**	**20**	**229**	**20**	**20,412**	–	**20,432**
At 31 March 2004	208	58	**266**	22	19,700	28	19,750

A list of the Company's subsidiary undertakings, joint ventures and associates is given in Note 34.

	Group				Company			
	Joint ventures and associates		Other investments		Joint ventures and associates		Other investments	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Investments at net book value								
Listed shares	**86**	77	**15**	19	**17**	17	–	–
Unlisted shares	**122**	130	**5**	39	**2**	4	–	28
Loans	**1**	1	–	–	**1**	1	–	–
	209	208	**20**	58	**20**	22	–	28

In accordance with UITF 38, the Group and Company's investment in its own shares through the ESOP trust has been reclassified to the profit and loss reserve (see Note 24 for more details).

The market value of the Group's holdings in listed shares was £386 million (2004 - £193 million) for joint ventures and associates and £77 million (2004 - £55 million) for other investments. The market value of the Company's holdings in listed shares of joint ventures and associates was £386 million (2004 - £193 million).

Back to Contents

Performance

Reconciliation of Group share of profits less (losses) of joint ventures and associates with post acquisition retained reserves

	Joint ventures £m	Associates £m	2005 £m	Joint ventures £m	Associates £m	2004 £m	Joint ventures £m	Associates £m	2003 £m
Share of turnover	127	60	**187**	136	61	197	195	65	260
Operating costs	(111)	(36)	**(147)**	(113)	(43)	(156)	(142)	(43)	(185)
Operating profits less (losses)	16	24	**40**	23	18	41	53	22	75
Net interest	(1)	1	**–**	–	–	–	(2)	1	(1)
Share of profits less (losses) before tax	15	25	**40**	23	18	41	51	23	74
Taxation charge	(7)	–	**(7)**	(10)	–	(10)	(13)	–	(13)
Dividends paid to Group companies	(11)	(14)	**(25)**	(12)	(13)	(25)	(13)	(15)	(28)
Share of retained profits	(3)	11	**8**	1	5	6	25	8	33

Segmental analysis of Group share of turnover and operating profits/(losses) of joint ventures and associates

	Turnover			Operating profit/(loss)		
	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
United Kingdom	**–**	6	6	**(8)**	(1)	–
Caribbean	**107**	108	111	**19**	30	33
Monaco	**1**	–	–	**1**	–	–
Other	**–**	–	52	**–**	–	13
Rest of the World	**79**	83	91	**28**	12	29
	187	197	260	**40**	41	75

Group share of net assets of joint ventures and associates

	Joint ventures £m	Associates £m	2005 £m	Joint ventures £m	Associates £m	2004 £m
Fixed assets	140	51	**191**	152	55	207
Current assets	49	49	**98**	38	39	77
Group share of gross assets	189	100	**289**	190	94	284
Current borrowings	(8)	–	**(8)**	(7)	–	(7)
Other current liabilities	(36)	(18)	**(54)**	(24)	(18)	(42)
Long-term borrowings	(12)	–	**(12)**	(16)	(1)	(17)
Other long-term liabilities	(5)	(2)	**(7)**	(11)	–	(11)

Group share of gross liabilities	(61)	(20)	**(81)**	(58)	(19)	(77)
Share of net assets	128	80	**208**	132	75	207

Segmental analysis of the Group share of net assets of joint ventures and associates

	Joint ventures £m	Associates £m	2005 £m	Joint ventures £m	Associates £m	2004 £m
Caribbean	119	–	**119**	115	–	115
Monaco	1	–	**1**	–	–	–
Rest of the World	8	80	**88**	17	75	92
	128	80	**208**	132	75	207

18 Stocks

Stocks comprise network equipment and mobile handsets held for resale.

Back to Contents

Notes to the financial statements

19 Debtors

Group	Company
2005	

DATE 16 August 2005

THE PERSONS LISTED IN SCHEDULE 1

ARCHIBALD NORMAN

CHELYS LIMITED

CABLE AND WIRELESS PLC

SHARE PURCHASE AGREEMENT

relating to the acquisition of the entire issued share capital of Chelys Limited

Macfarlanes
10 Norwich Street
London EC4A 1BD

CONTENTS

List of Agreed Form Documents

A	The Data Room Index
B	Fees and Costs Schedule
C	Notices of Repayment
D	Sale Notice
E	Selling Notice
F	Deeds of Release and Satisfaction
G	Facility C Agreement

H	Scheme Document
I	Pro forma resignation letters

SHARE PURCHASE AGREEMENT

DATE 16 August 2005

PARTIES

1 **THE PERSONS** whose names and addresses are set out in columns 1 and 2 of Schedule 1 (the **EVOS Vendors**)

2 **ARCHIBALD JOHN NORMAN** of Forbury Road, Reading, Berks RG1 3JH (the **A Ordinary Vendor** or **Mr Norman**)

3 **CHELYS LIMITED** (registered in England and Wales under number 4434524) whose registered office is at 185 Park Street, London SE1 9DY (the **Company**)

4 **CABLE AND WIRELESS PLC** (registered in England and Wales under number 238525) whose registered office is at Lakeside House, Cain Road, Bracknell, Berkshire RG12 1XL (the **Purchaser**)

INTRODUCTION

A The Company is a private company limited by shares. Details of the Company are set out in Part A of Schedule 2. Details of other members of the Energis Group are set out in Part B of Schedule 2.

B The Vendors have agreed to sell and the Purchaser has agreed to buy the Sale Shares on the terms and subject to the conditions of this Agreement.

C It is intended that the Purchaser shall acquire the entire issued share capital of the Company by exercise of the compulsory sale procedure contained in Article 7.4 of the Articles.

AGREEMENT

1 **D efinitions and interpretation**

1.1 In this Agreement, the following words and expressions have the following meanings:

A Ordinary Shares: A Ordinary Shares of 0.01 pence in the Company;

A Ordinary Contingent Consideration Percentage: 100% less the Facility C Contingent Consideration Percentage (as established by the Facility C Agreement or for the purposes of the Schemes);

Accrued Interest: interest accrued and unpaid at Completion on the debt owed to Viridian and on the debt (excluding in respect of Facility C) owed under the Facilities Agreement;

Agent: the Agent as defined in the Facilities Agreement (and being at the date of this Agreement The Royal Bank of Scotland plc);

Agreed Form: in a form initialled by (i) Mr Norman or Mr Pluthero; (ii) by the Purchaser; and (iii) the Agent before execution of this Agreement for the purposes of identification, as such form may be amended from time to time by agreement between the Company and the Purchaser;

Arbitration Acts: the Arbitration Act 1996 and the Arbitration Act 1950 (as amended);

Articles: the articles of association of the Company (and **Article** will be construed accordingly);

Books and Records: has its common law meaning and includes, without limitation, all notices, correspondence, orders, inquiries, drawings, plans, books of account and other documents and all computer disks or tapes or other machine legible programs or other records;

Business Day: a day which is not a Saturday, a Sunday or a bank or public holiday in England;

Cash Bonus Plan: the cash bonus plan adopted by the Company on 15 July 2002;

Companies Act: Companies Act 1985 (as amended);

Company' s Solicitors: Macfarlanes of 10 Norwich Street, London EC4A 1BD;

Completion: completion of the sale and purchase of the Shares in accordance with this Agreement;

Completion Date: the date determined in accordance with Clause 3.3 (subject to Clauses 3.5.5, 6.4.1 and 6.7.1);

Confidentiality Agreement: means the confidentiality agreement between the Purchaser and ECL dated 14 January 2005;

Conditions: the conditions set out in Clause 3.1;

Contingent Consideration: the contingent consideration to be provided by the Purchaser in accordance with this Agreement and/or under the Facility C Agreement and/or pursuant to the Schemes, the terms of which (so far as payable as part consideration for the Shares, if at all) are set out in Schedule 6;

Court: the High Court of Justice in England and Wales;

Court Meetings: the meetings of the Facility C Lenders to be convened by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve the Schemes with or without modification (including any adjournment or postponement thereof);

Court Order: the orders of the Court sanctioning the Schemes under section 425 of the Companies Act;

Deed of Adherence: a deed of adherence in the form set out in Schedule 7;

Deeds of Release and Satisfaction: the deed of release and satisfaction in respect of the Facilities Security in the Agreed Form marked "F" in respect of the English Security and an equivalent release in respect of the Scottish Security;

EBT Trustee: Abacus Corporate Trustee Limited as trustee of the Employee Benefit Trust constituted by a deed executed by the Company on 4 March 2003 (or its successor from time to time as such trustee);

ECL: Energis Communications Limited (registered in England and Wales under number 2630471);

Effective Date: the date the Schemes become effective in accordance with their terms;

EHL: Energis Holdings Limited (registered in England and Wales under number 3649524);

Employee Benefit Trust: the employee benefit trust relating to employees of the Company operated by Abacus Corporate Trustee Limited constituted by a deed executed by the Company on 4 March 2003 and any other employee or management incentive or benefit arrangement established by or relating to any Energis Group Company;

Encumbrance: any mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption or preference granted to any third party, or any other encumbrance or security interest of any kind (or an agreement or commitment to create any of the same);

Energis Group Companies: the Company and its subsidiaries (each of which is an **Energis Group Company** and all of which together are the **Energis Group**);

EVOS: Enhanced Voting Ordinary Shares of 0.01 pence in the Company;

EVOS Vendors: the Vendors set out in Schedule 1 (subject as provided in Clauses 5.4, 14.1.2 and 14.2);

Facilities Agreement: the revolving loan and guarantee facility agreement dated 16 December 1998 between, among others, the Company, EHL, ECL and the Agent (as amended and restated on 20 December 2001 and further amended and restated on 16 July 2002);

Facilities Security: the registered security interests affecting the assets of the Energis Group Companies which secure sums owed under the Facilities Agreement and listed in Part C of Schedule 2;

Facility C: as defined in the Facilities Agreement;

Facility C Agreement: the agreement expected to be entered into before Completion by all the Facility C Lenders in the Agreed Form marked “G”;

Facility C Lender: as defined in the Facilities Agreement;

Fees and Costs Schedule: the document so titled in the Agreed Form marked “B” setting out estimates of the transaction costs associated with, or arising by reason of, Completion (including advisers fees and the costs of terminating the Swaps and other breaks costs payable under or in connection with repayment of the debt owed under the Facilities Agreement);

HMRC: H.M. Revenue and Customs (and, as the context requires, any predecessor, replacement or successor body);

ITEPA 2003: the Income Tax (Earnings and Pensions) Act 2003;

Lenders: as defined in the Facilities Agreement;

LIBOR: as defined in the Facilities Agreement;

London Stock Exchange: London Stock Exchange plc, together with any successors thereto;

Long Stop Date: 11.59 pm on the date falling three months after the date of this Agreement, or four months if Schemes are proposed for the purpose of Clause 3.1.2;

Market Value: has, in the context of Clause 12, the meaning given to it in Clause 12.3.9;

MIP Representative: has the meaning given in Clause 12;

Mr Pluthero: John Pluthero, the chief executive of the Company;

2005 MIP Equity-based Entitlements: any award (whether contingent or otherwise) to which any Vendor, any Remaining Shareholder, any present or former employee of any Energis Group Company, any other beneficiary of the Employee Benefit Trust or any successor, predecessor or assignee of any of them became entitled (whether contingently or otherwise) which the trustee of the Employee Benefit Trust has agreed to satisfy by a payment from the Employee Benefit Trust on or around Completion, where such payment is to be calculated by reference to the value of actual or notional Shares but where such award does not constitute an interest in any Shares (and, for the avoidance of doubt, shall not include an entitlement under the Cash Bonus Plan);

NICs: contributions required to be withheld, deducted, paid or accounted for pursuant to the Social Security Contributions and Benefits Act 1992, any successor, replacement or predecessor legislation and/or any regulations promulgated under any of them;

Notices of Repayment: the notices in the Agreed Form marked "C" notifying the Lenders other than the Facility C Lenders of the intention to repay at Completion the outstanding amounts due under the Facilities Agreement other than Facility C;

Parties: the parties to this Agreement (including a person who has duly executed a Deed of Adherence);

PAYE: any tax required to be deducted, withheld, paid or accounted for under Part 11 of the Income Tax (Earnings and Pensions) Act 2003, any successor, replacement or predecessor legislation and/or any regulations promulgated under any of them;

Post-April 2003 MIP Shares: any Shares to which any Vendor, any Remaining Shareholder, any present or former employee of any Energis Group Company, any other beneficiary of the Employee Benefit Trust or any successor, predecessor or assignee of any of them became entitled (whether or not contingently) or in respect of which any such person acquired any interest or received any award in each case pursuant to any Employee Benefit Trust, other than Pre-April 2003 MIP Shares;

Pre-April 2003 MIP Shares: any Shares to which any Vendor, any Remaining Shareholder, any present or former employee of any Energis Group Company, any other beneficiary of the Employee Benefit Trust or any successor, predecessor or assignee of any of them became entitled (whether or not contingently) or in respect of which any such person acquired any interest or received any award in each case pursuant to any Employee Benefit Trust on or before 16 April 2003;

Purchaser' s Solicitors: Slaughter and May of One Bunhill Row, London EC1Y 8YY;

Purchaser Warranties: the warranties in Clause 8.1;

Registrar of Companies: the Registrar of Companies in England and Wales within the meaning of the Companies Act;

Remaining Shareholders: all holders of Shares other than the EVOS Vendors;

Sale Shares: (a) the EVOS and other Shares held by the EVOS Vendors and listed against their names in Schedule 1 (or specified in the Deed of Adherence executed by them, where applicable) and (b) the 8,000,000 A Ordinary Shares and 1,000,000 15th Ordinary Shares held by the A Ordinary Vendor;

Sale Notice: the notice to be given by the Company to the Remaining Shareholders under Article 7.4.2 of the Articles, being in the Agreed Form marked "D";

Schemes: schemes of arrangement substantially on the terms set out in the applicable Scheme Document in relation to each of the Scheme Companies;

Scheme Companies: each Energis Group Company which is liable, whether as primary obligor or otherwise, in respect of Facility C;

Scheme Document: the documents so titled in the Agreed Form marked "H" and (if required) a substantially similar document for Energis (Ireland) Limited;

Selling Notice: the notice to be given by the EVOS Vendors to the Company under Article 7.4.1 of the Articles, being in the Agreed Form marked "E";

Shares: all the issued shares in the capital of the Company at Completion (including but not limited to the Sale Shares);

Swaps: the interest rate swaps in place at the date of this Agreement in relation to the Facilities Agreement and listed on the Fees and Costs Schedule;

UK Listing Authority: the United Kingdom Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000;

Vendor Warranties: the warranties in Clause 7.1;

Vendors: the EVOS Vendors and the A Ordinary Vendor;

Viridian: Viridian Capital Limited, a company incorporated in Northern Ireland with registration number NI 32456.

1.2 In this Agreement (unless the context requires otherwise)

1.2.1 words and expressions which are defined in the Companies Act have the same meanings as are given to them in the Companies Act;

1.2.2 any reference to a statute, statutory provision or subordinate legislation shall be construed as referring to (i) such legislation as amended and in force from time to time and to any legislation which re-enacts, consolidates or enacts in rewritten form (with or without modification) any such legislation and (ii) any former legislation which it re-enacts, consolidates or enacts in rewritten form;

1.2.3 any gender includes a reference to the other genders;

1.2.4 any reference to a "person" includes a natural person, partnership, firm, joint venture, company, body corporate, association, organisation, government, state, agency of a state, foundation and trust (in each case whether or not having separate legal personality);

1.2.5 any reference to the Introduction, a Clause or Schedule is to the Introduction, a Clause or Schedule (as the case may be) of or to this Agreement;

1.2.6 any reference to any other document is a reference to that other document as amended, varied, supplemented, or novated (in each case, other than in breach of the provisions of this Agreement) at any time;

1.2.7 the rule known as the *ejusdem generis* rule shall not apply and accordingly general words introduced by the word "other" shall not be given a restrictive meaning by reason of the fact that they are preceded by words indicating a particular class of acts, matters or things;

1.2.8 general words shall not be given a restrictive meaning by reason of the fact that they are followed by particular examples intended to be embraced by the general words;

1.2.9 reference to times of day are to the time in London;

1.2.10 references to the Schemes, the Court, the Registrar of Companies and other expressions relevant to the Schemes shall, insofar as they relate to Energis (Ireland) Limited, be construed as references to the equivalent concepts or bodies in Northern Ireland.

1.3 The Index and headings to Clauses and Schedules in this Agreement are included for convenience only and do not affect the interpretation of this Agreement.

1.4 The Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement, and any reference to this Agreement shall include the Schedules.

1.5 The Parties agree that:

1.5.1 subject always to and save as expressly provided in the provisions of this Clause 1.5, Clause 2.2, Clause 8.4, Clause 12, Clause 13.4, Clause 14.1.2 and Clause 14.9, no term of this Agreement shall be enforceable by a third party; and

1.5.2 notwithstanding that any term of this Agreement may become enforceable by a third party, the terms of this Agreement or any of them (other than those referred to in Clause 1.5.1 where, in relation to each such Clause, the consent of the persons taking the benefit of that Clause will be required) may be varied, amended or modified or this Agreement may be suspended, cancelled, rescinded or terminated by agreement in writing between the Parties without the consent of any such third party.

2 **S ale and purchase**

2.1 The Vendors shall sell free from all Encumbrances and any other third party rights and the Purchaser shall purchase the Sale Shares with effect from and including the Completion Date to the intent that as from that date all rights and advantages accruing to the Sale Shares shall belong to the Purchaser.

2.2 The Purchaser shall purchase on Completion the Shares of the Remaining Shareholders (other than the A Ordinary Vendor) by virtue of the procedure under Clauses 5.1 and 5.2 and Article 7.4 of the Articles. Any such Remaining Shareholder may enforce the terms of this Clause 2.2 in accordance with the Contracts (Rights of Third Parties) Act 1999.

2.3 The A Ordinary Vendor irrevocably waives his rights under Article 7.5 of the Articles arising in consequence of the proposed sale of the Shares contemplated by this Agreement.

2.4 For the avoidance of doubt, Part 1 Law of Property (Miscellaneous Provisions) Act 1994 shall not apply for the purposes of this clause.

3 **C onditions**

3.1 Completion shall be conditional upon each of the following:

3.1.1 the first date for Completion as specified in the Sale Notice having been reached and there not being outstanding on the Completion Date any legal proceedings such that completion of the sale of the Shares on the Completion Date would be illegal or in contempt of Court;

3.1.2 either (a) the Facility C Agreement having been duly executed by all the Facility C Lenders, or (b) Schemes having become effective between each Scheme Company and each of the Facility C Lenders;

3.1.3 a statement having been issued in terms reasonably satisfactory to the Purchaser by the Office of Fair Trading that the transaction contemplated by this Agreement will not be referred to the Competition Commission and the deadline for appealing such a decision to the Competition Appeal Tribunal having expired, or the Purchaser having given written notice to the Company waiving this requirement; and

3.1.4 the period within which the holders of the A Ordinary Shares may serve an Executive Notice as defined in Article 7.5 of the Articles having expired without such notice having been served.

3.2 The Parties shall use all reasonable endeavours to ensure that the Condition in Clause 3.1.1 is not outstanding and that each of the Conditions in Clauses 3.1.2 and 3.1.3 is satisfied as soon as practicable after the date of this Agreement and in any event before the Long Stop Date. For the purposes of this Clause, "reasonable endeavours" shall mean:

3.2.1 for the purposes of Clause 3.1.1, in the case of the Company and the Vendors promptly taking such steps as may be appropriate to seek to have any such proceedings dismissed as swiftly as possible;

3.2.2 for the purposes of Clause 3.1.2, if applicable, the Company and the Purchaser complying with the terms set out in Schedule 5;

3.2.3 for the purposes of Clause 3.1.3, the Company and the Purchaser:

(a) in the case of the Purchaser, submitting an application for clearance to the Office of Fair Trading as soon as reasonably practicable but in any event not later than 10 Business Days after the date of this Agreement and diligently pursuing that application;

(b) in the case of the Company, providing the Purchaser as soon as reasonably practicable with such assistance as is reasonably necessary to enable the Purchaser to achieve the Condition in Clause 3.1.3;

(c) providing any competition authority or regulatory authority as promptly as reasonably practicable upon request and in good faith with any necessary information and documents for the purpose of making any submissions, filings and notifications to any such competition authority or regulatory authority in relation to the transaction contemplated by this Agreement;

(d) disclosing to each other all correspondence received from any competition authority or regulatory authority; and

(e) keeping each other informed of any other communications in whatever form with any competition authority or regulatory authority, in relation to the transaction contemplated by this Agreement;

excluding, in the case of (b), (d) and (e), disclosing to each other any information which is confidential to the relevant Party.

3.3 Subject to Clause 3.4, Completion shall take place on the date falling 5 Business Days after the date on which the last of the Conditions set out in Clauses 3.1.2, 3.1.3 and 3.1.4 is satisfied, and provided that if, on such date (or after such date but before Completion), the Condition set out in Clause 3.1.1 is not satisfied, the date for Completion shall be deferred until the earliest date (not being later than the Long Stop Date) on which that Condition is satisfied.

3.4 If:

3.4.1 before Completion the Company commits a breach of its obligations under Clause 5.3.1(b) or Part A of Schedule 4 which is either not capable of remedy or which, if capable of remedy, is not remedied before Completion; or

3.4.2 before Completion the Company commits a breach of its obligations under Clause 5 (other than those obligations referred to in Clause 3.4.1) or Part B of Schedule 4 which is either not capable of remedy or, if capable of remedy, is not remedied before Completion and the effect of such breach is sufficiently material to the Purchaser in the context of the transaction to be effected by this Agreement that if it were an acquisition by means of an offer governed by the City Code on Takeovers and Mergers, the Takeover Panel would be likely to permit the Purchaser to invoke such breach for the purposes of withdrawing its offer (having particular regard to Practice Statement No. 5 issued by the Takeover Panel on 28 April 2004); or

3.4.3 following 31 March 2005 there is an adverse change or deterioration in the business, financial or trading position or profits or prospects of the Energis Group which is material in the context of the Energis Group taken as a whole and the effect of the change or deterioration is sufficiently material to the Purchaser in the context of the transaction to be effected by this Agreement that if it were an acquisition by means of an offer governed by the City Code on Takeovers and Mergers, the Takeover Panel would be likely to permit the Purchaser to invoke such change or deterioration for the purposes of withdrawing its offer (having particular regard to Practice Statement No. 5 issued by the Takeover Panel on 28 April 2004),

the Purchaser may, prior to the Completion Date, serve five Business Days' written notice on the Company terminating this Agreement, provided that the Company will be entitled, during such five Business Day period, to remedy the matter giving rise to the right of termination where it is capable of remedy and if such matter is remedied to the reasonable satisfaction of the Purchaser before the expiry of such period, the notice of termination in relation to the relevant matter will be treated as not having been served. This is without prejudice to the right of the Purchaser to serve a notice of termination under this Clause 3.4 in respect of any other matter. In cases where there is a dispute as to the application of Clause 3.4.2, or Clause 3.4.3 the Parties will, in the first instance, refer the matter for adjudication to the Takeover Panel, if the Takeover Panel is willing to assume such role. If either

(a) the Takeover Panel is not willing to assume the role, in relation to a dispute in respect of Clause 3.4.2 or 3.4.3; or

(b) there is a dispute as to the application of Clause 3.4.1,

such dispute shall be referred as expeditiously as possible to a Queen's Counsel experienced in commercial law (the **Independent Expert**), who shall be appointed by agreement between the Company and the Purchaser or, in default of agreement, by the President or Chairman of the Bar Council on the application of the Company or the Purchaser.

3.5 If a dispute is referred to the Takeover Panel or the Independent Expert under Clause 3.4:

3.5.1 the Takeover Panel or the Independent Expert shall act as an expert, not as arbitrator, and the Arbitration Acts shall not apply;

3.5.2 within 10 Business Days of the Purchaser serving notice under Clause 3.4 both the Company and the Purchaser shall make written submissions to the Takeover Panel or the Independent Expert (as the case may be) on the matter in dispute;

3.5.3 each of the Company and the Purchaser shall promptly provide the Takeover Panel or the Independent Expert (as the case may be) and each other with such further information as it or he may request;

3.5.4 the Company and the Purchaser shall seek to ensure that the Takeover Panel or the Independent Expert (as the case may be) determines the dispute as expeditiously as possible and in any event within 5 Business Days of the dispute being referred to it or him (and such determination when notified in writing to both Parties shall be final and binding upon them);

3.5.5 if the dispute referred to the Takeover Panel or the Independent Expert is determined on the basis that the Purchaser was not entitled to terminate this Agreement, Completion shall occur on the date falling five Business Days following such determination; and

3.5.6 the costs of resolving the dispute shall be borne as determined by the Takeover Panel or the Independent Expert.

3.6 If:

3.6.1 the Conditions have not been satisfied by the Long Stop Date (or such later date and time as the Parties may agree in writing); or

3.6.2 the Parties jointly agree in writing that there is no reasonable prospect of the Conditions being satisfied before the Long Stop Date; or

3.6.3 the transaction contemplated by this Agreement is referred to the Competition Commission on or before the Long Stop Date; or

3.6.4 the Purchaser validly serves written notice in accordance with Clause 3.4;

this Agreement (except for the provisions of this Clause and of Clauses 1 (*Definitions, interpretation and third party rights*), 9 (A*nnouncements*), 10 (*Remedies and Waivers*) 14 (*General*), 15 (*Notices*) and 16 (*Governing law and jurisdiction*)) shall be null and void and of no further effect and the Parties shall be released and discharged from their respective obligations under this Agreement.

4 Consideration

4.1 The consideration for the Shares (including the Sale Shares) shall be in the range of £13,245,662 to £14,514,496 in cash depending on the proportion of the Contingent Consideration, allocated between this Agreement and the Facility C Agreement or the Schemes. The final proportion of cash and Contingent Consideration shall be notified to the Purchaser by the Company prior to Completion. At the same time as the consideration proportions are notified to the Purchaser, the Company shall notify the Purchaser of the associated amounts of employee PAYE and NIC to be deducted/retained from such consideration. The consideration for the Shares shall be apportioned in accordance with Article 9 of the Articles, which the Parties agree means such consideration shall be allocated first to the A1 Ordinary Shares (as defined in the Articles) with the balance to the A2 Ordinary Shares and no amount to any other Shares. The Parties agree that the consideration payable under this Clause represents the Redemption Value of the A1 Ordinary Shares and the A2 Ordinary Shares under the Articles.

4.2 Transfer of the aggregate cash sum referred to in Clause 4.1 by electronic funds transfer for same day value on Completion in accordance with Part D of Schedule 3 shall be a good discharge to the Purchaser of its obligations in respect of such payment and the Purchaser shall not, having made such electronic funds transfer, be responsible for the allocation of the sum transferred.

5 **P eriod following execution of this Agreement**

5.1 Immediately following the execution of this Agreement by all the Parties the EVOS Vendors shall serve on the Company the Selling Notice in accordance with Article 7.4.1 of the Articles.

5.2 Immediately upon the receipt by the Company of the Selling Notice pursuant to Clause 5.1 the Company shall give to each of the Remaining Shareholders the Sale Notice in accordance with Article 7.4.2 of the Articles, and promptly thereafter shall specify the period within which the holders of A Ordinary Shares may serve an Executive Notice in accordance with Article 7.5 of the Articles.

5.3 From the date of this Agreement to the earlier of Completion and the date on which this Agreement terminates in accordance with Clause 3.4, 3.5, 6.4.3 or 6.7.3 :

5.3.1 the Company shall and shall procure that each of the other Energis Group Companies shall:

(a) carry on business in good faith in the ordinary course as is consistent with the manner in which the business has been carried on in the two years preceding the date of this Agreement;

(b) in particular, but without limitation to paragraph (a), not undertake any of the matters listed in Part A of Schedule 4 without the prior written consent of the Purchaser, which consent may be withheld at the absolute discretion of the Purchaser;

(c) in particular, but without limitation to paragraph (a), not undertake any of the matters listed in Part B of Schedule 4 without the prior consent in writing of the Purchaser, such consent not to be unreasonably withheld or delayed (subject as provided in Part B of Schedule 4); and

(d) provide confirmation on the Business Day before the date scheduled for Completion that the provisions of this Clause 5 and of Schedule 4 have been complied with (without personal liability on the part of the individual signing such confirmation in the name of the Company);

5.3.2 the Company shall provide to the Purchaser copies of the following documents:

(a) board minutes of the Company;

(b) monthly management accounts of the Energis Group;

(c) information packs in relation to the Energis Group;

(d) regular reports provided to Lenders under the terms of the Facilities Agreement;

(e) the weekly cash reports of the Energis Group which are reviewed by the Energis Group on a weekly basis;

5.3.3 the Chief Executive of the Company will meet with the Chief Executive of the Purchaser on a regular basis to discuss matters of mutual interest in contemplation of Completion (subject to the observance by them of their fiduciary and other duties and without thereby being or causing the Energis Group Companies or the Purchaser to be in breach of any legal obligation, whether of confidentiality, in relation to competition regulation or otherwise); and

5.3.4 the Company will provide all assistance reasonably requested by the Purchaser to enable the Purchaser to obtain the consent of third parties who have contracted with any Energis Group Company to the change of control of the Company.

5.4 From the date of this Agreement to the earlier of Completion and the date on which this Agreement terminates in accordance with Clauses 3.4, 3.5, 6.4.3 or 6.7.3, each Vendor agrees it will not sell, transfer, relinquish any rights in respect of or grant any Encumbrance over any of its Sale Shares, provided that an EVOS Vendor (a **Transferor**) may sell or transfer Sale Shares to a person (a **Transferee**) who (before such sale or transfer is made) executes a Deed of Adherence. The effect of the execution by a Transferee of a Deed of Adherence shall be to constitute the Transferee a Party having the rights and obligations given and imposed by this Agreement on EVOS Vendors to the extent they applied prior to such execution to the Transferor in respect of the Sale Shares so transferred, and to release the Transferor to that extent from its rights and obligations under this Agreement. For the avoidance of doubt, the Transferee shall be deemed to give the Vendors' Warranties in respect of itself and the Sale Shares so acquired. If as a result of such transfer, the Transferor no longer holds any Shares it shall cease to be a Party (but without thereby releasing it from any obligation or liability outstanding at the time of transfer)

5.5 From the date of this Agreement to the earlier of Completion and the date on which this Agreement terminates in accordance with Clause 3.4, 3.5, 6.4.3 or 6.7.3 the Company will allow KPMG LLP on behalf of the Purchaser access to such information as is reasonably necessary to monitor compliance with the provisions of Schedule 4, being principally, but not limited to, the information supplied pursuant to Clause 5.3.2. Such information to which KPMG LLP may have access shall be kept confidential and shall not be disclosed by KPMG LLP to the Purchaser, its officers, employees or advisers except in the following cases:

(i) with the written consent of the Company (not to be unreasonably withheld or delayed);

(ii) information listed in Clause 5.3.2 can be disclosed;

(iii) information which is necessary to obtain consents required under this Agreement can be disclosed;

(iv) information can be disclosed in the context of non-compliance with the provisions of this Clause 5 or Schedule 4; and

(v) information otherwise made available pursuant to Clause 5.3.3 can be disclosed.

5.6 The Company will use its reasonable endeavours to procure the transfer of the 500 D shares in Energis (Ireland) Limited into the name of an Energis Group Company as soon as practicable and, in any event, before Completion.

6 **Completion**

6.1 The Company shall, and shall procure that each of the other Energis Group Companies (where applicable) shall, not later than 5 Business Days prior to the Completion Date serve on the Agent the Notices of Repayment duly completed and signed.

6.2 Completion will take place at the offices of the Company' s Solicitors at 11.00 am on the Completion Date (or at such later time on that date as the Company and the Purchaser may agree) when:

6.2.1 each Vendor shall perform (in respect of itself or himself only) the obligations set out in Part A of Schedule 3;

6.2.2 the Purchaser shall perform its obligations set out in Part B of Schedule 3;

6.2.3 the Company shall or shall procure that the relevant Energis Group Company shall perform the obligations set out in Part C of Schedule 3;

6.2.4 the Purchaser and the Company shall, and the Company shall procure that the relevant Energis Group Companies shall, perform their obligations set out in Part D of Schedule 3;

6.2.5 there shall be held a meeting of the board of directors of the Company and of each of the other Energis Group Companies nominated by the Purchaser (not less than 4 Business Days before Completion) at which:

6.2.5.1 (at the meeting of the directors of the Company) it shall be resolved that each of the transfers relating to the Shares shall be approved for registration (subject, where relevant, to stamping) and each transferee shall (subject to presentation of transfers duly stamped) be registered as the holder of the Shares concerned in the register of members;

6.2.5.2 each of the persons nominated by the Purchaser shall be appointed directors and/or secretary, such appointments to take effect (subject to their consent to appointment) at the close of the meeting;

6.2.5.3 the resignations referred to in paragraph 2 of Part A of Schedule 3 and paragraph 1.4 of Part C of Schedule 3 shall be tendered and accepted so as to take effect at the close of the meeting;

and the Company shall procure that minutes of such board meeting, certified as correct by the secretary of the Company (or the relevant Energis Group Company) and the resignations and acknowledgements referred to are delivered to the Purchaser' s Solicitors.

6.3 The Vendors and the Company shall not be obliged to complete this Agreement unless the Purchaser complies with the requirements of Clause 6 and Schedule 3 so far as they require the Purchaser to perform obligations on or before the Completion Date.

6.4 If the obligations of the Purchaser required to be performed on or before the Completion Date are not complied with on the Completion Date, the Company may:

6.4.1 where the failure to perform is capable of being rectified, defer Completion by between 2 and 4 Business Days (so that the provisions of this Clause 6 shall apply to Completion as so deferred and the Completion Date shall be such deferred date); or

6.4.2 proceed to Completion so far as practicable (without limiting its or the Vendors' rights under this Agreement); or

6.4.3 (subject, where applicable, to the Completion Date having been deferred once under Clause 6.4.1) terminate this Agreement by notice in writing to the Purchaser.

6.5 The Purchaser shall not be obliged to complete this Agreement unless each Vendor and the Company complies with the requirements of Clause 6 and Schedule 3 so far as they require the Party in question to perform obligations on or before the Completion Date.

6.6 The Purchaser shall not be obliged to complete the purchase, and the Vendors shall not be obliged to complete the sale, of any of the Shares unless the sale and purchase of all the Shares is completed simultaneously.

6.7 If the obligations of the Vendors and the Company under Clause 6 and Schedule 3 required to be performed on or before the Completion Date are not complied with on the Completion Date the Purchaser may:

6.7.1 where the failure to perform is capable of being rectified, defer Completion by between 2 and 4 Business Days (so that the provisions of this Clause 6 shall apply to Completion as so deferred and the Completion Date shall be such deferred date); or

6.7.2 proceed to Completion so far as practicable (without limiting its rights under this Agreement); or

6.7.3 (subject, where applicable, to the Completion Date having been deferred once under Clause 6.7.1) terminate this Agreement by notice in writing to the Vendors.

6.8 If this Agreement is terminated in accordance with Clause 6.4 or Clause 6.7 (and without limiting any Party' s right to claim damages), all obligations of the Parties under this Agreement shall end except for those expressly stated to continue without limit in time, but (for the avoidance of doubt) all rights and liabilities of the Parties which have accrued before termination shall continue to exist.

7 **V endor Warranties**

7.1 Each Vendor warrants to the Purchaser that:

7.1.1 the Sale Shares listed against such Vendor' s name in Schedule 1 are solely legally owned by such Vendor free from any Encumbrance;

7.1.2 such Vendor owns no other shares in the capital of the Company, or any right to subscribe for, convert into or call for the issue of any such shares;

7.1.3 such Vendor has full power, capacity and authority to enter into and perform this Agreement, to execute and perform any obligations it may have under each document to be delivered by that Vendor at Completion and to deliver legal and beneficial ownership of the Sale Shares listed against its name in Schedule 1, and this Agreement constitutes, and the obligations of such Vendor under each document to be delivered by that Vendor at Completion will when delivered constitute, valid and binding obligations of such Vendor in accordance with its terms;

7.1.4 the execution and delivery of this Agreement by such Vendor and the performance of and compliance with its terms and provisions will not conflict with or result in a breach of, or constitute a default under, the Memorandum or Articles of Association or equivalent constitutional documents of such Vendor (where a corporate body) or any order or judgment that applies to or binds such Vendor or any of its property or any other instrument by which it is bound;

7.1.5 no consent, action, approval or authorisation of, and no registration, declaration, notification or filing with or to, any court or governmental or administrative authority is required to be obtained, or made, by such Vendor to authorise the execution or performance of this Agreement by such Vendor;

7.1.6 following Completion, it will have no claim against any Energis Group Company or any holder of Shares or any director, officer, employee, agent or adviser of any Energis Group Company in respect of its Shares or otherwise in its capacity as a member of the Company and no beneficial owner of any such Shares will have any such claim provided that the Vendors make no such warranty and nothing in this Clause 7.1.6 shall waive or extinguish:

(i) any claim a Vendor may have against a director, officer or employee in respect of fraud or dishonest misappropriation of funds; or

(ii) any right of redress that the Vendors may have against such director, officer or employee in respect of any gain made by any such director, officer or employee as a consequence of a dishonest breach by the Company or by that director, officer or employee of the Articles or the Investment Agreement dated 15 July 2002.

7.1.7 following Completion, (and assuming all payments required by Part D of Schedule 3 have been made) it will have no claim against any Energis Group Company under the Facilities Agreement except in respect of Facility C.

7.2 The Vendor Warranties shall not in any respect be extinguished or affected by Completion.

7.3 Each Vendor warrants to the Purchaser that each of the Vendor Warranties given by such Vendor is and will continue to be accurate up to and including the Completion Date as if repeated immediately before Completion by reference to the facts and circumstances subsisting at that date on the basis that any reference in such Vendor Warranties, whether express or implied, to the date of this Agreement is substituted by a reference to the Completion Date.

7.4 A Vendor shall only be liable in respect of breach of the Vendor Warranties by that Vendor and such liability shall be limited to the following:

7.4.1 where the breach results in the failure by the Purchaser to acquire in accordance with the terms of the Vendor Warranties the Shares purportedly sold by the Vendor with good title free from Encumbrances, the cost of acquiring such title from its owner or of discharging the Encumbrances and all associated expenses; or

7.4.2 where the breach involves the Energis Group Companies or a holder of Shares retaining after Completion any liability which the Vendor Warranties state will not exist, the cost of discharging that liability and all associated expenses.

7.5 Each of the Vendor Warranties shall be construed as a separate and independent warranty and (except where expressly provided to the contrary) shall not be limited or restricted by reference to or inference from the terms of any other Vendor Warranty or any other term of this Agreement.

7.6 Each Vendor warrants to the other Vendors that the transactions set out in, or contemplated by, this Agreement and the Facility C Agreement or the Schemes comprise the entire arrangement (excluding employment arrangements with the Purchaser for retained employees) in respect of the disposal of Shares and the satisfaction of liabilities under the Facilities Agreement.

8 **P urchaser Warranties, covenants and undertakings**

8.1 The Purchaser warrants to the Vendors that:

8.1.1 the Purchaser has full power to enter into and perform this Agreement and to execute, deliver and perform any obligations it may have under each document to be delivered by it at Completion and this Agreement constitutes, and the obligations of the Purchaser under each document to be delivered by it at Completion will when delivered constitute, binding obligations of the Purchaser in accordance with its terms;

8.1.2 the execution and delivery of this Agreement by the Purchaser and the performance of and compliance with its terms and provisions will not conflict with or result in a breach of, or constitute a default under, the Memorandum or Articles of Association of the Purchaser or any order or judgment that applies to or binds the Purchaser or any of its property or any other instrument by which it is bound; and

8.1.3 save for the filing referred to in Clause 3.1.3, no consent, action, approval or authorisation of, and no registration, declaration, notification or filing with or to, any court or governmental or administrative authority is required to be obtained, or made, by the Purchaser to authorise the execution or performance of this Agreement by the Purchaser.

8.2 The Purchaser Warranties shall not in any respect be extinguished or affected by Completion.

8.3 The Purchaser acknowledges and agrees that the Purchaser has no rights against, and shall not make any claim against any present or former director, officer, employee, agent or adviser of the Company or of any Energis Group Company (including any person on which or on whom it may have relied before agreeing to any terms of this Agreement or any other document referred to in this Agreement and whether in relation to Disclosures or otherwise) provided that nothing in this Clause 8.3 shall operate to limit or exclude:

8.3.1 any liability of any such person for dishonesty (by commission or omission) or fraud; or

8.3.2 any liability of a Vendor for breach of the Vendor Warranties given by that Vendor or any other claim against a Vendor for breach by that Vendor of this Agreement.

8.4 Any such director, officer, employee, agent or adviser as is referred to in Clause 8.3 may enforce the terms of Clause 8.3 in accordance with the Contracts (Rights of Third Parties) Act 1999.

9 **Announcements**

9.1 Except as required by law or regulation, or the order or rules of a court or tribunal of competent jurisdiction, or any securities exchange or regulatory or governmental body to which that party is subject or submits, wherever situated, including (amongst other bodies) the UK Listing Authority, the London Stock Exchange, the Panel on Takeovers and Mergers and H.M. Revenue & Customs, whether or not the requirement has the force of law, no Party shall issue any press release or publish any circular to shareholders or any other public document in each case relating to this Agreement or the matters contained in it, without the prior written approval of (i) Mr Norman or Mr Pluthero and (ii) the Purchaser as to its contents and the manner and extent of its presentation and publication or disclosure except:

9.1.1 in a manner consistent with any communications strategy (including with respect to customers and employees) agreed by the Company and the Purchaser before the date of this Agreement;

9.1.2 the Sale Notice; and

9.1.3 the presentation and papers to be prepared for the purposes of seeking approval of the transactions contemplated by this Agreement from the Lenders.

9.2 The provisions of this Clause 9 shall terminate on the first anniversary of the date of this Agreement.

10 **R emedies and Waivers**

10.1 No delay or omission by any Party to this Agreement in exercising any right, power or remedy provided by law or under this Agreement or any other documents referred to in it shall:

10.1.1 affect that right, power or remedy; or

10.1.2 operate as a waiver thereof.

10.2 The single or partial exercise of any right, power or remedy provided by law or under this Agreement shall not preclude any other or further exercise of it or the exercise of any other right, power or remedy.

10.3 The Parties agree that (except in the case of fraudulent misrepresentation) none of them shall be entitled to terminate or rescind this Agreement after the date of its execution except in accordance with the express provisions for termination under Clause 3 or Clause 6.

10.4 The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

10.5 The A Ordinary Vendor acknowledges that the performance by the Company and the Purchaser of their respective obligations pursuant to Schedule 3 will satisfy all the Company' s payment obligations to the A Ordinary Vendor arising as a consequence of the sale of the Company, the novation of Facility C and the repayment of the Facilities (excluding Facility C) and that the "Investors" as defined in the Investment Agreement dated 15 July 2002 shall have no obligation to make any payment or take any action in relation to him pursuant to Clauses 10.10 or 10.11 of that agreement.

11 **C osts and expenses**

Except as otherwise stated in any other provision of this Agreement, each Party shall pay its own costs and expenses in relation to the negotiations leading up to the sale and purchase of the Shares and the preparation, execution and carrying into effect of this Agreement and all other documents referred to in it (including payment by the Company of the fees and costs set out in the Fees and Costs Schedule).

12 **P AYE and NICs**

12.1 **Cash Bonus Plan and 2005 MIP Equity-based Entitlements**

12.1.1 The Parties acknowledge that the Company shall be required to deduct amounts in respect of PAYE and employees' NICs from the whole of the payments to be made in respect of the Cash Bonus Plan as described in Schedule 3, and that such deductions shall be made accordingly.

12.1.2 The Parties acknowledge that the Company shall be required to account for employers' NICs in respect of the whole of the payments to be made in respect of the Cash Bonus Plan as described in Schedule 3.

12.1.3 The Parties acknowledge that the Company shall be required to account for PAYE and employees' NICs in respect of the whole of the payments which the trustee of the Employee Benefit Trust has agreed to make in respect of the 2005 MIP Equity-based Entitlements as described in Schedule 3, and that the Company shall appropriate and deduct amounts equal to such PAYE and employees' NICs from the consideration which is payable by the Purchaser for the Shares sold by such trustee to the Purchaser and which is to be held by the Company on trust for the trustee of the Employee Benefit Trust as contemplated in Paragraph 1 of Part D of Schedule 3.

12.1.4 The Parties acknowledge that the Company shall be required to account for employer' s NICs in respect of the whole of the payments to be made in respect of the 2005 MIP Equity-based Entitlements as described in Schedule 3.

12.1.5 Without prejudice to the rights of the Purchaser under the terms of Clause 12.1.3, the Parties acknowledge that, to the extent that the Company is required to account for PAYE and employees' NICs as mentioned in Clause 12.1.3, the appropriation and deduction referred to in Clause 12.1.3 is intended to constitute the making good by the relevant employees to the Company of such PAYE and employees' NICs (including, in particular, for the purposes of s.222 ITEPA 2003 and any equivalent NICs purposes).

12.1.6 The calculation of the PAYE and NICs referred to in Clauses 12.1.1, 12.1.2, 12.1.3 and 12.1.4 shall take into account any related liability under s.222 ITEPA 2003 and any equivalent NICs legislation.

12.1.7 The Company shall duly account to HMRC for the PAYE and NICs mentioned in Clauses 12.1.1, 12.1.2, 12.1.3 and 12.1.4. For the avoidance of doubt, such PAYE and NICs shall be shown as amounts payable by the Company as at Completion in the table set out in Part D of Schedule 3, as more particularly described therein.

12.1.8 For the avoidance of doubt, Paragraph 5 of Schedule 6 makes further provision in connection with any PAYE or NICs relating to payments to be made in respect of the Cash Bonus Plan or the 2005 MIP Equity-based Entitlements.

12.1.9 Any reference in this Clause 12 to the Company shall, to the extent that the context requires, be taken to include a reference to any Energis Group Company which is the employer of the relevant employees.

12.2 **Pre-April 2003 MIP Shares**

12.2.1 The Company confirms that the Purchaser (or its agents) have been provided with all material correspondence between the Company (or its agents) and HMRC relating to the application of PAYE or NICs in connection with any Pre-April 2003 MIP Shares. The parties acknowledge that, as a result of that correspondence, their mutual understanding is that no PAYE or NICs will be applicable to any consideration paid or payable, or any right to any consideration payable, for any Pre-April 2003 MIP Shares pursuant to this Agreement.

12.2.2 For the avoidance of doubt, Paragraph 5 of Schedule 6 makes further provision in connection with any PAYE or NICs relating to any consideration paid or payable, or any right to any consideration payable, for any Pre-April 2003 MIP Shares.

12.3 **Post-April 2003 MIP Shares**

12.3.1 The Company confirms that the Purchaser (or its agents) have been provided with all material correspondence between the Company (or its agents) and HMRC relating to the application of PAYE or NICs in connection with any Post-April 2003 MIP Shares.

12.3.2 The Parties have agreed that the Purchaser shall deduct, from any consideration paid in respect of any Post-April 2003 MIP Shares pursuant to this Agreement on or about Completion, amounts in respect of PAYE and employees' NICs on amounts equal to:

(a) 99.9973 per cent. of any such consideration payable in respect of any Post-April 2003 MIP Shares on or about Completion (excluding, for the avoidance of doubt, any Contingent Consideration); and

(b) 99.9973 per cent. of the Market Value of the conditional right to any Contingent Consideration in respect of the Post-April 2003 MIP Shares as at Completion.

For the avoidance of doubt, such PAYE and employees' NICs shall be shown as amounts payable by the Purchaser in the table set out in Part D of Schedule 3, as more particularly described therein.

12.3.3 Subject to Clause 12.3.10, the Parties have agreed that the Purchaser shall deduct amounts in respect of PAYE and employees' NICs from 99.9973 per cent. of any Contingent Consideration actually paid in respect of any Post-April 2003 MIP Shares pursuant to this Agreement, after taking account of any PAYE and employees' NICs deducted as described in sub-Clause (b) of Clause 12.3.2. For the avoidance of doubt, Paragraph 5 of Schedule 6 makes further provision in connection with any such PAYE or NICs.

12.3.4 The Parties have agreed that the Company shall account for employers' NICs in respect of:

(a) 99.9973 per cent. of any consideration paid in respect of any Post-April 2003 MIP Shares pursuant to this Agreement on or about Completion (excluding, for the avoidance of doubt, any Contingent Consideration); and

(b) 99.9973 per cent. of the Market Value of the conditional right to any Contingent Consideration in respect of the Post-April 2003 MIP Shares as at Completion.

For the avoidance of doubt, such employers' NICs shall be shown as amounts payable by the Company in the table set out in Part D of Schedule 3, as more particularly described therein.

12.3.5 Subject to Clause 12.3.10, the Parties have agreed that the Company shall account for employers' NICs in respect of any Contingent Consideration actually paid in respect of any Post-April 2003 MIP Shares pursuant to this Agreement, after taking account of any employers' NICs dealt with under sub-Clause (b) of Clause 12.3.4. For the avoidance of doubt, Paragraph 5 of Schedule 6 makes further provision in connection with any such PAYE or NICs.

12.3.6 The calculation of the PAYE and NICs referred to in Clauses 12.3.2, 12.3.3, 12.3.4 and 12.3.5 shall take into account any related liability under s.222 ITEPA 2003 and any equivalent NICs legislation.

12.3.7 The Company shall duly account to HMRC for the PAYE and NICs mentioned in Clauses 12.3.2, 12.3.3, 12.3.4 and 12.3.5. The Company shall state to HMRC that such payments are made on a "without prejudice" basis and that the liability therefor is disputed. The Company shall give the MIP Representative a reasonable opportunity to comment on such statement to be made to HMRC, and shall take into account any reasonable comments made by the MIP Representative thereon. For the avoidance of doubt, the Company shall not be obliged to incorporate or reflect any comments made by the MIP Representative in such statement.

12.3.8 Without prejudice to the rights of the Purchaser under the terms of Clauses 12.3.2 and 12.3.3, the Parties acknowledge that, to the extent that the Company is required to account for PAYE and employees' NICs as mentioned in Clause 12.3.7, the deductions referred to in Clauses 12.3.2 and 12.3.3 are intended to constitute the making good by the relevant employees to the Company of such PAYE and employees' NICs (including, in particular, for the purposes of s.222 ITEPA 2003 and any equivalent NICs purposes). Accordingly, the Purchaser shall, at the request of the Company within 90 days after Completion, pay over the amount of such deductions to the Company to enable the Company to pay, or to reimburse the Company' s payment of, such PAYE and employees' NICs.

12.3.9 The Purchaser shall use reasonable endeavours, through discussion and correspondence with HMRC, to obtain the agreement of HMRC, before the date of Completion, as to the "Market Value" of the conditional right to any Contingent Consideration in respect of the Post-April 2003 MIP Shares as at Completion for the purposes of Clauses 12.3.2 and 12.3.4. The Purchaser shall give the MIP Representative a reasonable opportunity to comment on any letter or other correspondence to be submitted to HMRC for such purpose, and shall take into account any reasonable comments made by the MIP Representative thereon. If the Purchaser (acting reasonably) does not reach agreement with HMRC as to such "Market Value" before the date of Completion, such "Market Value" shall be determined by the Purchaser (acting reasonably).

12.3.10 The Purchaser shall use reasonable endeavours, through discussion and correspondence with HMRC, to obtain the agreement of HMRC, before the date on which any Contingent Consideration is actually paid in respect of any Post-April 2003 MIP Shares pursuant to this Agreement, that the payment of such Contingent Consideration is not subject to PAYE or NICs. The Purchaser shall give the MIP Representative a reasonable opportunity to comment on any letter or other correspondence to be submitted to HMRC for such purpose, and shall take into account any reasonable comments made by the MIP Representative thereon. If such agreement is obtained before the date on which any Contingent Consideration is actually paid in respect of any Post-April 2003 MIP Shares, Clauses 12.3.3 and 12.3.5 shall not apply in respect thereof.

12.4 **Conduct of dispute relating to Post-April 2003 MIP Shares**

12.4.1 Subject to Clause 12.4.9, the Company shall use reasonable endeavours, through discussion and correspondence with HMRC, to seek HMRC' s agreement that the payments and rights mentioned in Clauses 12.3.2, 12.3.3, 12.3.4 and 12.3.5 are not properly subject to PAYE or NICs.

12.4.2 Subject to Clause 12.4.9, if such agreement of HMRC is not obtained through discussion and correspondence pursuant to Clause 12.4.1 by 1st March, 2006 (or such earlier date as the Company and the MIP Representative may agree in writing), the Company shall appeal to the Special Commissioners against the imposition of such PAYE and NICs, and shall use reasonable endeavours to achieve the result that the payments and rights mentioned in Clauses 12.3.2, 12.3.3, 12.3.4 and 12.3.5 are held by the Special Commissioners not to be subject to PAYE or NICs. For the avoidance of doubt, the Company shall not be obliged to appeal to any further court or tribunal.

12.4.3 The Company shall keep the MIP Representative reasonably informed about any material developments in the progress of the discussions, correspondence and/or appeal mentioned in Clauses 12.4.1 and 12.4.2 (including, where relevant, providing copies of any written correspondence) and shall respond to any reasonable requests for information made by the MIP Representative in writing.

12.4.4 The Company shall give the MIP Representative a reasonable opportunity to attend (together with one professional adviser), as observers, any conference with Counsel appointed to represent the Company for the purposes of any appeal as mentioned in Clause 12.4.2. For the avoidance of doubt, the MIP Representative shall not be entitled to instruct such Counsel, whether jointly with the Company, solely or otherwise in relation to any appeal as mentioned in Clause 12.4.2.

12.4.5 If, in the course of such discussions, correspondence and/or appeal, any formal offer is made by HMRC to the Company to settle the dispute relating to such PAYE and NICs, the Company shall notify the MIP Representative of such offer and shall give the MIP Representative a period of at least thirty days (or, if less, the period ending three Business Days before the last date on which such offer may be accepted) to consider such offer and to consult with the Vendors, any Remaining Shareholders, any present or former employees of any Energis Group Company, any other beneficiary of the Employee Benefit Trust or any successor, predecessor or assignee of any of them who in each case holds any interest in any Post-April 2003 MIP Shares. The Company shall consult with the MIP Representative regarding such offer, and shall take into account any comments made by the MIP Representative to the Company in writing within such period. For the avoidance of doubt, the Company shall not be obliged to respond to such offer in accordance with the views expressed by the MIP Representative nor to incorporate or reflect any comments made by the MIP Representative in the Company’ s response to the offer.

12.4.6 The “MIP Representative” for the purposes of this Clause 12 shall initially be Nick Cooper of The Old House, 33 Main Street, Kibworth, Harcourt, Leicestershire, LE8 0NR. There shall be one MIP Representative from time to time. The MIP Representative may at any time appoint any individual as a successor to replace him or her in such role by giving the Company 5 Business Days notice of such appointment (including the name and address of such specified successor). Upon the expiry of such notice, the individual who is then the MIP Representative shall cease to hold such office, and the successor specified in such notice shall become the MIP Representative instead.

12.4.7 Each Vendor and the MIP Representative shall provide the Company with any information reasonably requested by the Company for the purposes of pursuing such discussions, correspondence or appeal.

12.4.8 For the avoidance of doubt, the Company and the Purchaser shall be entitled at any time to make clear to HMRC or any other relevant party that any action taken under Clause 12.4.1 or 12.4.2 is taken in performance of the Company’ s obligations under this Agreement.

12.4.9 The Company shall not be required to take or continue taking any action under Clause 12.4.1 or 12.4.2 if at any time the Purchaser or the Company determines (in its absolute discretion) that taking or continuing to take any such action will or may have a material adverse effect on the business affairs or tax affairs of the Purchaser or the Company (including, without limitation, where the Purchaser or the Company determines, in its absolute discretion, that the tax treatment of the Pre-April 2003 MIP Shares contemplated in Clause 12.2.1 above will or may be prejudiced thereby).

12.5 **Final Determination that no PAYE and NICs**

12.5.1 For the purposes of this Clause 12, a "Final Determination" that any payment or right is not properly subject to PAYE and NICs shall be treated as having occurred only if and when:

(a) HMRC has confirmed to the Purchaser or the Company (as the case may be), in writing and on terms which appear to the Purchaser or the Company (acting reasonably) to be irrevocable, that such payment or right is not properly subject to such PAYE and NICs; or

(b) the question of whether such payment or right is properly subject to PAYE and NICs has been the subject of an appeal, such appeal has been determined by the relevant court or tribunal on the basis that such payment or right is not properly subject to such PAYE and NICs and either (1) such determination is a decision of the highest applicable court of appeal or (2) no appeal has been made against that determination and the latest time by which any party may appeal against that determination has passed.

12.5.2 If, before any consideration is paid for any Post-April 2003 MIP Shares pursuant to this Agreement, there is a Final Determination that the payment of such consideration is not properly subject to PAYE and NICs, and written notice of such Final Determination has been provided to the Purchaser and the Company at least three Business Days before the date on which such payment is due to be made, such payment shall be treated for the purposes of this Clause 12, notwithstanding the terms of Clause 12.3, as not being subject to PAYE and NICs.

12.5.3 If and to the extent that:

(a) the Purchaser or the Company pursuant to Clause 12.3 deducts or withholds any amount in respect of PAYE and employees' NICs from any payment otherwise payable to any Vendor, any Remaining Shareholder, any present or former employee of any Energis Group Company, any other beneficiary of the Employee Benefit Trust or any successor, predecessor or assignee of any of them (referred to in this Clause 12.5.3 as the "relevant participant");

(b) there is subsequently a Final Determination that such payment is not properly subject to such PAYE and employees' NICs; and

(c) HMRC refunds such PAYE and employees' NICs to the Purchaser or the Company (for the avoidance of doubt, this Clause 12.5.3(c) shall not be satisfied where HMRC refunds such PAYE and NICs to any relevant participant),

then the Purchaser or the Company (as the case may be) shall pay to the relevant participant an amount equal to the lesser of:

(i) the amount of PAYE and any employees' NICs which were so deducted or withheld; and

(ii) the PAYE and employees' NICs so refunded by HMRC to the Purchaser or the Company (as the case may be).

Any such payment shall be made by the Purchaser or the Company (as the case may be) on the date falling 10 Business Days after the later of the date on which the relevant participant mentioned above demands such payment and the date on which such PAYE or NICs are refunded by HMRC to the Purchaser or the Company. For the avoidance of doubt, neither the Purchaser nor the Company shall be obliged to make any payment, refund or reimbursement under this Clause 12.5.3 in respect of any employers' NICs.

13 **Entire Agreement**

13.1 This Agreement, the documents in the Agreed Form and the other documents referred to in them constitute the entire agreement between, and understanding of, the Parties with respect to the subject matter of this Agreement and such documents supersede any prior written or oral agreement(s) or arrangement(s) between the Parties in relation thereto.

13.2 The Purchaser acknowledges that it has not entered into this Agreement, and will not enter into any of the documents in the Agreed Form to which it is a party, in reliance upon any warranty, representation or undertaking of the Vendors or any of them or of any other person except as expressly set out in this Agreement or such document.

13.3 Each Vendor warrants and agrees:

(i) that it has not entered into this Agreement, and will not enter into any of the documents in the Agreed Form to which it is a party, in reliance upon any warranty, representation or undertaking given by any director, officer, employee, agent or adviser of any Energis Group Company; and

(ii) it has no claim against any director, officer, employee, agent or adviser, of any Energis Group Company in respect of its Shares or otherwise in its capacity as a member of the Company and no beneficial owner of any such shares has any such claim provided that the Vendors make no such warranty and nothing in this Clause 13.3 shall waive or extinguish:

(a) any claim a Vendor may have against a director, officer or employee in respect of fraud or dishonest misappropriation of funds; or

(b) any right of redress that the Vendors may have against such director, officer or employee in respect of any gain made by any such director, officer or employee as a consequence of a dishonest breach by the Company or by that director, officer or employee of the Articles or the Investment Agreement dated 15 July 2002.

13.4 Any such director, officer, employee, agent or adviser as is referred to in Clause 13.3 may enforce the terms of Clause 13.3 in accordance with the Contracts (Rights of Third Parties) Act 1999.

14 **General**

14.1 No Party, and no third party to whom rights are given under this Agreement, shall assign its rights under this Agreement, save that:

14.1.1 the Purchaser may at any time assign all or part of the benefit of, or its rights or benefits under, this Agreement and any agreements referred to in this Agreement (including without limitation, the Vendor Warranties together with any causes of action arising in connection with any of them) to a subsidiary or holding company of the Purchaser or any subsidiary of such a holding company (provided that such assignee shall re-assign the benefit of this Agreement to the Purchaser if it shall cease to be a subsidiary, or holding company of the Purchaser or a subsidiary of such a holding company);

14.1.2 a person to whom a Vendor sells or transfers Sale Shares in accordance with Clause 5.4 and who executes a Deed of Adherence shall be entitled to the benefit of, and be bound by the obligations in, this Agreement as if such person were a Party to this Agreement as a Vendor (and, if the Shares transferred include EVOS, as an EVOS Vendor), provided that the liability of the Purchaser under this Agreement shall not be greater than it would have been but for any such assignment.

14.2 An existing holder of Shares which is not a Party may by executing a Deed of Adherence (with such amendments as are necessary to reflect the fact that the Deed of Adherence is not executed in connection with a transfer of Shares) become a Party and be entitled to the benefit of, and bound by the obligations in, this Agreement as if such person were a Party to this Agreement as a Vendor (and, if the Shares held by him include EVOS, as an EVOS Vendor), provided that the liability of the Purchaser under this Agreement shall not be greater than it would have been but for any such adherence. For the avoidance of doubt, such holder shall be deemed to give the Vendors' Warranties in respect of itself and the Shares held by it.

14.3 Each of the Parties shall from time to time at its own cost (so far as within its power) do or procure to be done, now or in the future, all such further acts and things and execute or procure the execution of all such other documents as any other may from time to time reasonably require for the purpose of satisfying its obligations under this Agreement and, in particular:

14.3.1 each of the Vendors shall (so far as within their respective power) do all such acts and procure the execution of all documents in a form satisfactory to the Purchaser which the Purchaser may consider necessary for giving full effect to this Agreement and securing to the Purchaser the full benefit of the rights, powers and remedies conferred upon the Purchaser in this Agreement;

14.3.2 each Vendor shall (to the extent only that it is able to do so by exercise of the voting rights attaching to the Sale Shares) take steps to procure that the Company complies with its obligations under this Agreement.

14.4 Each of the Vendors waives any rights of pre-emption over the Shares conferred on him or held by him either by virtue of the Company's Articles of Association or by express agreement or otherwise for the purposes of the sale of Shares contemplated by this Agreement.

14.5 This Agreement shall, as to any of its provisions remaining to be performed or capable of having or taking effect following Completion, remain in full force and effect notwithstanding Completion.

14.6 If any provision of this Agreement shall be found by any court or administrative body of competent jurisdiction to be invalid or unenforceable, such invalidity or unenforceability shall not affect the other provisions of this Agreement which shall remain in full force and effect.

14.7 The obligations and liabilities of the Parties pursuant to this Agreement are several and each Party shall be liable only for his own default. If any liability of one or some but not all of the Vendors is, or becomes illegal, invalid or unenforceable in any respect, that shall not affect or impair the liabilities of the other Vendors under this Agreement.

14.8 This Agreement may be executed in any number of counterparts, each of which, when executed, shall be an original, and all the counterparts together shall constitute one and the same instrument.

14.9 Any person beneficially entitled to a payment under the Cash Bonus Plan or consideration for A Ordinary Shares may enforce those provisions of this Agreement which relate to such payment or consideration.

15 **Notice**

15.1 Any notice to be given under this Agreement shall be in writing and signed by or on behalf of the Party giving it and shall be served by delivering it personally or by courier to, in the case of a Vendor, the address shown against its name in Schedule 1 (or, if applicable, in the Deed of Adherence signed by it) or to such other address as may previously have been notified by that Party in accordance with this Clause, or in the case of the Company or the Purchaser its registered office.

15.2 Any such notice shall be deemed to have been received at the time of delivery at the relevant address provided that if delivery occurs before 9 am on a Business Day, the notice shall be deemed to have been received at 9 am on that day, and if deemed receipt occurs after 5 pm on a Business Day, or on a day which is not a Business Day, the notice shall be deemed to have been received at 9 am on the next Business Day.

15.3 In proving service it shall be sufficient to prove that the envelope containing the relevant notice was delivered to the relevant address.

15.4 For the avoidance of doubt, notice given under this Agreement shall not be validly served if sent by e-mail.

16 **Governing law and jurisdiction**

16.1 This Agreement is governed by and shall be construed in accordance with the laws of England.

16.2 The Parties submit to the exclusive jurisdiction of the courts of England and Wales as regards any claim, dispute or matter arising out of or relating to this Agreement or any of the documents to be executed pursuant to this Agreement.

16.3 Any proceedings brought by any third party to enforce any Clause referred to in Clause 1.5 must be brought in the courts of England and Wales.

Executed as a Deed and delivered on the date set out at the head of this Agreement.

S CHEDULE 1

Part A

The EVOS Vendors

	Name 1	Address 2	Sale Shares			
			Class of EVOS	No of EVOS	A1 Prefs	B Prefs
1	Barclays Bank PLC	54 Lombard Street, London EC3P 3AH	11th	388,070	12,518,217	15,127,829
2	Bayerische Hypo-und Vereinsbank AG, London Branch	41 Moorgate, London EC2R 6PP	4th	321,839	12,068,966	8,997,190
3	Export Development Canada	151 O' Connor, Ottowa, Canada K1A 1K3	8th	195,857	7,344,155	5,475,295
4	Fortis Bank S.A./N.V.	Camomile Court, Camomile Street, London EC3A 7PP	7th	111,918	4,196,660	3,128,740
5	HSBC Bank PLC	8 Canada Square, London, E14 5HQ	6th	223,837	8,393,320	6,257,479
6	JP Morgan Chase Bank	270 Park Avenue, New York NY10017	13th	359,014	11,430,152	14,315,559
7	Kensington International Limited	C/o Elliott , 712 Fifth Avenue, 36th Floor, New York, New York 10019	2nd 9th 10th	100,727 232,606 232,842	18,243,313	14,129,009
8	SOCGEN Nominees (UK) Limited	41 Tower Hill, London, EC3N 4SG	1st	165,517	6,206,897	4,627,126
9	Springfield Associates LLC	C/o Elliott , 712 Fifth Avenue, 36th Floor, New York, New York 10019	2nd 9th 10th	67,151 155,070 155,228	12,162,208	9,419,338
10	WestLB Finance (Credits) Limited	Woolgate Exchange, 25 Basinghall Street, London EC2V 5HA	5th	349,425	13,103, 448	9,900,383
11	West Register (Investments) Limited	42 St Andrew Square, Edinburgh EH2 2YE	12th	382,388	12,306,141	14,968,979

Part B

A Ordinary Vendor

		Sale Shares	
1 **Name**	**2** **Address**	**3** **(A1 - A8 Ordinary Shares)**	**15^{th} Ordinary**
Archibald John Norman	Forbury Road, Reading, Berks RG1 3JH	1,000,000 of each (8,000,000 in total)	1,000,000

S CHEDULE 2

Part A

The Company

Name:	Chelys Limited
Date of incorporation:	9 May 2002
Registered number:	4434524
Registered office:	185 Park Street, London SE1 9DY
Accounting reference date:	31 March
Auditors:	KPMG LLP

Authorised share capital:

Enhanced Voting Ordinary Shares of 0.01p each	3,637,346
Fourteenth Ordinary Shares of 0.01p each	362,654
Fifteenth Ordinary Shares of 0.01p each	5,000,000
Sixteenth Ordinary Shares of 0.01p each	11,000,000
A Ordinary Shares of 0.01p each	40,000,000
A1 Preferred Shares of £1 each	150,000,000
A2 Preferred Shares of 10p each	17,500,000
B Preferred Shares of 0.01p each	113,333,333

Issued share capital:

Enhanced Voting Ordinary Shares of 0.01p each	3,637,346
Fourteenth Ordinary Shares of 0.01p each	362,654
Fifteenth Ordinary Shares of 0.01p each	5,000,000
Sixteenth Ordinary Shares of 0.01p each	11,000,000
A Ordinary Shares of 0.01p each	40,000,000
A1 Preferred Shares of £1 each	150,000,000
A2 Preferred Shares of 10p each	17,500,000
B Preferred Shares of 0.01p each	113,333,333

Directors (full name, usual residential address, nationality):

Archibald John Norman	Rene Poisson	John Roland Wells
Forbury Road	18 Leys Road	1 Underwood Close
Reading	Oxshott	Canterbury
Berks	Leatherhead	Kent
RG1 3JH	Surrey	CT4 7BS
	KT22 0QE	

John Pluthero
Flat 8
Prince Edward Mansions
Hereford Road
London
W2 4WB

Richard Dorman
Becketts
Pavenham Road
Felmersham
Bedfordshire
MK43 7EX

Sir Ian Gibson
21 Montague Avenue
Gosforth
Newcastle Upon Tyne
NE3 4HY

Secretary (full name, usual residential address):

Nicholas Cooper
The Old House
33 Main Street
Kibworth
Harcourt
Leicestershire
LE8 0NR

Tax residence: United Kingdom

Part B

Other Energis Group Companies

Name:	Energis Holdings Limited	
Date of incorporation:	14 October 1998	
Registered number:	03649524	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	KPMG LLP	
Authorised share capital:	180,000,000 Ordinary shares of £1.00 each	
Issued share capital:	177,466,227 Ordinary shares of £1.00 each	
Members:	Chelys Limited (holds 100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis Communications Limited	
Date of incorporation:	18 July 1991	
Registered number:	02630471	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March	
Auditors:	KPMG LLP	
Authorised share capital:	300,000,000 Ordinary shares of 10 pence each	
Issued share capital:	196,008,208 Ordinary shares of 10 pence each	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	MetroHoldings Limited	
Date of incorporation:	16 February 1998	
Registered number:	03511122	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	KPMG LLP	
Authorised share capital:	100,000,000 Ordinary shares of £1 each	
Issued share capital:	17,163,000 Ordinary shares of £1 each	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	T3 Telecommunications Limited	
Date of incorporation:	2 November 1998	
Registered number:	03659931	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	KPMG LLP	
Authorised share capital:	1000 Ordinary shares of £1 each	
Issued share capital:	1 Ordinary share of £1	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis Squared Limited	
Date of incorporation:	24 March 1995	
Registered number:	03037442	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	None required	
Authorised share capital:	30,000,000 Ordinary Shares of 25 pence each	
Issued share capital:	24,000,000 Ordinary Shares of 25 pence each	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis Management Limited	
Date of incorporation:	10 August 2000	
Registered number:	04050367	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	KPMG LLP	
Authorised share capital:	100 Ordinary shares of £1 each	
Issued share capital:	3 Ordinary shares of £1 each	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis Mobile Limited	
Date of incorporation:	10 August 2000	
Registered number:	04050420	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	None required	
Authorised share capital:	100 Ordinary Shares of £1 each	
Issued share capital:	2 Ordinary shares of £1 each	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis Integration Services Limited	
Date of incorporation:	24 September 1985	
Registered number:	01949601	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March	
Auditors:	KPMG LLP	
Authorised share capital:	1,000,000 Ordinary Shares of £1 each	
Issued share capital:	300,000 Ordinary shares of £1 each	
Members:	Energis Holdings Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis Local Access Limited	
Date of incorporation:	10 August 2000	
Registered number:	04050390	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	KPMG LLP	
Authorised share capital:	20,000,000 Ordinary Shares of £1 each	
Issued share capital:	100,002 Ordinary shares of £1 each	
Members:	Chelys Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors:	Archibald John Norman Forbury Road Reading Berks RG1 3JH British	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London, W2 4WB British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	United Kingdom	

Name:	Energis (Ireland) Limited
Date of incorporation:	09 March 1999
Registered number:	NI 35793
Registered office:	Energis House, Sydenham Business Park, 9 Heron Avenue, Belfast, BT3 9LF
Accounting reference date:	31 March 2004
Auditors:	KPMG LLP
Authorised share capital:	£76,751,000 divided into 35,000,000 A ordinary shares of £1 each; 35,000,000 B ordinary Shares of £1 each; 6,750,000 C ordinary Shares of £1 each and 1,000 D ordinary shares of £1 each
Issued share capital:	£60,000,000 divided into 28,125,000 A ordinary shares, 28,125,000 B ordinary shares, 3,750,000 C ordinary shares and 1,000 D ordinary shares
Members:	Energis Holdings Limited (all issued shares except 500 D ordinary shares) Energis plc (in administration) (500 D ordinary shares)
Class of Company:	Private Limited Company
Loan Capital:	None
Directors:	John Pluthero Flat 8, Prince Edward Mansion Hereford Road London W2 4WB British
	James Philip Bishop 15 The Green Sutton Courtenay OX14 4AE England British
	Conal Henry 59 Beechpark Drive Foxrock Dublin 18 Ireland Irish

Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR
Tax residence:	Northern Ireland

Name:	Because Limited	
Date of incorporation:	6 June 1996	
Registered number:	EI249981	
Registered office:	Unit B, Willesborough Industrial Estate, Clonshaugh, Dublin 17	
Accounting reference date:	31 March 2004	
Auditors:	KPMG	
Authorised share capital:	1,269,738.08 divided into 1,000,000 Ordinary Shares of 1.26973808 each	
Issued share capital:	2 Ordinary Shares	
Members:	Stentor Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors :	James Philip Bishop 15 The Green Sutton Courtenay OX14 4AE England British	Conal Henry 59 Beechpark Drive Foxrock Dublin 18, Ireland Irish
Secretary :	Sarah Robinson 84 Primley Park Drive Alwoodley Leeds LS17 7LR England	
Tax residence:	Republic of Ireland	

Name: Stentor Technologies Limited

Date of incorporation: 26 June 1996

Registered number: EI251130

Registered office: Unit B, Willesborough Industrial Estate, Clonshaugh, Dublin 17

Accounting reference date: 31 March 2004

Auditors: KPMG

Authorised share capital: 1,269,738.08 divided into 1,000,000 Ordinary Shares of 1.26973808 each

Issued share capital: 1 Ordinary Share

Members: Stentor Limited (100%)

Class of Company: Private Limited Company

Loan Capital: None

Directors :

James Philip Bishop 15 The Green Sutton Courtenay OX14 4AE England British	Conal Henry 59 Beechpark Drive Foxrock Dublin 18, Ireland Irish

Secretary :

Sarah Robinson
84 Primley Park Drive
Alwoodley
Leeds LS17 7LR
England

Tax residence: Republic of Ireland

Name:	Stentor Limited	
Date of incorporation:	14 December 1995	
Registered number:	EI242245	
Registered office:	Unit B, Willsborough Industrial Estate, Clonshaugh, Dublin 17	
Accounting reference date:	31 March 2004	
Auditors:	KPMG	
Authorised share capital:	14,701,893.60 divided into 245,031,560 Ordinary shares at 0.06 each	
Issued share capital:	140,304,295 Ordinary Shares	
Members:	Energis (Ireland) Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors :	James Philip Bishop 15 The Green Sutton Courtenay OX14 4AE England British	Conal Henry 59 Beechpark Drive Foxrock Dublin 18 Ireland Irish
Secretary :	Sarah Robinson 84 Primley Park Drive Alwoodley Leeds LS17 7LR England	
Tax residence:	Republic of Ireland	

Name: Energis Communications (Ireland) Limited

Date of incorporation: 29 April 1995

Registered number: EI232729

Registered office: Unit B, Willsborough Industrial Estate, Clonshaugh, Dublin 17

Accounting reference date: 31 March 2004

Auditors: KPMG

Authorised share capital: 4,000,000 divided into 200,000,000 shares of 0.02 each

Issued share capital: 10,000 Ordinary Shares

Members: Stentor Limited (100%)

Class of Company: Private Limited Company

Loan Capital: None

Directors :

James Philip Bishop	Conal Henry
15 The Green	59 Beechpark Drive
Sutton Courtenay	Foxrock
OX14 4AE	Dublin 18
England	Ireland
British	Irish

Secretary :

Nick Cooper
The Old House
33 Main Street
Kibworth
Harcourt
Leicestershire, LE8 0NR

Tax residence: Republic of Ireland

Name:	Stentor Corp.	
Date of incorporation:	20 May 1996	
FEI number:	650679057	
Registered office:	312 NE 17th Ave, Ft. Lauderdate, FL 33301, United States of America	
Accounting reference date:	N/A	
Auditors:	N/A	
Authorised share capital:	N/A	
Issued share capital:	N/A	
Members:	N/A	
Class of Company:	Corporation - Private	
Loan Capital:	N/A	
Directors:	Conal Henry 59 Beechpark Drive Foxrock Dublin 18 Ireland Irish	James Philip Bishop 15 The Green Sutton Courtenay OX14 4AE England British
Secretary:	Nicholas Ian Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	Florida, United States	

Name:	Stentor Communications Limited	
Date of incorporation:	15 July 1996	
Registered number:	03224579	
Registered office:	185 Park Street, London, SE1 9DY	
Accounting reference date:	31 March 2004	
Auditors:	KPMG LLP	
Authorised share capital:	1,000,000 ordinary shares of £1 each	
Issued share capital:	1 ordinary share of £1	
Members:	Stentor Limited (100%)	
Class of Company:	Private Limited Company	
Loan Capital:	None	
Directors :	James Philip Bishop 15 The Green Sutton Courtenay OX14 4PE British	Conal Henry 59 Beechpark Drive Foxrock Dublin 18, Ireland Irish
Secretary :	Nick Cooper The Old House 33 Main Street Kibworth, Harcourt Leicestershire, LE8 0NR	
Tax residence:	Republic of Ireland	

Part C

Facilities Security

English Security			
Company	**Document**	**Date**	**Chargee**
Chelys Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Energis Holdings Limited	Deed of Debenture and Assignment	16.12.1999	The Toronto-Dominion Bank as security trustee (as transferred to The Royal Bank of Scotland plc)
	Deed of Debenture and Assignment	03.01.2002	The Royal Bank of Scotland plc as security trustee
	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Energis Communications Limited	Deed of Debenture and Assignment	16.12.1999	The Toronto-Dominion Bank (as transferred to The Royal Bank of Scotland plc)
	Deed of Debenture and Assignment	03.01.2002	The Royal Bank of Scotland plc as security trustee
	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Energis (Ireland) Limited	Security Accession	31.03.2003	The Royal Bank of Scotland plc as security trustee
T3 Communications Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Energis Squared Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee

Energis Mobile Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Energis Integration Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Energis Management Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee
Metroholdings Limited	Deed of Debenture and Assignment	16.07.2002	The Royal Bank of Scotland plc as security trustee

Scottish Security			
Company	**Document**	**Date**	**Chargee**
Energis Communications Limited	Standard Security	10.06.2003	The Royal Bank of Scotland plc as security trustee

Part D
Other Charges

Company	Document	Date	Chargee
Stentor Technologies Limited	Debenture	22.09.1998	The Foreign and Colonial Utilities Investment Trust Plc
Stentor Technologies Limited	Debenture	22.02.1999	The Foreign and Colonial Utilities Investment Trust Plc
Energis Communications (Ireland) Limited	Debenture	22.09.1998	The Foreign and Colonial Utilities Investment Trust Plc
Energis Communications (Ireland) Limited	Debenture	22.02.1999	The Foreign and Colonial Special Utilities Investment Trust Plc
Energis (Ireland) Limited	Novation agreement and Composite Debenture	21.08.2002 and 24.05.2001	Viridian Energy Ltd
Stentor Limited	Debenture	22.09.1998	Foreign and Colonial Special Investment Trust Plc
Stentor Limited	Debenture	22.02.1999	Foreign and Colonial Special Utilities Investment Trust Plc
Stentor Limited	Debenture	22.10.1999	Ulster Bank Commercial Services Ltd
Stentor Limited	Novation Agreement and Composite Debenture	21.08.2002 and 24.05.2001	Viridian Energy Ltd

SCHEDULE 3

Part A

Completion obligations of the Vendors

1 Each Vendor shall deliver to the Purchaser a duly executed and completed stock transfer in favour of the Purchaser or its nominee(s) in respect of the Sale Shares registered in such Vendor' s name together with the certificate (if any) for such Sale Shares (or an indemnity in respect of any missing certificate).

2 Mr Norman will resign as a Director of each of the Energis Group Companies of which he is a director and resign from any position of employment.

SCHEDULE 3

Part B

Completion Obligations of the Purchaser

The Purchaser shall make the payments required to be made by it in accordance with Part D of Schedule 3

SCHEDULE 3

Part C

Completion Obligations of the Energis Group Companies

1 The Company shall deliver to the Purchaser:

1.1 the common seal (if any) and all statutory books of each Energis Group Company made up to the Completion Date and all certificates of incorporation and on change of name of each such company in their possession;

1.2 at their respective premises, the Books and Records of each Energis Group Company;

1.3 a copy of a letter from the auditors of each Energis Group Company resigning their office as auditors of each such company with effect from Completion and accompanied by the statement required by Companies Act 1985 section 394, originals of such letter to be deposited at the registered office of each such company;

1.4 resignation letters in the Agreed Form marked "I" signed by such directors and secretaries of Energis Group Companies as the Purchaser may nominate not less than four Business Days prior to Completion, resigning such offices with effect from Completion;

1.5 evidence of termination of the Swaps subject only to any payment to be made in accordance with Part D of this Schedule 3;

1.6 evidence of the release or termination of the registered security interests affecting the assets of the Energis Group Companies which secure sums owed under various agreements and are listed in Part D of Schedule 2.

2 The Company shall deliver the Deeds of Release and Satisfaction duly executed by the Agent/Security Trustee to the Company' s Solicitors to be held in escrow for release on completion of the Facility C Agreement.

3 The Company shall authorise an Energis Group Company in accordance with Article 7.4.3 of the Articles to execute and deliver to the Purchaser stock transfers in favour of the Purchaser or its nominee(s) in respect of all Shares other than the Sale Shares.

4 The Company shall deliver to the Purchaser duly executed transfers in respect of any shares in any of Energis Group Companies not held by the Company or another Energis Group Company excluding the 500 D shares in Energis (Ireland) Limited held by Energis plc (in administration), but without prejudice to the obligations of the Company under Clause 5.

5 The Company shall, and shall procure that the other Energis Group Companies shall make the payments to be made by them, in accordance with Part D of Schedule 3.

SCHEDULE 3

Part D

Amounts due at and as a result of Completion

1 The Purchaser shall pay by electronic funds transfer for same day value to such account as the Company shall nominate, to be held on trust for the holders of the Shares in accordance with Article 7.4.2 (iii) of the Articles, the cash consideration payable in accordance with Clause 4.1 subject to appropriation and deduction by the Company of PAYE and employees' NICs in accordance with Clause 12 (as set out in the table below).

2 The Purchaser shall advance to the Company, by way of electronic transfer for same day value, sufficient funds in order that, in conjunction with the Company' s available cash balances at Completion, the Company shall be able to make and shall make on its own behalf (or where applicable shall procure that the relevant Energis Group Company makes) the payments noted against its name in the table below.

3 The payments noted against the name of the Purchaser will be paid by the Purchaser in accordance with paragraph 1 above, Clause 12 of this Agreement, the Facility C Agreement or the Schemes.

Table of amounts due at and as a result of Completion

Payer	Payee	Purpose	On the basis of minimum cash amount to holders of "A" Ordinary Shares	=	On the basis of maximum cash amount to holders of "A" Ordinary Shares
Acquisition of shares					
Purchaser	The Company on trust for Mr Norman and the EBT trustee for the benefit of holders of Pre-April 2003 MIP Shares	To pay entitlements to cash consideration in accordance with Clause 4.1	6,357,918	=	6,966,958
Purchaser	The Company on trust for EBT trustee for the benefit of (a) holders of Post-April 2003 MIP Shares and (b) EBT trustee itself in respect of "unallocated" A Ordinary Shares (to fund 2005 MIP Equity-based Entitlements)	To pay net entitlements to cash consideration in accordance with Clause 4.1 and 2005 MIP Equity-based Entitlements (in each case, after deduction/ retention of PAYE and employees' NICs)	3,793,253[1]	=	4,453,047[1]
Purchaser	The Company for payment to HMRC	PAYE and employees' NICs due on acquisition of A1 and A2 Ordinary Shares and 2005 MIP Equity-based Entitlements	=	3,094,491[1]	=
			13,245,662		**14,514,496**
Repayment of loans					
Company	Viridian	To repay debt owed to Viridian	=	5,447,448	
Company	The Agent	To repay debt owed in respect of the New Money Facility	=	145,028,000	=
Company	The Agent	To repay debt owed in respect of the "A" Facility	=	145,028,000	=
Company	The Agent	To repay debt owed in respect of the "B" Facility	=	100,000,000	=
				395,503,448	=
Management Cash Bonus Plan					
Company	Employees entitled to payments in respect of the Cash Bonus Plan	To pay net entitlements (after deduction / retention of PAYE and employees' NICs)	=	11,505,000[1]	=

Company	HMRC	Employee PAYE	=	7,995,000[1]	=

[1] The figures in the table assume all holders of Post-April 2003 MIP Shares, holders of 2005 MIP Equity-based Entitlements and participants in the Cash Bonus Plan are higher rate tax payers and that PAYE and employees' NICs will be deducted at a combined rate of 41%. The actual PAYE and NICs to be deducted will be calculated immediately prior to Completion. All figures in the table relating to the 2005 MIP Equity-based Entitlements (i.e. the payments and the PAYE and employers' and employees' NICs thereon) are aggregated with those for the Post-April 2003 MIP Shares and will need to be disaggregated before Completion. It is intended that the Purchaser will pay the consideration for the "unallocated" A Ordinary Shares, which are held by the EBT trustee as principal, to the Company pursuant to the Articles, the Company will pay the PAYE and employers' and employees' NICs to HMRC and the Company will retain the amount of the PAYE and the employees' NICs from its payment to the EBT trustee. The gross cost suffered by the Purchaser and the Company will therefore be equal to the net 2005 MIP Equity-based Entitlements plus the PAYE and employers' and employees' NICs.

Payer	Payee	Purpose	On the basis of minimum cash amount to holders of “A” Ordinary Shares	=	On the basis of maximum cash amount to holders of “A” Ordinary Shares
		and NICs due on Cash Bonus Plan			
				19,500,000	
Employers National Insurance Contributions					
Company	HMRC	Employer NICs on Post-April 2003 MIP Shares and 2005 MIP Equity-based Entitlements	=	966,085[1]	=
Company	HMRC	Employer NICs on Cash Bonus Plan		2,496,000	=
				3,462,085	
Expenses					
Company	Parties detailed in Fees and Costs Schedule	To pay fees and costs listed in Fees and Costs Schedule (including VAT)	=	6,161,984[2]	=
Facility C					
Purchaser	Agent on behalf of holders of Facility C debt	Cash amount (i) for acquisition of Facility C debt, payable on the business day after Completion of this Agreement pursuant to the Facility C Agreement or (ii) payable in respect of release of Facility C Debt pursuant to the Schemes	282,126,821[2]	=	280,857,987[2]
		Total	**720,000,000**		**720,000,000**

It is acknowledged that the total of the amounts detailed in the above table shall be £720,000,000.

At Completion, the Purchaser will also advance to the Company by way of electronic transfer for same day value sufficient funds in order that, in conjunction with the Company’ s then existing cash balances, the Company shall on its own behalf, or where applicable shall procure that the relevant Energis Group Company shall, pay accrued interest accrued on the Viridian loan, the New Money Facility, the A Facility and the B Facility. The expected amounts or basis of calculation of accrued interest are set out in Schedule 8 to this Agreement.

[2] The actual costs and expenses payable by the Energis Group in respect of the categories of costs and expenses identified on the Fees and Costs Schedule at Completion shall be calculated by the Company and (to the extent any such sum differs from that Schedule) agreed by the Purchaser and shall be paid at Completion; if the actual aggregate exceeds the sum shown in the above table the sum payable in respect of Facility C shall be reduced by a corresponding amount, and if such aggregate is less than such sum, the sum payable in respect of Facility C shall be increased.

S CHEDULE 4

Conduct of business

Part A

The Company undertakes with the Purchaser that it shall not, and it shall procure that no Energis Group Company shall, between the time of this Agreement and Completion, without the prior written consent of the Purchaser, which consent may be withheld at the absolute discretion of the Purchaser:

1. declare, make or pay any dividend or other distribution;

2. create, grant or issue, or agree to create, grant or issue, any mortgages, charges, debentures or other security (other than liens arising by operation of law), or redeem or agree to redeem any such security, or give or agree to give any guarantees or indemnities, save for guarantees or indemnities in relation to contracts with customers and suppliers where such guarantees or indemnities are given on a basis consistent with past practice and in the ordinary course of business;

3. create, allot or issue or agree to create, allot or issue any shares or other securities of whatsoever nature convertible into shares (save, for the avoidance of doubt, for any allocation of existing A Ordinary Shares by the EBT Trustee);

4. create, issue, redeem or grant any option or right to subscribe in respect of any share capital or agree so to do;

5. incur any bank borrowings otherwise than by drawing against existing overdraft facilities in the ordinary course of business or agree to do so, or open any new bank accounts;

6. alter the provisions of its Memorandum or Articles of Association or adopt or pass further regulations or resolutions inconsistent therewith;

7. change its accounting reference date;

8. make any substantial change in the nature of its business or discontinue or cease to operate all or a material part of its business, change its residence for taxation purposes or establish any permanent establishment, branch, agency or other taxable presence in any jurisdiction outside the UK;

9. reduce its share capital or purchase its own shares;

10. pass any resolutions in general meeting or by way of written shareholder resolution, including, without limitation, any resolution for winding-up, or to capitalise any profits or any sum standing to the credit of share premium account or capital redemption reserve fund or any other reserve;

11. other than hedging relating to customer contracts entered into in the ordinary course of business, enter into any interest rate or currency derivative transaction, including swaps, options, contracts for differences or any contract containing an embedded derivative for the purposes of International Financial Reporting Standards; or

12. expend any cash in excess of £500,000 in aggregate other than in the ordinary course of business; or

13. acquire or dispose of (or enter into any option to acquire or dispose of) any shares or business or enter into any joint venture or agree to do so (excluding, for the avoidance of doubt, any arrangement in the ordinary course of business and consistent with past practice under which customer contracts are entered into jointly with other suppliers).

Part B

In addition, the Company undertakes with the Purchaser that it shall not, and it shall procure that no Energis Group Company shall, between the time of this Agreement and Completion without the prior written consent of the Purchaser (such consent not to be unreasonably withheld or delayed); (for this purpose, if the Company seeks consent from Francesco Caio (or, in his absence, any person to whom he may delegate this role) and does not receive a written reply refusing consent before 5.00 p.m. on the fourth Business Day after the Purchaser is notified in writing and with sufficient detail of the request, prior written consent will be deemed to have been given):

engage or dismiss other than for cause any employee earning £100,000 base salary per annum or more (except where the engagement or dismissal process has already commenced) or make any variation to the terms and conditions of employment of such employees or any of them other than salary increases and changes in benefits in the ordinary course (save, for the avoidance of doubt, for any allocation of the Cash Bonus Plan or existing A Ordinary Shares);

1. appoint any director of the Company;

2. terminate, amend or waive rights under, any contract with a value (whether in terms of revenue or expenditure) in excess of £5,000,000 per annum or £5,000,000 in aggregate with a single customer of the Energis Group, or commit to such a contract otherwise than in the ordinary course of business and consistent with past practice, or agree to do any of the foregoing, provided nothing in this paragraph will require any member of the Energis Group to disclose the name of any contracting party in order to obtain the Purchaser' s consent;

3. commit to any capital expenditure (1) in respect of any individual commitment with a value in excess of £2,000,000 or (2) in respect of any project or decision which may comprise of a number of separate commitments of amounts that are individually less than £2,000,000, but in aggregate, for the whole project or decision, are in excess of 2,000,000, or agree to do so (excluding commitments reasonably necessary to fulfil obligations existing and approved in accordance with Energis Group approval procedures on or prior to 22 July 2005 under customer contracts);

4. acquire or dispose of (or enter into any option to acquire or dispose of) assets (including the acquisition of assets under finance leases) having a value in excess of £250,000 in any one transaction or £250,000 in aggregate, or agree to do so (excluding acquisitions or disposals reasonably necessary to fulfil obligations existing and approved in accordance with Energis Group approval procedures on or prior to 22 July 2005 under customer contracts);

5. commence litigation (otherwise than as a defendant) with financial consequences in costs or liability likely to exceed £250,000.

S CHEDULE 5

Schemes of Arrangement

If by the date 10 Business Days after the date of this Agreement (or such other date as the Company and the Purchaser may agree), irrevocable commitments to enter into the Facility C Agreement have not been received from all the Facility C Lenders, the Company will co-operate with the Purchaser and take or cause to be taken all such steps as are within its power and are necessary and reasonable to implement Schemes in respect of itself and each of the other Scheme Companies (as defined in the Scheme Document) as soon as reasonably practicable, including without limitation:

1 the Company will, as soon as reasonably practicable, apply to the Court for liberty to convene the Court Meetings and file such documents as may be necessary in connection therewith;

2 upon the Court making the order necessary for the purpose of convening the Court Meetings and the necessary documents being settled with the Court and approved by the Purchaser, the Company shall, together with the Purchaser, use all reasonable endeavours to publish the requisite documents, including the Scheme Document and appropriate form of proxy and thereafter in a timely manner publish and/or post such other documents and information as the Court may approve or require from time to time in connection with the due implementation of the Schemes;

3 following the Court Meetings, and assuming the resolutions to be proposed at each Court Meeting have been passed by the requisite majorities and the conditions set out in the Scheme Document have been met, the Company will, and will procure that each other Scheme Company will, take any action reasonably necessary to make the Schemes effective, including causing an office copy of each Court Order to be filed with the Registrar of Companies;

4 the Company will use all reasonable endeavours to ensure the time period between the posting of the Scheme Document and the Effective Date is as short as reasonably possible; and

5 the Company will keep the Purchaser informed of all developments which are or are likely to be material to the successful implementation of the Schemes.

The Company agrees to co-ordinate implementation of the Schemes with the Purchaser, and in particular agrees that it shall not:

1 apply to Court for liberty to convene the Court Meeting;

2 publish and/or despatch the Scheme Document and accompanying form of proxy;

3 apply to Court to sanction the Schemes; or

4 file or register the Court Order with the Registrar of Companies,

without prior consultation with the Purchaser and shall not seek to amend the Schemes after despatch of the Scheme Document without the written consent of the Purchaser, not to be unreasonably withheld or delayed.

The Purchaser undertakes:

1 to give the undertakings required to be given by it for the purposes of the Schemes and to instruct Counsel and attend all applicable directions and court hearings for that purpose;

2 to pay to the Scheme Creditors (as defined in the Schemes) the Cash Consideration and the Contingent Consideration (as defined in the Schemes) in accordance with the terms of the Schemes.

S CHEDULE 6

Contingent Consideration Terms

1 **Definitions**

In this Schedule, in addition to the definitions set out in Clause 1 of this Agreement, the following definitions shall apply:

acting in concert: the meaning ascribed to that term in the City Code on Takeovers and Mergers;

A Ordinary Shareholders: the persons who are registered holders of the A1 Ordinary Shares and A2 Ordinary Shares (as defined in the Articles) immediately prior to Completion;

Change of Control: any person (either alone or taken together with persons acting in concert with that person) acquiring Control of Cable and Wireless, but excluding a Change of Control arising in consequence of a Topco Scheme;

Cable and Wireless: Cable and Wireless plc, provided that if a Topco Scheme is effected, references to Cable and Wireless shall be construed as references to Topco;

Cable and Wireless Shares: Ordinary Shares of 25 pence each in the capital of Cable and Wireless provided that:

(a) if such shares are at any time subdivided or consolidated into Cable and Wireless Shares of a different nominal value, references to Cable and Wireless Shares shall be construed as references to shares of such different nominal value; and

(b) if a Topco Scheme is effected, references to Cable and Wireless Shares shall be construed as references to ordinary shares of the relevant nominal value in the capital of Topco;

Control: as defined in Section 840 of the Income and Corporation Taxes Act 1988;

dealing day: any day on which the London Stock Exchange is open for trading;

Facility C Consideration Terms: the terms (being substantially the same as the terms set out in this Schedule) governing payment of Contingent Consideration to the Facility C Lenders, whether under the terms of the Facility C Agreement or under the terms of the Schemes;

Independent Financial Adviser: the Independent Financial Adviser (if any) appointed in accordance with, the Facility C Consideration Terms;

Information Source: Bloomberg page “CW/ LN Equity HP” (or, if such source ceases to be available, such other source as shall be determined to be appropriate by an Independent Financial Adviser);

Initial Reference Price: 135 pence;

London Stock Exchange: the London Stock Exchange plc, together with any successors thereto;

Month: a calendar month;

Month N: a particular month falling after the Completion Date, where Month 0 is the month in which the Completion Date falls, Month 1 is the month immediately following Month 0, Month 2 is the month immediately following Month 1, and so on;

Official List: the official list of the UKLA;

Payment: a payment of Contingent Consideration, whether in cash or Cable and Wireless Shares, made under paragraph 2 below;

Payment Date: the fourth dealing day of each month, beginning with Month 28 and ending with Month 37 or, where a payment is to be made under paragraph 2.4 below, the date on which such payment is required to be made under the terms of that paragraph;

Payment Price: in respect of each Payment Date, the three month VWAP as at last dealing day of the Month immediately prior to the Month in which the Payment Date falls, expressed in pence (rounded down to the nearest whole penny or half penny);

Reference Price: the Initial Reference Price expressed in pence, subject only to adjustment in accordance with paragraph 3 below:

Specified Maximum: £80,000,000 multiplied by the A Ordinary Contingent Consideration Percentage (the A Ordinary Contingent Consideration Percentage being expressed for these purposes as a fraction the denominator of which is 100);

Subsidiary: the meaning ascribed to that term in section 736 Companies Act 1985;

three month VWAP: as at the last dealing day of a given Month, the mean of the daily average price weighted by volume of a Cable and Wireless Share listed on the London Stock Exchange on each dealing day in that Month and the two preceding Months in each case appearing on or derived from the Information Source (it being the intention that if, during that period of three months an event occurs which gives rise to an adjustment to the Reference Price under paragraph 3, the three month VWAP should if necessary be adjusted so that it is comparable to the Reference Price as adjusted);

Topco Scheme: means a scheme of arrangement which effects the interposition of a limited liability company (**Topco**) between the Shareholders of Cable and Wireless immediately prior to the scheme of arrangement (the **Existing Shareholders**) and Cable and Wireless, provided that immediately after completion of the scheme of arrangement the Existing Shareholders are the only shareholders of Topco (save for any such shareholders ceasing to be shareholders under or pursuant to the scheme of arrangement) and that all Subsidiaries of Cable and Wireless immediately prior to the scheme of arrangement (other than

Topco if Topco is then a Subsidiary of Cable and Wireless) are Subsidiaries of Cable and Wireless (or of Topco) immediately after the scheme of arrangement;

UKLA: the Financial Services Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000;

VWAP: in respect of a Cable and Wireless Share on any dealing day, the average price weighted by volume of a Cable and Wireless Share appearing on or derived from the Information Source on such dealing day, provided that:

(i) if, on any such dealing day, such price is not available or cannot otherwise be determined as provided above, the VWAP of a Cable and Wireless Share in respect of such dealing day shall be the VWAP, determined as provided above, on the immediately preceding dealing day on which the same can be so determined; and

(ii) if:

(a) any dividend or other entitlement in respect of the Cable and Wireless Shares is announced on or prior to the relevant Payment Date in circumstances where the record date or other due date for establishment of entitlement in respect of such dividend or entitlement shall be on or after the relevant Payment Date; and

(b) on the dealing day on which the average price weighted by volume is determined as provided above, the price per Cable and Wireless share is based on a price ex-dividend or ex-any other entitlement,

then such price shall be increased by an amount equal to the amount of any such dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) as at the date of announcement of such entitlement or dividend per Cable and Wireless Share (excluding, in the case of a dividend in cash, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom).

2 Payment of Contingent Consideration

2.1 Subject as provided in paragraph 5, Cable and Wireless shall, on each Payment Date, pay to the A Ordinary Shareholders an aggregate amount of Contingent Consideration calculated in accordance with the following formula:

$$CC = £1,250,000 \times ACP \times \left[(PP-RP) \times \frac{IRP}{RP}\right] - ACC$$

where:

CC = the Contingent Consideration (if any) to be paid on that Payment Date;

IRP = the Initial Reference Price;

RP = the Reference Price, as in force at the relevant Payment Date;

PP = the Payment Price in respect of the relevant Payment Date;

ACC = the aggregate amount of the Contingent Consideration paid under this Schedule on all previous Payment Dates;

ACP = the A Ordinary Contingent Consideration Percentage expressed as a fraction, the denominator of which is 100;

provided that:

2.1.1 no Payment shall be made if the product of the formula is nil or negative; and

2.1.2 the aggregate amount of Contingent Consideration paid (under this paragraph and under paragraph 2.4) shall not exceed the Specified Maximum.

2.2 Cable and Wireless shall satisfy any obligation to make a Payment in cash or, if Cable and Wireless so elects irrevocably by written notice to the A Ordinary Shareholders not later than 10 dealing days prior to the Payment Date, and subject to the provisions of paragraph 2.3, wholly or partly by the issue of Cable and Wireless Shares, credited as fully paid. If such Payment is to be satisfied partly in cash and partly in Cable and Wireless Shares, such notice shall specify the respective proportions to be satisfied in each manner.

2.3 If Cable and Wireless elects to satisfy a Payment in whole or in part by the issue of Cable and Wireless Shares:

2.3.1 the number of Cable and Wireless Shares to be issued shall be determined by dividing the amount of the Payment which is to be satisfied in Cable and Wireless Shares by the VWAP on the dealing day falling four dealing days before the Payment Date, rounded to the nearest whole share;

2.3.2 if:

2.3.2.1 following the dealing day on which VWAP is determined under paragraph 2.3.1 above and on or before the relevant Payment Date any event occurs which falls within any of paragraphs 3.1.1 to 3.1.10 below (and so that, for the purposes of this paragraph, any such event shall be deemed to occur on the date on which any adjustment in respect of that event would become effective under the relevant sub-paragraph of paragraph 3.1 or, if earlier, the record date for any such issue, distribution, grant or offer as is referred to in paragraphs 3.1.2 to 3.1.7 and paragraph 3.1.9); and

2.3.2.2 in consequence the Cable and Wireless Shares to be issued on the Payment Date will not participate in, or have the benefit of, such event, issue, distribution, grant or offer,

the VWAP to be applied for the purposes of this paragraph 2.3 on that Payment Date shall be adjusted in such manner as may be necessary and reasonable (having regard in particular to the adjustment formulae set out in paragraphs 3.1.1 to 3.1.10) in order to ensure that the A Ordinary Shareholders are not prejudiced as a result; any dispute concerning the operation of this paragraph 2.3.2 shall be referred to an Independent Financial Adviser;

2.3.3 such Cable and Wireless Shares shall rank pari passu in all respects with the Cable and Wireless Shares in issue on the relevant Payment Date, including the entitlement to dividends in respect of which the record date falls after the relevant Payment Date provided that if on the dealing day on which (in respect of any particular Payment) VWAP was determined for the purposes of paragraph 2.3.1 above the price for a Cable and Wireless Share was based on a price cum-dividend or cum-any other entitlement, but the Cable and Wireless Shares issued on the Payment Date do not carry the right to participate in such dividend or other entitlement, Cable and Wireless shall issue such additional number of Cable and Wireless Shares, using the same VWAP for these purposes, as have a value equal to the amount of any such dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) as at the date of announcement of such entitlement or dividend per Cable and Wireless Share (excluding, in the case of a dividend in cash, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom) multiplied by the number of Cable and Wireless Shares to be issued on the relevant Payment Date (excluding any Cable and Wireless Shares to be issued under this paragraph 2.3.3);

2.3.4 it shall be a condition of Cable and Wireless satisfying any Payment (in whole or in part) in Cable and Wireless Shares that such Cable and Wireless Shares shall be admitted to the Official List and to trading on the London Stock Exchange' s market for listed securities by the UKLA and the London Stock Exchange respectively in accordance with their respective rules and will be listed, quoted or dealt in on any other stock exchange or securities market on which the Cable and Wireless Shares may then be listed or quoted or dealt in, and Cable and Wireless undertakes to use all reasonable endeavours to procure that such condition is satisfied, failing which the entirety of the relevant Payment shall be satisfied in cash; and

2.3.5 no Cable and Wireless shares shall be issued at a discount to their nominal or par value.

2.4 If, prior to the last Payment Date:

2.4.1 a Change of Control occurs, Cable and Wireless shall pay to the A Ordinary Shareholders in cash not later than 10 dealing days after that Change of Control occurs an amount of Contingent Consideration calculated as follows:

$$CC = £1,250,000 \times ACP \times \left[(OP - RP) \times \frac{IPR}{RP}\right] - ACC$$

Where

CC = the Contingent Consideration (if any) to be paid on that date;

IRP = the Initial Reference Price,

RP = the Reference Price, as in force at that date;

ACC = the aggregate amount of the Contingent Consideration paid under this Schedule on all previous Payment Dates (if any);

OP = the offer price expressed in pence per share to be paid per Cable and Wireless Share in the context of the Change of Control, provided that if the offer price is not payable wholly in cash, then for these purposes OP shall be the value of the offer per Cable and Wireless Share stated in the press announcement which announces the offer (or any amended or revised offer) in consequence of which the Change of Control occurs;

ACP = the A Ordinary Contingent Consideration Percentage expressed as a fraction, the denominator of which is 100.

2.4.2 Cable and Wireless Shares cease to be both admitted to the Official List and to trading on the London Stock Exchange' s market for listed securities, Cable and Wireless shall pay to the A Ordinary Shareholders in cash not later than 10 dealing days after such event occurs a sum calculated in accordance with the formula set out in paragraph 2.4.1, subject only to the modification that for these purposes "OP" shall mean the VWAP of a Cable and Wireless Share expressed in pence on the last day on which Cable and Wireless Shares are traded on the London Stock Exchange' s market for listed securities, provided that the provisions of this paragraph 2.4.2 shall not apply:

2.4.2.1 if (a) the Cable and Wireless Shares cease to be both admitted to the Official List and to trading on the London Stock Exchange' s market for listed securities in connection with a Topco Scheme and (b) it is a condition of the Topco Scheme that ordinary shares in Topco are both admitted to the Official List and to trading on the London Stock Exchange' s market for listed securities and (c) the condition referred to in sub-paragraph (b) is satisfied and (d) such consequential changes have been made to the terms of this Schedule as are determined by an Independent Financial Adviser to be necessary and reasonable in the context of the nature and terms of the Topco Scheme; or

2.4.2.2 if the Cable and Wireless Shares are, or immediately upon such listing and trading ceasing become, listed, quoted or dealt in on any other major international securities exchange and such consequential changes have been made to the terms of this Schedule as are determined by an Independent Financial Adviser to be necessary and reasonable to reflect the change in listing,

provided that:

2.4.3 no payment shall be made under this paragraph 2.4 if the product of the formula applied to calculate the Contingent Consideration is nil or negative;

2.4.4 the aggregate amount of the Contingent Consideration paid (under this paragraph and under paragraph 2.1) shall not exceed the Specified Maximum.

2.5 Cable and Wireless Shares to be issued in satisfaction of any Payment shall be issued in certificated form. A certificate in respect of such shares will be dispatched by mail free of charge (but uninsured and at the risk of the person entitled thereto) to the relevant A Ordinary Shareholder or as it may direct in writing at least five dealing days prior to the Payment Date.

3 **Anti Dilution**

3.1 On the happening of any of the events described below, the Reference Price shall be adjusted as follows (subject to paragraph 3.2):

3.1.1 If and whenever there shall be an alteration to the nominal value of Cable and Wireless Shares as a result of consolidation or subdivision, the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Cable and Wireless Share immediately after such alteration; and

B is the nominal amount of one Cable and Wireless Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

3.1.2 If and whenever Cable and Wireless shall issue any Cable and Wireless Shares credited as fully paid to the holders of Cable and Wireless Shares (the **Shareholders**) by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than any such Cable and Wireless Shares issued instead of the whole or part of a cash dividend which the Shareholders concerned would or could otherwise have received, the Reference Price shall be thereafter adjusted by multiplying the Reference Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Cable and Wireless Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Cable and Wireless Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Cable and Wireless Shares.

3.1.3 If and whenever Cable and Wireless shall pay or make any Capital Distribution (as defined below) to the Shareholders, the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such Capital Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price (as defined below) of one Cable and Wireless Share on the dealing day immediately preceding the date on which the Cable and Wireless Shares are traded on the London Stock Exchange ex-the relevant Capital Distribution; and

B is the portion of the Fair Market Value (as defined below) (as determined as at the date of announcement of the relevant Dividend) of the Capital Distribution attributable to one Cable and Wireless Share.

Such adjustment shall become effective on the date on which such Capital Distribution is made.

3.1.4 If and whenever Cable and Wireless shall issue Cable and Wireless Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Cable and Wireless Shares, in each case at a price per Cable and Wireless Share which is less than 95 per cent. of the Current Market Price per Cable and Wireless Share on the dealing day immediately preceding the date of the first public announcement of the terms of the issue or grant of such Cable and Wireless Shares, options, warrants or other rights, the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Cable and Wireless Shares in issue immediately before such announcement;

B is the number of Cable and Wireless Shares which the aggregate amount (if any) payable for the Cable and Wireless Shares issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Cable and Wireless Shares comprised therein would purchase at such Current Market Price per Cable and Wireless Share; and

C is the number of Cable and Wireless Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the first date on which the Cable and Wireless Shares are traded ex-rights, ex-options or ex-warrants on the London Stock Exchange.

3.1.5 If and whenever Cable and Wireless shall issue any securities (other than Cable and Wireless Shares or options, warrants or other rights to subscribe for or purchase any Cable and Wireless Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities (other than Cable and Wireless Shares or options, warrants or other rights to subscribe for or purchase Cable and Wireless Shares), the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Cable and Wireless Share on the dealing day immediately preceding the first date on which the terms of such issue or grant are publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Cable and Wireless Share.

Such adjustment shall become effective on the first date on which the Cable and Wireless Shares are traded ex-rights, ex-options or ex-warrants on the London Stock Exchange.

3.1.6 If and whenever Cable and Wireless shall issue (otherwise than as mentioned in paragraph 3.1.4 above) wholly for cash any Cable and Wireless Shares (other than Cable and Wireless Shares issued on the exercise of any rights of conversion into, or exchange or subscription for, Cable and Wireless Shares), or grant (otherwise than as mentioned in paragraph 3.1.4 above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Cable and Wireless Shares in each case at a price per Cable and Wireless Share which is less than 95 per cent. of the Current Market Price per Cable and Wireless Share on the dealing day immediately preceding the date of the first public announcement of the terms of such issue or grant, the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such issue by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Cable and Wireless Shares in issue immediately before the issue of such additional Cable and Wireless Shares or the grant of such options, warrants or rights;

B is the number of Cable and Wireless Shares which the aggregate consideration (if any) receivable for the issue of such additional Cable and Wireless Shares or, as the case may be, for the Cable and Wireless Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Cable and Wireless Share; and

C is the maximum number of Cable and Wireless Shares to be issued pursuant to such issue of such additional Cable and Wireless Shares or upon exercise of such options, warrants or rights.

Such adjustment shall become effective on the date of issue of such additional Cable and Wireless Shares or, as the case may be, the grant of such options, warrants or rights.

3.1.7 If and whenever Cable and Wireless or any Subsidiary of Cable and Wireless or (at the direction or request of or pursuant to any arrangements with Cable and Wireless or any Subsidiary of Cable and Wireless) any other company, person or entity (otherwise than as mentioned in paragraphs 3.1.4, 3.1.5 or 3.1.6 above) shall issue wholly for cash or for no consideration any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Cable and Wireless Shares to be issued by Cable and Wireless (or shall grant any such rights in respect of existing securities so issued) or securities which by their terms might be redesignated as Cable and Wireless Shares, and the consideration per Cable and Wireless Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Cable and Wireless Share on the dealing day last preceding the date of the first public announcement of the terms of issue of such securities (or the terms of such grant), the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such issue (or grant) by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Cable and Wireless Shares in issue immediately before such issue or grant (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for Cable and Wireless Shares which have been issued by Cable and Wireless for the purposes of or in connection with such issue, less the number of such Cable and Wireless Shares so issued);

B is the number of Cable and Wireless Shares which the aggregate consideration (if any) receivable for the Cable and Wireless Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such securities or, as the case may be, for the Cable and Wireless Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Cable and Wireless Share; and

C is the maximum number of Cable and Wireless Shares to be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Cable and Wireless Shares to be issued or to arise from any such redesignation,

provided that if at the time of issue of the relevant securities or date of grant of such rights (the **Specified Date**) such number of Cable and Wireless Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such securities are redesignated or at such other time as may be provided) then for the purposes of this paragraph 3.1.7, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue or grant of such securities.

3.1.8 If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in paragraph 3.1.7 above (other than in accordance with the terms (including terms as to adjustment) applicable to such securities) so that following such modification the consideration per Cable and Wireless Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Cable and Wireless Share on the dealing day last preceding the date of the first public announcement of the proposals for such modification, the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to such modification by the following fraction:

$$\frac{A+B}{A+C}$$

where:

A is the number of Cable and Wireless Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for Cable and Wireless Shares which have been issued by Cable and Wireless for the purposes of or in connection with such issue, less the number of such Cable and Wireless Shares so issued);

B is the number of Cable and Wireless Shares which the aggregate consideration (if any) receivable for the Cable and Wireless Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Cable and Wireless Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

C is the maximum number of Cable and Wireless Shares to be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Adviser shall consider appropriate for any previous adjustment under this paragraph or paragraph 3.1.7 above,

provided that if at the time of such modification (the **Specified Date**) such number of Cable and Wireless Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such securities are converted or exchanged or rights of subscription are exercised or at such other time as may be provided) then for the purposes of this paragraph 3.1.8, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange or subscription had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

3.1.9 If and whenever Cable and Wireless or any Subsidiary of Cable and Wireless or (at the direction or request of or pursuant to any arrangements with Cable and Wireless or any Subsidiary of Cable and Wireless) any other company, person or entity shall offer any securities in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Reference Price falls to be adjusted under paragraph 3.1.4 above (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Cable and Wireless Share on the relevant dealing day) or under paragraph 3.1.5 above) the Reference Price shall be adjusted by multiplying the Reference Price in force immediately before the making of such offer by the following fraction:

$$\frac{A-B}{A}$$

where:

A is the Current Market Price of one Cable and Wireless Share on the dealing day immediately preceding the date on which the terms of such offer are publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the relevant offer attributable to one Cable and Wireless Share.

Such adjustment shall become effective on the first date on which the Cable and Wireless Shares are traded ex-rights on the London Stock Exchange.

3.1.10 If and whenever a Topco Scheme is effected, the Reference Price shall be adjusted by multiplying the Reference Price in force immediately prior to the Topco Scheme becoming effective by the following fraction:

$$\frac{A}{B}$$

where:

A is the number of Cable and Wireless Shares in issue immediately before such scheme becomes effective; and

B is the number of ordinary shares in Topco issued in exchange for Cable and Wireless Shares under the terms of the Topco Scheme

provided that such adjustment shall be subject to such modification as an Independent Financial Adviser may determine to be fair and reasonable having regard to the terms of the Topco Scheme, and including in particular the rights attaching to the shares in Topco issued under the terms of the Topco Scheme.

Such adjustment shall become effective on the date on which holders of Cable and Wireless Shares become unconditionally entitled to have ordinary shares in Topco issued to them under the terms of the Topco Scheme.

3.1.11 If Cable and Wireless (after consultation with the paying agent in accordance with the Facility C Consideration Terms) determines that an adjustment should be made to the Reference Price as a result of one or more events or circumstances not referred to above in this paragraph 3.1 (even if the relevant event or circumstance is specifically excluded from the operation of sub-paragraphs 3.1.1 to 3.1.10 above), Cable and Wireless shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Reference Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph 3.1.11 if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant event or circumstance arises.

3.2 Paragraph 3.1 shall have effect subject to the following provisions:

3.2.1 notwithstanding the foregoing provisions, where the circumstances giving rise to any adjustment pursuant to paragraph 3.1 have already resulted or will result in an adjustment to the Reference Price or where the circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Reference Price or where more than one event which gives rise to an adjustment to the Reference Price occurs within such a short period of time that, in the opinion of Cable and Wireless, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result;

3.2.2 no adjustment will be made to the Reference Price where Cable and Wireless Shares or other securities (including rights, warrants and options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service company of any such person) of Cable and Wireless or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to any employees' share scheme (as defined in Section 743 of the Companies Act 1985 or any modification or re-enactment thereof);

3.2.3 on any adjustment, the resultant Reference Price shall be rounded down to the nearest whole penny or half penny. No adjustment shall be made to Reference Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Reference Price then in effect. Any adjustment not required to be made and/or any amount by which the Reference Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time;

3.3 For the purpose of any calculation of the consideration receivable pursuant to paragraphs 3.1.6, 3.1.7 and 3.1.8, the following provisions shall apply:

3.3.1 the aggregate consideration receivable for Cable and Wireless Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission, fees or any expenses paid or incurred by Cable and Wireless for any underwriting of the issue or otherwise in connection therewith;

3.3.2 (x) the aggregate consideration receivable for Cable and Wireless Shares to be issued or otherwise made available upon the conversion or exchange of any securities shall be deemed to be the consideration received or receivable for any such securities, and (y) the aggregate consideration receivable for Cable and Wireless Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration received or receivable for such securities or, as the case may be, for such options, warrants or rights which is attributed by Cable and Wireless to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such securities or, as the case may be, such options, warrants or rights plus in the case of each of (x) and (y) above, the additional minimum consideration (if any) payable upon the conversion or exchange of such securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights (the consideration in all such cases to be determined subject to the proviso in paragraph 3.3.1 above) and (z) the consideration per Cable and Wireless Share receivable upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration referred to in (x) or (y) above (as the case may be) converted into pounds sterling if such consideration is expressed in a currency other than pounds sterling at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on the date of the first public announcement of the terms of issue of such securities, divided by the number of Cable and Wireless Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate.

3.4 If any dispute shall arise as to:

3.4.1 whether an event has occurred which may or will lead to an adjustment to the Reference Price under this paragraph 3;

3.4.2 the appropriate adjustment to the Reference Price; or

3.4.3 the provisions of this Schedule 6;

a written opinion of an Independent Financial Adviser in respect of such dispute shall be conclusive and binding on all concerned, save in the case of manifest or proven error.

3.5 As used in this Schedule the following terms have the following meanings:

Capital Distribution:

(a) any Dividend which is expressed by Cable and Wireless or declared by the Board of Directors of Cable and Wireless to be a capital distribution, extraordinary distribution, special dividend, special distribution or return of value to shareholders of Cable and Wireless or any analogous or similar term, in which case the Capital Distribution shall be the Fair Market Value of such Dividend; or

(b) any Dividend which, when taken together with all other Dividends (other than any Dividend or portion thereof deemed to be a Capital Distribution) made in respect of the same fiscal year as such Dividend, exceeds 5 per cent. of the Fair Market Value of a Cable and Wireless Share on the date immediately preceding the announcement of such Dividend multiplied by the number of Cable and Wireless Shares in issue on such date. In such case, the Capital Distribution shall be the amount by which such Dividend, when taken together with all other Dividends as aforesaid, exceeds 5 per cent. of the Fair Market Value of a Cable and Wireless Share multiplied by the number of Cable and Wireless Shares in issue as aforesaid.

In making any such calculation, such adjustments (if any) shall be made as an Independent Financial Adviser may consider appropriate to reflect any consolidation or subdivision of any Cable and Wireless Shares or the issue of Cable and Wireless Shares by way of capitalisation of profits or reserves, or any like or similar event.

Current Market Price: in respect of a Cable and Wireless Share at a particular date, the average of the bid and offer quotations published in the London Stock Exchange' s Daily Official List for one Cable and Wireless Share for the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five day period the Cable and Wireless Shares shall have been quoted ex-dividend (or ex-any other entitlement) and during some other part of that period the Cable and Wireless Shares shall have been quoted cum-dividend (or cum- any other entitlement) then:

(a) if the Cable and Wireless Shares to be issued do not rank for the dividend (or entitlement) in question, the quotations on the date on which the Cable and Wireless Shares shall have been quoted cum-dividend (or cum- such other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) per Cable and Wireless Share as at the date of announcement of such dividend or entitlement (excluding any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom); or

(b) if the Cable and Wireless Shares to be issued to rank for the dividend in question, the quotations on the dates on which the Cable and Wireless Shares shall have been quoted ex-dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount, and provided further that if the

Cable and Wireless Shares on each of the said five dealing days have been quoted cum-dividend (or cum- such other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Cable and Wireless Shares to be issued do not rank for that dividend (or other entitlement) the quotations on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) per Cable and Wireless Share as at the date of announcement of such dividend or entitlement (excluding any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom),

provided that if such bid and offer quotations are not available on each of the said five dealing days, then the average of such bid and offer quotations which are available in that five dealing day period shall be used (subject to a minimum of two such bid and offer quotations) and if only one or no such bid and offer quotation is available in the relevant period the average bid and offer quotations shall be determined in good faith by an Independent Financial Adviser.

Dividend: any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation an issue of shares or other securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

(a) where a cash Dividend is announced which is to be, or may at the election of a holder or holders of Cable and Wireless Shares be, satisfied by the issue or delivery of Cable and Wireless Shares or other property or assets, then, for the purposes of the above definition, the Dividend in question shall be treated as a Dividend of (i) the cash Dividend so announced or (ii) the Fair Market Value, on the date of announcement of such Dividend, of the Cable and Wireless Shares or other property or assets to be issued or delivered in satisfaction of such Dividend (or which would be issued if all holders of Cable and Wireless Shares elected therefor, regardless of whether any such election is made) if the Fair Market Value of such Cable and Wireless Shares or other property or assets is greater than the Fair Market Value of the cash Dividend so announced;

(b) any issue of Cable and Wireless Shares falling within paragraph 3.1.2 shall be disregarded; and

(c) a purchase or redemption of share capital by Cable and Wireless shall not constitute a Dividend unless in the case of purchases of Cable and Wireless Shares by or on behalf of Cable and Wireless, the volume weighted average price paid per Cable and Wireless Share (before expenses) on any one day in respect of such purchases exceeds by more than 5 per cent. the closing price of the Cable and Wireless Shares on the London Stock Exchange on the immediately preceding dealing day as derived from the Daily Official List of the London Stock Exchange at the opening of business either (1) on that day, or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of Shareholders of Cable and Wireless or any notice convening such a meeting of Shareholders) has been made of the intention to purchase Cable and Wireless Shares at some future date at a specified price, on the dealing day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a dealing day, the immediately preceding dealing day, in which case such purchase shall be deemed to constitute a Dividend to the extent that the aggregate price paid (before expenses) in respect of such Cable and Wireless Shares purchased by Cable and Wireless exceeds the product of: (i) 105 per cent. of the closing price of the Cable and Wireless Shares determined as aforesaid; and (ii) the number of Cable and Wireless Shares so purchased.

Fair Market Value means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that: (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded, or such shorter period as such options, warrants or other rights are publicly traded; and (iv) in the case of (i) converted into sterling (if declared or paid in a currency other than sterling) at a rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid the cash Dividend in sterling; and in the case of (ii) and (iii) converted into sterling (if expressed in a currency other than sterling) at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).

securities includes, without limitation, shares in the share capital of Cable and Wireless and options, warrants and other rights to subscribe for or purchase or acquire shares in the capital of Cable and Wireless.

References to any issue or offer to Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer to all or substantially all Shareholders other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer.

Reference to the “issue” of Cable and Wireless Shares shall include the transfer and/or delivery of Cable and Wireless Shares by Cable and Wireless or any of its Subsidiaries, whether newly issued and allotted or previously existing, but Cable and Wireless Shares held by Cable and Wireless or any of its Subsidiaries shall not be considered as or treated as “in issue”.

3.6 Any reference in this Schedule to a matter or dispute being referred to or decided by, or to an opinion being given by, an Independent Financial Adviser shall be to such matter, dispute or opinion referred, decided or given by the Independent Financial Adviser appointed and acting in accordance with the Facility

C Agreement or the Schemes (as the case may be), and no such matter, dispute or opinion shall be raised or sought by any A Ordinary Shareholder in connection with this Schedule.

4 **Transfer**

4.1 No A Ordinary Shareholder may at any time assign all or any part of the benefit of, or its rights or benefits under, this Schedule.

4.2 For the avoidance of doubt, Cable and Wireless shall not be required to maintain any register of holders of entitlements to receive Contingent Consideration.

5 **Reduction of Contingent Consideration**

5.1 The Contingent Consideration payable under this Schedule will be reduced by the amount of the A Ordinary Contingent Consideration Percentage of any Verified Claim, and Payments otherwise due under this Schedule in respect of Contingent Consideration will be reduced until such percentage of such Verified Claim is extinguished, provided that:

(i) the aggregate amount of the reduction by reference to Verified Claims under this Schedule 6 and under Schedule 4 to the Facility C Agreement or in connection with the Schemes (as the case may be) shall not exceed £12,500,000; and

(ii) no reduction will be made unless and until the aggregate amount of Verified Claims exceeds £250,000, whereupon the entire amount of the A Ordinary Contingent Consideration Percentage of Verified Claims shall be included for the purposes of the reduction under this Schedule and not merely the excess.

Claim: any amount notified to the A Ordinary Shareholders (such notice to be accompanied by a certificate from KPMG confirming the amount of the Claim) within six months of Completion or, if earlier, by 31 March, 2006, unless this would result in the period between Completion and expiry of the notification period being less than three months, in which case the notification period will expire three months after Completion, and which falls into any of the following categories:

(a) the amount of any Financial Indebtedness (excluding finance leases to the order of £37 million notified to the Purchaser before 22 July 2005) of any member of the Energis Group in existence at Completion and not discharged under this Agreement or the Schemes or acquired under the Facility C Agreement;

(b) the cost of terminating any interest rate or currency derivative transaction (including a swap, option, contract for difference or any other contract containing an embedded derivative for the purposes of International Financial Reporting Standards) in existence at Completion and which is not a cost identified in the Fees and Costs Schedule provided that this paragraph (b) will not apply to any such transaction entered into in the ordinary course of business in relation to a customer contract;

(c) the cost of discharging any mortgage, charge, debenture, or other security in respect of Financial Indebtedness (subject as referred to in (a) above) over the undertaking or assets of any member of the Energis Group in existence at Completion and not discharged pursuant to this Agreement or the Schemes or acquired under the Facility C Agreement;

(d) the amount of any professional or other fees or third party expenses incurred by a member of the Energis Group arising as a result of the transactions contemplated by this Agreement and/or the Facility C Agreement and/or the Schemes which fees and expenses are not itemised in the Fees and Costs Schedule excluding any liabilities or expenses relating to contracts with customers or suppliers;

(e) the amount due by any member of the Energis Group to any employee of any member of the Energis Group pursuant to obligations existing prior to Completion in respect of:

(i) the Energis Group' s Cash Bonus Plan;

(ii) the shares in the Company; or

(iii) any other incentive, bonus or other entitlement arising by reason of or as a result of the transactions contemplated by the Share Purchase Agreement and/or the Facility C Agreement,

to the extent that the same is not identified in Schedule 3; provided that this paragraph (e) shall not apply to any amounts retained from sums otherwise payable in accordance with this Agreement in respect of the Cash Bonus Plan or A Ordinary Shares in respect of income tax or employees' national insurance contributions;

an amount equal to any tax or NICs and any related costs and expenses not identified in Schedule 3 and which is required to be paid, accounted for, deducted or withheld by the Purchaser or any member of the Energis Group as a result of any payment under the Energis Group' s Cash Bonus Plan or in respect of the 2005 MIP Equity-based Entitlements or in relation to the shares in the Company, including in respect of the Contingent Consideration payable under this Agreement, save to the extent any such tax or NICs and any related costs and expenses are deducted or withheld from the relevant payment. Without limitation, and for the avoidance of doubt, any reference herein to any tax or NICs shall include a reference to any additional tax or NICs arising in consequence of a failure by any person to make good the Company, any other Energis Group Company or the Purchaser for any tax paid or accounted for within any relevant period of time (whether under section 222 ITEPA 2003 or otherwise), and any reference herein to any related costs or expenses shall include any interest, fine or penalty payable as a result of any failure to deduct, withhold, pay or account for any tax or NICs when due or required or to make any related report to or filing with HMRC (whether pursuant to section 421J ITEPA 2003 or otherwise); and

an amount equal to any interest costs incurred by the Purchaser and/or any member of the Energis Group by reason of the existence of the facts or circumstances outlined in paragraphs (a) to (f).

Financial Indebtedness: indebtedness owed by a member of the Energis Group to financial institutions in respect of borrowed money, whether sole, joint or several, and whether actual or contingent which amounts are or would be treated as debts of the relevant member of the Energis Group in accordance with the accounting policies applied in the preparation of the consolidated accounts of the Energis Group for the year ended 31 March 2005 excluding operating leases, hire purchase agreements, trade payables and financing provided by customers under customer contracts entered into the ordinary course of business and asset leases where the whole of the lease costs are recharged to a customer under a customer contract entered into in the ordinary course of business;

Verified Claim: a Claim which is defined as such in Schedule 4 to the Facility C Agreement or the Contingent Consideration Deed referred to in the Schemes (as the case may be) and, for the avoidance of doubt no A Ordinary Shareholder will be entitled to dispute or question in any way the validity of a Verified Claim.

Proportions

Verified Claims will be attributed between Payments due under (i) this Schedule 6 and (ii) Schedule 4 to the Facility C Agreement or pursuant to the Schemes (as the case may be) in the proportion the A Ordinary Contingent Consideration Percentage bears to the Facility C Contingent Consideration Percentage (as defined in the Facility C Agreement or the Contingent Consideration Deed referred to in the Schemes (as the case may be)).

S CHEDULE 7

Deed of Adherence

THIS DEED POLL is made on
by *(name)*
of *(address)*
(the **New Vendor**)

RECITALS

A The New Vendor wishes to purchase from the Current Vendor [ ] Shares (the **Shares**) in Chelys Limited (the **Company**).

B The Current Vendor is a party (as an EVOS Vendor) to an Agreement dated [ ] 2005 (the **Sale Agreement**) under which it has agreed to sell [the Shares/shares which include the Shares].

C Under the terms of the Sale Agreement, the New Vendor must execute a Deed of Adherence in the form of this Deed before the Current Vendor is permitted to sell the Shares.

DEED

1 **Deed supplemental to Sale Agreement**

1.1 This Deed is supplemental to the Sale Agreement.

1.2 Terms defined in the Sale Agreement shall have the same meanings when used in this Deed.

2 **Introduction of the New Vendor**

2.1 The New Vendor confirms that it has received a copy of the Sale Agreement.

2.2 The effect of execution of this Deed by the New Vendor shall be to constitute the New Vendor an additional Party to the Sale Agreement with effect from its registration as the holder of the Shares, having the rights and benefits given by the Sale Agreement to Vendors to the extent such rights or benefits arise or apply upon or after such registration.

2.3 In consideration of the benefits to be acquired by the New Vendor arising from its execution of this Deed, the New Vendor hereby undertakes that with effect from its registration as the holder of the Shares it shall be bound by, and shall observe and perform, the obligations and restrictions applicable to, or imposed by the Sale Agreement on, Vendors to the extent that they fall to be observed or performed upon or after such registration.

2.4 [The Sale Agreement shall continue to apply to the Current Vendor in respect of the shares in Chelys Limited held by it excluding the Shares.]

2.5 This Deed is made for the benefit of, and may be relied on and enforced by, the Parties to the Sale Agreement and every person who, on or after the date of this Deed, adheres to the Sale Agreement.

3 **Notices**

The address to which any notice to be served on the New Vendor in connection with the Sale Agreement may be sent shall be the address specified in respect of the New Vendor at the head of this Deed (or such other address as it may specify by notice to the other parties to the Sale Agreement in accordance with that agreement).

4 **Governing law and jurisdiction**

4.1 This Deed shall be governed by and construed in accordance with the laws of England.

4.2 The New Vendor submits to the exclusive jurisdiction of the English Courts as regards any claim, dispute or matter arising out of or relating to this Deed.

IN WITNESS the New Vendor has duly executed this Deed Poll on the above date

EXECUTED as a DEED)
by *(company name)*)
)
acting by two authorised signatories) Authorised signatory

Authorised signatory

S CHEDULE 8

Accrued Interest

Part A

Method for Calculating the Accrued Interest

Interest accrues on the Viridian debt, the New Money Facility and Facility A and Facility B (as defined in the Facilities Agreement) on the following basis:

Viridian debt:

Outstanding Principal:	£5,447,448
Interest rate (basis):	LIBOR plus 2.25%
Current interest rate:	7.288130%
Current interest period:	31/3/05-30/9/05
All interest paid up to start of current interest period?	Yes

New Money Facility:

Outstanding Principal:	£145,028,000
Interest rate (basis):	LIBOR plus 2.25%
Current interest rate:	7.211200%
Current interest period:	18/4/05-18/10/05
All interest paid up to start of current interest period?	Yes

Facility A:

Outstanding Principal:	£145,028,000
Interest rate (basis):	LIBOR plus 2.25%
Current interest rate:	7.211200%
Current interest period:	18/4/05-18/10/05
All interest paid up to start of current interest period?	Yes

Facility B:

Outstanding Principal:	£100,000,000
Interest rate (basis):	LIBOR plus 3.25%
Current interest rate:	7.011100%
Current interest period:	18/7/05-18/08/05
All interest paid up to start of current interest period?	Yes

NOTES:

1. LIBOR is determined at the start of each interest period by reference to the length of the interest period

2. In addition to the interest rate shown above, the borrower is liable for the lenders' "mandatory costs"

3. Accrued interest is payable on the last day of the relevant interest period

SCHEDULE 8

Accrued Interest

Part B

Accrued Interest Calculations

	Accrued interest on:				
	Viridian debt[1]	New Money Facility	"A" Facility	"B" Facility[3]	Total
16 Aug 05	£150,105	£3,438,332	£3,438,332	£557,487	**£7,584,256**
17 Aug 05	£151,193	£3,466,985	£3,466,985	£576,711	**£7,661,873**
18 Aug 05	£152,281	£3,495,637	£3,495,637	£0	**£7,143,555**
19 Aug 05	£153,368	£3,524,290	£3,524,290	£18,933	**£7,220,881**
20 Aug 05	£154,456	£3,552,943	£3,552,943	£37,865	**£7,298,207**
21 Aug 05	£155,544	£3,581,596	£3,581,596	£56,798	**£7,375,533**
22 Aug 05	£156,631	£3,610,248	£3,610,248	£75,730	**£7,452,859**
23 Aug 05	£157,719	£3,638,901	£3,638,901	£94,663	**£7,530,184**
24 Aug 05	£158,807	£3,667,554	£3,667,554	£113,596	**£7,607,510**
25 Aug 05	£159,895	£3,696,207	£3,696,207	£132,528	**£7,684,836**
26 Aug 05	£160,982	£3,724,859	£3,724,859	£151,461	**£7,762,162**
27 Aug 05	£162,070	£3,753,512	£3,753,512	£170,393	**£7,839,488**
28 Aug 05	£163,158	£3,782,165	£3,782,165	£189,326	**£7,916,814**
29 Aug 05	£164,245	£3,810,818	£3,810,818	£208,259	**£7,994,139**
30 Aug 05	£165,333	£3,839,470	£3,839,470	£227,191	**£8,071,465**
31 Aug 05	£166,421	£3,868,123	£3,868,123	£246,124	**£8,148,791**
1 Sep 05	£167,509	£3,896,776	£3,896,776	£265,056	**£8,226,117**
2 Sep 05	£168,596	£3,925,429	£3,925,429	£283,989	**£8,303,443**
3 Sep 05	£169,684	£3,954,082	£3,954,082	£302,922	**£8,380,769**
4 Sep 05	£170,772	£3,982,734	£3,982,734	£321,854	**£8,458,095**
5 Sep 05	£171,859	£4,011,387	£4,011,387	£340,787	**£8,535,420**
6 Sep 05	£172,947	£4,040,040	£4,040,040	£359,719	**£8,612,746**
7 Sep 05	£174,035	£4,068,693	£4,068,693	£378,652	**£8,690,072**
8 Sep 05	£175,123	£4,097,345	£4,097,345	£397,585	**£8,767,398**
9 Sep 05	£176,210	£4,125,998	£4,125,998	£416,517	**£8,844,724**
10 Sep 05	£177,298	£4,154,651	£4,154,651	£435,450	**£8,922,050**
11 Sep 05	£178,386	£4,183,304	£4,183,304	£454,382	**£8,999,376**
12 Sep 05	£179,473	£4,211,956	£4,211,956	£473,315	**£9,076,701**
13 Sep 05	£180,561	£4,240,609	£4,240,609	£492,248	**£9,154,027**
14 Sep 05	£181,649	£4,269,262	£4,269,262	£511,180	**£9,231,353**
15 Sep 05	£182,737	£4,297,915	£4,297,915	£0	**£8,778,566**
16 Sep 05	£183,824	£4,326,567	£4,326,567	£18,933	**£8,855,892**
17 Sep 05	£184,912	£4,355,220	£4,355,220	£37,865	**£8,933,218**
18 Sep 05	£186,000	£4,383,873	£4,383,873	£56,798	**£9,010,544**
19 Sep 05	£187,088	£4,412,526	£4,412,526	£75,730	**£9,087,869**
20 Sep 05	£188,175	£4,441,179	£4,441,179	£94,663	**£9,165,195**
21 Sep 05	£189,263	£4,469,831	£4,469,831	£113,596	**£9,242,521**

22 Sep 05	£190,351	£4,498,484	£4,498,484	£132,528	**£9,319,847**
23 Sep 05	£191,438	£4,527,137	£4,527,137	£151,461	**£9,397,173**
24 Sep 05	£192,526	£4,555,790	£4,555,790	£170,393	**£9,474,499**
25 Sep 05	£193,614	£4,584,442	£4,584,442	£189,326	**£9,551,825**
26 Sep 05	£194,702	£4,613,095	£4,613,095	£208,259	**£9,629,150**
27 Sep 05	£195,789	£4,641,748	£4,641,748	£227,191	**£9,706,476**

[3] The above interest figures in respect of the Viridian debt after 30 September and in respect of the "B" Facility after 18 August are calculated on the assumption that the interest rate for periods after the interest period current at the date of this Agreement remain the same as the current interest rate. Since those rates are linked to LIBOR at the commencement of the interest period, it is likely that the actual interest rates will change, and the above figures should be regarded as illustrative only".

28 Sep 05	£196,877	£4,670,401	£4,670,401	£246,124	**£9,783,802**
29 Sep 05	£197,965	£4,699,053	£4,699,053	£265,056	**£9,861,128**
30 Sep 05	£0	£4,727,706	£4,727,706	£283,989	**£9,739,401**
1 Oct 05	£953	£4,756,359	£4,756,359	£302,922	**£9,816,592**
2 Oct 05	£1,906	£4,785,012	£4,785,012	£321,854	**£9,893,784**
3 Oct 05	£2,859	£4,813,664	£4,813,664	£340,787	**£9,970,975**
4 Oct 05	£3,812	£4,842,317	£4,842,317	£359,719	**£10,048,166**
5 Oct 05	£4,765	£4,870,970	£4,870,970	£378,652	**£10,125,357**
6 Oct 05	£5,718	£4,899,623	£4,899,623	£397,585	**£10,202,548**
7 Oct 05	£6,670	£4,928,276	£4,928,276	£416,517	**£10,279,739**

SIGNED as a deed and sealed by ARCHIBALD NORMAN in the presence of:	)))	/s/ Archibald Norman Archibald Norman

Witness: *Signature:* Dawkins

Name: JESSICA DAWKINS

Address: 25 LEONARDSLEE CRRS
NEWBURY
BERKS RG 14 2FB

EXECUTED as a deed of CHELYS LIMITED acting by two duly authorised officers	)))	/s/ Archibald Norman Archibald Norman /s/ John Pluthero John Pluthero
EXECUTED as a deed of CABLE & WIRELESS PLC acting by two duly authorised officers	)))	/s/ Francesco Caio Francesco Caio /s/ Charles Herlinger Charles Herlinger

EXECUTED as a deed for and on behalf of	)	
Bayerische Hypo und Vereinsbank AG	)	
by Stephen Dodd and	)	/s/ Stephen Dodd
Andrew Emannel		/s/ Andrew Emannel

EXECUTED as a deed for and on behalf of	)	
JPMorgan Chase Bank, N.A.	)	
by	)	/s/ Renée Toft
		Renée Toft, Vice President

EXECUTED as a deed of	)	
SOCGEN Nominees (UK) Limited	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
Barclays Bank PLC	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
WestLB Finance (Credits) Limited	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
West Register (Investments) Limited	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
HSBC Bank PLC	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
Fortis Bank S.A./N.V	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
Export Development Canada	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
Kensington International Limited	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

EXECUTED as a deed of	)	
Springfield Associates LLC	)	
acting by its attorney, Chelys Limited	)	/s/ Archibald Norman
		for Chelys Limited as attorney

Exhibit 8

Subsidiaries	Local currency	Issued Share Capital (million)	Ownership Direct	Ownership Via subsidiaries	Class of shares	Country of incorporation	Area of operation
Cable & Wireless UK	£	3,033	-	100%	Ordinary	England	UK
Cable & Wireless Jamaica Limited	J$	16,817	-	82%	Ordinary	Jamaica	Jamaica
Cable and Wireless (Cayman Islands) Limited	Cay$	-	-	100%	Ordinary	Cayman Islands	Cayman Islands
Cable & Wireless Panama,S.A.[a]	Balboa	316	-	49%	Ordinary	Panama	Panama
Companhia de Telecomunicacoes de Macau,S.A.R.L.[b]	Pataca	150	-	51%	Ordinary	Macau	Macau and China
Cable & Wireless (Barbados) Limited	B$	-	-	81%	Ordinary	Barbados	Barbados
Cable and Wireless (West Indies) Limited	£	5	-	100%	Ordinary	England	Caribbean
Dhivehi Raajjeyge Gulhun Private Limited[bc]	Rufiya	190	-	45%	Ordinary	Maldives	Maldives
Monaco Telecom S.A.M.[de(1)]	Euro	2	-	49%	Ordinary	Monaco	Monaco
Bulldog Communications Limited	£	2	-	100%	Ordinary	England	UK
Joint ventures							
Telecommunications Services of Trinidad and Tobago Limited[d]	T$	283	-	49%	Ordinary	Trinidad and Tobago	Trinidad and Tobago
Associates							
Bahrain Telecommunications Company B.S.C.[b]	Dinar	100	20%	-	Ordinary	Bahrain	Bahrain

Notes

The Group comprises a large number of companies and it is not practical to include all of them in this list. The list therefore only includes those companies whose results or financial position, in the opinion of the Directors, principally affects the figures shown in the Group' s Financial Statements.

Full details of all subsidiary undertakings, joint ventures, associates and trade investments will be attached to the Company' s Annual Return, to be filed with the Registrar of Companies in England and Wales.

a The Group regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.

b This company had a financial year end of 31 December 2004 due to the requirements of the shareholders' agreement.

c The Group regards this company as a subsidiary undertaking because it exercises dominant influence.

d This company is audited by a firm other than KPMG International member firms.

e The Group holds an economic interest of 55 per cent in Monaco Telecom S.A.M.

(1) On 18 June 2004 Cable & Wireless acquired 55 per cent of Monaco Telecom S.A.M. ("Monaco Telecom"), a Monaco-based telecommunication service provider, from Vivendi Universal.

Simultaneously with the acquisition, Cable & Wireless transferred legal ownership of six per cent of the shares of Monaco Telecom to Compagnie Monegasque de Banque S.A.M. ("CMB"), an unrelated third party. Cable & Wireless contractually retained voting and economic rights in the shares as part of the arrangement. In addition, the six per cent interest is subject to certain put and call options that, together with the retained voting and economic rights, provide full management control of Monaco Telecom to Cable & Wireless.

Cable & Wireless has also entered into a shareholders' agreement with the Principality of Monaco which contains, among other provisions, a prohibition on either Cable & Wireless or the Principality (subject to certain limited exceptions) selling their shares in Monaco Telecom for five years, mutual pre-emption rights on transfer of shares and certain other limited rights in favour of the Principality. The Principality has a put option entitling it to put its 45 per cent shareholding in Monaco Telecom to Cable & Wireless at certain times after 1 January 2008. The exercise price under the put option is fair market value, taking into account the nature of the minority stake in Monaco Telecom.

CERTIFICATIONS

I, Francesco Caio, certify that:

1. I have reviewed this annual report on Form 20-F of Cable and Wireless plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. evaluated the effectiveness of the company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. disclosed in this report any change in the company' s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company' s internal control over financial reporting; and

5. The company' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company' s auditors and the audit committee of company' s board of directors (or persons performing the equivalent function):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company' s ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company' s internal control over financial reporting.

Date: 20 September 2005

/s/ FRANCESCO CAIO

Chief Executive Officer

Exhibit 12.2

CERTIFICATIONS

I, Charles Herlinger, certify that:

1. I have reviewed this annual report on Form 20-F of Cable and Wireless plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:

a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. evaluated the effectiveness of the company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. disclosed in this report any change in the company' s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company' s internal control over financial reporting; and

5. The company' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company' s auditors and the audit committee of company' s board of directors (or persons performing the equivalent function):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company' s ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company' s internal control over financial reporting.

Date: 20 September 2005

/s/ CHARLES HERLINGER

Chief Financial Officer

Exhibit 13

Annual Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Cable and Wireless Public Limited Company (the "Company"), does hereby certify that:

The Annual Report on Form 20-F for the year ended March 31, 2005 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: 20 September 2005

/s/ FRANCESCO CAIO

Francesco Caio
Chief Executive Officer

Dated: 20 September 2005

/s/ CHARLES HERLINGER

Charles Herlinger
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Cable and Wireless Public Limited Company and will be retained by Cable and Wireless Public Limited and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 15.1

BAHRAIN TELECOMMUNICATIONS COMPANY B.S.C.

SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2004

Bahrain Telecommunications Company B.S.C.

SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

CONTENTS Page

R EPORT OF THE INDEPENDENT AUDITORS

To the Directors of Bahrain Telecommunications B.S.C.

We have audited the accompanying consolidated balance sheet of Bahrain Telecommunications Company B.S.C. ("the Company") and its subsidiaries ("the Group") as at 31 December 2004 and the related consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year ended 31 December 2004. These special purpose consolidated financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on these special purpose consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special purpose consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the special purpose consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004, the results of its operations, changes in its shareholders' equity and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 25 to the special purpose consolidated financial statements.

KPMG Bahrain
Manama
Kingdom of Bahrain

Date: 13 September 2005

Back to Contents

C ONSOLIDATED BALANCE SHEET
as at 31 December 2004 BD' 000

	Note	2004	UNAUDITED 2003
NET ASSETS EMPLOYED			
Property, plant and equipment	3	153,277	166,709
Intangible assets	4	623	1,251
Investments	5	23,821	20,770
Staff housing loans	6	-	339
		177,721	189,069
CURRENT ASSETS			
Inventories		590	739
Accounts receivable and prepayments	7	40,170	32,438
Amounts due from telecommunications operators		11,443	5,789
Cash and cash equivalents		136,369	120,674
		188,572	159,640
CURRENT LIABILITIES			
Accounts payable and accruals	8	49,342	51,221
Amounts due to telecommunications operators		11,025	8,186
		60,367	59,407
NET CURRENT ASSETS		128,205	100,233
NET ASSETS		**305,926**	289,302
MINORITY INTEREST		**6,087**	5,617
SHAREHOLDERS' EQUITY			
Share capital	9	100,000	100,000
Statutory reserve	10	43,518	37,490

General reserve	11	15,000	15,000
Proposed appropriations	12	40,040	52,367
Retained earnings		101,211	78,667
Foreign currency translation reserve		70	161
		299,839	283,685
TOTAL SHAREHOLDERS' EQUITY AND MINORITY INTEREST		**305,926**	289,302

The consolidated financial statements, which consist of pages 2 to 22, were approved by the Board of Directors on 10 September 2005.

The accompanying notes 1 to 25 form an integral part of these special purpose consolidated financial statements.

Back to Contents

C ONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2004 BD' 000

	Note	2004	UNAUDITED 2003
Gross revenue	13	**203,764**	192,122
General and administrative	14	99,002	108,665
Other operating expenses	15	26,561	23,181
Total operating expenses		**125,563**	131,846
Operating profit		**78,201**	60,276
Non-operating income	16	5,581	1,166
Profit for the year before minority interest		**83,782**	61,442
Minority interest		(1,198)	(780)
Profit for the year attributable to shareholders		**82,584**	60,662
Basic and diluted earnings per share	17	**83 fils**	61 fils

The accompanying notes 1 to 25 form an integral part of these special purpose consolidated financial statements.

Back to Contents

C ONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2004 BD' 000

		UNAUDITED
	2004	2003
Operating activities		
Cash receipts from customers	167,896	163,065
Cash paid to suppliers	(35,685)	(39,399)
Cash paid to and on behalf of employees	(30,251)	(37,748)
Cash (paid)/received from telecommunications operators	(1,278)	4,093
Cash flows from operating activities	**100,682**	90,011
Investing activities		
Acquisition of plant and equipment	(19,370)	(20,188)
Acquisition of investments	(5,870)	(7,229)
Cash received from selling and maturing investments	3,019	4,754
Payments in respect of investment commitments, net	(452)	(1,868)
Interest and investment income received	2,554	1,041
Net cash repayments of staff housing loans	269	75
	(19,850)	(23,415)
Financing activities		
Repayment of bank loan	-	(1,916)
Dividends paid	(65,137)	(45,973)
Cash flows from financing activities	**(65,137)**	(47,889)
Net increase in cash and cash equivalents	**15,695**	18,707
Cash and cash equivalents at 1 January	120,674	101,967
Cash and cash equivalents at 31 December	**136,369**	120,674

The accompanying notes 1 to 25 form an integral part of these special purpose consolidated financial statements.

Back to Contents

C ONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2004 BD' 000

2004

	Share capital	Statutory reserve	General reserve	Retained earnings	Foreign currency translation reserve	Proposed appropria-tions	Total
At 1 January 2004	100,000	37,490	15,000	78,667	161	52,367	283,685
Dividends declared (2003)	-	-	-	-	-	(45,000)	(45,000)
Donations and contributions (2003)	-	-	-	-	-	(1,214)	(1,214)
Directors' remuneration paid (2003)	-	-	-	-	-	(125)	(125)
Transfer to statutory reserve (2003)	-	6,028	-	-	-	(6,028)	-
Net profit for the year	-	-	-	82,584	-	-	82,584
Interim dividend declared for 2004	-	-	-	(20,000)	-	-	(20,000)
Proposed appropriations for 2004: (note12)							
Final dividends	-	-	-	(30,000)	-	30,000	-
Directors' remuneration	-	-	-	(159)	-	159	-
Donations and contributions	-	-	-	(1,653)	-	1,653	-
Transfer to statutory reserve	-	-	-	(8,228)	-	8,228	-
Foreign currency translation reserve	-	-	-	-	(91)	-	(91)
At 31 December 2004	**100,000**	**43,518**	**15,000**	**101,211**	**70**	**40,040**	**299,839**

2003 (UNAUDITED)

	Share capital	Statutory reserve	General reserve	Retained earnings	Foreign currency translation reserve	Proposed appropria-tions	Total
At 1 January 2003	100,000	30,930	15,000	70,372	264	52,870	269,436
Dividends declared (2002)	-	-	-	-	-	(45,000)	(45,000)
Donations and contributions paid (2002)	-	-	-	-	-	(1,160)	(1,160)

Directors' remuneration paid (2002)	–	–	–	–	–	(150)	(150)
Transfer to statutory reserve (2002)	–	6,560	–	–	–	(6,560)	–
Net profit for the year	–	–	–	60,662	–	–	60,662
Proposed appropriations for 2003: (note12)							
Dividends	–	–	–	(45,000)	–	45,000	–
Directors' remuneration	–	–	–	(125)	–	125	–
Donations and contributions	–	–	–	(1,214)	–	1,214	–
Transfer to statutory reserve	–	–	–	(6,028)	–	6,028	–
Foreign currency translation reserve	–	–	–	–	(103)	–	(103)
At 31 December 2003	100,000	37,490	15,000	78,667	161	52,367	283,685

The accompanying notes 1 to 25 form an integral part of these special purpose consolidated financial statements.

1. BACKGROUND AND ACTIVITIES

Bahrain Telecommunications Company B.S.C. ("the Company") is a public shareholding company registered in the Kingdom of Bahrain in the year 1981 and is engaged in the provision of public telecommunications and associated products and services. The special purpose consolidated financial statements for the year ended 31 December 2004 comprise the financial statements of the Company and its subsidiaries (together referred to as "the Group").

The registered office of the Company is P O Box 14, in Manama, Kingdom of Bahrain. Mr. Hussain Al-Shehabi is the Company Secretary.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The special purpose consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, the requirements of the Bahrain Commercial Companies Law 2001 and Article 35 of the Disclosure Standards circular issued by the Bahrain Monetary Agency.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 25 to the consolidated financial statements.

b. Basis of preparation

The special purpose consolidated financial statements have been prepared under the historical cost basis. The accounting policies have been consistently applied and are consistent with those used in the previous year.

The financial information for 2003 is unaudited and has been prepared for comparative information purposes only.

c. Basis of consolidation

i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the special purpose consolidated financial statements from the date that control commences until the date that control effectively ceases.

ii) Jointly controlled companies

Jointly controlled companies are those enterprises over whose financial and operating policies the Group has joint control, established by contractual agreement. The special purpose consolidated financial statements include the Group's proportionate share of the enterprises' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. The special purpose financial statements of the jointly controlled companies are included in the special purpose consolidated financial statements from the date that control commences until the date that effectively ceases.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the special purpose consolidated financial statements. Unrealised gains arising from transactions with the jointly controlled company are eliminated to the extent of the Group' s interest in the enterprise.

Back to Contents

2 Significant accounting policies (continued)

d. Intangible assets

Intangible assets comprising of deferred internet operating license fees are stated at cost less accumulated amortization and impairment losses as follows:

Internet operating license fees paid are amortised on a straight-line basis over the estimated useful life of seven years.

e. Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment allowances. The cost of self-constructed property, plant and equipment includes the cost of materials and direct labour.

- ***Subsequent expenditure***

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised and the carrying amount of the components replaced is recognised as an expense as incurred. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

- ***Depreciation***

Freehold land, projects in progress and inventories held for capital projects are not depreciated. The cost of other property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives as follows:

	2004	2003
Buildings	25 years	20 years
Plant and equipment	3 to 25 years	2 to 20 years
Motor vehicles, furniture, fittings and office equipment	2 to 10 years	1 to 3 years

Depreciation is charged to the income statement. Assets are depreciated from the time they are completed and brought into service.

2 Significant accounting policies (continued)

f. Investments

(i) Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt securities and investments in managed funds.

Available-for-sale investments are financial assets that are not held for trading purposes or held-to-maturity. These comprise unquoted equity investments.

(ii) Recognition

Available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. Held-to-maturity Investments are recognised/derecognised on the day they are transferred to/by the Group.

(iii) Measurement

Held-to-maturity investments are carried at cost, less impairment allowances (refer accounting policy h).

Available-for-sale unquoted equity investments are stated at cost, including transaction costs, less impairment allowances as there are no active markets or other appropriate methods from which to derive reliable fair values for these investments.

g. Inventories

Inventories are stated at the lower of cost and net realisable value after making due provision for any obsolete or slow-moving items. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Those items of inventory that are held for the expansion of the telecommunications network are shown under property, plant and equipment.

h. Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its estimated recoverable amount. Impairment allowances are recognised in the income statement.

i. Accounts receivable

Accounts receivable are stated at cost less impairment allowances.

j. Employees' end of service benefits

Provision is made for amounts payable as employees' end of service benefits as per the respective countries' labor laws on the basis of the employees' accumulated periods of service at the balance sheet date.

k. Gross revenue

Gross revenue represents the value of services provided and equipment sold or rented. It includes the revenue received and receivable from revenue sharing arrangements entered into with national and international telecommunication operators in respect of traffic exchanged.

Back to Contents

2 Significant accounting policies (continued)

l. Foreign currency transactions

These special purpose consolidated financial statements have been prepared in thousands of Bahraini Dinars (BD '000). The exchange rate ruling at the balance sheet date was US$1=BD 0.376 (31 December 2003: US$1=BD 0.377).

Foreign currency transactions are translated at the foreign exchange rate prevailing at the time of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Bahraini Dinars at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the date of the transaction.

m. Borrowing costs

Interest costs incurred in connection with interest bearing loans are expensed as incurred.

n. Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations and, accordingly, the assets and liabilities of the foreign operations including goodwill arising on acquisition, are translated into Bahraini Dinars at the exchange rates prevailing at the balance sheet date. The revenue and expenses of foreign operations are translated into Bahraini dinars at average exchange rates prevailing during the year. Exchange differences arising on translation are recognised as a component of shareholders' equity.

o. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with banks, including time deposits, which are readily convertible into cash and mature within three months when acquired.

p. Dividends and directors' remuneration

Dividends to shareholders and directors' remuneration are recognised as a liability in the period in which they are declared.

q. Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

r. Taxation

The Company's income is not subject to taxation and accordingly there is no charge for taxation.

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

3. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Buildings	Plant and equipment	Motor vehicles, furniture, fittings & office equipment	Projects in progress	Total
		BD' 000	BD' 000	BD' 000	BD' 000	BD' 000
Cost						
At 1 January 2004	4,163	50,994	266,308	46,287	25,479	393,231
Additions	-	-	-	-	21,602	21,602
Projects completed	-	321	7,856	5,551	(13,728)	-
Disposals	-	(356)	(15,978)	(1,944)	-	(18,278)
At 31 December 2004	4,163	50,959	258,186	49,894	33,353	396,555
Depreciation						
At 1 January 2004	-	41,747	147,026	37,749	-	226,522
Charge for the year	-	2,072	21,683	7,994	-	31,749
Disposals	-	(261)	(12,975)	(1,757)	-	(14,993)
At 31 December 2004	-	43,558	155,734	43,986	-	243,278
Net book value						
At 31 December 2004	**4,163**	**7,401**	**102,452**	**5,908**	**33,353**	**153,277**
At 31 December 2003 (UNAUDITED)	4,163	9,247	119,282	8,538	25,479	166,709

Included in projects in progress are inventories held for capital projects of BD 590,000 as at the balance sheet date (2003: BD 739,000).

During 2004, the Group revised the estimated useful life of certain property, plant and equipment after considering industry practice and past experience. Following this exercise, the useful economic life of certain assets was decreased resulting in a net additional depreciation charge in 2004 of BD 2.9 million.

Back to Contents

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

4. INTANGIBLE ASSETS

These comprise of internet license fees paid, as follows:

		UNAUDITED
Cost	**2004 BD' 000**	2003 BD' 000
Internet license fees, at cost	3,410	3,410
Exchange gain on translation of license fees	180	180
	3,590	3,590
Amortisation		
At 1 January	2,339	1,719
Charge for the year	628	620
At 31 December	2,967	2,339
Net book value at 31 December	**623**	1,251

The movement in intangible assets during the year were as follows:

		UNAUDITED
	2004 BD' 000	2003 BD' 000
Cost		
At 1 January	3,590	3,564
Other movement	-	26
At 31 December	3,590	3,590
Amortisation		
At 1 January	2,339	1,719
Charge for the year	628	620
At 31 December	2,967	2,339
Net Book value at 31 December	**623**	1,251

Back to Contents

5. INVESTMENTS

		UNAUDITED
	2004 BD' 000	2003 BD' 000
Held-to-maturity	19,881	16,207
Available-for-sale	3,940	4,563
	23,821	20,770

6. STAFF HOUSING LOANS

The Group provides loans to its Bahraini employees for the acquisition of residential properties. In the past, housing loans have been funded by the Group, and are interest free and repayable over a maximum period of fifteen years. As from 1 January 1996, the Group introduced a new staff housing loan scheme whereby loans are funded through a local commercial bank and secured by a guarantee issued by the Group. In case of loans funded through local commercial banks, the Group bears 75% of the loan interest. At 31 December 2004, the Group has guaranteed BD 3.2 million towards housing loans to staff (2003: BD 3.2 million).

		UNAUDITED
	2004 BD' 000	2003 BD' 000
Old staff housing loan balance as at 31st December:	-	339

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

		UNAUDITED
	2004 BD' 000	2003 BD' 000
Customers' accounts	35,623	29,580
Less: Provision for impairment	(5,496)	(9,072)
Customers' accounts, net	30,127	20,508
Unbilled revenue	5,146	5,772
Interest and investment income receivable	564	425

Prepaid expenses and other receivables	4,333	5,733
	40,170	32,438

Back to Contents

8. ACCOUNTS PAYABLE AND ACCRUALS

		UNAUDITED
	2004 **BD' 000**	2003 BD' 000
Trade accounts payable	7,420	9,181
Restructuring provision	4,000	6,634
Other provisions and accrued expenses	16,378	17,150
Provision for donations	5,883	6,098
Billings in advance	1,734	2,290
Unclaimed dividends	818	412
Retentions on projects in progress	1,266	1,331
Due to related parties	1,349	474
Other payables	10,494	7,651
	49,342	51,221

9. SHARE CAPITAL

		UNAUDITED
	2004 **BD' 000**	2003 BD' 000
Authorised, issued and fully paid: 1 billion shares of 100 fils each	**100,000**	100,000

(i) The Company has only one class of equity security and the holders of these shares have equal voting rights.

(ii) Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares.

Name	Nationality	No of shares in thousands	Holding %
The Government of Bahrain	Bahrain	366,666	36.67
Cables and Wireless Plc	UK	200,000	20.00
General Organization for Social Insurance	Bahrain	102,670	10.27
The General Organization for Pension Fund (Civil)	Bahrain	81,359	8.14

(iii) Distribution schedule of equity shares:

Categories	No of shares in thousands	No. of shareholders	% of total Outstanding shares
Less than 1%	130,268	11,154	13.02
1% up to less than 5%	119,036	5	11.90
5% up to less than 10%	81,359	1	8.14
10% up to less than 20%	102,670	1	10.27
20% up to less than 50%	566,667	2	56.67
50% and above	-	-	-
Total	**1,000,000**	**11,163**	**100**

Back to Contents

10. STATUTORY RESERVE

The Bahrain Commercial Companies Law 2001 requires all companies incorporated in Bahrain to transfer 10% of net profit for the year to a statutory reserve, until such reserve reaches a minimum of 50 % of the issued share capital. The reserve is not available for distribution, except in the circumstances stipulated in the Bahrain Commercial Companies Law 2001. Transfer to statutory reserve, effected by the subsidiary in accordance with the applicable law of the country of incorporation, is retained in the subsidiary concerned, and is not available for distribution except in circumstances stipulated by the law in the respected country of incorporation.

11. GENERAL RESERVE

The general reserve is distributable only upon a resolution of the shareholders at the Annual General Meeting. No transfer has been made for the year (2003: nil).

12. Total appropriation

The board of directors propose the following appropriations for the approval of the shareholders at the annual general meeting:

		UNAUDITED
	2004 **BD' 000**	2003 BD' 000
Dividends	50,000	45,000
Interim dividends	(20,000)	-
Final dividends	30,000	45,000
Donations	1,653	1,214
Directors' remuneration	159	125
Transfer to statutory reserve	8,228	6,028
	40,040	52,367

13. GROSS REVENUE

The Group' s operations are all considered to fall into one broad class of business, telecommunication and information services and hence, segmental analysis of assets and liabilities is not considered meaningful. Gross turnover can be analysed as follows:

		UNAUDITED
	2004 **BD' 000**	2003 BD' 000

Mobile telecommunications services	95,375	87,491
Fixed line telephony services	48,656	51,598
Infomatics	26,494	28,227
Leased circuits	21,342	15,182
Pre-paid cards	6,733	7,534
Wholesale and interconnect	3,750	-
Payphones	1,117	2,116
Other	297	(26)
	203,764	192,122

Back to Contents

14. GENERAL AND ADMINISTRATIVE

	2004 BD' 000	UNAUDITED 2003 BD' 000
Staff costs	31,555	38,613
Depreciation	31,749	28,624
Amortisation of intangible assets	627	620
Board of Directors attendance expenses	40	49
License fee	1,525	182
Public relations	1,168	416
Marketing and advertising	3,175	2,868
Computer maintenance	3,330	2,285
Professional charges	1,044	5,153
Provision for doubtful receivables	706	2,810
Others	24,083	27,045
	99,002	108,665

Included in staff costs is a charge of BD 4 million (2003: 10 million) in connection with initiatives to reorganise and streamline certain support functions and realign certain business activities as part of a plan approved by the Company' s Board of Directors.

15. OTHER OPERATING EXPENSES

	2004 BD' 000	UNAUDITED 2003 BD' 000
Outpayments to telecommunications operators	22,275	19,164
Cost of equipment sales	4,286	4,017
	26,561	23,181

16. NON-OPERATING INCOME

		UNAUDITED

	2004 BD' 000	2003 BD' 000
Investment income	836	24
Interest income	1,461	1,142
Release of unused provisions	3,284	-
	5,581	1,166

17. EARNINGS PER SHARE (EPS)

		UNAUDITED
	2004	2003
Net profit for the year attributable to shareholders (BD' 000)	82,584	60,662
Weighted average number of shares outstanding during the year (thousands)	1,000,000	1,000,000
Basic and diluted earnings per share (fils)	83	61

18. COMMITMENTS

The Group has commitments at 31 December 2004 in respect of capital projects of BD 8.796 million (2003: BD 7.646 million).

In addition, the Group has the following commitments at the balance sheet date:

Operating leases

		UNAUDITED
	2004	2003
Non-cancellable operating lease rentals are payable as follows:	**BD' 000**	BD' 000
Within one year	3,887	4,633
Between one to five years	1,094	967
Above five years	615	710
	5,596	6,310

Foreign currency facilities

The Group currently has foreign currency facilities from commercial banks totalling approximately BD 41 million (2003: BD 41 million). At 31 December 2004, the Group has utilised BD NIL of the foreign currency facilities (2003: BD NIL).

19. EMPLOYEE BENEFITS

The Group employed 1,923 employees as at 31 December 2004 (2003: 2,033). Pension rights (and other social benefits) for the Group's local employees are covered by the applicable social insurance scheme of the countries in which they are employed, which is "defined contribution scheme" plan under International Accounting Standard 19 – Employee Benefits. The employees and employers contribute monthly to the scheme on a fixed percentage-of-salaries basis. The Group's contributions in respect of such employees for 2004 amounted to BD 1.36 million (2003: 1.86 million).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the respective Labour Laws of the countries concerned, based on length of service and final remuneration. The liability, which is unfunded, is provided for on the basis of the cost had all employees left at the balance sheet date. The provision at 31 December 2004 amounts to BD 500,000 (2003: 454,000) and is included under accrued expenses and provisions.

The Group has contributed a sum of BD 51,000 (2003: BD 41,000) towards the pension plan funded by Cable & Wireless plc for the seconded staff employed in Bahrain.

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

20. TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Group is an associate of Cable & Wireless plc, which owns 20% of the issued share capital of Bahrain Telecommunications Company B.S.C.. The Group undertook the following transactions with Cable & Wireless plc at rates agreed between Cable & Wireless Plc and the Board of Directors:

		UNAUDITED
	2004	2003
	BD' 000	BD' 000
Retainer fees	834	613
Services	22	13
	856	626

Balances due to related parties, included under accounts payables and accruals were as follows:

		UNAUDITED
	2004	2003
	BD' 000	BD' 000
Retainer fees	1,286	456
Services	62	70
	1,348	526

The Group also had transactions with subsidiaries and associated undertakings of Cable & Wireless plc. These transactions were undertaken in the normal course of business, at rates agreed on an arm' s length basis. Approximately 2% (2003: 2%) of the Group' s transactions with telecommunication operators were with related undertakings.

The balances outstanding at the end of the year with respect to such transactions were as follows:

		UNAUDITED
	2004	2003
	BD' 000	BD' 000

Amounts due to related international telecommunication operators	**1,879**	4,405
Amounts due from related international telecommunication operators	**269**	4,168

Directors' interest in the shares of the Company as at the year end was as follows:

Total number of shares held by Directors	**2,429,529**
As a percentage of the total number of shares outstanding	**0.24%**

21. RISK MANAGEMENT

a. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group's financial assets, which include accounts receivable from local customers and international telecommunication operators, investments, staff housing loans, bank balances and fixed deposits, do not represent a significant concentration of credit risk.

Accounts receivable are widely spread among customer's segmentation and geographical areas. In addition, strict credit control is maintained as both credit period and credit limits are continuously monitored. Further, adequate level of provision for doubtful receivables is maintained. The Group manages credit risk on its investments by ensuring that investments are made only after careful credit evaluation of the issuer. The fixed deposits are placed with commercial banks after careful credit evaluation of those banks.

b. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group has substantial purchases from foreign suppliers. In addition, the Group deals with international telecommunication operators. The Group's currency risk is related to changes in exchange rates applicable to the settlements in foreign currencies.

The Group maintains an adequate level of foreign currencies to cover its expected commitment to international telecommunication operators. These amounts are placed in short-term fixed deposit accounts.

c. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to interest rate risk on its fixed deposits. These are short term in nature and are denominated in US Dollar. The average interest rate yield from short term fixed deposits during 2004 was 1.19% (2003: 1.04%).

The Group also bears 75% of the interest on Bahraini staff housing loans. The total loans should not exceed BD 10 million at any time and the agreed interest rate applicable is 1 year-BIBOR plus 1% on the loan balance. The BIBOR rate for the whole year is fixed on the first working day in January every year. The agreed interest rate for 2005 was 4.22% and that for 2004 was 2.69%.

d. Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

A major portion of the Group's liquid funds included in bank balance and cash are invested in cash and cash equivalents which are readily convertible into cash and are available to meet liquidity requirements.

Back to Contents

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties on an arm' s length basis.

Except for available-for-sale investments and held-to-maturity investments which are carried at cost, the carrying values of the Group' s other financial instruments approximate their fair values.

23. PRINCIPAL SUBSIDIARIES

The Group' s principal subsidiary Companies as of 31 December 2004 were as follows:

Name of company	Country of incorporation	Capital	Percentage of capital held	Nature of operations
Batelco Middle East EC	Bahrain	BD 8.5 million	100%	Holding company for investments in subsidiaries
Quality Net WLL	Kuwait	KD 1 million	44 %, but Batelco exercises control under management agreement	Internet and related services
Arabian Network Information Services WLL	Bahrain	BD 0.2 million	75%	Internet and related services
Batelco Jordan	Jordan	JD 6.3 million	80%	Internet and related services

During the year 2004, the Company sold its 50% stake in Batelco Jeraisy Company Ltd, a Company incorporated in the Kingdom of Saudi Arabia, jointly controlled and engaged in the provision of Internet and related services.

24. COMPARATIVE

Certain comparative figures have been reclassified to conform with the current year' s presentation. Such classification did not affect previously reported net profit or shareholders' equity.

Back to Contents

25. RECONCILIATION BETWEEN IFRS AND US GAAP

Basis of preparation

Batelco prepares its consolidated financial statements in accordance with generally accepted accounting principles under IFRS, which differ in certain material respects from US GAAP. The following is a summary of the significant differences applicable to the Group and the adjustments necessary to present net income and shareholders' equity in accordance with US GAAP for the year ended 31 December 2004.

Net income reconciliation

The effects of these different accounting principles are as follows:

	Note	**2004** **BD '000**
Profit / (loss) as reported under IFRS		**82,584**
US GAAP adjustments:		
Restructuring costs	**(a)**	**(2,634)**
Other Adjustments:		
Directors' remuneration	**(b)**	**(159)**
Donations	**(c)**	**(1,653)**
Net profit / (loss) under US GAAP		**78,138**

Basic and diluted earnings per share under US GAAP	**0.078 BD**

Shareholders' equity reconciliation

		2004 **BD '000**
Shareholders' equity as reported under IFRS		**299,839**
US GAAP adjustments:		
Restructuring costs	**(a)**	**4,000**
Other Adjustments:		
Directors' remuneration	**(b)**	**(159)**
Donations	**(c)**	**(1,653)**
Shareholders' equity under US GAAP		**302,027**

25. Reconciliation between IFRS and United States GAAP (continued).

(a) Redundancy costs

Batelco operates a voluntary redundancy plan for employees.

Under IFRS, redundancy provisions related to restructuring are recognised when a constructive obligation in respect of a past event is present. This is the case where an entity has raised a valid expectation in those affected that it will carry out the restructuring and has in place a detailed formal plan.

Under US GAAP (SFAS 88 – Employer's Accounting for Settlements and Curtailments of Defined benefit plans and for Termination Benefits), a liability and loss for special termination benefits, offered only for a short period of time, is recognised when the employee accepts the offer; and the amount can be reliably estimated.

The BD 2,634,000 in the net income reconciliation represents BD 6,634,000 charged in the prior year under IFRS and recognised in 2004 under US GAAP netted off against BD 4,000,000 charged in 2004 under IFRS but not qualifying for provision under US GAAP.

The amounts shown in the shareholders equity reconciliation at 31 December 2004 of BD 4,000,000 represents amounts provided under IFRS which did not qualify to be provided under US GAAP.

(b) Directors' remuneration

The special purpose consolidated financial statements have been prepared in accordance with IFRS and Bahrain Commercial Companies Law. Under the Bahrain Commercial Companies Law, Directors' remuneration is charged through Statement of Changes in Shareholders' Equity.

Under US GAAP directors' remuneration has been charged to the income statement. In 2004, the net income reconciliation amount reflects the charge for directors' remuneration through the income statement for US GAAP purposes.

(c) Donations

The special purpose consolidated financial statements have been prepared in accordance with IFRS and Bahrain Commercial Companies Law. Under the Bahrain Commercial Companies Law, donations are charged through Statement of Changes in Shareholders' Equity.

Under US GAAP donations accrued during the year are charged in the income statement. In 2004, the net income reconciliation amount reflects donations accrued during the year and charged in the income statement for US GAAP purposes.

25. Reconciliation between IFRS and United States GAAP (continued).

(d) Cash flows

The cash flow statement is prepared in accordance with the IAS 7 (Cash Flow Statements). It' s objective and principles are similar to those set out in SFAS 95 'Statement of cash flows' .

(e) Staff housing loans

Under US GAAP FIN 45 'Guarantor' s accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness and others' , Batelco would be required to recognise, at inception of a guarantee, a liability for the fair value of an obligation undertaken in issuing a guarantee. In the case of guarantees issued for staff housing loans, Batelco has concluded that the valuation of these guarantees are not material.

Exhibit 15.2

BAHRAIN TELECOMMUNICATIONS COMPANY B.S.C.

SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

31 DECEMBER 2003

CONTENTS Page

Back to Contents

CONSOLIDATED BALANCE SHEET
as at 31 December 2003 BD' 000

	Note	**2003**	2002
NET ASSETS EMPLOYED			
Property, plant and equipment	3	166,709	173,368
Intangible assets	4	1,251	1,845
Investments	5	20,770	18,301
Staff housing loans	6	339	414
		189,069	193,928
CURRENT ASSETS			
Inventories		739	893
Accounts receivable and prepayments	7	32,438	26,569
Amounts due from telecommunications operators		2,575	7,654
Cash and cash equivalents		120,674	101,967
		156,426	137,083
CURRENT LIABILITIES			
Accounts payable and accruals	8	51,221	48,673
Amounts due to telecommunications operators		4,972	5,958
Bank loan		-	1,904
		56,193	56,535
NET CURRENT ASSETS		**100,233**	80,548
NET ASSETS		**289,302**	274,476
MINORITY INTEREST		**5,617**	5,040
SHAREHOLDERS' EQUITY			
Share capital	9	100,000	100,000
Statutory reserve	10	37,490	30,930
General reserve	11	15,000	15,000
Proposed appropriations	12	52,367	52,870
Retained earnings		78,667	70,372

Foreign currency translation reserve	161	264
	283,685	269,436
SHAREHOLDERS' EQUITY AND MINORITY INTEREST	**289,302**	274,476

The accompanying notes 1 to 23 form an integral part of these special purpose consolidated financial statements.

Back to Contents

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2003 BD' 000

	Note	2003	2002
Gross revenue	13	192,122	185,798
		192,122	185,798
Operating expenses			
General and administrative	14	108,665	102,907
Other operating expenses	15	23,181	26,183
		131,846	129,090
Profit from operations		**60,276**	56,708
Non-operating income	16	1,166	2,557
Profit before minority interest		**61,442**	59,265
Minority interest		(780)	(1,242)
Net profit for the year		**60,662**	58,023
Earnings per share			
Basic earnings per share	17	**61 fils**	58 fils

The accompanying notes 1 to 23 form an integral part of these special purpose consolidated financial statements.

Back to Contents

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2003

BD' 000

	2003	2002
Operating activities		
Cash receipts from customers	163,065	163,120
Cash paid to suppliers	(39,976)	(32,736)
Cash paid to and on behalf of employees	(37,748)	(39,067)
Cash received from telecommunications operators	4,093	2,049
Cash flows from operating activities	**89,434**	93,366
Investing activities		
Acquisition of plant and equipment	(20,188)	(29,226)
Acquisition of investments	(2,475)	(5,316)
Payments in respect of investment commitments, net	(1,868)	-
Interest and investment income received	1,618	2,398
Net cash repayments from staff housing loans	75	257
Cash flows from investing activities	**(22,838)**	(31,887)
Financing activities		
Repayment of bank loan	(1,916)	(2,002)
Dividends paid	(45,973)	(40,759)
Cash flows from financing activities	**(47,889)**	(42,761)
Net increase in cash and cash equivalents	18,707	18,718
Cash and cash equivalents at 1 January	101,967	83,249
Cash and cash equivalents at 31 December	**120,674**	101,967

The accompanying notes 1 to 23 form an integral part of these special purpose consolidated financial statements.

Back to Contents

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 December 2003 BD' 000

2003

	Share capital	**Statutory reserve**	**General reserve**	**Retained earnings**	**Foreign currency translation reserve**	**Proposed appropria- tions**	**Total**
At 1 January 2003	100,000	30,930	15,000	70,372	264	52,870	269,436
Dividends declared (2002)	-	-	-	-	-	(45,000)	(45,000)
Donations and contributions (2002)	-	-	-	-	-	(1,160)	(1,160)
Directors' remuneration paid (2002)	-	-	-	-	-	(150)	(150)
Transfer to statutory reserve (2002)	-	6,560	-	-	-	(6,560)	-
Net profit for the year	-	-	-	60,662	-	-	60,662
Proposed appropriations for 2003:(note12)							
Dividends	-	-	-	(45,000)	-	45,000	-
Directors' remuneration	-	-	-	(125)	-	125	-
Donations and contributions	-	-	-	(1,214)	-	1,214	-
Transfer to statutory reserve	-	-	-	(6,028)	-	6,028	-
Gains / (losses) not recognised in the income statement:							
Foreign currency translation reserve	-	-	-	-	(103)	-	(103)
At 31 December 2003	**100,000**	**37,490**	**15,000**	**78,667**	**161**	**52,367**	**283,685**

2002

	Share capital	Statutory reserve	General reserve	Retained earnings	Foreign currency translation reserve	Proposed appropria- tions	Total
At 1 January 2002	100,000	25,412	15,000	65,219	43	46,704	252,378
Dividend declared (2001)	-	-	-	-	-	(40,000)	(40,000)
Donations and contributions (2001)	-	-	-	-	-	(1,086)	(1,086)
Directors' remuneration paid (2001)	-	-	-	-	-	(100)	(100)
Transfer to statutory reserve (2001)	-	5,518	-	-	-	(5,518)	-
Net profit for the year	-	-	-	58,023	-	-	58,023

Proposed appropriations for 2002:(note12)							
Dividend	-	-	-	(45,000)	-	45,000	-
Directors' remuneration	-	-	-	(150)	-	150	-
Donations and contributions	-	-	-	(1,160)	-	1,160	-
Transfer to statutory reserve	-	-	-	(6,560)	-	6,560	-
Gains / (losses) not recognised in the income statement:							
Foreign currency translation reserve	-	-	-	-	221	-	221
At 31 December 2002	100,000	30,930	15,000	70,372	264	52,870	269,436

The accompanying notes 1 to 23 form an integral part of these special purpose consolidated financial statements

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2003

1. BACKGROUND AND ACTIVITIES

Bahrain Telecommunications Company B.S.C. ("the Company") is a public shareholding company registered in the Kingdom of Bahrain in the year 1981 and is engaged in the provision of public telecommunications and associated products and services. The special purpose consolidated financial statements of the Company for the year ended 31 December 2003 comprise the financial statements of the Company and its subsidiaries (together referred to as "the Group") and the Group's interests in jointly controlled companies.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The special purpose consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) and the requirements of the Bahrain Commercial Companies Law 2001.

b. Basis of preparation

The special purpose consolidated financial statements have been prepared under the historical cost basis The accounting policies have been consistently applied and are consistent with those used in the previous year. The special purpose consolidated financial statements have been prepared in thousands of Bahraini dinars.

The financial information for 2003 and 2002 and presented in these special purpose consolidated financial statements is unaudited and has been prepared for comparative information purposes only.

c. Basis of consolidation

i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the special purpose consolidated financial statements from the date that control commences until the date that control effectively ceases.

ii) Jointly controlled companies

Jointly controlled companies are those enterprises over whose the financial and operating policies the Group has joint control, established by contractual agreement. The special purpose consolidated financial statements include the Group's proportionate share of the enterprises' assets, liabilities, revenue and expenses with items of a similar nature on a line-by-line basis. The financial statements of the jointly controlled companies are included in the special purpose consolidated financial statements from the date that control commences until the date that effectively ceases.

ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising form intra-group transactions, are eliminated in preparing the special purpose consolidated financial statements. Unrealised gains arising from transactions with the jointly controlled company are eliminated to the extent of the Group's interest in the enterprise.

d. Intangible assets

Intangible assets comprising goodwill and deferred Internet operating license fees are stated at cost less accumulated amortization and impairment losses as follows:

Goodwill, being the difference between the acquisition cost and the fair values of net identifiable assets acquired, is amortised on a straight-line basis over the estimated useful life of five years.

Internet operating license fees paid are amortised on a straight-line basis over the estimated useful life of 7 years.

---

2 Significant accounting policies (continued)

e. Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. The cost of self-constructed property, plant and equipment includes the cost of materials and direct labour.

- ***Subsequent expenditure***

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised and the carrying amount of the components is recognised as an expense as incurred. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

- ***Depreciation***

Freehold land, projects in progress and inventories held for capital projects are not depreciated. The cost of other property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of as follows:

Freehold buildings	20 years
Plant and equipment	2 to 20 years
Motor vehicles, furniture, fittings and office equipment	1 to 3 years

Depreciation is charged to the income statement. Assets are depreciated from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and brought into service.

f. Investments

(i) Classification

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt securities and investments in managed funds.

Available-for-sale investments are financial assets that are not held for trading purposes or held-to-maturity. These comprise unquoted equity investments.

(ii) Recognition

Available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments. Held-to-maturity Investments are recognised/derecognised on the day they are transferred to/by the Group.

(iii) Measurement

Held-to-maturity investments are carried at cost less impairment allowances.

Available-for-sale unquoted equity investments are stated at cost, including transaction costs, less impairment allowances as there are no active markets or other appropriate methods from which to derive reliable fair values for these investments.

Back to Contents

2 Significant accounting policies (continued)

g. Inventories

Inventories are stated at the lower of cost and net realisable value after making due provision for any obsolete or slow-moving items. Cost is determined on a weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Those items of inventory that are held for the expansion of the telecommunications network are shown under property, plant and equipment.

h. Impairment

The carrying amounts of the Group's assets other than inventories (refer accounting policy g) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

i. Accounts receivable

Accounts receivable are stated at cost less impairment.

j. Employees end of service benefits

Provision is made for amounts payable as employees' end of service benefits as per the respective countries' labour laws on the basis of the employees' accumulated periods of service at the balance sheet date.

k. Gross revenue

Gross revenue represents the value of services provided and equipment sold or rented. It includes the revenue received and receivable from revenue sharing arrangements entered into with national and international telecommunication operators in respect of traffic exchanged.

l. Foreign currency transactions

Foreign currency transactions are translated at the foreign exchange rate prevailing at the time of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into Bahraini Dinars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the date of the transaction.

m. Borrowing costs

Interest costs incurred in connection with interest bearing loans are expensed as incurred.

n. Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations and, accordingly, the assets and liabilities of the foreign operations including goodwill arising on acquisition, are translated into Bahraini Dinars at the exchange rates prevailing at the balance sheet date. The revenue and expenses of foreign operations are translated into Bahraini dinars at average rates prevailing during the year. Exchange differences arising on translation are recognised as a component of shareholders' equity.

Back to Contents

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2003

2 *Significant accounting policies (continued)*

o. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with banks, including time deposits, which are readily convertible into cash and mature within three months.

p. Dividends and directors' remuneration

Dividends to shareholders and directors' remuneration are recognised as a liability in the period in which they are declared.

q. Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Plant and equipment	Motor vehicles, furniture, fittings & office equipment	Projects in progress	Total
	BD' 000	BD' 000	BD' 000	BD' 000	BD' 000
Cost					
At 1 January 2003	54,805	262,062	43,039	19,916	379,822
Additions	-	-	-	23,157	23,157
Projects completed	353	13,626	3,615	(17,594)	-
Disposals	(1)	(9,380)	(367)	-	(9,748)
At 31 December 2003	55,157	266,308	46,287	25,479	393,231
Depreciation					
At 1 January 2003	40,222	139,783	26,449	-	206,454
Charge for the year	1,526	15,450	11,648	-	28,624
Disposals	(1)	(8,207)	(348)	-	(8,556)
At 31 December 2003	41,747	147,026	37,749	-	226,522
Net book value					
At 31 December 2003	**13,410**	**119,282**	**8,538**	**25,479**	**166,709**
At 31 December 2002	14,583	122,279	16,590	19,916	173,368

Inventories held for capital projects, included in projects in progress, total BD 739 thousand as at the balance sheet date (2002: BD 893 thousand).

Back to Contents

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2003

4. INTANGIBLE ASSETS

These comprise goodwill arising on acquisition and Internet license fees paid, as follows:

Cost	**2003 BD' 000**	2002 BD' 000
Goodwill on acquisitions, at cost	6,380	6,380
Internet license fees, at cost	3,410	3,410
Exchange gain on translation of license fees	180	154
	9,970	9,944
Amortisation		
At 1 January	8,099	3,457
Amortisation and impairment of goodwill for the year	620	4,642
At 31 December	8,719	8,099
Net book value at 31 December	**1,251**	1,845

The movement in intangible assets during the year were as follows:

	2003 BD' 000	2002 BD' 000
Cost		
At 1 January	9,944	9,917
Additions	-	-
Other movement	26	27
At 31 December	9,970	9,944
Amortisation		
At 1 January	8,099	3,457
Amortisation and impairment of goodwill for the year	620	4,642
At 31 December	8,719	8,099
Net Book value at 31 December	**1,251**	1,845

NOTES TO THE SPECIAL PURPOSE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2003

5. INVESTMENTS

	2003 BD' 000	2002 BD' 000
Held-to-maturity	16,207	13,731
Available-for-sale	4,563	4,570
	20,770	18,301

6. STAFF HOUSING LOANS

The Group provides loans to its Bahraini employees for the acquisition of residential properties. In the past, housing loans have been funded by the Group, and are interest free and repayable over a maximum period of fifteen years. As from 1 January 1996, the Group introduced a new staff housing loan scheme whereby loans are funded through a local commercial bank and secured by a guarantee issued by the Group. In case of loans funded through local commercial banks, the Group bears 75% of the loan interest. At 31 December 2003, the Group has guaranteed BD 3,263 thousand towards housing loans to staff (2002: BD 3,747 thousand).

	2003 BD' 000	2002 BD' 000
Old staff housing loan balance as at 31st December:	**339**	414

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2003 BD' 000	2002 BD' 000
Customers' accounts, net	20,508	18,899
Unbilled revenue	5,772	5,222
Interest and investment income receivable	425	300
Prepaid expenses and other receivables	5,733	2,148
	32,438	26,569

8. ACCOUNTS PAYABLE AND ACCRUALS

	2003 BD' 000	2002 BD' 000
Trade accounts payable	9,181	9,287
Accrued expenses and provisions	29,882	27,753

Billings in advance	2,290	2,270
Unclaimed dividends	412	449
Retentions on projects in progress	1,331	2,357
Due to related parties	474	143
Other payables	7,651	6,414
	51,221	48,673

Back to Contents

9. SHARE CAPITAL

	2003 BD' 000	2002 BD' 000
Authorised, issued and fully paid: 1,000 million shares of 100 fils each	**100,000**	100,000

10. STATUTORY RESERVE

The Bahrain Commercial Companies Law 2001 requires all companies incorporated in Bahrain to transfer 10% of net profit for the year to a statutory reserve, until such reserve reaches a minimum of 50% of the issued share capital. The reserve is not available for distribution, except in the circumstances stipulated in the Bahrain Commercial Companies Law 2001. Transfer to statutory reserve, effected by the subsidiary in accordance with the applicable law of the country of incorporation, is retained in the subsidiary concerned, and is not available for distribution except in circumstances stipulated by the law in the respected country of incorporation.

11. GENERAL RESERVE

The general reserve is distributable only upon a resolution of the shareholders at the Annual General Meeting. No transfer has been made for the year (2002: nil).

12. Proposed appropriations

The board of directors propose the following appropriations for the approval of the shareholders at the annual general meeting:

	2003 BD' 000	2002 BD' 000
Dividends	45,000	45,000
Donations	1,214	1,160
Directors' remuneration	125	150
Transfer to statutory reserve	6,028	6,560
	52,367	52,870

13. GROSS REVENUE

The Group's operations are all considered to fall into one broad class of business, telecommunication and information services and hence, segmental analysis of assets and liabilities is not considered meaningful. Gross turnover can be analysed as follows:

	2003 **BD' 000**	2002 BD' 000
Informatics	34,885	35,360
Mobile telecommunications services	82,299	72,362
Fixed line telephony services	50,132	56,316
Payphones	2,116	2,805
Leased circuits	15,182	11,127
Pre-paid cards	7,534	8,144
Other telecommunications services	(26)	(316)
	192,122	185,798

14. GENERAL AND ADMINISTRATIVE

	2003 BD' 000	2002 BD' 000
Staff cost	38,613	39,516
Depreciation	28,624	26,249
Amortisation and impairment of goodwill	620	4,642
Board of Directors attendance expenses	49	39
Foreign exchange loss	168	363
Other general and administrative expenses	40,591	32,098
	108,665	102,907

Included in staff costs is a charge of BD 10,000 thousand (2002: 7,000 thousand) in connection with initiatives to reorganise and streamline support functions and realign certain business activities. The full amount of the costs estimated to be incurred on the basis of a plan approved by the Company' s Board of Directors is BD 17,000 thousand, of which BD 7,000 thousand was provided for in 2002.

15. OTHER OPERATING EXPENSES

	2003 BD' 000	2002 BD' 000
Outpayments to telecommunications operators	19,164	21,181
Cost of equipment sales	4,017	5,002
	23,181	26,183

16. NON-OPERATING INCOME

	2003 BD' 000	2002 BD' 000
Investment income	24	1,069
Interest income	1,142	1,488

	1,166	2,577

17. EARNINGS PER SHARE (EPS)

	2003	2002
Net profit for the year (BD' 000)	**60,661**	58,023
Weighted average number of shares outstanding during the year in (thousand)	**1,000,000**	1,000,000
Earnings per share (fils)	**61**	58

Back to Contents

18. COMMITMENTS

The Group has commitments at 31 December 2003 in respect of capital projects of BD 7,646 thousand (2002: BD 3,177 thousand).

In addition, the Group has the following commitments at the balance sheet date:

Operating leases

Non-cancellable operating lease rentals are payable as follows:	**2003 BD' 000**	2002 BD' 000
Within one year	4,633	416
Between one to five years	710	606
	5,343	1,022

Foreign currency facilities

The Group currently has foreign currency facilities from commercial banks totalling approximately BD 41,000 thousand (2002: BD 27,000 thousand). At 31 December 2003, the Group has utilised BD NIL of the foreign currency facilities (2002: BD NIL).

19. EMPLOYEE BENEFITS

The Group employed 2,033 employees as at 31 December 2003(2002: 2,418). Pension rights (and other social benefits) for the Group' s employees are covered by the applicable social insurance scheme of the countries in which they are employed. The employees and employers contribute to the scheme on a fixed percentage-of-salaries basis. The Group' s contributions in respect of such employees for 2003 amounted to BD 1,860 thousand (2002: 1,532 thousand).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the respective Labour Laws of the countries concerned, based on length of service and final remuneration. The liability, which is unfunded, is provided for on the basis of the cost had all employees left at the balance sheet date. The provision at 31 December 2003 amounts to BD 454 thousand (2002: 453 thousand) and is included under accrued expenses and provisions.

The Group has contributed a sum of BD 41 thousand (2002: BD 77 thousand) towards the pension plan funded by Cable & Wireless plc for the seconded staff employed in Bahrain.

20. TRANSACTIONS WITH RELATED PARTIES

The Group is an associate of Cable & Wireless plc, which owns 20% of the issued share capital of Bahrain Telecommunications Company BSC. The Group undertook the following transactions with Cable & Wireless plc at rates agreed between Cable & Wireless Plc and the Board of Directors:

	2003 BD' 000	2002 BD' 000
Retainer fees	613	586
Services	13	10
	626	596

Back to Contents

20. Transactions with related parties (continued)

Balances due to related parties, included under accounts payables and accruals were as follows:

	2003 BD' 000	2002 BD' 000
Retainer fees	456	73
Services	70	70
	526	143

The Group also had transactions with subsidiaries and associated undertakings of Cable & Wireless plc. These transactions were undertaken in the normal course of business, at rates agreed on an arm' s length basis. Approximately 2% (2002: 2%) of the Group' s transactions with telecommunication operators were with related undertakings.

The balances outstanding at the end of the year with respect to such transactions were as follows:

	2003 BD' 000	2002 BD' 000
Amounts due to related international telecommunication operators	**4,405**	1,350
Amounts due from related international telecommunication operators	**4,168**	2,153

21. RISK MANAGEMENT

a. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group' s financial assets, which include accounts receivable from local customers and international telecommunication operators, investments, staff housing loans, bank balances and fixed deposits, do not represent a significant concentration of credit risk. Accounts receivable are widely spread among customer' s segmentation and geographical areas. In addition, strict credit control is maintained as both credit period and credit limits are continuously monitored. Further, appropriate level of provision is maintained. The Group manages credit risk on its investments by ensuring that investments are made only after careful credit evaluation of these investments. The fixed deposits are placed with commercial banks after careful credit evaluation of those banks. No credit risk is attached to liquid funds.

b. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group has substantial purchases from foreign suppliers. In addition, the Group deals with international telecommunication operators. The Group' s currency risk is related to changes in exchange rates applicable to the settlements in foreign currencies.

The Group maintains an adequate level of foreign currencies to cover its expected commitment to international telecommunication operators. These amounts are placed in short-term fixed deposit accounts.

21. Risk management (continued)

c. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to interest rate risk on its fixed deposits. These are short term in nature and are denominated in US Dollar. The average interest rate yield from short term fixed deposits during 2003 was 1.38% (2002: 2.17%).

The Group also bears 75% of the interest on Bahraini staff housing loans. The total loans should not exceed BD 5 million at any time and the agreed interest rate applicable is BIBOR plus 1.5% on the loan balance. The BIBOR rate for the whole year is fixed on the first working day in January every year. The agreed interest rate for 2004 was 2.69% and that for 2003 was 2.66%.

d. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meets its funding requirements.

The Group seeks to manage its liquidity risk by maintaining adequate balance of cash and cash equivalents.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties on an arm' s length basis.

Except for available-for-sale investments, held-to-maturity investments and staff housing loans funded by the Group, which are carried at cost, the carrying values of the Group' s other financial instruments approximate their fair values.

23. SUBSIDIARIES AND JOINTLY CONTROLLED COMPANY

The holdings in subsidiaries and jointly controlled company as at 31 December 2003 were as follows:

Name of company	Country of incorporation	Capital	Percentage of capital held	Nature of operations
Subsidiary companies Batelco Middle East EC	Bahrain	BD 8.4 million	100%	Holding company for investments in subsidiaries
Quality Net WLL	Kuwait	KD 1 million	44%, but Batelco exercises control under management agreement	Internet and related services
Arabian Network Information Services WLL	Bahrain	BD 0.2 million	75%	Internet and related services

Batelco Jordan	Jordan	JD 6.3 million	80%	Internet and related services
Jointly controlled company Batelco Jeraisy Company Ltd	Saudi Arabia	SR 19 million	50%	Internet and related services

Exhibit 15.3

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

SPECIAL PURPOSE FINANCIAL STATEMENTS

31st March 2005

TABLE OF CONTENTS

Back to Contents

C ORPORATE INFORMATION

DIRECTORS	Christian Mouttet - Chairman, BA Leonardo DeBarros, BSc Dr. Sharon-ann Gopaul-Mc Nicol John Jardim, FCIB, FCIS Mark Macfee, BA, FCA Jacqueline Quamina, MA, MBA (UWI), LLB Balroop Roopnarine, Attorney-at-Law Robert Rowley, FCMA
CHIEF EXECUTIVE OFFICER	Carlos Espinal, BSC, MSc/PMD
CORPORATE SECRETARY	Norris E Campbell, BSc, FCCA, CA
REGISTERED OFFICE	1 Edward Street Port of Spain Trinidad, W.I.
PRINICIPAL BANKERS	Scotiabank Trinidad and Tobago Limited Corner Park and Richmond Streets Port of Spain Trinidad, W.I.
BANK OF NOVA SCOTIA	New York Agency One Liberty Plaza New, NY 10006 USA
AUDITORS	KPMG 4th Fl Scotia Centre 56-58 Richmond Street Port of Spain P.O. Box 1328 Trinidad, W.I.
PRINCIPAL ATTORNEYS	J.D. Sellier and Company 129-131 Abercromby Street Port of Spain Trinidad, W.I.

Back to Contents

D IRECTORS' REPORT

The Directors have pleasure in submitting their Report and the Special Purpose Financial Statements for the year ended 31st March, 2005.

Financial Results	**TT$' 000**
Profit for the year after taxation	293,829
Retained earnings brought forward	2,210,469
	2,504,298
Dividend paid	(187,537)
Retained earnings carried forward	2,316,761

Dividends

In addition to the declared interim dividend of TT$65.2 million, the Board of Directors recommends the payment of a final dividend of TT$81.7 million which would be in keeping with the dividend policy stated in the Shareholders' Agreement.

Directors

The following Directors served during the period under review:

Mr. Christian Mouttet, Chairman, Ms. Lisa Agard (resigned 10th January, 2005), Dr, Sharon-ann Gopaul-Mc Nicol, Mr. Mark Macfee, Mr. John Jardim, Ms. Jacqueline Quamina, Mr. Balroop Roopnarine, Mr. Robert Rowley, Mr. Leonardo DeBarros (elected 11th January, 2005), Mr. Paul Rodgers (resigned 27th July, 2004)

Auditors

The audit firm of KPMG was appointed to perform the audit of these special purpose financial statements.

Annual Meeting

The Thirty-Fifth Annual Meeting of the Company was held on 11th August, 2004

Back to Contents

R EPORT OF THE INDEPENDENT AUDITORS

To the Directors of Telecommunications Services of Trinidad and Tobago Limited

We have audited the accompanying balance sheet of Telecommunications Services of Trinidad and Tobago Limited ("the Company") as at March 31, 2005 and the related income statement, statement of cash flows and statement of changes in shareholders' equity for the year ended March 31, 2005 as set out on pages 5 to 30. These special purpose financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the special purpose financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005, the results of its operations, changes in its shareholders' equity and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature of such differences is presented in Note 23 to the special purpose financial statements.

KPMG Trinidad and Tobago
Port of Spain

Date: September 12th, 2005

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

B ALANCE SHEET
AS AT 31ST MARCH, 2005

	Notes	2005 TT$' 000	Unaudited 2004 TT$' 000
ASSETS			
Non-current assets			
Property, plant and equipment	3	2,979,336	3,072,068
Defined benefit plans asset	4a	415,800	304,400
Deferred tax asset	5c	11,181	7,612
Available for sale investment	2f	-	8,882
		3,406,317	3,392,962
Current assets			
Inventories	7	158,692	132,012
Accounts receivable and prepayments	8	457,908	423,429
Short term investments		4,623	-
Construction work-in-progress	6	46,104	34,080
Cash and cash equivalents	9	268,138	171,700
		935,465	761,221
Total assets		4,341,782	4,154,183
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Stated capital	10	572,717	572,717
Capital reserves		-	2,786
Retained earnings		2,316,761	2,210,469
		2,889,478	2,785,972
Non-current liabilities			
Retirement benefit obligations	4a	29,694	25,372
Borrowings-non current portion	11a	298,330	364,779
Deferred tax liability	5d	219,294	167,275
		547,318	557,426
Current liabilities			
Employee benefits	12	325,408	150,073
Accounts payable and accruals	13	351,124	399,908
Deferred revenue	14	85,525	37,411
Tax payable		36,511	124,083
Borrowings – current portion	11a	106,418	99,310

	904,986	810,785
Total shareholders' equity and liabilities	4,341,782	4,154,183

The notes on pages 9 to 30 form part of these special purpose financial statements

The Board of Directors authorized these special purpose financial statements for issue on September 12th, 2005.

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST MARCH, 2005

	Notes	2005 TT$' 000	Unaudited 2004 TT$' 000
Gross operating revenue			
Gross revenue		2,503,491	2,272,503
Operating expenses			
Cost of sales	15	325,010	279,953
Personnel		560,350	446,348
Voluntary separation cost		251,000	-
Depreciation		498,694	461,156
Maintenance and repairs		128,098	93,171
Other	16	318,212	321,752
		2,081,364	1,602,380
Operating profit		422,127	670,123
Net finance cost			
Interest income		5,302	5,399
Interest expense		(23,431)	(32,372)
		(18,129)	(26,973)
Other Income			
Gain on disposal of available for sale investment	2f	7,175	1,291
Profit before taxation	17	411,173	644,441
Less: Taxation	5a	117,344	194,879
Profit after taxation		293,829	449,562

The notes on pages 9 to 30 form part of these special purpose financial statements

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31ST MARCH, 2005

	2005 TT$' 000	Unaudited 2004 TT$' 000
Cash flows from operating activities		
Profit for the year before taxation	411,173	644,441
Adjustments for:		
Foreign exchange (gain)/loss	(572)	1,458
Gain on disposal of property, plant and equipment	(329)	(3,793)
Depreciation	498,694	461,156
Finance costs	23,431	32,372
Interest income	(5,302)	(5,399)
Interest received	6,037	4,801
Gain on disposal of available for sale investment	(7,175)	(1,291)
Pension income and contributions paid	(111,400)	(57,000)
Post employment medical costs and premiums paid	4,322	3,390
Operating profit before working capital changes	818,879	1,080,135
Increase in accounts receivable & prepayments	(35,504)	(11,433)
(Increase)/decrease in inventories	(26,680)	10,589
Increase in construction work-in-progress	(12,024)	(34,080)
Increase/(decrease) in employee benefits	175,335	(91,676)
Increase in accounts payable, accruals and deferred revenue	2,920	42,146
Cash generated from operations	922,926	995,681
Finance costs paid	(26,048)	(35,263)
Taxes paid	(156,466)	(171,309)
Net cash generated from operating activities	740,412	789,109
Cash flows from investing activities		
Purchase of short-term investments	(4,623)	-
Purchase of property, plant and equipment	(405,962)	(479,439)
Proceeds from disposal of property, plant and equipment	220	4,091
Proceeds from disposal of available for sale investment	13,273	2,274
Net cash used in investing activities	(397,092)	(473,074)
Cash flows from financing activities		
Loan drawdowns	40,000	-
Loan repayments	(99,345)	(98,326)
Dividends paid	(187,537)	(232,203)

Net cash used in financing activities	(246,882)	(330,529)
Net increase/(decrease) in cash and cash equivalents	96,438	(14,494)
Cash and cash equivalents at beginning of year	171,700	186,194
Cash and cash equivalents at end of year (note 9)	268,138	171,700

The notes on pages 9 to 30 form part of these special purpose financial statements

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

S TATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31ST MARCH, 2005

	Stated capital TT$' 000	Capital reserves TT$' 000	Retained earnings TT$' 000	Shareholders' equity TT$' 000
Balance as at April 1st 2003 - unaudited	572,717	2,786	1,993,110	2,568,613
Net profit after taxation - unaudited	-	-	449,562	449,562
Dividends paid - unaudited (note 21)	-	-	(232,203)	(232,203)
Balance as at March 31st 2004 - unaudited	572,717	2,786	2,210,469	2,785,972
Balance as at April 1st 2004 - unaudited	572,717	2,786	2,210,469	2,785,972
Net profit after taxation	-	-	293,829	293,829
Dividends paid (note 21)	-	-	(187,537)	(187,537)
Realised gain on sale of investment (note 2f)	-	(2,786)	-	(2,786)
Balance as at March 31st 2005	572,717	-	2,316,761	2,889,478

The notes on pages 9 to 30 form part of these special purpose financial statements

Back to Contents

1. Incorporation and principal activity

The Company was incorporated in Trinidad and Tobago on May 1968 and on 15th April, 1999 the Company obtained its Certificate of Continuance under the Companies Act 1995. Its domestic operations are regulated by the Trinidad and Tobago Telephone Act Chapter 47:330 (Act 7 of 1968), subsequently amended in 1976 and 1990.

The Company' s registered office is located at 1 Edward Street, Port of Spain and its principal activity is the provision of both internal and external telecommunications services to the Republic of Trinidad and Tobago.

Cable & Wireless (West Indies) Limited holds a 49% interest in the Company. The 51% shareholding held by the Government of Trinidad and Tobago was transferred to National Enterprises Limited on 19th September 2000.

2. Statement of accounting policies

a) Basis of accounting

These special purpose financial statements are prepared under the historical cost convention, in accordance with International Financial Reporting Standards ("IFRS"). Note 23 sets out the qualitative differences between IFRS and Statement of Generally Accepted Accounting Principles in the United States of America ("US GAAP").

No account is taken of the effects of inflation.

The financial information for 2004 is unaudited and have been prepared for comparative information purposes only.

b) Use of estimates

The preparation of financial statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

c) Foreign currency translation

These financial statements are stated in Trinidad and Tobago dollars. The exchange rate ruling at the balance sheet date was US$1 = TT$6.2999 (March 2004: US$1 = TT$6.2998).

Back to Contents

2. Statement of accounting policies *(continued)*

c) Foreign currency translation *(continued)*

Foreign currency transactions during the period are converted at the rates ruling at the date of the transaction or at a rate, which approximates the actual rate. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at rates ruling at that date. Profits or losses thus arising are dealt with in the statement of income.

d) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment allowances. The cost of self-constructed property, plant and equipment includes the cost of materials and direct labour.

(i) Plant in service

Depreciation on property, plant and equipment is provided on a straight-line basis. The estimated useful lives of depreciable plant are as follows:

Properties	
Freehold building	50 years
Leasehold properties	Over the period of lease
Technical assets	
Central office equipment	5-12 years
External cable plant	20 years
Plant & machinery; Share of Americas 1	15 years
Towers	36 years
Underground conduit	40 years
Customers' installations	8 years
Other	
Furniture and office equipment including computers	3-7 years
Indefeasible Rights of Use	10 years
Tools and implements	15 years
Vehicles	4 years

Land is not depreciated as it is deemed to have an indefinite life.

(ii) Plant under construction

Property, plant and equipment under construction are recorded as plant under construction (PUC) until they are ready for their intended use, thereafter they are transferred to the related category of property, plant and equipment and depreciated over their estimated useful lives. The cost of PUC includes allocation of labour and overhead in accordance with IAS 16, "Property, Plant and Equipment". The total expenses capitalised for the year amounted to approximately TT$37 million (2004: TT$44 million, unaudited).

Back to Contents

2. Statement of accounting policies *(continued)*

d) Property, plant and equipment *(continued)*

(iii) Impairment

The carrying amount of property, plant and equipment is reviewed whenever events or changes in circumstances indicate that impairment may have occurred, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

(iv) Repairs and renovations

Repairs and renovations are normally expensed as they are incurred. Expenses are reported as assets only if the amounts involved are substantial and one or more of the following conditions are satisfied: the original useful life is prolonged, the production/service capacity is increased, the quality of the products/services is enhanced materially or production/service costs are reduced considerably.

(v) Borrowing cost

Interest cost on borrowings to finance capital expenditure on development projects are expensed during the period of time that is required to complete the asset for its intended use.

e) Employee benefits

(i) Retirement benefits plans

The Company operates three defined benefit plans, namely the Textel Pension Plan, the Telco Staff Pension Fund Plan and the TSTT Pension Plan. The current employees are all covered by either the Telco Staff Pension Fund Plan or the TSTT Pension Fund Plan. The Textel Pension Fund Plan operates only to pay benefits to those pensioners who have opted to remain in that plan. However, the constructive benefit obligation is based on the benefit structure of the TSTT Pension Plan.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread the regular cost over the service lives of employees in accordance with the advice of independent actuaries who carry out a full valuation of the plans every three years. The pension obligation is measured as the present value of the estimated future cash outflows. All actuarial gains and losses to be recognised are spread forward over the average remaining service lives of employees.

Back to Contents

2. Statement of accounting policies *(continued)*

ii) Post employment medical benefits

The Company operates a post employment medical benefit plan that is insured with Colonial Life Insurance Company (CLICO). Medical benefits are available on retirement to all current retirees and employees. The plan has been in existence since 1st September, 1997 and is run alongside an arrangement to provide in-service medical benefits to employees. CLICO charges the Company one premium based on the number of current employees only. The premiums are met jointly by the Company and current employees only. No specific premiums are paid in respect of the cover provided to current retirees.

The International Accounting Standard (IAS) 19 'Employee Benefits' requires the Company to account for the cost of the post-employment medical plan benefits during the period of employment with the Company so that the cost of these post-employment medical benefits is fully provided by the time the employee retires.

The IAS 19 liability is calculated by an independent actuary by quantifying the margins implicitly contained in the premium paid to CLICO by the Company. This margin is translated into a per-capita cost of medical benefits for 2004/2005 in respect of retirees currently covered by the plan. The data from CLICO for retirees currently covered by the post employment medical plan together with the data used to calculate the IAS 19 pension plan assets figures are then used to estimate the future post employment medical benefit obligation.

(iii) Short term employee benefits

The Company recognises the expected cost of vacation earned not yet taken by its employees as an expense.

f) Available for sale investment

This represents the Company' s share of the accumulated capital cost and working capital prepayment with the International Telecommunications Satellite (INTELSAT) Organisation.

This asset was disposed during the financial year 2004/2005 and all gains and losses arising from the sale, including revaluations previously recorded in the capital reserve have been recognized in the Statement of Income.

Back to Contents

2. Statement of accounting policies *(continued)*

g) Taxation

The liability approach for accounting for corporation taxes is used whereby under this method, deferred taxes are provided for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities using current corporation tax rates.

Deferred tax liabilities are recognised for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognised for temporary differences that will result in deductible amounts in future years.

h) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past transaction or event and it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

i) Leases

Leases where the lessor effectively retains substantially all the risk and benefits of the ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

The Company has no finance leases.

j) Trade and other receivables

Trade receivables, excluding government balances which generally have 30-90 days terms are recognised and carried at the original billed amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Receivables from related parties are recognised and carried at cost.

k) Trade and other payables

Liabilities for trade and other accounts payable which are normally settled on 30-90 day terms are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

l) Inventories

Inventories held for use in the maintenance and expansion of the Company' s telecommunications systems are stated at landed cost, less provision for deterioration and obsolescence. Inventory held for resale are stated at the lower of cost and net realisable value, determined on the weighted average basis.

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2005

2. Statement of accounting policies *(continued)*

m) Cash and cash equivalents

Cash and cash equivalents are short-term highly liquid investments with an original maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

n) Revenue recognition

Operating revenue represents amounts, excluding general consumption tax billed, for the provision of domestic and international telecommunications services. In accordance with normal practice in the telecommunications industry, estimates are included to provide for that portion of revenue which carriers have not yet reported.

Telephone service revenues are recorded based on call units and minutes of traffic respectively, plus basic fees on a monthly billing cycle basis.

Prepaid mobile airtime is recognised based upon usage of prepaid cards by customers. Revenue relating to unused card balances, as well as cards sold but not activated on the prepaid platform, is deferred to the following accounting period.

Post Paid mobile service revenue is recorded based on monthly package rental fees plus additional revenue for any usage in excess of allocated package minutes, on a monthly billing cycle. Revenue associated with unused package minutes is deferred to the following billing cycle.

Internet Revenue is recognised based on monthly package rental fees plus additional revenue for usage in excess of the package minutes.

Directory advertising – This represents amounts billed to customers in the current year for directory publication in the following year. Revenue is recognised when the directory is published, in equal monthly installments.

Business services – This represents amounts billed on contracts in progress. On completion of the contracts, the deferred income is offset against the deferred charges related to the contract and the resulting profit/loss is recognised in the statement of income.

Mobile equipment revenue is recognised upon delivery of equipment to customers.

Other telecommunication services revenues, including leased circuits are recorded when the services are rendered to customers.

o) Comparative figures

Certain changes in presentation have been made during the year to the classification of expenses. Comparative figures have been reclassified to conform with current year' s classification.

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2005

	Unaudited Balance at 31/03/2004 TT$' 000	Additions/ (transfers) TT$' 000	Disposals TT$' 000	Balance at 31/03/2005 TT$' 000
3. Property, plant and equipment				
At cost:				
Properties				
Freehold properties	355,394	19,425	-	374,819
Leasehold properties	126,467	19,527	-	145,994
	481,861	38,952	-	520,813
Technical assets				
Central office equipment	2,034,507	264,647	96	2,299,058
Customer installation	1,160,033	40,462	-	1,200,495
External cable plant	1,059,115	49,609	19,895	1,088,829
Plant & machinery	9,386	1,813	-	11,199
Towers	64,426	-	-	64,426
Underground conduit	516,640	15,219	-	531,859
Share of Americas 1	86,455	1,471	-	87,926
	4,930,562	373,221	19,991	5,283,792
Other				
Furniture & fittings	49,004	2,322	-	51,326
Indefeasible Rights of Use	26,431	-	-	26,431
Air conditioning	15,934	138	-	16,072
Tools & implements	30,998	1,860	-	32,858
Vehicles	102,505	1,368	7,923	95,950
Computer equipment	399,902	27,581	3,851	423,632
Plant under construction	518,237	(39,480)	-	478,757
	1,143,011	(6,211)	11,774	1,125,026
Total cost	6,555,434	405,962	31,765	6,929,631

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2005

3. Property, plant and equipment
(continued)

	Unaudited Balance at 31/03/2004 TT$' 000	Depreciation charges TT$' 000	Disposals TT$' 000	Balance at 31/03/2005 TT$' 000
Accumulated depreciation:				
Properties				
Freehold properties	65,807	6,632	-	72,439
Leasehold properties	23,980	1,917	-	25,897
	89,787	8,549	-	98,336
Technical assets				
Central office equipment	1,073,128	268,852	96	1,341,884
Customer installation	966,748	48,584	-	1,015,332
External cable plant	646,663	81,457	19,895	708,225
Plant & machinery	8,337	424	-	8,761
Towers	35,181	1,633	-	36,814
Underground conduit	198,899	13,308	-	212,207
Share of Americas 1	45,453	5,814	-	51,267
	2,974,409	420,072	19,991	3,374,490
Other				
Furniture & fittings	38,638	2,291	-	40,929
Indefeasible Rights of Use	25,369	414	-	25,783
Air conditioning	5,321	957	-	6,278
Tools & implements	17,185	1,535	-	18,720
Vehicles	86,880	7,932	7,923	86,889
Computer equipment	245,777	56,944	3851	298,870
	419,170	70,073	11,774	477,469
Total accumulated depreciation	3,483,366	498,694	31,765	3,950,295
Net carrying amount	3,072,068			2,979,336

Back to Contents

4. Pension & other post employment benefits

(a) Amounts recognised in the balance sheet

	Pension plans		Post employment medical benefit	
		Unaudited		Unaudited
	2005	2004	2005	2004
	TT$' 000	TT$' 000	TT$' 000	TT$' 000
Benefits obligations	(2,081,600)	(1,843,700)	(50,829)	(49,298)
Plans assets	3,025,400	2,626,500	-	-
	943,800	782,800	(50,829)	(49,298)
Unrecognised actuarial (gain)/losses	(341,400)	(320,800)	21,135	23,926
Un-utilisable asset	(186,600)	(157,600)	-	-
Benefits asset/(liability)	415,800	304,400	(29,694)	(25,372)

(b) Amounts recognised in the statement of income

	Pension plans 2005	Pension plans 2004	Medical 2005	Medical 2004
Current service cost	68,000	44,900	3,522	2,266
Interest costs	119,500	106,200	3,156	2,046
Expected return on plans assets	(210,200)	(196,100)	-	-
Curtailment and settlements	(80,900)	(3,600)	(2,118)	326
Termination Cost	17,300	-	-	-
Net amortised gain	(3,900)	(3,500)	1,266	108
Un-utilisable asset adjustment	29,000	18,700	-	-
Net benefit (income)/ cost	(61,200)	(33,400)	5,826	4,746
Actual return on plans assets	379,600	663,900	-	-

Back to Contents

4. Pension & other post employment benefits (*continued*)

(c)

Movement on the asset/(liability) recognised in the balance sheet	**Pension plans 2005 TT$' 000**	**Pension plans Unaudited 2004 TT$' 000**	**Post employment medical benefit 2005 TT$' 000**	**Post employment medical benefit Unaudited 2004 TT$' 000**
At the beginning of the year	304,400	247,400	(25,372)	(21,982)
Net benefit income/ (cost)	61,200	33,400	(5,826)	(4,746)
Contributions	50,200	23,600	1,504	1,356
At the end of the year	415,800	304,400	(29,694)	(25,372)

(d) Principal actuarial assumptions used for accounting purposes were:

	2005	**2004**
Discount rate	6.5%	6.5%
Expected rate of return on plan assets	8.0%	8.0%
Future salary increases	5.5%	5.5%
Future pension increases	3.0%	3.0%
Medical expense increases	6.0%	6.0%

(e) As a consequence of the High Court Action – LOPEZ vs. TSTT and RBTT Trust Co. Ltd., in 2001/2002 it was determined that the unallocated surplus of the Textel Pension Plan could not be transferred to TSTT' s pension plan. The amount of the surplus recognised in respect of the Textel Plan was accordingly limited under IAS 19 giving rise to the un-utilisable asset adjustment of TT$ 29M in 2005 (2004:TT$ 18.7M – unaudited).

Back to Contents

5. Taxation

(a)

	2005 TT$' 000	Unaudited 2004 TT$' 000
Components of the tax expense		
Deferred tax	48,450	38,749
Current tax - current year tax expense	70,941	154,758
- prior year tax (income)/expense	(2,047)	1,372
	117,344	194,879

(b)

Reconciliation of accounting to tax profit:	2005 TT$' 000	Unaudited 2004 TT$' 000
Profit before taxation	411,173	644,441
Tax at 30%	123,352	193,332
Tax effect of income/allowances treated differently in determining taxable profits	(3,410)	(2,043)
Green fund levy	2,507	2,218
Other	(3,058)	-
Prior years' (over)/under provision- current tax	(2,047)	1,372
	117,344	194,879

(c)

Components of deferred tax asset	2005 TT$' 000	Unaudited 2004 TT$' 000
Interest payable	2,273	-
Post employment medical benefit	8,908	7,612
	11,181	7,612

(d)

Components of deferred tax liability	2005 TT$' 000	Unaudited 2004 TT$' 000
Property, plant and equipment	(94,554)	(75,955)
Defined benefit plans asset	(124,740)	(91,320)
	(219,294)	(167,275)

Back to Contents

6. Construction work - in - progress

This represents the excess of the costs incurred over progress billings to date on a communication solution to enhance the functioning and delivery of electronic services for a third party. Completion testing had not yet been completed as at 31st March 2005 hence no revenue has been recognised to date.

7. Inventories

	2005 TT$' 000	Unaudited 2004 TT$' 000
Cable	16,415	20,560
Mobile	101,742	63,137
Business systems	17,037	16,550
Materials and supplies	51,530	48,865
Provision for obsolescence	(28,032)	(17,100)
	158,692	132,012

8. Accounts receivable and prepayments

	2005 TT$' 000	Unaudited 2004 TT$' 000
Foreign telecom administrations	41,456	47,960
Amounts due from customers	499,068	454,870
Sundry debtors and prepayments	183,268	131,450
Provision for doubtful debts	(265,884)	(210,851)
	457,908	423,429

9. Cash and cash equivalents

	2005 TT$' 000	Unaudited 2004 TT$' 000
Cash at bank and in hand	268,138	171,700

The Company has unsecured bank overdraft facilities up to a maximum of TT$50 million

Back to Contents

10. Stated capital

	2005 TT$' 000	Unaudited 2004 TT$' 000
Authorised		
1,300,000,000 ordinary shares of no par value		
Issued		
282,820,361 ordinary shares of no par value	572,717	572,717

11. Borrowings

(a)

	2005 TT$' 000	Unaudited 2004 TT$' 000
Long term loans		
Balance brought forward	464,089	563,230
Drawdowns	40,000	-
Foreign exchange loss arising from currency translations during the year	4	138
	504,093	563,368
Repayments	(99,345)	(99,279)
Balance carried forward	404,748	464,089
Amounts due within one year	106,418	99,310
Amounts due within 2 to 5 years	298,330	344,227
Amounts due after 5 years	-	20,552
	404,748	464,089

(b) Interest rates

The Republic Bank Limited loan is tied to the average of the Trinidad and Tobago dollar prime rates of Republic Bank Limited, RBTT, and Scotiabank Limited at 30th November each year minus 4.40%. The loans from Royal Bank, Export Import Bank of the United States and Export Development Corporation are all at fixed rates.

Floating interest rates	5.10%
Fixed interest rates	4.72% - 11.45%

(c) Long term loan facilities

	2005 TT$' 000	Unaudited 2004 TT$' 000

-	at fixed rates	290,248	321,089
-	at floating rates	114,500	143,000
		404,748	464,089

Back to Contents

11. Borrowings
(continued)

(d) Security

These long-term loans are held with various local and foreign financial institutions and are unsecured.

(e) Repayments

The Company' s loans are being repaid within varying periods ranging between January 2006 and October 2009.

(f) Fair value of fixed rate loans

The fair value of the fixed rate long-term loan is based on estimated future cash flows discounted using the current market rates for debt of the same remaining maturities and credit risks.

	Carrying amounts		Fair values	
		Unaudited		Unaudited
	2005	2004	2005	2004
	TT$' 000	TT$' 000	TT$' 000	TT$' 000
Balance at 31st March	290,248	321,089	292,410	330,302

12. Employee benefits

		Unaudited
	2005	2004
	TT$' 000	TT$' 000
(a) Liabilities arising from Human Resources including accrued vacation leave and provisions for retroactive salaries and termination benefits.	325,408	150,073

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2005

13. Accounts payable and accruals

	2005 TT$' 000	Unaudited 2004 TT$' 000
Foreign telecom administrations	13,637	4,534
Cable and Wireless (West Indies) Limited	5,239	2,577
Trade payable	223,429	307,005
Other payables	108,819	85,792
	351,124	399,908

14. Deferred revenue

	2005 TT$' 000	Unaudited 2004 TT$' 000
Mobile	68,138	19,939
Directory	14,300	13,614
Business services	3,087	3,858
	85,525	37,411

15. Cost of sales

	2005 TT$' 000	Unaudited 2004 TT$' 000
Out-payments	60,927	61,759
Equipment usage	214,235	198,307
Commissions	49,848	19,887
	325,010	279,953

16. Operating expenses - Other

Other operating expenses in the main include advertising, bad debt provisions, contract services and supplies and related expenses.

17. Profit before taxation

	2005 TT$' 000	Unaudited 2004 TT$' 000
This is arrived at after charging the following items:		
Exchange (gain)/loss	(572)	1,458
Provision for doubtful debts	83,379	60,095

Stock write-off/provision for obsolescence	10,931	2,576

Back to Contents

18. Related party transactions

The transactions with the Company' s related party Cable & Wireless (West Indies) Limited are as follows:

	2005	Unaudited 2004
	TT$' 000	TT$' 000
Technical and professional fees and purchases	9,424	9,386
Traffic settlements (net)	10,830	6,286
Directors' fees and allowances	290	105

19. Financial instruments

Exposure to various types of financial risks arises in the ordinary course of the company' s business. Derivatives financial instruments are not currently used to reduce exposure to fluctuations in interest and foreign exchange rates.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivables and prepayments, investments, accounts payable and accruals and borrowings. Transactions in financial instruments have resulted in the Company assuming the financial risks described below:

(a) Interest rate risk

The changes in market interest rates on the Company' s loans cause exposure to interest rate risk. Included in note 11 is information on the maturity dates as well as effective interest rates.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For certain customers the company requires cash deposits in respect of financial assets, materially trade receivables. The cash deposits generally cover significant credit risk related to such customers.

Additionally, appropriate credit procedures are in place to minimize exposure to credit risk generally. These include credit evaluations on all new customers and comprehensive procedures for the disconnection of services to, and recovery of amounts owed by, defaulting customers. Cash and cash equivalents are placed with substantial institutions who are believed to have minimal risk of default.

Back to Contents

19. Financial instruments *(continued)*

(c) Fair value

Fair value amounts represent estimates of the arms-length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where such instruments exist, they are valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

The carrying amounts of the Company' s cash and cash equivalents, short term borrowings, accounts receivable, medium term receivable and accounts payable approximate to their fair value because of the short term maturities of these instruments. Amounts due to/from related companies are considered to approximate their carrying value as they represent an ability to effect set-offs in future in the amounts disclosed. Long-term assets, except for trade investments, are carried at their contracted settlement value. The estimated fair value for trade investments has been determined using available market information and appropriate valuation methodologies applied consistently.

Additionally, the cost of all monetary assets and liabilities has been appropriately adjusted to reflect estimated losses on realization or discounts on settlements.

The fair value of the Company' s floating rate long-term loans approximates its carrying amount given the floating rate nature of the loan at prevailing market rates. The fair value of the fixed rates long-term loans is based on estimated future cash flows discounted using the current market rates of debt of the same remaining maturities and credit risk (note 11f).

Back to Contents

19. Financial instruments *(continued)*

(d) Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in the market exchange rate for the currency.

The company incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Trinidad and Tobago dollar. The company' s exposure is denominated in Special Drawing Rights (SDR), Gold Francs (GFC), Barbados dollar (BDOS), US dollar (USD) and Pound Sterling (GBP).

The table below shows the company' s foreign currency exposure, at balance sheet date:

Net foreign currency monetary assets / (liabilities)

	SDR	GFC	BDOS	USD	GBP
	'000	'000	'000	'000	'000
March 31, 2005	105	(465)	(672)	(69,430)	(578)
March 31, 2004 (Unaudited)	222	(5)	(639)	(94,653)	(178)

Exchange rates expressed in terms of TT$ (SDR to USD) were as follows:

	SDR	GFC	BDOS	USD	GBP
At March 31, 2005	1.528	3.1036	3.1954	6.2999	11.9377
At March 31, 2004 (Unaudited)	1.495	3.0225	3.1193	6.2998	11.6149

(e) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The company' s significant exposure to market risk relates to the holding of available-for-sale trade investments are reflected in the special purpose financial statements at fair value.

Back to Contents

19. Financial instruments *(continued)*

(f) Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

Due to the dynamic nature of the underlying business, the management of the company, aims at maintaining flexibility in the funding by keeping lines of credit available as well as by acquiring and maintaining prudential cash resources in appropriate currencies required to settle commitments.

20. Commitments and contingencies

(a) Capital expenditure commitments

At 31st March 2005 the Company has commitments of TT$555.1 million (2004: TT$103 million unaudited) for the acquisition of property, plant and equipment incidental to the ordinary course of business.

(b) Operating lease commitments

Operating lease expense was TT$42.2 million and TT$58.9 million (unaudited) for the years ended 31st March 2005 and 2004 respectively.

Future minimum rentals under non-cancelable leases of motor vehicles and leasehold buildings are as follows as of 31st March:

	2005 TT$' 000	**Unaudited 2004 TT$' 000**
Within one year	8,631	10,604
After one year but not more than five years	23,573	31,694
More than five years	9,000	16,585
Total	41,204	58,883

(c) Contingent liabilities

The Company has guarantee facilities for contract performance and customs clearance certificates with its bankers amounting to TT $15.5 million.

Back to Contents

21. Dividends paid

	2005 TT$' 000	Unaudited 2004 TT$' 000
Dividend on ordinary shares:		
Interim dividend for 2004/05 of $0.23 (2003/04: $0.35)	65,217	98,462
Final dividend for 2003/04 of $0.43 (2002/03: $031)	122,320	133,741
	187,537	232,203

22. Subsequent events

In April 2005 the company obtained a loan facility amounting to TT$1billion to facilitate the upgrade of the wireless network. The loan was be effected via the issue of a 10 year TT$ denominated bond with a fixed coupon rate of 6.225%. The loan was secured by a mortgage bill of sale over the specific assets being procured from the loan.

In March 2005 the Board of directors agreed to increase the minimum pension payable to TT$1,150 per month effective April 1st 2005. This decision was communicated to the employee base on April 22nd, 2005.

23. US GAAP Information

Differences between International Financial Reporting Standards and United States Generally Accepted Accounting Principles

The financial statements of the Telecommunications Services of Trinidad and Tobago Limited (TSTT) have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which differ in certain material respects from accounting principles generally accepted in the United States ("US GAAP"). Application of US GAAP would have affected the balance sheet as at March 31, 2005 and net income of year then ended. A qualitative description of material differences between IFRS and US GAAP as they relate to the Company are discussed in further detail below.

(a) Revenue recognition

Revenue from telecommunications services mainly represents fixed line telephone, mobile, leased circuit and internet. Under IFRS the company recognizes revenue and related costs earned from access, installation and similar fees when the services are provided to the customer and the related costs are incurred.

In accordance with US GAAP, revenue earned from installation is deferred over the expected period of the customer relationship.

Back to Contents

23. US GAAP Information *(continued)*

(b) Borrowing costs

Under IFRS (IAS 24), a company can choose to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale.

The Company has elected not to capitalize borrowing costs in respect of expenditures incurred on qualifying assets.

US GAAP (FAS 34) requires capitalisation of borrowing costs relating to the accumulated expenditures on qualifying assets including the amortisation of discount premium and issue costs on debt.

(c) Impairment

IAS 36 requires that an entity should assess annually whether there are any indications that an asset may be impaired. An impairment loss must be recognized in the statement of income when an asset' s carrying amount exceeds its recoverable amount. In performing impairment tests under IAS 36 a comparison was made using cash flows expected from TDMA assets and the net book value of assets within TDMA Cash Generating Unit. No impairment was recorded for the year ended March 31, 2005.

Under FAS 144 there is a requirement to compare the net book value of the assets to the undiscounted cash flows expected from the future use of the said assets. Accordingly, no impairment would be recognized under US GAAP.

Back to Contents

23. US GAAP Information *(continued)*

(d) Pensions and post retirement benefit obligation

There are a few differences between IFRS and US GAAP in these areas:

Under IAS 19 pension assets recognised cannot exceed the net total of unrecognised past service cost and net actuarial losses plus the present value of cumulative benefits available from refunds or reduction of future contributions to the plan.

Under FAS 87, net pension cost is an aggregation of various pension cost components, some of which are expenses or losses (which increase net periodic pension cost) and some of which are revenues or gains (which decrease net periodic pension cost). It is possible for the revenue or gain components to exceed the expense or loss components, resulting in net periodic pension income. A pension asset should be recognized for any plan with plan assets in excess of the projected benefit obligation.

Under FAS 87 the pension surplus is calculated as being the difference between the contributions made by the company over the net periodic costs.

FAS 87 allows prior service costs (i.e. the retroactive cost of benefit improvements) to be amortised over a period of years whereas IFRS requires full and immediate recognition in the current year to the extent that the benefits have already vested.

FAS 87 allows “market-related” asset values (e.g. the use of a smoothed market value for equities) but IFRS requires the use of market values at the accounting date.

Exhibit 15.4

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

SPECIAL PURPOSE FINANCIAL STATEMENTS

31st March 2004

TABLE OF CONTENTS

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

B ALANCE SHEET
AS AT 31ST MARCH, 2004

	Notes	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
ASSETS			
Non-current assets			
Property, plant and equipment	8	3,072,068	3,053,993
Defined benefit plans asset	13a	304,400	247,400
Deferred tax asset	12d	7,612	6,595
Available for sale investment	2f	8,882	9,866
		3,392,962	3,317,854
Current assets			
Inventories	5	132,012	142,601
Accounts receivable and prepayment	4	423,429	411,884
Construction work-in-progress	14	34,080	-
Cash and cash equivalents	3	171,700	186,194
		761,221	740,679
Total assets		4,154,183	4,058,533
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	9	572,717	572,717
Capital reserves		2,786	2,786
Retained earnings		2,210,469	1,993,110
Shareholders' equity		2,785,972	2,568,613
Non-current liabilities			
Retirement benefit obligations	13a	25,372	21,982
Borrowings	10a	364,779	463,957
Deferred tax liability	12c	167,275	127,511
		557,426	613,450

Current liabilities			
Employee benefits	7	150,073	241,749
Accounts payable and accruals	6	399,908	361,063
Deferred revenue		37,411	35,122
Tax payable		124,083	139,263
Borrowings – current portion	10a	99,310	99,273
		810,785	876,470
Total shareholders' equity and liabilities		4,154,183	4,058,533

The notes on pages 6 to 23 form part of these financial statements

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

S TATEMENT OF INCOME
FOR THE YEAR ENDED 31ST MARCH, 2004

	Notes	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Gross operating revenue			
Gross revenue		2,272,503	2,138,198
Operating expenses			
Cost of Sales		279,953	183,159
Personnel		446,348	449,956
Voluntary separation cost		-	25,765
Depreciation		461,156	426,505
Maintenance and repairs		93,171	101,226
Other		321,752	334,950
		1,602,380	1,521,561
Operating profit		670,123	616,637
Net finance cost			
Interest income		5,399	4,520
Interest expense		(32,372)	(26,701)
		(26,973)	(22,181)
Other income			
Gain on disposal of available for sale investment		1,291	-
Profit before taxation	11	644,441	594,456
Less: Taxation	12a	194,879	147,331

Profit after taxation	449,562	447,125

The notes on pages 6 to 23 form part of these financial statements

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

S TATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31ST MARCH, 2004

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Cash flows from operating activities		
Profit for the year before taxation	644,441	594,456
Adjustments for:		
Foreign exchange loss	1,458	2,423
Gain on disposal of property, plant and equipment	(3,793)	(123)
Depreciation	461,156	426,505
Finance costs	32,372	26,701
Interest capitalised	-	12,923
Interest income	(5,399)	(4,520)
Interest received	4,801	3,914
Gain on disposal of available for sale investment	(1,291)	-
Pension income and contributions paid	(57,000)	(7,600)
Post employment medical costs and premiums paid	3,390	3,412
Operating profit before working capital changes	1,080,135	1,058,091
(Increase)/decrease in accounts receivable & prepayments	(11,433)	423
Decrease/(increase) in inventories	10,589	(24,845)
Increase in construction work-in-progress	(34,080)	-
(Decrease)/increase in employee benefits	(91,676)	3,682
Increase in accounts payable, accruals and deferred revenue	42,146	64,340
Cash generated from operations	995,681	1,101,691
Finance costs paid	(35,263)	(38,339)
Taxes paid	(171,309)	(154,226)
Net cash generated from operating activities	789,109	909,126
Cash flows from investing activities		
Purchase of property, plant and equipment	(479,439)	(673,766)
Proceeds from disposal of property, plant and equipment	4,091	124
Proceeds from disposal of available for sale investment	2,274	-
Net cash used in investing activities	(473,074)	(673,642)
Cash flows from financing activities		
Long term loan drawdowns	-	202,798
Long term loan repayments	(98,326)	(81,526)
Dividends paid	(232,203)	(187,970)

Net cash used in financing activities	(330,529)	(66,698)
Net (decrease)/increase in cash and cash equivalents	(14,494)	168,786
Cash and cash equivalents at beginning of year	186,194	17,408
Cash and cash equivalents at end of year (note 3)	171,700	186,194

The notes on pages 6 to 23 form part of these financial statements

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

S TATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31ST MARCH, 2004

	Unaudited Stated capital TT$' 000	Unaudited Capital reserves TT$' 000	Unaudited Retained earnings TT$' 000	Unaudited Shareholders' equity TT$' 000
Balance as at 1st April, 2002	572,717	269,269	1,489,116	2,331,102
- Deferred tax re: revaluation of technical assets	-	4,835	-	4,835
- Net profit after taxation	-	-	447,125	447,125
- Dividends paid	-	-	(85,825)	(85,825)
	572,717	274,104	1,850,416	2,697,237
- Effect of change in accounting policy (note 19)	-	(271,318)	142,694	(128,624)
Balance as at 31st March, 2003	572,717	2,786	1,993,110	2,568,613
Balance as at 1st April, 2003	572,717	2,786	1,993,110	2,568,613
Net profit after taxation	-	-	449,562	449,562
Dividends paid	-	-	(232,203)	(232,203)
Balance as at 31st March, 2004	572,717	2,786	2,210,469	2,785,972

The notes on pages 6 to 23 form part of these financial statements

Back to Contents

1. Incorporation and principal activity

The Company was incorporated in Trinidad and Tobago on May 1968 and on 15th April, 1999 the Company obtained its Certificate of Continuance under the Companies Act 1995. Its domestic operations are regulated by the Trinidad and Tobago Telephone Act Chapter 47:330 (Act 7 of 1968), subsequently amended in 1976 and 1990.

The Company' s registered office is located at 1 Edward Street, Port of Spain and its principal activity is the provision of both internal and external telecommunications services to the Republic of Trinidad and Tobago.

Cable & Wireless (West Indies) Limited holds a 49% interest in the Company. The 51% shareholding held by the Government of Trinidad and Tobago was transferred to National Enterprises Limited on 19th September, 2000.

The number of employees of the Company as at 31st March, 2004 amounted to 3,528 (March 2003: 3,512).

2. Statement of accounting policies

a) Basis of accounting

These financial statements are prepared under the historical cost convention, in accordance with International Financial Reporting Standards. No account is taken of the effects of inflation except for revaluation of the Company' s technical assets.

b) Use of estimates

The preparation of financial statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

c) Foreign currency translation

These financial statements are stated in Trinidad and Tobago dollars. The exchange rate ruling at the balance sheet date was US$1 = TT$6.2998 (March 2003: US$1 = TT$6.2965).

Foreign currency transactions during the period are converted at the rates ruling at the date of the transaction or at a rate, which approximates the actual rate. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at rates ruling at that date. Profits or losses thus arising are dealt with in the statement of income.

2. Statement of accounting policies *(continued)*

d) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment allowances. The cost of self - constructed property, plant and equipment includes the cost of materials and direct labour.

(i) Plant in service

Depreciation on property, plant and equipment is provided on a straight-line basis. The estimated useful lives of depreciable plant are as follows:

Properties

Freehold building	50 years
Leasehold properties	Over the period of lease

Technical assets

Central office equipment	5-12 years
External cable plant	20 years
Plant & machinery	15 years
Towers	36 years
Underground conduit	40 years
Customers' installations	8 years

Other

Furniture and office equipment including computers	3 - 7 years
Indefeasible Rights of Use	10 years
Tools and implements	15 years
Vehicles	4 years

Land is not depreciated as it is deemed to have an indefinite life.

Back to Contents

2. Statement of accounting policies *(continued)*

(ii) Plant under construction

Property, plant and equipment under construction are recorded as plant under construction (PUC) until they are ready for their intended use, thereafter they are transferred to the related category of property, plant and equipment and depreciated over their estimated useful lives. The cost of PUC includes allocation of labour and overhead in accordance with IAS #16, "Property, Plant and Equipment". The total expenses capitalised for the year amounted to TT$34 million (unaudited). (2003:TT $44 million, unaudited).

(iii) Impairment

The carrying amount of property, plant and equipment is reviewed whenever events or changes in circumstances indicate that impairment may have occurred, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

(iv) Repairs and renovations

Repairs and renovations are normally expensed as they are incurred. Expenses are reported as assets only if the amounts involved are substantial and one or more of the following conditions are satisfied: the original useful life is prolonged, the production/service capacity is increased, the quality of the products/services is enhanced materially or production/service costs are reduced considerably.

(v) Borrowing Cost

Interest cost on borrowings to finance capital expenditure on development projects are capitalised during the period of time that is required to complete the asset for its intended use. The total interest capitalized for the year amounts to nil (2003: TT$12.9 million, unaudited). All other borrowing costs are expensed.

Back to Contents

2. Statement of accounting policies *(continued)*

e) Employee benefits

(i) Retirement benefits plans

The Company operates three defined benefit plans, namely the Textel Pension Plan, the Telco Staff Pension Fund Plan and the TSTT Pension Plan. The current employees are all covered by either the Telco Staff Pension Fund Plan or the TSTT Pension Fund Plan. The Textel Pension Fund Plan operates only to pay benefits to those pensioners who have opted to remain in that plan. However, the constructive benefit obligation is based on the benefit structure of the TSTT Pension Plan.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread the regular cost over the service lives of employees in accordance with the advice of independent actuaries who carry out a full valuation of the plans every three years. The pension obligation is measured as the present value of the estimated future cash outflows. All actuarial gains and losses to be recognised are spread forward over the average remaining service lives of employees.

(ii) Post employment medical benefits

The Company operates a post employment medical benefit plan that is insured with Colonial Life Insurance Company (CLICO). Medical benefits are available on retirement to all current retirees and employees. The plan has been in existence since 1st September, 1997 and is run alongside an arrangement to provide in-service medical benefits to employees. CLICO charges the Company one premium based on the number of current employees only. The premiums are met jointly by the Company and current employees only. No specific premiums are paid in respect of the cover provided to current retirees.

The International Accounting Standards (IAS) #19, Employee Benefits, requires the Company to account for the cost of the post-employment medical plan benefits during the period of employment with the Company so that the cost of these post-employment medical benefits is fully provided by the time the employee retires.

The IAS #19, Employee Benefits, liability is calculated by an independent actuary by quantifying the margins implicitly contained in the premium paid to CLICO by the Company. This margin is translated into a per-capita cost of medical benefits for 2003/2004 in respect of retirees currently covered by the plan. The data from CLICO for retirees currently covered by the post employment medical plan together with the data used to calculate the IAS #19 pension plan assets figures are then used to estimate the future post employment medical benefit obligation.

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

2. Statement of accounting policies *(continued)*

e) Employee benefits (*continued)*

(iii) Short term employee benefits

The Company recognises the expected cost of vacation earned not yet taken by its employees as an expense.

f) Available for sale investment

This represents the Company' s share of the accumulated capital cost and working capital prepayment with the International Telecommunications Satellite (INTELSAT) Organisation.

In the financial year 2002/2003, the available for sale investment comprised of INTELSAT and New Skies Satellites N.V.

This investment is being held for an undefined period. However, if there are changes in market conditions that significantly affect this investment, the Company will consider its sale.

The fair value of the Company' s investment is estimated based on the net asset valuation using the most recent management accounts of INTELSAT. All recognised gains and losses arising from a change in fair value are recognised in the revaluation reserve and reported in the statement of changes in sharholders' equity.

g) Taxation

The liability approach for accounting for corporation taxes is used whereby under this method, deferred taxes are provided for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities using current corporation tax rates.

Deferred tax liabilities are recognised for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognised for temporary differences that will result in deductible amounts in future years.

h) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past transaction or event and it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Back to Contents

2. Statement of accounting policies (continued)

i) Leases

Leases where the lessor effectively retains substantially all the risk and benefits of the ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

The Company has no finance leases.

j) Trade and other receivables

Trade receivables, excluding government balances which generally have 30-90 days terms are recognised and carried at the original billed amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Receivables from related parties are recognised and carried at cost.

k) Trade and other payables

Liabilities for trade and other accounts payable which are normally settled on 30-90 day terms are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

l) Inventories

Inventories held for use in the maintenance and expansion of the Company’ s telecommunications systems are stated at landed cost, less provision for deterioration and obsolescence. Inventory held for resale are stated at the lower of cost and net realisable value.

m) Cash and cash equivalents

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

n) Revenue recognition

Revenue from telecommunications services mainly represents telephone and cellular services. Telephone and post paid cellular service revenues are recorded based on call units and minutes of traffic respectively, plus basic fees on a monthly billing cycle basis. Revenues from prepaid cellular airtime are recognised based upon usage of prepaid cards by customers.

Back to Contents

2. Statement of accounting policies *(continued)*

n) Revenue recognition *(continued)*

Other telecommunication services revenues, including leased circuit are recorded when the services are rendered to customers.

Other revenues earned by the Company are recognised on the following basis:

Business services - This represents amounts billed on contracts in progress. On completion of the contracts, the deferred income is offset against the deferred charges related to the contract and the resulting profit/loss is recognised in the statement of income.

Directory advertising - This represents amounts billed to customers in the current year for directory publication in the following year. Revenue is recognised when the directory is published, in equal monthly installments.

Mobile equipment - revenues are recognised upon delivery of equipment to customers.

o) Comparative figures

Certain changes in presentation have been made during the year and the comparative figures have been restated. This include the effect of the change in accounting policy as set out in note 19.

		Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
3. Cash and cash equivalents	Cash at bank and in hand	171,700	186,194

The Company has unsecured bank overdraft facilities up to a maximum of TT$50 million.

		Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
4. Accounts receivable and prepayments	Foreign telecom administrations	47,960	50,796
	Amounts due from customers	454,870	420,481
	Sundry debtors and prepayments	131,450	153,618
	Provision for doubtful debts	(210,851)	(213,011)
		423,429	411,884

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

5. Inventories

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Cable	20,560	29,960
Cellular	63,137	53,708
Business systems	16,550	19,005
Materials and supplies	48,865	55,040
Provision for obsolescence	(17,100)	(15,112)
	132,012	142,601

6. Accounts payable and accruals

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Foreign telecom administrations	4,534	6,640
Cable and Wireless (West Indies) Limited	2,577	17,270
Trade payable	307,005	272,968
Other payables	85,792	64,185
	399,908	361,063

7. Employee benefits

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Liabilities arising from Human Resources including accrued vacation leave and provisions for retroactive salaries and termination benefits.	150,073	241,749

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

8. Property, plant and equipment

	Unaudited Balance at 31/03/2003 TT$' 000	Unaudited Additions/ (Transfers) TT$' 000	Unaudited Disposals TT$' 000	Unaudited Balance at 31/03/2004 TT$' 000
At cost:				
Properties				
Freehold properties	329,350	26,252	(208)	355,394
Leasehold properties	114,786	11,681	-	126,467
	444,136	37,933	(208)	481,861
Technical assets				
Central office equipment	1,824,141	210,366	-	2,034,507
Customer installation	1,125,113	34,920	-	1,160,033
External cable plant	882,437	187,432	(10,754)	1,059,115
Plant & machinery	9,075	311	-	9,386
Towers	58,841	5,585	-	64,426
Underground conduit	490,882	25,758	-	516,640
Shares of Americas 1	89,187	(2,732)	-	86,455
	4,479,676	461,640	(10,754)	4,930,562
Other				
Furniture & fittings	48,553	927	(476)	49,004
Indefeasible Rights of Use	26,431	-	-	26,431
Air conditioning	14,789	1,145	-	15,934
Tools & implements	29,630	1,368	-	30,998
Vehicles	95,738	6,767	-	102,505
Computer equipment	241,850	158,052	-	399,902
Plant under construction	706,630	(188,393)	-	518,237
	1,163,621	(20,134)	(476)	1,143,011
Total	6,087,433	479,439	(11,438)	6,555,434

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

	Unaudited Balance at 31/03/2003 TT$' 000	Unaudited Depreciation charges TT$' 000	Unaudited Disposals TT$' 000	Unaudited Balance at 31/03/2004 TT$' 000
8. Property, plant and equipment *(continued)*				
Accumulated depreciation:				
Properties				
Freehold properties	59,462	6,345	-	65,807
Leasehold properties	22,284	1,696	-	23,980
Technical assets	81,746	8,041	-	89,787
Central office equipment	824,266	248,862	-	1,073,128
Customer installation	916,790	49,958	-	966,748
External cable plant	596,019	61,398	(10,754)	646,663
Plant & machinery	7,979	358	-	8,337
Towers	33,149	2,032	-	35,181
Underground conduit	186,257	12,642	-	198,899
Shares of America 1	39,457	5,996	-	45,453
	2,603,917	381,246	(10,754)	2,974,409
Other				
Furniture & fittings	36,690	2,424	(476)	38,638
Indefeasible Rights of Use	24,955	414	-	25,369
Air conditioning	4,356	965	-	5,321
Tools & implements	15,717	1,468	-	17,185
Vehicles	76,480	10,400	-	86,880
Computer equipment	189,579	56,198	-	245,777
	347,777	71,869	(476)	419,170
Total	3,033,440	461,156	(11,230)	3,483,366
Net carrying amount	**3,053,993**			**3,072,068**

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

		Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
9. Stated capital	**Authorised**		
	1,300,000,000 ordinary shares of no par value		
	Issued		
	282,820,361 ordinary shares of no par value	572,717	572,717

10. Borrowings

(a) Long term loans

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Balance brought forward	563,230	438,886
Drawdowns	-	202,798
Foreign exchange gain arising from currency translations during the year	138	3,072
	563,368	644,756
Repayments	(99,279)	(81,526)
Balance carried forward	464,089	563,230
Amounts due within one year	99,310	99,273
Amounts due within 2 to 5 years	344,227	443,405
Amounts due after 5 years	20,552	20,552
	464,089	563,230

(b) Interest rates

The Republic Bank Limited loan is tied to the average of the Trinidad and Tobago dollar prime rates of Republic Bank Limited, RBTT, and Scotiabank Limited at 30th November each year minus 4.40%. The loans from Royal Bank, Export Import Bank of the United States and Export Development Corporation are all at fixed rates.

Floating interest rates	5.10%
Fixed interest rates	4.72% - 8.25%

Back to Contents

10. Borrowings ***(continued)***

(c) Long term loan facilities

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
- at fixed rates	321,089	391,730
- at floating rates	143,000	171,500
	464,089	563,230

(d) Security

These long-term loans are held with various local and foreign financial institutions and are unsecured.

(e) Repayments

The Company' s loans are being repaid within varying periods ranging between January 2006 and October 2009.

(f) Fair value of fixed rate loans

The fair value of the fixed rate long-term loan is based on estimated future cash flows discounted using the current market rates for debt of the same remaining maturities and credit risks.

	Carrying amounts		Fair values	
	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Balance at 31st March	321,089	391,730	330,302	412,661

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

11. Profit before taxation

This is arrived at after charging the following items:

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Exchange loss	1,458	2,423
Provision for doubtful debts	60,095	77,396
Stock write-off/provision for obsolescence	2,576	8,013

12. Taxation

(a) Components of the tax expense

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Deferred tax expense/(income)	38,749	(39,426)
Current tax - current year tax expense	154,758	186,757
- prior year tax expense	1,372	-
	194,879	147,331

(b) Reconciliation of accounting to tax profit:

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Accounting profit	644,441	594,456
Tax at 30%	193,332	178,337
Effect of change in tax rate	-	(26,947)
Effect of tax rate reduction on deferred tax on revaluation of technical asset	-	(4,835)
Tax effect of income treated differently in determining taxable profits	(2,043)	(1,288)
Green fund levy	2,218	2,064
Prior years' under provision	1,372	-
Tax expense (note 12a)	194,879	147,331

(c) Components of deferred tax liability

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Property, plant and equipment	(75,955)	(53,291)
Defined benefit plans asset	(91,320)	(74,220)
	(167,275)	(127,511)

(d) **Components of deferred tax asset**

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Post employment medical benefit	7,612	6,595

Back to Contents

TELECOMMUNICATIONS SERVICES OF TRINIDAD AND TOBAGO LIMITED

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH, 2004

13. Pension & other post employment benefits

(a) Amounts recognised in the balance sheet

	Pension plans		Post employment medical benefit	
	Unaudited 2004 TT$' 000	**Unaudited 2003 TT$' 000**	**Unaudited 2004 TT$' 000**	**Unaudited 2003 TT$' 000**
Benefits obligations	(1,843,700)	(1,353,200)	(49,298)	(26,227)
Plans assets	2,626,500	1,974,400	-	-
	782,800	621,200	(49,298)	(26,227)
Unrecognised actuarial (gain)/losses	(320,800)	(234,800)	23,926	4,245
Un-utilisable asset	(157,600)	(139,000)	-	-
Benefits asset/(liability)	304,400	247,400	(25,372)	(21,982)

(b) Amounts recognised in the statement of income

Current service cost	44,900	35,700	2,266	1,168
Interest costs	106,200	104,700	2,046	1,712
Expected return on plans assets	(196,100)	(169,000)	-	-
Curtailment and settlements	(3,600)	26,300	326	1,254
Termination Cost	-	-	-	-
Net amortised gain	(3,500)	(2,400)	108	-
Un-utilisable asset adjustment	18,700	14,600	-	-
Net benefit (income)/cost	(33,400)	9,900	4,746	4,134
Actual return on plans assets	663,900	311,700	-	-

Back to Contents

13. Pension & other post employment benefits *(continued)*

(c)

Movement on the asset /(liability) recognised in the balance sheet	**Pension plans** Unaudited 2004 TT$' 000	**Pension plans** Unaudited 2003 TT$' 000	**Post employment medical benefit** Unaudited 2004 TT$' 000	**Post employment medical benefit** Unaudited 2003 TT$' 000
At the beginning of year				
- as previously stated	247,400	239,800	(21,982)	-
- effect of adopting IAS 19	–	–	–	(18,570)
As restated	247,400	239,800	(21,982)	(18,570)
Net benefit income/ (cost)	33,400	(9,900)	(4,746)	(4,134)
Contributions	23,600	17,500	1,356	722
At end of year	304,400	247,400	(25,372)	(21,982)

(d) Principal actuarial assumptions used for accounting purposes were:

	Unaudited 2004	**Unaudited 2003**
Discount rate	6.5%	8.0%
Expected rate of return on plan assets	8.0%	10.0%
Future salary increases	5.5%	6.0%
Future pension increases	3.0%	3.0%
Medical expense increases	6.0%	6.0%

(e) As a consequence of the High Court Action – LOPEZ vs. TSTT and RBTT Trust Co. Ltd., in 2001/ 2002 it was determined that the unallocated surplus of the Textel Pension Plan could not be transferred to TSTT' s pension plan. The amount of the surplus recognised in respect of the Textel Plan was accordingly limited under IAS 19 giving rise to the un-utilisable asset adjustment of TT$ 18.7M (unaudited) in 2004 (2003:TT$ 14.6M – unaudited).

Back to Contents

14. Construction work - in -progress

This represents the excess of the costs incurred over progress billings to date on a communication solution to enhance the functioning and delivery of electronic services for a third party. Completion testing had not yet been completed as at 31st March 2004 hence no revenue has been recognised to date.

15. Related party transactions

The transactions with the Company' s related party Cable & Wireless (West Indies) Limited are as follows:

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Technical and professional fees and purchases	9,386	37,211
Traffic settlements (net)	6,286	11,215
Directors' fees and allowances	105	132

16. Financial instruments

Exposure to various types of financial risks arises in the ordinary course of the company' s business. Derivatives financial instruments are not currently used to reduce exposure to fluctuations in interest and foreign exchange rates.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivables and prepayments, investments, accounts payable and accruals and borrowings. Transactions in financial instruments have resulted in the Company assuming the financial risks described below:

(a) Interest rate risk

The changes in market interest rates on the Company' s loans cause exposure to interest rate risk. Included in note 10 is information on the maturity dates as well as effective interest rates.

(b) Credit risk

Financial instruments that potentially subject the Company to credit risk include trade receivable and loans to employees. Provisions have been set up against the receivable balances for potential credit losses. There is no concentration of credit risk in a particular customer or employee.

(c) Fair value

The carrying amounts of the Company' s cash and cash equivalents, short term borrowings, accounts receivable, and accounts payable approximate to their fair value because of the short term maturities of these instruments.

The Company' s investments with the International Telecommunications Satellite Organisation are stated at fair value.

The fair value of the Company' s floating rate long-term loans approximates its carrying amount given the floating rate nature of the loan at prevailing market rates. The fair value of the fixed rates long-term loans is based on estimated future cash flows discounted using the current market rates of debt of the same remaining maturities and credit risk (note 10g).

Back to Contents

17. Commitments and contingencies

(a) Capital expenditure commitments

At 31st March 2004 the Company has commitments of TT$103 million (unaudited) (2003: TT$24 million, unaudited) for the acquisition of property, plant and equipment incidental to the ordinary course of business.

(b) Operating lease commitments

Operating lease expense was TT$58.9 million (unaudited) and TT$75.3 million (unaudited) for the years ended 31st March 2004 and 2003 respectively.

Future minimum rentals under non-cancelable leases of motor vehicles and leasehold buildings are as follows as of 31st March:

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Within one year	10,604	7,983
After one year but not more than five years	31,694	40,181
More than five years	16,585	27,189
Total	58,883	75,353

(c) Contingent liabilities

The Company has guarantee facilities for contract performance and customs clearance certificates with its bankers amounting to TT$15.5 million. Based on information currently available, the Company does not expect liabilities to arise from these guarantees.

18. Dividends paid

	Unaudited 2004 TT$' 000	Unaudited 2003 TT$' 000
Dividend on ordinary shares:		
Interim dividend for 2003/04 of $0.35 (2002/03: $0.31)	98,462	85,825
Final dividend for 2002/03 of $0.31 (2001/02: $0.66)	133,741	102,145
	232,204	187,970

Back to Contents

19. Effect of change in accounting policy

The Company has discontinued revaluing its technical assets every four (4) years as at 1st April 2003 and has reverted to historical cost basis, which is the benchmark treatment in accordance with IAS 16 Property, Plant & Equipment (revised 1998).

Management has changed the accounting policy relating to the company' s technical assets for the following main reasons:

Cost is the benchmark treatment under IAS 16 used by several companies in the telecom industry, and

Due to the nature of the industry in which the company operates the company undertakes annual impairment reviews and annual useful life reviews of its technical assets. This exercise has resulted in impairment provisions and/or accelerated depreciation on its technical assets. In this regard, management believes that this provides a better reflection of the recoverable value of its technical assets without incurring costly technical asset revaluations.

The change in accounting policy was done retrospectively in accordance with IAS 8 and the effects of the change in accounting policy as at 31st March, 2002 and prior are detailed below:

Increase in retained earnings of TT$142.7M;

Decrease in deferred tax liability of TT$51.7M;

Decrease in the net book value of property, plant & equipment-PPE of TT$180.2M;

Decrease in the capital reserve of TT$271.3M;