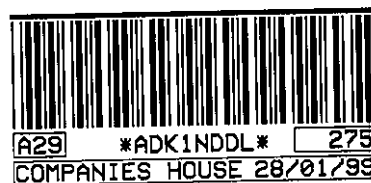


THE EASTERN TELEGRAPH COMPANY LIMITED

Report and Financial Statements

31 March 1998

**Registered Office:
124 Theobalds Road
London
WC1X 8RX**



THE EASTERN TELEGRAPH COMPANY LIMITED

To the Company's Ordinary Shareholders

Elective Regime

The Company has passed elective resolutions in accordance with Section 379A of the Companies Act 1985 as amended ("the Act") to dispense with the formalities of:

- the laying of accounts before the Company in general meeting (Section 252 of the Act);
- the holding of annual general meetings (Section 366A of the Act);
- the obligation to appoint auditors annually (Section 386 of the Act).

Section 253(2) gives members the right to require the laying of accounts before the company in general meeting. To exercise such right, a member must give notice in writing to that effect deposited at the registered office of the Company within 28 days of the day on which the report and financial statements are sent out in accordance with Section 238(1) of the Act.

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THE EASTERN TELEGRAPH COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 1998

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THE EASTERN TELEGRAPH COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND AUDITORS

DIRECTORS

K K Claydon
R E Lerwill

SECRETARY

K K Claydon

AUDITORS

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
PO Box 695
London
EC4Y 8BB

THE EASTERN TELEGRAPH COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 March 1998.

ACTIVITIES

The Company carries on telecommunications training in the United Kingdom, and has a small commercial undertaking in Porthcurno, Cornwall.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Company through its college in Coventry continues to be the centre of excellence for telecommunications education and training. Porthcurno, near Lands End in Cornwall, was until 1993 the home of the telecommunications college. The site is currently being redeveloped for both community and commercial uses. The intention is to gift some of the site to a charitable trust recognised by the National Heritage Fund. The college will continue to provide education and training facilities in Coventry.

MILLENNIUM COMPLIANCE

The Company participates in the Cable & Wireless Group Millennium Compliance initiative which began in mid 1996. Nearly all Cable & Wireless systems are millennium ready today, although, inevitably, external dependencies have affected our timetable for complete millennium readiness by the end of 1998 and therefore we now have a managed programme into 1999. We anticipate the majority of the components and systems will be millennium ready by the end of March 1999.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounting to £1,357,000 (1997 -loss £2,657,000) has been dealt with in the attached financial statements. The Directors do not recommend payment of a dividend.

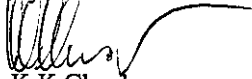
DIRECTORS AND THEIR INTERESTS

The Directors who held office at the end of the year, together with their interests and the interests of their families in the ordinary shares of Cable and Wireless plc, are shown below:

	At 1 April 1997 (or later date of appointment)	Shares acquired or options granted	Shares disposed or options exercised	At 31 March 1998
R E Lerwill	12,500	10,000	-	22,500
(appointed 16	1,977	-	-	1,977 (a)
December 1997)	232,853	-	-	232,853 (b)
	-	33,605	-	33,605 (c)
	-	33,605	-	33,605 (d)
J N Gillespie	-	2,046	-	2,046
	5,863	-	-	5,863 (a)
	77,000	40,000	-	117,000 (b)
K K Claydon	101	8,034	2,691	5,444
	16,921	-	7,540	9,381 (a)
	63,981	15,000	-	78,981 (b)

In addition R J Olsen served as a Director during the year until his resignation on 16 December 1997. J N Gillespie resigned as a Director on 23 July 1998. All interests are in fully paid ordinary shares, unless marked (a) which are options to purchase ordinary shares under the savings related option scheme for employees or (b) which are options to purchase ordinary shares under the discretionary share option schemes or (c) which are notional options granted under the 1999 Long Term Incentive Plan or (d) which are notional options granted under the 2000 Long Term Incentive Plan.

By order of the Board of Directors.


K K Claydon
Secretary

25/1/99

THE EASTERN TELEGRAPH COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 as at the end of the financial year and of the profit or loss of the Company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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 Company and to prevent and detect fraud and other irregularities.

THE EASTERN TELEGRAPH COMPANY LIMITED

AUDITORS' REPORT TO THE MEMBERS OF THE EASTERN TELEGRAPH COMPANY LIMITED

We have audited the financial statements on pages 6 to 13.

Respective responsibilities of Directors and auditors

As described on page 4 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

25 January 1999

THE EASTERN TELEGRAPH COMPANY LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 March 1998

	Note	1998 £000	1997 £000
TURNOVER	2	13,533	8,509
Operating costs		<u>(11,563)</u>	<u>(12,432)</u>
OPERATING PROFIT/(LOSS)	4	1,970	(3,923)
Profits on disposal of fixed assets		19	337
Net interest and other similar income	6	<u>59</u>	<u>169</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		2,048	(3,417)
Tax (charge)/credit on profit/(loss) on ordinary activities	7	<u>(691)</u>	<u>760</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		1,357	(2,657)
Retained (loss)/profit brought forward		<u>(2,282)</u>	<u>375</u>
Retained loss carried forward		<u><u>(925)</u></u>	<u><u>(2,282)</u></u>

There are no recognised gains or losses other than the profit for the year and the loss for the previous year. Accordingly no statement of recognised gains and losses has been prepared.

There are no movements in shareholders' funds other than the profit for the year and the loss for the previous year.

There is no difference between the Company's results as reported and on an historical cost basis. Accordingly no note of historical cost profits and losses has been prepared.

THE EASTERN TELEGRAPH COMPANY LIMITED

BALANCE SHEET 31 March 1998

	Note	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	8	3,233	2,352
CURRENT ASSETS			
Stocks - consumable stores		14	7
Debtors	9	2,055	2,206
Cash at bank and in hand		1,707	1,924
		3,776	4,137
CREDITORS: amounts falling due within one year	10	5,599	6,436
NET CURRENT LIABILITIES		(1,823)	(2,299)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,410	53
PROVISIONS FOR LIABILITIES AND CHARGES			
Other provisions	11	1,135	1,135
NET ASSETS/(LIABILITIES)		275	(1,082)
CAPITAL AND RESERVES			
Called up share capital	12	1,200	1,200
Profit and loss account		(925)	(2,282)
EQUITY SHAREHOLDERS' FUNDS		275	(1,082)

The financial statements on pages 6 to 12 were approved by the Board of Directors and signed on 25/11 1999 on their behalf by:



K K Claydon
Director

THE EASTERN TELEGRAPH COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards and on the historical cost basis.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is set aside on the basis of providing in equal annual instalments for the costs or valuation over the estimated useful life of these assets, namely:

Freehold Buildings	40 years	Average	40 years
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Plant	3 to 20 years	Average	5 years
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Freehold land, where the cost is distinguishable from the cost of the building thereon is not depreciated.

Deferred taxation

The Company provides for deferred tax only when there is a reasonable probability that the liability will arise in the foreseeable future. Where deferred tax is provided, the liability method is used.

Pensions

Charges from group pension schemes operated by Cable and Wireless plc are charged to the profit and loss account in the period to which they relate.

2. TURNOVER

Turnover arises wholly in the United Kingdom and comprises fees for telecommunications training.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998	1997
Average monthly number of persons employed by the Company during the year was:	120	107

The Directors did not receive any emoluments from the Company (1997 - £ nil).

	1998 £000	1997 £000
The aggregate remuneration and associated costs of employees were:		
Salaries and wages	3,506	2,713
Social security costs	264	224
Pension costs	313	256
	4,083	3,193

THE EASTERN TELEGRAPH COMPANY LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

4. OPERATING PROFIT

	1998 £000	1997 £000
Operating profit is after charging:		
Depreciation of owned fixed assets	585	582
Provision for the gifting of assets	-	1,000
Audit fee	5	5
	<u>5</u>	<u>5</u>

5. PENSIONS

The Company participates in pension schemes operated by Cable and Wireless plc. The schemes are principally of the defined benefit type whereby retirement benefits are based on the employee's final remuneration and length of service and are funded through separate trustee administered schemes. Contributions to the scheme are made in accordance with the recommendations of independent actuaries who value the scheme at regular intervals, usually triennially. Further information relating to the scheme is disclosed in the accounts of Cable and Wireless plc.

6. NET INTEREST AND OTHER SIMILAR INCOME

	1998 £000	1997 £000
Deposit and short term interest	59	169
	<u>59</u>	<u>169</u>

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	1998 £000	1997 £000
The charge/(credit) for taxation comprises:		
United Kingdom corporation tax at 31% (1997 - 33%)		
Current year	552	(748)
Adjustment in respect of prior year	-	(12)
Deferred taxation		
Adjustment in respect of prior year	139	-
	<u>691</u>	<u>(760)</u>

If deferred taxation had been fully provided under the liability method, the tax charge for the year would have increased by £106,000 (1997 - tax credit increased by £152,000).

THE EASTERN TELEGRAPH COMPANY LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Plant £000	Projects under construction £000	Total £000
Cost or valuation				
At 1 April 1997	757	5,421	652	6,830
Additions	-	664	803	1,467
Disposals	-	(1)	-	(1)
At 31 March 1998	<u>757</u>	<u>6,084</u>	<u>1,455</u>	<u>8,296</u>
Depreciation				
At 1 April 1997	528	3,950	-	4,478
Charge for the year	5	580	-	585
At 31 March 1998	<u>533</u>	<u>4,530</u>	<u>-</u>	<u>5,063</u>
Net book value				
At 31 March 1998	<u>224</u>	<u>1,554</u>	<u>1,455</u>	<u>3,233</u>
At 31 March 1997	<u>229</u>	<u>1,471</u>	<u>652</u>	<u>2,352</u>

9. DEBTORS

	1998 £000	1997 £000
Trade debtors	867	1,873
Other debtors	858	82
Prepayments and accrued income	312	97
Amounts owed by group undertakings	18	15
Deferred tax	-	139
	<u>2,055</u>	<u>2,206</u>

Deferred tax provided in the accounts and the potential liability, including amounts for which provision has been made, are as follows:

	Asset recognised		Total potential (asset)/liability	
	1998 £000	1997 £000	1998 £000	1997 £000
Tax effect of timing differences due to:				
Excess capital allowances	-	-	(160)	(111)
Other	-	(139)	41	98
	<u>-</u>	<u>(139)</u>	<u>(119)</u>	<u>(13)</u>

THE EASTERN TELEGRAPH COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £000	1997 £000
Trade creditors	523	82
Amounts owed to parent undertaking	3,422	4,787
Amounts owed to group undertaking	9	10
Other creditors	65	467
Accruals and deferred income	1,580	1,090
	<u>5,599</u>	<u>6,436</u>

11. OTHER PROVISIONS

	1998 £000	1997 £000
At 1 April	1,135	419
Charge to current profit and loss account	-	1,000
Amounts paid or released during the year	-	(419)
Transfers	-	135
	<u>1,135</u>	<u>1,135</u>
At 31 March	<u>1,135</u>	<u>1,135</u>
	<u>1998 £000</u>	<u>1997 £000</u>
Other provisions comprise:		
Development provision	<u>1,135</u>	<u>1,135</u>

12. CALLED UP SHARE CAPITAL

	1998 £000	1997 £000
Authorised		
1,200,000 ordinary stock units of £1 each	1,200	1,200
5,800,000 ordinary shares of £1 each	5,800	5,800
	<u>7,000</u>	<u>7,000</u>
Allotted, called up, and fully paid		
1,200,000 ordinary stock units of £1 each	<u>1,200</u>	<u>1,200</u>

THE EASTERN TELEGRAPH COMPANY LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

13. CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking. A cash flow statement is included in the financial statements of Cable and Wireless plc.

14. RELATED PARTY TRANSACTIONS

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose transactions with entities that are part of the Cable & Wireless group, or investees of the group qualifying as related parties, as all of the Company's voting rights are controlled within that group. There are no materials transactions with any other related parties.

15. ULTIMATE PARENT COMPANY

The Company's holding company and ultimate parent company is Cable and Wireless plc registered in England and Wales. A copy of Cable and Wireless plc's published c