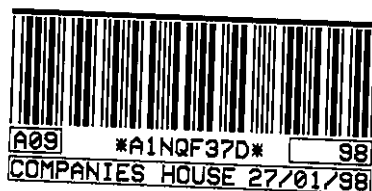


**MERCURY COMMUNICATIONS LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 1997**

**Company Registration Number: 1541957**



## **FINANCIAL STATEMENTS**

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## REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Group for the year ended 31 March 1997.

### RESULTS FOR THE YEAR

The Group profit and loss account for the year ended 31 March 1997, set out on page 7, includes the following details:

	1997 £m	1996 £m
Turnover	1,730.3	1,705.9
Operating profit	365.8	224.3
Profit on ordinary activities before taxation	378.0	224.3
Profit attributable to shareholders	267.2	154.9

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group's principal activity is the supply of telecommunications services and equipment.

During the year turnover has grown by 1.4% from £1,705.9m to £1,730.3m. After adjusting for businesses disposed of underlying turnover growth was 6%.

Application of interconnect rates agreed with BT during the year and applicable rates issued by OfTel has resulted in a credit to the profit and loss account of £108.3m relating to prior year's traffic. This, combined with continued management focus on cost control, has resulted in a growth in operating profit of 63% from £224.3m to £365.8m.

### FUTURE DEVELOPMENTS

On 22 October 1996, Cable & Wireless plc announced that Mercury Communications Limited ("Mercury"), NYNEX CableComms Group PLC and NYNEX CableComms Group Inc, Bell Cablemedia plc and Videotron Holdings Plc would be merged to form one company, Cable & Wireless Communications plc ("CWC").

The acquisition of Mercury by CWC was completed on 25 April 1997 and the public offer by CWC for the share capital of Nynex CableComms Group PLC, NYNEX CableComms Group Inc and Bell Cablemedia plc (as enlarged by the acquisition of Videotron Holdings Plc) which brought this merger into effect was then declared unconditional on 28 April 1997.

Upon completion of the construction of its broadband cable and local telephony networks, which already pass over three million residencies and business establishments, CWC will offer a broad range of voice and data telecommunications services plus multichannel television and other broadband services to more than six million potential residential customers and substantially all small to medium sized business customers within its 45 cable franchise areas.

### DISPOSALS

On 12 July 1996 the Group disposed of its interests in Mercury Paging Limited. The Group's share of the net proceeds arising was £28.1m which gave rise to a profit on disposal of £12.1m. On 26 March 1997 the Group disposed of its investment in the ordinary share capital of Siemens Business Communication Systems Limited for £10.7m giving rise to a loss on disposal of £3.6m.

### DIVIDENDS

On 31 October 1996, £4,700 was paid to the holders of non-voting redeemable participating shares. On 14 January 1997, £84,932 was paid to the holders of non-voting irredeemable 0.01% fixed dividend preference shares and on 15 January 1997, £5,625 was paid to the holders of voting non-cumulative redeemable 7.5% fixed rate preference shares.

In connection with the transactions to form CWC, dividends of £330m (on 21 October 1996) and £75m (on 25 April 1997) were paid to ordinary shareholders. On 25 April 1997, prior to the acquisition of Mercury by CWC, the non-voting redeemable participating shares and the voting non-cumulative redeemable 7.5% fixed rate preference shares were redeemed at par. At the same time 849,319,750 of the non-voting irredeemable 0.01% fixed dividend preference shares were deferred and subsequently purchased by Mercury for £1, leaving 250 of such shares outstanding which were then converted to 250 ordinary shares.

## REPORT OF THE DIRECTORS

### DIRECTORS

The following directors held office during the year under review:

	Appointed	Resigned
R H Brown (Chairman)	15 October 1996	
D H Burney		
J M Conron		
P D Howell-Davies		
R J Olsen		
S R Pettit		
C A Peyser		
D E Somers		30 October 1996
S A Vanaselja	30 October 1996	

The directors have no interest in the shares of the Company and its subsidiary undertakings nor any disclosable interest in any contracts or arrangements with the Company and its subsidiary undertakings, either subsisting at the end of the financial year or entered into since their date of appointment.

The beneficial interests of the directors and their families in the shares and options to acquire shares of the parent undertaking at 31 March 1997 are shown below:

#### Cable and Wireless plc Ordinary shares of 25p each:

	RH Brown	JM Conron	PD Howell-Davies	RJ Olsen	SR Pettit	CA Peyser
<b>Ordinary shares</b>						
At 31 March 1996 (or date of appointment if later)	10,000	6,048	90,249	64,284	226	6,387
At 31 March 1997	10,000	8,622	98,686	65,803	230	8,745
<b>Options to acquire ordinary shares</b>						
At 31 March 1996 (or date of appointment if later)						
SAYE	7,134	-	8,437	4,379	5,093	-
SESOS/RESOS	611,177	63,844	73,000	377,502	154,099	107,744
<b>Granted in the year</b>						
SAYE	4,580	-	-	-	-	-
SESOS/RESOS	-	50,000	93,000	124,445	136,304	-
<b>Exercised in the year</b>						
SAYE	-	-	(8,437)	-	-	-
SESOS/RESOS	-	(21,132)	-	(30,000)	-	(16,848)
<b>At 31 March 1997</b>						
SAYE	11,714	-	-	4,379	5,093	-
SESOS/RESOS	611,177	92,712	166,000	471,947	290,403	90,896

SAYE Options granted under the C&W Employee Savings Related Share Option Scheme  
SESOS Options granted under the C&W Senior Employees Share Option Scheme  
RESOS Options granted under the C&W Revenue Approved Share Option Scheme

## **REPORT OF THE DIRECTORS**

### **EMPLOYEES**

Mercury provides an employment environment which focuses on employee involvement and development. Employees have the opportunity to achieve personal and professional growth and individual recognition for their contribution to the success of the business. Specifically, Mercury aims to ensure that no employee or job applicant is discriminated against directly or indirectly on the grounds of sex, race, colour, nationality, ethnic or racial origins, marital status, sexual orientation, religion or disability. This applies to recruitment, training, promotion and any other aspect of employment. Applicants who are disabled and those who become disabled during employment are offered the widest range of training and opportunity appropriate to their skills and capabilities.

Employees are kept informed of Group affairs through the publication of regular newsletters, newspapers and video bulletins. Employee views are gathered in the normal course of management/employee interaction and through the use of regular attitude surveys. In addition, the Group has established an Employee Involvement Forum at which elected representatives meet with senior management to discuss a variety of issues involving employees across the Group. For the year ended 31 March 1997, employees were entitled to participate in the Cable and Wireless plc Save-As-You-Earn Share Option Scheme.

Employee relations policies meet the needs of the Group and its employees and are designed to ensure fair and equitable treatment as well as compliance with the law and best practice.

### **PAYMENTS TO SUPPLIERS**


The Group does not have a formal code it follows with regard to payments to suppliers. It agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The company had 63 days of purchases outstanding at the end of the financial year, based on the average daily amount invoiced by all suppliers during the year ended 31 March 1997.

### **DONATIONS**

During the year £264,000 (1996: £239,000) was donated by the group for charitable purposes. It is not Mercury Group policy to make political donations.

By order of the Board



PTB Vickers  
Secretary

## **DIRECTORS' RESPONSIBILITIES**

### **DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

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 Group 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 Group and to prevent and detect fraud and other irregularities.

# **REPORT OF THE AUDITOR**

## **AUDITOR'S REPORT TO THE MEMBERS OF MERCURY COMMUNICATIONS LIMITED**

We have audited the financial statements on pages 7 to 28.

### **Respective responsibilities of directors and auditor**

As described on page 5, 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 Group'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 affairs of the Company and of the Group as at 31 March 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

9 May 1997

# GROUP PROFIT AND LOSS ACCOUNT

For the Year Ended 31 March 1997

		1997	1996
	Notes	£m	£m
<b>Turnover</b>	3	1,730.3	1,705.9
Operating costs (including exceptional credit)	4	(1,364.5)	(1,481.6)
<b>Operating profit</b>	5	<u>365.8</u>	<u>224.3</u>
Profits less losses on sale and termination of operations		15.1	1.3
Losses on disposal of fixed assets		(6.2)	(0.8)
<b>Profit on ordinary activities before interest</b>		<u>374.7</u>	<u>224.8</u>
Associated undertaking	8	(0.3)	(0.4)
Interest receivable and similar income	9	13.3	2.5
Amount written off investments		(1.0)	-
Interest payable and similar charges	10	(8.7)	(2.6)
<b>Profit on ordinary activities before taxation</b>		<u>378.0</u>	<u>224.3</u>
Taxation on profit on ordinary activities	11	(110.5)	(67.4)
<b>Profit on ordinary activities after taxation</b>		<u>267.5</u>	<u>156.9</u>
Equity minority interests	12	(0.3)	(2.0)
<b>Profit attributable to shareholders</b>	21	<u>267.2</u>	<u>154.9</u>
Dividends paid and proposed on equity and non-equity shares	13	(405.1)	(47.1)
<b>Transfer (from)/to reserves</b>		<u>(137.9)</u>	<u>107.8</u>

The notes on pages 11 to 28 form part of these financial statements.

The Group made no acquisitions nor discontinued any operations within the meaning of Financial Reporting Standard 3 during either 1996 or 1997. Therefore turnover and operating profit derive entirely from continuing operations.

There were no material recognised gains and losses other than the profit for the current and previous financial years.

There is no material difference between the Group results as reported and on a historical cost basis. Accordingly, no note of historical cost profit and losses has been prepared.



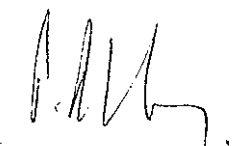
# GROUP AND COMPANY BALANCE SHEETS

At 31 March 1997

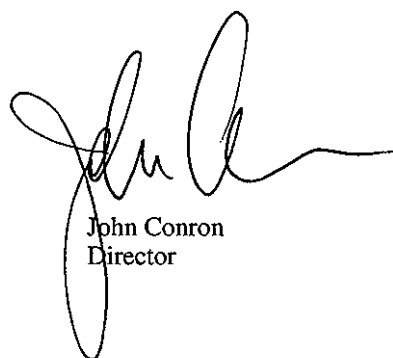
	Notes	GROUP		COMPANY	
		1997 £m	1996 £m	1997 £m	1996 £m
<b>Fixed assets</b>					
Tangible assets	14	1,965.9	1,998.4	1,922.1	1,935.5
Investments	15	-	15.6	45.3	66.4
		<u>1,965.9</u>	<u>2,014.0</u>	<u>1,967.4</u>	<u>2,001.9</u>
<b>Current assets</b>					
Stocks	16	10.6	6.8	8.8	4.7
Debtors	17	354.5	339.0	385.3	369.8
Investments		0.7	-	0.7	-
Cash at bank and in hand	23(d)	59.6	95.6	56.8	89.9
		<u>425.4</u>	<u>441.4</u>	<u>451.6</u>	<u>464.4</u>
<b>Creditors: amounts falling due within one year</b>	18	(653.0)	(569.1)	(665.1)	(548.8)
<b>Net current liabilities</b>		<u>(227.6)</u>	<u>(127.7)</u>	<u>(213.5)</u>	<u>(84.4)</u>
<b>Total assets less current liabilities</b>		<u>1738.3</u>	<u>1,886.3</u>	<u>1,753.9</u>	<u>1,917.5</u>
<b>Creditors: amounts falling due after more than one year</b>	18	(20.1)	(26.1)	(20.1)	(26.1)
<b>Provisions for liabilities and charges</b>	19	(4.8)	(19.4)	(4.8)	(19.4)
<b>Net assets</b>		<u>1,713.4</u>	<u>1,840.8</u>	<u>1,729.0</u>	<u>1,872.0</u>
<b>Capital and reserves</b>					
Called up share capital	20	850.4	850.4	850.4	850.4
Share premium account	21	735.7	735.7	735.7	735.7
Profit and loss account	21	127.3	252.1	142.9	285.9
<b>Shareholders' funds</b>					
Equity		863.9	988.7	879.5	1,022.5
Non-equity		849.5	849.5	849.5	849.5
		<u>1,713.4</u>	<u>1,838.2</u>	<u>1,729.0</u>	<u>1,872.0</u>
<b>Equity minority interests</b>	22	-	2.6	-	-
		<u>1,713.4</u>	<u>1,840.8</u>	<u>1,729.0</u>	<u>1,872.0</u>

The notes on pages 11 to 28 form part of these financial statements.

The financial statements on pages 7 to 28 were approved by the Board of directors on 9 May 1997 and signed on its behalf by:



Peter Howell-Davies  
Director



John Conron  
Director

# GROUP CASH FLOW STATEMENT

For the year ended 31 March 1997

	Notes	1997 £m	1996 £m
<b>Net cash inflow from operating activities</b>	23(a)	<u>631.7</u>	<u>514.1</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		13.3	2.5
Interest paid		(7.0)	(0.4)
Dividend paid to preference shareholders		(0.1)	(0.1)
Dividend paid to minority shareholders		(0.7)	(1.3)
Interest element of finance lease rental payments		(1.7)	(2.2)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<u>3.8</u>	<u>(1.5)</u>
<b>Taxation</b>			
UK corporation tax paid		<u>(53.7)</u>	<u>(58.4)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(309.9)	(370.3)
Sale of tangible fixed assets		14.1	5.3
Purchase of fixed asset investments		-	(14.3)
Disposal of fixed asset investments		11.1	-
Investment in associated undertaking		(0.7)	(0.4)
Loan made to current asset investment		(0.2)	-
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(285.6)</u>	<u>(379.7)</u>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings net of cash and cash equivalents acquired		-	(0.9)
Disposal of business and subsidiary undertakings	23(b)	28.1	57.4
<b>Net cash inflow from acquisitions and disposals</b>		<u>28.1</u>	<u>56.5</u>
<b>Equity dividends paid</b>			
Ordinary dividends paid		<u>(356.0)</u>	<u>(46.0)</u>
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>		<u>(31.7)</u>	<u>85.0</u>
<b>Management of liquid resources</b>		-	-
<b>Financing</b>			
Repayment of minority preference shares		-	(0.9)
Capital element of finance lease rental payments	23(c)	(4.3)	(7.0)
<b>(Decrease)/increase in cash in the year</b>		<u>(36.0)</u>	<u>77.1</u>

# RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the Year Ended 31 March 1997

	1997 £m	1996 £m
<b>GROUP</b>		
<b>Profit for the financial year</b>	<b>267.2</b>	<b>154.9</b>
Dividends - Ordinary interim paid	(330.0)	(21.0)
- Ordinary final proposed	(75.0)	(26.0)
- Preference paid	(0.1)	(0.1)
<b>Transfer (from)/to reserves</b>	<b>(137.9)</b>	<b>107.8</b>
Goodwill previously written off in respect of sale of subsidiary undertaking and other business interests	13.3	2.0
Goodwill acquired and written off during the year	(0.2)	(0.2)
<b>Net (decrease)/increase in shareholders' funds</b>	<b>(124.8)</b>	<b>109.6</b>
Opening shareholders' funds	1,838.2	1,728.6
<b>Closing shareholders' funds</b>	<b>1,713.4</b>	<b>1,838.2</b>
	1997 £m	1996 £m
<b>COMPANY</b>		
<b>Profit for the financial year</b>	<b>262.1</b>	<b>150.4</b>
Dividends - Ordinary interim paid	(330.0)	(21.0)
- Ordinary final proposed	(75.0)	(26.0)
- Preference paid	(0.1)	(0.1)
<b>Transfer (from)/to reserves</b>	<b>(143.0)</b>	<b>103.3</b>
Goodwill previously written off in respect of the sale of other business interests	-	0.8
<b>Net (decrease)/increase in shareholders' funds</b>	<b>(143.0)</b>	<b>104.1</b>
Opening shareholders' funds	1,872.0	1,767.9
<b>Closing shareholders' funds</b>	<b>1,729.0</b>	<b>1,872.0</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, are set out below.

#### (a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Changes in the presentation of the group cash flow statement have been made consequent upon the adoption of the revised Financial Reporting Standard No 1 'Cash Flow Statements'. Comparative figures have been restated in accordance with the revised presentation.

#### (b) Basis of consolidation

The Group financial statements comprise a consolidation of the accounts of the Company and all its subsidiary undertakings together with the Group's share of the results and net assets of its associate undertaking. The accounts of the subsidiary undertakings are made up to 31 March and the result of the associated undertaking is based on its unaudited management accounts to 30 June, the date at which it was transferred to current asset investments. An associate undertaking is one in which the Group has a long term interest and is in a position to exercise a significant influence.

Where subsidiary or associated undertakings are acquired during the year, the difference between fair value of purchase consideration and fair values attributed to the assets acquired is dealt with as a movement on Group reserves. Where subsidiary or associated undertakings are wholly or partly disposed of during the year, any goodwill previously dealt with as a movement on Group reserves is written back to the profit and loss account.

The results of subsidiary or associated undertakings acquired or disposed of during the year are included from the date of their acquisition or up to the date of their disposal. Intra-group sales and profits are eliminated fully on consolidation.

#### (c) Foreign currencies

Transactions are translated into sterling at the rate of exchange ruling on the date of the transaction and all foreign currency assets and liabilities are translated at the rates ruling at 31 March. Any exchange differences arising are dealt with through the profit and loss account.

#### (d) Interconnection with other operators

When traffic is carried by operators of other national and international telecommunications networks, the charges incurred are matched with the associated revenues.

All charges payable to, or by, overseas telecommunications administrations are negotiated separately and are subject to continuous review.

Charges payable by Mercury to British Telecommunications plc (BT) for the conveyance of traffic and connections to the BT network are subject to government regulation in the form of a determination by Oftel, the Office of Telecommunications. After the end of each financial year, Oftel undertakes a review to assess the bases used for the calculation of the charges made in that year. Amendments are backdated to take effect from 1 April in the year under review but are accounted for in subsequent financial periods.

Due to the uncertainty of the outcome of the Oftel reviews the Company provides for any increased payments that it considers may arise but does not anticipate any benefits unless they can be quantified with reasonable certainty.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is set aside on the basis of providing for the cost, less estimated residual value, in equal annual instalments over the estimated useful lives of these assets, namely:

		Average life
Freehold buildings	40 years	40 years
Leasehold property	40 years, or term of lease if less	20 years
Communication network:		
Telephone cables and repeaters - digital	15 to 20 years	17 years
Ducting	5 to 40 years	34 years
Other network plant	6 to 25 years	12 years
Non network plant	2 to 10 years	6 years

Freehold land, where the cost is distinguishable from the cost of the building thereon, is not depreciated.

Surpluses and deficits on disposals of tangible fixed assets are determined by reference to sale proceeds and net book value amounts.

#### (f) Fixed asset investments

In the Group accounts the associated undertaking is accounted for using the equity method of accounting until the date of disposal or earlier transfer to current asset investments. Other fixed asset investments are stated at cost less amounts written off for any permanent diminution in value.

#### (g) Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

#### (h) Deferred tax

The Group 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.

#### (i) Stocks

Stocks represent equipment for resale and are stated at the lower of cost and net realisable value.

#### (j) Pensions

The regular cost of providing benefits is charged to operating profit over the service lives of the members of the schemes on the basis of a percentage of pensionable pay. The percentage may vary over time in accordance with the recommendations of independent actuaries who value the scheme at regular triennial intervals.

#### (k) Leased assets

Tangible fixed assets which are held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over its estimated useful life in accordance with the depreciation policy set out in note (e) above. The obligations relating to finance leases, net of finance charges in respect of future periods, are included, as appropriate under creditors due within one year or creditors due after more than one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account as incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 2. PROFIT AND LOSS ACCOUNT

The Company has taken advantage of the exemption contained within Section 230 of the Companies Act 1985 from presenting its own profit and loss account.

### 3. TURNOVER

Turnover comprises amounts accruing to the Group, net of VAT. This is derived from national and international telecommunications services provided under licence from the UK Government and from the sale and rental of telecommunications equipment.

The Group's operations are all considered to fall into one class of business, namely telecommunications. In both the current and prior years over 99% of Mercury's turnover was generated by operations in the United Kingdom. The turnover can be analysed as follows:

	1997 £m	1996 £m
International telephone services	614.4	623.1
Domestic telephone services	670.0	630.5
Equipment rental and sales	38.7	95.1
Other telecommunications services	407.2	357.2
	<u>1,730.3</u>	<u>1,705.9</u>

Other telecommunications services comprises mainly leased line rentals, mobile services and outsource contracts.

### 4. OPERATING COSTS

(a) Operating costs can be analysed as follows:

	1997 £m	1996 £m
Outpayments to other telecommunications operators, administrations and carriers, less exceptional operating credit (note 4b)	538.8	665.4
Employee costs	183.6	193.5
Depreciation	295.0	274.5
Other operating costs	347.1	348.2
	<u>1,364.5</u>	<u>1,481.6</u>

Having regard to the special nature of the Group's business, an analysis of operating costs in the manner prescribed by the Companies Act 1985 is not appropriate. In the circumstances therefore, the directors have, as allowed by paragraph 3(3) of Schedule 4 to the Companies Act 1985, adapted the prescribed format to the requirements of the Group's business.

Employee and other operating costs are stated net of the capitalisation of such costs as tangible fixed assets.

(b) Exceptional operating credit

The company makes an assessment of the latest available information relating to interconnect rates when preparing and approving the annual financial statements. As a result of this assessment an amount of £108.3 million relating to prior periods has been recorded as a credit to operating profit. In the year ended 31 March 1996 the prior period element of the credit arising as a result of information then available was £30 million.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 5. OPERATING PROFIT

	1997 £m	1996 £m
Operating profit is stated after charging /(crediting):		
Auditors' remuneration - audit (group and company)	0.3	0.4
- other fees paid to the auditor and associates	0.9	1.6
Operating leases	66.1	66.5
Depreciation of leased plant and machinery	3.4	3.5
Exchange gains	(3.2)	(0.6)
Management fees	17.5	17.5
Loss on disposal/write down of fixed assets	2.9	14.3

Under the terms of the sale of 20% of the Company's equity to Bell Canada International Holdings Limited on 14 January 1993, management fees are payable to the parent undertaking, Cable and Wireless plc, and to Bell Canada International Holdings Limited for the provision of technical, marketing, taxation and treasury services and other professional advice.

### 6. EMPLOYEES

	1997 Number	1996 Number
(a) The average monthly number of persons employed by the Group during the year was:	7,080	8,231
	1997 £m	1996 £m
(b) The aggregate remuneration and associated costs of Group employees were:		
Salaries and wages	201.6	211.1
Social security costs	16.6	17.6
Pension costs	18.4	19.1
	236.6	247.8
Less: amounts capitalised	(53.0)	(54.3)
	183.6	193.5

#### (c) Pensions

The Group participates in a pension scheme operated by Cable and Wireless plc. The scheme is a defined benefit scheme whereby retirement benefits are based on the employees' final remuneration and length of service and is funded through a separate trustee administered scheme. Contributions to the scheme are based on pension costs for all members of the scheme across the Cable & Wireless group and are made in accordance with the recommendations of independent actuaries who value the scheme at regular triennial intervals. The last valuation currently available relates to the position of the scheme as at 31 March 1996.

Full details relating to the pension scheme are disclosed in the financial statements of Cable and Wireless plc.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 7. DIRECTORS

Aggregate Disclosure	1997 £'000	1996 £'000
Aggregate emoluments	<u>662.0</u>	<u>458.3</u>
Compensation for loss of office	<u>-</u>	<u>251.9</u>
Four directors exercised share options in the year and five became entitled to receive shares under the long-term incentive scheme. Retirement benefits are accruing for two directors under a defined benefit pension scheme.		
Highest Paid Director	1997 £	1996 £
Aggregate emoluments and benefits under long-term incentive schemes	<u>360,812</u>	<u>119,603</u>
Defined benefit pension scheme:		
Accrued pension at end of year	<u>136,908</u>	<u>69,841</u>

The prior year accrued pension is based on the director's salary earned from 18 September 1995, the date of his appointment, to 31 March 1996. The full year equivalent accrued pension is £131,086.

The normal retirement age for the highest paid director is 55. Pensions in payment are increased annually in line with inflation. A lump sum is payable on death in retirement equal to the balance (if any) of five years' instalments of pension, the remaining pension reduces to two-thirds and is payable to a surviving spouse or other dependant.

A lump sum equal to four times final remuneration is payable on death prior to retirement, plus a pension is payable to a spouse or dependants equal to two-thirds of the pension that would have been paid to the member had he or she remained in service to the normal retirement date based on the final remuneration at the date of death.

If the director's employment is terminated due to incapacity, an immediate pension is payable equal to the pension that would have been paid from normal retirement date based on the final remuneration at the date of incapacity.

The highest paid director exercised share options in the year and became entitled to receive shares under the long-term incentive scheme as detailed in the directors' report.

### 8. ASSOCIATED UNDERTAKING

	1997 £m	1996 £m
Share of losses of associated undertaking	<u>(0.3)</u>	<u>(0.4)</u>

Due to trading losses incurred during the year there is no liability to taxation in the associated undertaking.

On 30 June 1996, Mercury's investment in M33 ceased to be treated as an associate. The net investment as at that date of £1.5m was transferred to current asset investments. The associate losses of £0.3m represent Mercury's share of the company's losses to that date.

### 9. INTEREST RECEIVABLE AND SIMILAR INCOME

	1997 £m	1996 £m
Interest receivable and similar income on:		
Short term deposits and other interest	0.2	0.3
Funds placed with parent undertaking	13.1	2.2
	<u>13.3</u>	<u>2.5</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 10. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £m	1996 £m
Interest payable and similar charges on:		
Loans other than bank loans and overdrafts	-	0.3
Funds borrowed from parent undertaking	4.0	-
Finance leases	1.7	1.9
Inter-group finance leases	-	0.4
Other interest	3.0	-
	<u>8.7</u>	<u>2.6</u>

### 11. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997 £m	1996 £m
Current corporation tax at 33%	121.1	68.0
Deferred tax	(1.1)	-
Adjustments in respect of prior years	(9.5)	(0.6)
	<u>110.5</u>	<u>67.4</u>

If deferred tax had been fully provided in 1997 under the liability method, the tax charge for the year would have decreased by £49.9m (1996: increased by £23.7m). The Group's effective tax rate for the year ended 31 March 1997 is 32% (1996: 26% after adjustments in respect of prior years). This rate is lower than the statutory tax rate of 33% due to the relatively high capital expenditure giving rise to capital allowances which reduce taxable income.

### 12. EQUITY MINORITY INTERESTS

	1997 £m	1996 £m
Minority interests in profit	<u>(0.3)</u>	<u>(2.0)</u>

### 13. DIVIDENDS PAID AND PROPOSED

		1997 £m	1996 £m
Equity shares	- Interim dividend paid	330.0	21.0
	- Final dividend proposed	75.0	26.0
		<u>405.0</u>	<u>47.0</u>
Non-equity shares	- Dividend paid	0.1	0.1
		<u>405.1</u>	<u>47.1</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 14. TANGIBLE ASSETS

GROUP	Land and Buildings £m	Cable, plant & equipment: Network £m	Plant and equipment: Non-network £m	Total £m
<b>Cost</b>				
At 1 April 1996	106.4	2,654.4	327.9	3,088.7
Subsidiary undertakings sold	-	(25.8)	(0.6)	(26.4)
Additions	-	257.2	35.5	292.7
Disposals	(3.6)	(20.8)	(19.0)	(43.4)
<b>At 31 March 1997</b>	<b>102.8</b>	<b>2,865.0</b>	<b>343.8</b>	<b>3,311.6</b>
<b>Depreciation</b>				
At 1 April 1996	11.9	869.7	208.7	1,090.3
Subsidiary undertakings sold	-	(18.1)	(0.3)	(18.4)
Charge for the year	3.7	240.0	51.3	295.0
Disposals	(1.4)	(8.6)	(11.2)	(21.2)
<b>At 31 March 1997</b>	<b>14.2</b>	<b>1,083.0</b>	<b>248.5</b>	<b>1,345.7</b>
<b>Net Book Value</b>				
<b>At 31 March 1997</b>	<b>88.6</b>	<b>1,782.0</b>	<b>95.3</b>	<b>1,965.9</b>
At 31 March 1996	94.5	1,784.7	119.2	1,998.4

Cable, plant and equipment: Network cost includes £210.5m (1996: £102.9m) in respect of assets not yet in service and consequently upon which depreciation has not been charged.

Land and buildings cost includes £102.0m (1996: £105.6m) of depreciable assets.

The net book value of tangible fixed assets includes an amount of £19.9m (1996: £23.6m) in respect of assets held under finance leases. The depreciation charge for the year on these assets amounted to £3.4m (1996: £3.5m).

	1997 £m	1996 £m
Land and buildings net book value comprises:		
Freehold	66.8	68.8
Short leasehold	21.2	25.0
Long leasehold	0.6	0.7
	<b>88.6</b>	<b>94.5</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 14. TANGIBLE ASSETS (continued)

COMPANY	Land and buildings £m	Cable, plant & equipment: Network £m	Plant & equipment: Non-network £m	Total £m
<b>Cost</b>				
At 1 April 1996	106.0	2,541.3	319.2	2,966.5
Additions	-	254.3	34.0	288.3
Disposals	(3.5)	(20.7)	(17.5)	(41.7)
<b>At 31 March 1997</b>	<b>102.5</b>	<b>2,774.9</b>	<b>335.7</b>	<b>3,213.1</b>
<b>Depreciation</b>				
At 1 April 1996	11.7	815.6	203.7	1,031.0
Charge for the year	3.6	228.4	48.6	280.6
Disposals	(1.4)	(8.4)	(10.8)	(20.6)
<b>At 31 March 1997</b>	<b>13.9</b>	<b>1,035.6</b>	<b>241.5</b>	<b>1,291.0</b>
<b>Net Book Value</b>				
At 31 March 1997	88.6	1,739.3	94.2	1,922.1
At 31 March 1996	94.3	1,725.7	115.5	1,935.5

Cable, plant and equipment: Network cost includes £202.6m (1996: £97.5m) in respect of assets not yet in service and consequently upon which depreciation has not yet been charged.

Land and buildings cost includes £101.7m (1996: £105.2m) of depreciable assets.

The net book value of tangible fixed assets includes an amount of £19.9m (1996: £23.6m) in respect of assets held under finance leases. The depreciation charge for the year on these assets amounted to £3.4m (1996: £3.5m).

	1997 £m	1996 £m
Land and buildings net book value comprises:		
Freehold	66.8	68.8
Short leasehold	21.2	24.8
Long leasehold	0.6	0.7
	<b>88.6</b>	<b>94.3</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 15. INVESTMENTS

GROUP	Associated undertaking £m	Other investments £m	Total £m
<b>Cost</b>			
At 1 April 1996	4.6	14.3	18.9
Additions	0.7	-	0.7
Transfer to current asset investment	(5.3)	-	(5.3)
Disposals	-	(14.3)	(14.3)
<b>At 31 March 1997</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Amounts written off</b>			
At 1 April 1996	(2.2)	-	(2.2)
Amounts written off in the year	(0.2)	-	(0.2)
Transfer to current asset investment	2.4	-	2.4
<b>At 31 March 1997</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Share of post acquisition reserves</b>			
At 1 April 1996	(1.1)	-	(1.1)
Share of loss for the year	(0.3)	-	(0.3)
Transfer to current asset investment	1.4	-	1.4
<b>At 31 March 1997</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Book Value</b>			
<b>At 31 March 1997</b>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 1996	<u>1.3</u>	<u>14.3</u>	<u>15.6</u>

	1997 £m	1996 £m
Investments at net book value comprise:		
Unlisted shares	-	14.3
Loans	-	1.3
	<u>-</u>	<u>15.6</u>

On 26 March 1997 the Group disposed of its 25% interest in the ordinary share capital of Siemens Business Communication Systems Limited. The interest was disclosed within Other investments.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 15. INVESTMENTS (continued)

COMPANY	Subsidiary undertakings £m	Other investments £m	Total £m
<b>Cost</b>			
At 1 April 1996	47.7	14.3	62.0
Intra-group transfers	-	(14.3)	(14.3)
<b>At 31 March 1997</b>	<b>47.7</b>	<b>-</b>	<b>47.7</b>
<b>Amounts written off</b>			
At 1 April 1996 and 31 March 1997	(3.3)	-	(3.3)
<b>Loans and advances</b>			
At 1 April 1996	7.7	-	7.7
Movement in the year	(6.8)	-	(6.8)
<b>At 31 March 1997</b>	<b>0.9</b>	<b>-</b>	<b>0.9</b>
<b>Net Book Value</b>			
At 31 March 1997	45.3	-	45.3
At 31 March 1996	52.1	14.3	66.4

In the opinion of the directors the values of these investments are not less than the amounts at which they are included above.

On 26 March 1997 the company transferred its 25% interest in the ordinary share capital of Siemens Business Communication Systems Limited to another group company, Mercury Communications (Enterprises) Limited. The interest was disclosed within Other investments.

## 16. STOCKS

	GROUP		COMPANY	
	1997 £m	1996 £m	1997 £m	1996 £m
Finished goods and goods for resale	10.6	6.8	8.8	4.7

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 17. DEBTORS

	GROUP		COMPANY	
Amounts falling due within one year	1997 £m	1996 £m	1997 £m	1996 £m
Trade debtors	311.5	304.6	285.7	275.5
Amounts owed by parent undertaking and fellow subsidiary undertakings	20.8	14.0	7.3	8.6
Amounts owed by subsidiary undertakings	-	-	82.7	76.0
Other debtors	0.7	1.8	0.7	1.7
Prepayments and accrued income	17.7	17.7	5.1	7.1
	<u>350.7</u>	<u>338.1</u>	<u>381.5</u>	<u>368.9</u>
Amounts falling due after more than one year				
Other debtors	-	0.9	-	0.9
Advance corporation tax recoverable	3.8	-	3.8	-
Total debtors	<u>354.5</u>	<u>339.0</u>	<u>385.3</u>	<u>369.8</u>

## 18. CREDITORS

	GROUP		COMPANY	
Amounts falling due within one year	1997 £m	1996 £m	1997 £m	1996 £m
Net obligations under finance leases	4.7	4.3	4.7	4.3
Payments received on account	19.2	13.6	19.0	13.4
Trade creditors	176.5	189.2	167.9	173.4
Amounts owed to parent undertaking and fellow subsidiary undertakings	118.7	75.5	118.7	75.5
Amounts owed to subsidiary undertakings	-	-	26.4	4.9
Corporation tax	6.6	16.0	2.7	15.2
Other taxation and social security	41.3	26.6	40.8	26.5
Other creditors	14.4	14.6	14.3	13.6
Accruals and deferred income	192.8	203.3	191.8	196.0
Dividend payable	75.0	26.0	75.0	26.0
Advance corporation tax payable	3.8	-	3.8	-
	<u>653.0</u>	<u>569.1</u>	<u>665.1</u>	<u>548.8</u>
Amounts falling due after more than one year				
Net obligations under finance leases	14.2	18.9	14.2	18.9
Accruals and deferred income	5.9	7.2	5.9	7.2
	<u>20.1</u>	<u>26.1</u>	<u>20.1</u>	<u>26.1</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 18. CREDITORS (continued)

	GROUP		COMPANY	
	1997 £m	1996 £m	1997 £m	1996 £m
<b>Of the amounts falling due after more than one year, amounts falling due after five years</b>				
Deferred income	3.3	5.1	3.3	5.1
Net obligations under finance leases	4.2	-	4.2	-
	<u>7.5</u>	<u>5.1</u>	<u>7.5</u>	<u>5.1</u>

### Finance leases

The net finance lease obligations are repayable as follows:

Within one year	4.7	4.3	4.7	4.3
One to two years	2.3	4.7	2.3	4.7
Second to fifth year inclusive	7.7	7.3	7.7	7.3
Payable thereafter	4.2	6.9	4.2	6.9
	<u>18.9</u>	<u>23.2</u>	<u>18.9</u>	<u>23.2</u>

## 19. PROVISIONS FOR LIABILITIES AND CHARGES

	GROUP		COMPANY	
	1997 £m	1996 £m	1997 £m	1996 £m
Deferred tax	-	1.1	-	1.1
Other provisions	4.8	18.3	4.8	18.3
	<u>4.8</u>	<u>19.4</u>	<u>4.8</u>	<u>19.4</u>

### Deferred tax

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

	GROUP		COMPANY	
	1997 £m	1996 £m	1997 £m	1996 £m
<b>Amount provided</b>				
Rollover relief at 1 April 1996	1.1	1.1	1.1	1.1
Credited in the year	(1.1)	-	(1.1)	-
<b>At 31 March 1997</b>	<u>-</u>	<u>1.1</u>	<u>-</u>	<u>1.1</u>
<b>Potential liability</b>				
Excess capital allowances	295.8	362.8	295.5	359.2
Other	2.1	(15.0)	2.1	(15.0)
	<u>297.9</u>	<u>347.8</u>	<u>297.6</u>	<u>344.2</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 19. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	GROUP		COMPANY	
Other Provisions	1997 £m	1996 £m	1997 £m	1996 £m
At 1 April 1996	18.3	63.8	18.3	63.8
Provided in the year	1.5	-	1.5	-
Less: net amounts paid or utilised during the year	(15.0)	(45.5)	(15.0)	(45.5)
<b>At 31 March 1997</b>	<b>4.8</b>	<b>18.3</b>	<b>4.8</b>	<b>18.3</b>
Other Provisions comprise:				
Redundancy and associated costs	0.2	7.3	0.2	7.3
Property costs	4.1	6.6	4.1	6.6
Sale and termination of operations	0.5	3.4	0.5	3.4
Disposal of fixed assets	-	1.0	-	1.0
	<b>4.8</b>	<b>18.3</b>	<b>4.8</b>	<b>18.3</b>

## 20. SHARE CAPITAL

	1997 £m	1996 £m
<b>Authorised</b>		
150,680,000 Ordinary shares of £1 each	150.7	150.7
849,320,000 Non-voting irredeemable 0.01% fixed dividend preference shares of £1 each	849.3	849.3
500,000 Voting non-cumulative redeemable 7.5% fixed rate preference shares of £1 each	0.5	0.5
500,000 Non-voting redeemable participating shares of £1 each	0.5	0.5
999,000,000 Unclassified shares of £1 each	999.0	999.0
	<b>2,000.0</b>	<b>2,000.0</b>
<b>Allotted, called up and fully paid</b>		
<b>Equity interests</b>		
925,000 Ordinary shares of £1 each	0.9	0.9
<b>Non-equity interests</b>		
849,320,000 Non-voting irredeemable 0.01% fixed dividend preference shares of £1 each	849.3	849.3
75,000 Voting non-cumulative redeemable 7.5% fixed rate preference shares of £1 each	0.1	0.1
75,000 Non-voting redeemable participating shares of £1 each	0.1	0.1
	<b>849.5</b>	<b>849.5</b>
<b>Total share capital</b>	<b>850.4</b>	<b>850.4</b>

The voting non-cumulative redeemable 7.5% fixed rate preference £1 shares and non-voting redeemable participating £1 shares may be redeemed at the option of the Company at any time without premium.

The voting non-cumulative redeemable preference shares rank first on a winding up and are entitled to the nominal value of the shares and any dividend arrears. The non-voting redeemable participating shares and the ordinary shares rank joint second. The non-voting redeemable participating shares are entitled to only the nominal value of the shares. The ordinary shares are entitled to £1,000 million per share. The non-voting irredeemable preference shares rank last and are entitled to the nominal value of the shares and any dividend arrears.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 21. RESERVES

	Profit and loss account £m	Share premium account £m
<b>GROUP</b>		
At 1 April 1996	252.1	735.7
Profit attributable to shareholders	267.2	-
Goodwill written off on additional investment in associate	(0.2)	-
Goodwill previously written off in respect of sale of subsidiary undertaking and other business interests	13.3	-
Dividends	(405.1)	-
<b>At 31 March 1997</b>	<b>127.3</b>	<b>735.7</b>
<b>COMPANY</b>		
At 1 April 1996	285.9	735.7
Profit for the year	262.1	-
Dividends	(405.1)	-
<b>At 31 March 1997</b>	<b>142.9</b>	<b>735.7</b>

The cumulative amount of goodwill resulting from acquisitions during the year ended 31 March 1997 and prior years, net of goodwill attributable to subsidiary undertakings or businesses disposed of prior to 31 March 1997, amounted to £34.0m (1996: £47.1m).

## 22. MINORITY INTERESTS

	1997 £m	1996 £m
Equity minority interests	-	2.6

## 23. GROUP CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities	1997 £m	1996 £m
Operating profit	365.8	224.3
Add back non cash items:		
Depreciation	295.0	274.5
Loss on disposal/write down of fixed assets	2.9	14.3
Movements in working capital:		
(Increase)/decrease in stocks	(4.8)	12.3
(Increase) in debtors	(15.4)	(23.2)
Increase in creditors	0.3	45.0
Movement on provision for exceptional operating costs	(12.1)	(33.1)
<b>Net cash inflow from operating activities</b>	<b>631.7</b>	<b>514.1</b>

Exceptional operating costs relate to business rationalisation and reorganisation and to the sale or closure of operations, including severance and other employee costs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

## 23. GROUP CASH FLOW STATEMENT (continued)

(b) Disposal of business and subsidiary undertaking		1997 £m	1996 £m	
Net assets disposed of		4.2	39.2	
Less: Minority interests		(2.9)	-	
Disposal costs		1.4	14.9	
		<u>2.7</u>	<u>54.1</u>	
Profit on sale		12.1	1.3	
Goodwill written back on sale		13.3	2.0	
Cash inflow from disposal		<u>28.1</u>	<u>57.4</u>	
(c) Reconciliation of net cash flow to movement in net funds		1997 £m	1996 £m	
(Decrease)/increase in cash in the period		(36.0)	77.1	
Cash outflow from lease financing		<u>4.3</u>	<u>7.0</u>	
Movement in net debt in the period		(31.7)	84.1	
Net funds/(debt) at 1 April 1996		<u>72.4</u>	<u>(11.7)</u>	
Net funds at 31 March 1997		<u>40.7</u>	<u>72.4</u>	
(d) Analysis of net funds	At 1 April 1996 £m	Cash Flow £m	Other cash changes £m	At 31 March 1997 £m
Cash in hand and at bank	95.6	(36.0)	-	59.6
Finance leases				
- Obligations under finance leases less than 1 year	(4.3)	4.3	(4.7)	(4.7)
- Obligations under finance leases greater 1 year	(18.9)	-	4.7	(14.2)
Total	<u>72.4</u>	<u>(31.7)</u>	<u>-</u>	<u>40.7</u>

## 24. OPERATING LEASES

	GROUP		COMPANY	
	1997 £m	1996 £m	1997 £m	1996 £m
Annual commitments payable under non cancellable operating leases expiring:				
<b>Land and buildings</b>				
Within one year	0.3	0.5	0.3	0.5
Within two to five years	0.9	1.4	0.9	1.4
Thereafter	23.6	24.6	23.6	24.5
	<u>24.8</u>	<u>26.5</u>	<u>24.8</u>	<u>26.4</u>
<b>Other assets</b>				
Within one year	5.6	4.3	5.6	4.1
Within two to five years	6.5	8.2	6.4	8.1
Thereafter	23.9	24.0	23.9	24.0
	<u>36.0</u>	<u>36.5</u>	<u>35.9</u>	<u>36.2</u>
Total commitments	<u>60.8</u>	<u>63.0</u>	<u>60.7</u>	<u>62.6</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 25. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	1997 £m	1996 £m	1997 £m	1996 £m
Commitments in respect of contracts placed	<u>46.9</u>	<u>19.3</u>	<u>46.9</u>	<u>19.3</u>

### 26. CONTINGENT LIABILITIES

The Company has pledged support for certain subsidiary undertakings to the extent of their net liabilities.

At 31 March 1997, there were no contingent liabilities or guarantees other than those above and those arising in the ordinary course of the Group's business and on these no material losses are anticipated.

### 27. POST BALANCE SHEET EVENTS

On 28 April 1997, Mercury executed a guarantee in respect of CWC's obligations under a £2.9 billion loan facility from a syndicate of banks arranged by Chase Investment bank Limited, Citibank International plc, HSBC Investment Bank plc and The Toronto Dominion Bank.

As stated in the directors' report, on 28 April 1997, the offer for shares bringing in to effect the merger of Mercury Communications Limited, NYNEX CableComms Group PLC and NYNEX CableComms Group Inc, Bell Cablemedia plc and Videotron Holdings Plc to form Cable & Wireless Communications plc was declared unconditional.

### 28. RELATED PARTY TRANSACTIONS

Cable and Wireless plc and Bell Canada International Holdings Limited are considered related parties on the basis of their equity shareholdings in Mercury which, at 31 March 1997, amounted to 85.17% and 14.83% respectively.

During the year ended 31 March 1997 the group had the following transactions with its parent company Cable and Wireless plc and fellow subsidiary undertakings.

	Note	Cable and Wireless plc £m	Fellow Subsidiary Co.s £m
Turnover (traffic and non-traffic)		0.1	36.7
Receivable in respect of bureau services provided	a	1.1	-
Interest receivable		13.1	-
Purchases (traffic and non-traffic)		4.0	31.7
Interest payable		4.0	-
Dividends		324.0	-
Contributions towards group development programme	b	2.4	-
Management service charges	c	14.0	-
Lease payments on property		<u>5.1</u>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

### 28. RELATED PARTY TRANSACTIONS (continued)

The amounts owing to and from the parent company and fellow subsidiaries are as follows:

	Cable and Wireless plc	Fellow Subsidiary Co.s
	£m	£m
Debtors	6.0	14.8
Creditors	116.9	1.8
Cash deposited	<u>27.7</u>	<u>-</u>

In the year ended 31 March 1997 the group also had transactions with Bell Canada International Holdings Limited in respect of management services of £3.5m, group tax relief of £13.8m and dividends of £81.0m. The balance due to Bell Canada International Holdings Limited at 31 March 1997 was £28.8m.

All transactions with group undertakings are on commercial terms.

Notes:

- Mercury provides various bureau services to its parent company, including payroll, purchase ledger and cash recording facilities.
- Cable and Wireless plc undertake a number of development programmes which are of benefit to its subsidiary undertakings. Contributions are made by the Mercury Group for its share of the cost of these development programmes.
- Management service charges cover the provision of technical training, marketing, taxation and treasury services and other professional advice.

### 29. ULTIMATE HOLDING UNDERTAKING

The Company's parent and head of the Group in which the results of the Company and Group are consolidated and, as regarded by the directors, the ultimate holding undertaking is Cable and Wireless plc registered in England and Wales. A copy of Cable and Wireless plc's financial statements can be obtained from Cable and Wireless plc, 124 Theobalds Road, London, WC1X 8RX.

On 25 April 1997, the Company's immediate parent changed to Cable & Wireless Communications plc. The ultimate parent undertaking remains the same.

## PRINCIPAL SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

Brief details of principal operating subsidiary and associated undertakings are given below.

	Class	Direct %	Indirect %	Total %	Principal Activities
<b>SUBSIDIARY UNDERTAKINGS</b>					
Mercury Communications Mobile Services Limited	Ordinary	-	100	100	Cellular airtime service provider
Mercury Communications (Enterprises) Limited	Ordinary	100	-	100	Holding company
Mercury Data Networks Services Limited	Ordinary	100	-	100	Managed data network services
Prelink Limited	Ordinary	-	100	100	Export Intelligence Services
Mercury Wings Limited	Ordinary	100	-	100	Electronic Office Service
Mercury Voice Messaging Limited	Ordinary	100	-	100	Provision of voice messaging services
Starclass Limited	Ordinary	100	-	100	Holding Company
City Cable Holdings Limited	Ordinary	31	69	100	Holding company
London Hydraulic Power Company	Ordinary	20	80	100	Ducting

All of the above are included in the consolidated financial statements on pages 7 to 28.

The indirect holdings are all via Mercury Communications (Enterprises) Limited, with the exception of London Hydraulic Power Company and City Cable Holdings Limited whose indirect holdings are held via Starclass Limited.

There are no associated undertakings at 31 March 1997.

All principal subsidiary and associated undertakings will be included in the company's annual return and are registered in England and Wales.

## **COMPANY INFORMATION**

### **Company Secretary**

PTB Vickers

### **Principal Bankers**

Barclays Bank plc  
54 Lombard Street  
London EC3V 9EX

### **Auditors**

KPMG Audit Plc  
Chartered Accountants  
8 Salisbury Square  
London EC4Y 8BB

### **Registered Office**

New Mercury House  
26 Red Lion Square  
London WC1R 4HQ

Registered Number 1541957  
England