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Company Registration No. 1541957

Certified a true copy

~~Director~~ / Secretary

Cable & Wireless UK

Report and Financial Statements

31 March 2005

Registered Office
Lakeside House
Cain Road
Bracknell RG12
1XL

Company Registration No. 1541957

To the Company's Ordinary Shareholders

Elective Regime

On I February 1991 the Company passed elective resolutions in accordance with Section 379A of the Companies Act 1985 as amended ("ihu 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 the 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.

Contents

Directors' report

The Directors present their annual report and the audited accounts for the year ended 31 March 2005.

Principal activities and review of developments

The Company's principal activity is the supply of telecommunications services and equipment. It is the Directors' intention to continue the business in line with current activities.

Business review

The Company made a profit for the year of £10.5 million (2004: loss of £138.5 million).

The Directors do not recommend payment of a dividend (2004: £nil).

The UK telecommunications market is mature with a considerable number of competitors, significant network capacity and competitive pricing. In the UK, Cable & Wireless is the largest fixed line telecommunications services provider after BT. The UK business provides a full range of services to businesses, from international and domestic voice, data and IP services to complex web hosting solutions and professional services.

The improvement in performance reflected reductions in operating costs and a lower depreciation charge following impairment write-downs in the prior year. Turnover at £2,009 million was £172 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 savings are expected to mitigate the impact of continued pricing pressures.

In April 2005 the Company announced a programme to invest £190million over three years to 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 the 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 Company 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 Company also believes the Next Generation Network will support customer demand for new services providing greater functionality and customised solutions on a competitive basis.

On 16 August 2005, Cable and Wireless pic announced that it had reached agreement to acquire the entire issued share capital of Chelys Limited ('Energis') on a debt and cash free basis, save for Energis' finance lease obligations of approximately £37 million, for an initial cash consideration of £594 million. On completion. Cable and Wireless pic will inject approximately £35 million in cash, which is expected to be recovered within the first year after completion, to meet Energis' short-term working capital requirements. In the third year following completion. Cable and Wireless pic has agreed to pay a contingent consideration of between zero and £80 million, payable in cash or shares at Cable and Wireless pic's option, dependent on the level of Cable and Wireless pic share price. Completion of the agreement occurred on 11 November 2005.

Directors and their interests

The Directors who held office during the year and subsequent to the year end were as follows:

G I-I Norton	(appointed 1 July 2003, resigned 16 September 2004)
R Hoggarth	(appointed 14 July 2003. resigned 15 December 2004)
L Solomon	(appointed 16 September 2004. resigned 29 July 2005)
AS Garard	(appointed 17 December 2004)
JM Jensen	(appointed 29 July 2005)
DJ Plan	(appointed 8 September 2005)

Directors' report (continued)

The Directors have no interest in the shares of the Company nor any disclosable interests in any contracts or arrangements with the Company either subsisting at the end of the financial year or entered into since the end of the previous financial year. The Directors who held office at the end of the financial year had the following beneficial interests in the shares of Cable and Wireless pic:

	At I April 2004 (or later date of appointment)	Shares acquired ur options granted	Shares disposed or options exercised	At 31 March 2005	
L Solomon	635,000		_	635,000	(a)
	150,000	-	-	150,000	(b)
AS Garard	107,245	317	_	107,562	
	8,576	-	-	8,576	(a)
	1,1 12,000	-	-	1,112,000	(b)
	105,773	-	-	105,773	(

All interests are in fully paid Ordinary' Shares, unless marked (a) which are options to purchase Ordinary Shares under the C&W Employee Savings Related Share Option Scheme, (b) which are options to purchase Ordinary Shares under the discretionary' share option schemes, or (c) which are restricted shares which will vest on I July 2006.

Employees

The Company has developed employment policies that meet local conditions and requirements. They are based on best traditions and practices in the United Kingdom. The Company continues to give particular **attention** to (he employment of disabled people. Applicants who are disabled and those who become disabled during employment are offered the widest range of training and opportunities appropriate to their skills.

As a company within a global telecommunications group, great emphasis is placed on effective employee communications and direct communication programmes have been established. The Company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and **factors** relevant to the performance of the Company. Employee representatives are consulted regularly on a wide range of issues affecting the **current** and future interests of employees. The Company considers that the establishment of the right priorities and environment for people is essential for their performance and development and to the future of the Company.

Payment tu suppliers

The Company 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 and services in accordance with the agreed terms and conditions. The Company seeks to treat all suppliers fairly and has a standard which deals specifically with the payment ofsuppliers.

By order of the Board:

II 1Y1 HANSCOMB
Secretary

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 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;
- 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 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.

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Report of the independent auditors, KPMG Audit Pic, to the members of Cable & Wireless UK

We have audited the financial statements on pages 5 to 18.

This rcporl is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this **report,** or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing die Directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and aTe properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with die financial statements, if the Company lias not kept proper accounting records, if we have not received all the **information** and explanations we require for our audit, or if infonnation specified by law-regarding Directors' remuneration and transactions with the Company is not disclosed.

Bask of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a lest basts, 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 die **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 misstatemenl. whether caused by fraud or other irregularity or error. In **fanning** 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 **fee** Company's affairs as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Pic
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

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Profit and loss account
For the year ended 31 March 2005

	Note	2005 £m	2004 £m
Turnover		2,009.0	2,181.0
Cost of sales		(1,373.0)	(1,521.2)
Gross profit		636.0	659.8
Staff costs		(232.8)	(236.5)
Other operating expenses		(260.8)	(334.7)
Exceptional operating costs		(52.7)	(136.5)
Depreciation before exceptional charge	*3*	(56.1)	(62.0) (183.2)
Exceptional depreciation (impairment charge)	*3 & 5*	(4.8)	
		(60.9)	(245.2)
Operating profit/(loss)		28.8	(293.1)
Profit/(loss) on sale of fixed assets Exceptional		10.6	(1.1)
write down of investments Interest receivable			(12.5)
and other similar income Interest payable and		4.4	143.7
similar charges		(2.8)	(18.8)
Profit/(Ioss) on ordinary activities before taxation	3	41.0	(181.8)
Taxation	S	(30.5)	43.3
Retained profit/(loss) for the year		10.5	(138.5)

The results for the year are derived entirely from continuing operations.

There is no difference between the profit/loss on ordinary activities before taxation and the retained profit/loss for the periods stated above and their historical cost equivalents.

Reconciliation of movements in shareholder's funds
Far the year ended 31 March 2005

	2005 £m	2004 £m
Opening balance	49.7	(511.8)
Profit/(loss) for the year	10.5	(138.5)
Foreign exchange translation	0.1	-
New share capital subscribed	-	700.0
Closing balance	60.3	49.7

The Company has no recognised gains and losses other than the profit above, and therefore no separate statement of total recognised gains and losses has been presented.

Balance sheet
At 31 March 2005

	oie	2005 £m	2004 £m
Fixed assets			
intangible assets	*9*	0.8	1.1
Tangible assets	*10*	365.4	276.1
Investments	*I!*	24.0	19.9
		390.2	297.1
Current assets			
Stocks	*12*	9.7	8.4
Debtors - due within one year	*13*	576.9	773.3
Debtors - due after more than one year	*13*	62.3	8.8
Cash at bank and in hand		9.9	6.3
		658.8	796.8
Creditors: amounts falling due within one year	*14*	(855.5)	(922.6)
Net current liabilities		(196.7)	(125.8)
Total assets less current liabilities		193.5	171.3
Creditors; amounts falling due after more than one year	*14*	(0.3)	(0.6)
Provisions for liabilities and charges	*15*	(132.9)	(121.0)
Net assets		60.3	49.7
Capital and reserves			
Called up equity share capital	*16*	3,032.9	3.032.9
Share premium account	*17*	0.80.8	
Foreign exchange translation reserve	*17*	0.1	
Profit and loss account	*17*	(2,973.5)	(2,984,0)
Shareholder's funds		60.3	49.7

These accounts were approved by **the** Board of Directors on January 2006 and signed on its behalf by;

JM JENSEN
Director

The accompanying notes form an integral part of these statements.

Notes to the financial statements
Year ended 31 March 2005

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

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

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements have been prepared on a going concern basis.

Revenue recognition

Interconnection with other operators

Amounts payable by and to telecommunications operators of national and international interconnect networks are recognised as services are provided. Charges are negotiated separately and are subject to continuous review. Revenues generated through the provision of these services are accounted for gross of any amounts payable to other telecommunications operators for interconnect fees.

The Company earns revenue from the transmission of content on its network originated by third-party providers. The Company 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 Company 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.

Capacity sales

Sales of network capacity to third parties pursuant to identifiable rights of use (IRU) are accounted for as sales and recognised at the time of delivery and acceptance where:

- the purchaser's right of use is exclusive and irrevocable;
- 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 cost of carrying value can be measured reliably;
- no significant risks are retained by the Company: and
- the asset is identified as held for sale and categorised as stock.

Capacity sales are made out of network capacity and infrastructure held for resale (stock). Transfers are made from fixed assets to stock at cost on completion of construction based on an estimate of what will be sold to third parties under IRU contracts (which typically form part of the original investment criteria). The cost of construction is apportioned on a pro rata basis between stock and fixed assets. Income relating to operations and maintenance contracts is spread over the period of the contract.

Revenues or gains in respect of contracts involving the provision of capacity in exchange for receiving capacity, or other services, are not recognised on the basis thai the capacity does not have a readily ascertainable market value as defined in accounting standards.

Revenues arising from the provision of other services, including maintenance contracts, are recognised evenly over the periods in which the service is provided.

Notes to the financial statements (continued)
Year ended 31 March 2005

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet dale, except as otherwise required by FRS19. Timing differences are differences between the Company's taxable profits and its results as staled in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, 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.

Intangible fixed assets

Intangible fixed assets are recorded at cost and amortised on a straight line basis over their estimated useful lives, not exceeding 20 years. Intangible fixed assets comprise goodwill arising on the acquisition of a business.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The cost of fixed assets includes materials, direct labour and other incremental costs applicable to the design, construction and connection of the telecommunications networks and equipment. 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 company has a legal or constructive obligation to dismantle and removes 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

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over the estimated useful lives as follows:

Land and buildings:	
Freehold buildings	40 years
Leasehold land and buildings	up to 40 years or term of lease if less
Communications network plant and equipment:	
Cables and other assets	up to 20 years 3
Network equipment	to 25 years 40
Ducting	years 3 to 10
Non-network plant and equipment	years

Depreciation is not provided on freehold land, where the cost is distinguishable from the cost of the building thereon, or projects under construction.

Asset impairment

Intangible and tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the fixed assets 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.

Pensions

The Company operates for its employees a number of defined contribution schemes. The assets of the schemes are held separately from those of the Company in an independently administered fund.

1. Accounting policies (continued)

The Company is also a member of a pension scheme operated by the group and provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 Retirement benefits' the scheme has been accounted for. in these financial statements, as if it were a defined contribution scheme.

The amounts charged to the profit and loss account include the cost of the contributions payable to the above schemes in respect of the accounting period

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 leasing 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 annual rentals are charged to operating profit on a straight line basis over the lease term.

Fixed asset investments

Investments are stated at cost less amounts written off for impairment.

Foreign currencies

Transactions in foreign currency are recorded in sterling at the rate of exchange ruling on the date of the transaction, except for those for which forward cover has been purchased. All monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet dale and gains or losses on translation are dealt with through the profit and loss account.

Cash flow statement

Under FRS 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 consolidated cash flow statement is included in the financial statements of Cable and Wireless pic in which the company is consolidated and which are publicly available from the address in note 22.

Stocks

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

2. Turnover

The Company's operations are all considered to fall into a single class of business, namely telecommunications, and accordingly no segmental analysis of operating profit or net assets is shown.

In both the current and prior years, over 99% of turnover was generated by operations in the United Kingdom.

Notes to the financial statements (continued)
Year ended 31 March 2005

3. Profit/(loss) on ordinary activities before taxation

	2005 £m	2004 £m
Loss on ordinary activities before taxation is stated after charging/ (crediting):		
Auditors' remuneration - audit	0.7	0.4
Depreciation of tangible assets	56.1	62.0
Exceptional depreciation	4.8	183.2
(Profit)/loss on sale of fixed assets	(10.6)	1.1
Hire of other assets - land and buildings	35.9	39.3
Hire of plant and machinery	30.3	41.9
Write back of intercompany creditor	(23.0)	-

The write back of the intercompany creditor above of £23 million (2004: nil) relates to a historic intercompany interest creditor which is no longer payable.

4. Information regarding Directors and employees

No Director received any remuneration during the year (2004: £nil). The aggregate remuneration and associated costs of employees were:

	2005 £m	2004 £m
Salaries and wages	196.9	196.3
Social security costs	19.7	19.8
Pension costs	16.2	20.4
	232.8	236.5

	2005 Number	2004 Number
The average monthly number of persons employed during the year was:	4,128	4,301

5. Exceptional items

	2005 £m	2004 £m
Operating items		
Provision for irrecoverable debtor balances (i)		(3.5)
Redundancy and restructuring (ii)	(45.8)	(145.6)
Write off of creditor balance (iii)		12.6
Provision for onerous network contracts (iv)	(6.9)	
	(52.7)	(136.5)
Fixed asset impairment charge (v)	(4.8)	(183.2)
	(57.5)	(319.7)
Non-operating items		
Write-down of investments (vi)	–	(12.5)

(i) Following the restructuring and reorganisation of parts of the Cable & Wireless group's activities, balances due from certain fellow subsidiaries may not be recoverable. A bad debt provision of £3.5 million was raised during the year ending 31 March 2004.

(ii) Exceptional costs in the period of £45.8 million (2004: £145.6 million) relate to restructuring and include £16.1 million (2004: £88.3 million) in respect of property costs, £24.3 million (2004: £48.5 million) in respect of redundancy costs and £5.4 million, (2004: £8.8 million) of other costs.

Notes to the financial statements (continued)
Year ended 31 March 2005

5. Exceptional items (continued)

(iii) A balance of £12.6 million due to Cable & Wireless USA, Inc. was waived on 23 October 2004 as part of full and final settlement of all balances between the two companies.

(iv) A provision of £6.9 million has been created during the year for operations and maintenance charges relating to onerous submarine cable systems.

(v) Following an impairment review of the Company's fixed assets as at 31 March 2005. the fixed assets of the Japanese branch were written down by £4.8 million. The charge has been determined in accordance with FRS 11 impairment of fixed assets and goodwill'. In the prior year the Company's fixed assets were written down by £ 183.2m.

(vi) The Company has carried out a review to determine whether there has been an impairment in the carrying values of its fixed asset investments. This has resulted in a write-down of £nil (2004: £12.5 million) to reflect identified impairments.

6. Interest receivable and other similar income

	2005 £m	2004 £m
Interest receivable from third parties	1.4	0.3
Dividends received	3.0	143.4
	4.4	143.7

7. Interest payable and other similar charges

	2005 £m	2004 £m
Interest payable to fellow group undertakings	(0.8)	(18.8)
On bank loans and overdrafts	(1.8)	-
Finance charges payable in respect of finance leases and hire purchase contracts	(0.2)	-
	(2.8)	(18.8)

Notes to the financial statements (continued)
Year ended 31 March 2005

8. Taxation

Analysis of charge/(credit) for the period	**2005**	2004
	£m	£m
Corporation tax	**30.5**	(55.5)
Current tax on loss for the year in respect of Group relief		12.2
Adjustments in respect of previous periods		
	30.5	(43.3)

The current tax charge is higher (2004: credit is lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	2005	2004
	£m	£m
Current tax reconciliation: Profit/ (loss) on ordinary activities	41.2	(181.8)
Current tax charge/(credit) at 30% (2004:30%)	[illegible]	[illegible]
Effects of:		
Permanent differences	17.4	**34.2**
Capital allowances in excess of depreciation for year	(186.6)	(51.5)
Other timing differences	3.6	16.3
Group relief surrendered without payment	153.2	-
Adjustments to tax credit in respect of previous periods	30.5	12.2
	30.5	**(43.3)**

Factors that may affect future tax charges

Deferred tax assets of £504.5million (2004: £490.8 million) on timing differences resulting from depreciation in excess of capital allowances and £14.4m (2004: £29.7 million) in respect of other timing differences and £56.7million (2004: Nil) for losses, have not been recognised, as these are not considered recoverable in the foreseeable future.

9. Intangible fixed assets

	Goodwill
	£m
Cost	
At 1 April 2004 and 31 March 2005	L3_
Depreciation	
At 1 April 2004	0.2
Charge for year	0.3
At 31 March 2005	o X
Net book value	
At 31 March 2005	0.8
At 31 March 2004	

Notes to the financial statements (continued)
Year ended 31 March 2005

9. Intangible fixed assets (continued)

The goodwill relates to the purchase of the trade and assets of the call centre business of ML Integration Limited, a fellow subsidiary of Cable and Wireless pic. The goodwill arising is being amortised over 5 years. This period has been determined after taking into account the nature of the business acquired and the maturity of the market in which it operates.

10. Tangible assets

	Land and buildings £m	Network cable, plant and equipment £m	Non-network plant and equipment £m	Cables and repeaters £m	Total fm
Cost					
At 1 April 2004	263.0	5,163.8	471.4	170.1	6,068.3
Additions	0.2	157.3	-	0.1	157.6
Transfers between line items	0.5	(11.0)	10.0	0.5	
Transfers from other group companies	0.5	110.8	52.0	-	163.3
Disposals	-	(150.5)	(1.7)	-	(152.2)
At 31 March 2005	264.2	5,270.4	531.7	170.7	6,237.0
Depreciation					
At 1 April 2004	174.0	4.986.8	461.3	170.1	5.792.2
Charge for the year	5.8	47.8	2.5	-	56.1
Impairment charge	-	4.7	-	0.1	4.8
Transfers from other group companies	0.5	110.8	52.0	-	163.3
Disposals	-	(144.8)	-	-	(144.8)
At 31 March 2005	180.3	5,005.3	515.8	170.2	5,871.6
Net book value					
At 31 March 2005	83.9	265.1	15.9	0.5	365.4
At 31 March 2004	89.0	177.0	10.1	–	276.1

Network cable, plant, and equipment cost includes £99.6 million (2004: £40.3 million) in respect of assets not yet in service and consequently upon which depreciation has not yet been charged. Freehold land amounting to £0.2 million (2004: £0.2 million) is not depreciated.

	2005 £m	2004 £m
The net book value of land and buildings comprised: Freehold Short leasehold Long leasehold	38.4	39.5
	45.0	49.0
	0.5	0.5
	83.9	89.0

Notes to the financial statements (continued)
Year ended 31 March 2005

11. Fixed asset investments

	Subsidiary undertakings £m
Cost	
At 1 April 2004	104.3
Additions	4.1
Disposals	(0.3)
At 31 March 2005	108.1
Amounts written off	
At 1 April 2004	(84.4)
Amounts written back during the year	0.3
At 31 March 2005	(84.1)
Net book value At 31 March 2005	24.0
At 31 March 2004	19.9

The Company has carried out a review lo determine whether there has been an impairment in the carrying values of its fixed asset investments. This has resulted in a write-down of £nil (2004: £12.5 million) to reflect identified impairments.

During the year Cable & Wireless UK purchased 100% of the share capital in XM Mobile for £3.7 million. The amounts payable are contingent on the future performance of the company. The contingent consideration has been discounted at 10.8%.

On I December 2004 Cable & Wireless UK purchased the remaining 80% of the share capital in London Hydraulic Power Company Ltd, in preparation for its liquidation, from a fellow group company.

The disposal relates to the sale of 100% of the share capital of Cable & Wireless Communications Voice Messaging Limited to another group company.

Principal subsidiary undertakings

Details of principal operating subsidiary undertakings are given below:

Subsidiary undertaking	Class	Ownership %	Principal activities
Cable & Wireless Ireland Holdings Limited	Ordinary	100	Telecommunications provider
Cable & Wireless (Allnet) Limited	Ordinary	100	Telecommunications provider
Cable & Wireless Alpha Limited	Ordinary	100	Telecommunications provider
Cable and Wireless Cable Systems Limited	Ordinary	100	Telecommunications provider
XM Mobile BV	Ordinary	100	Telecommunications provider

Notes to the financial statements (continued)
Year ended 31 March 2005

12. Stocks

	2005 £m	2004 £m
Finished goods		
Network equipment and items for resale	9.7	8.4

13. Debtors

	2005 £m	2004 £m
Amounts falling due within one year:		
Trade debtors	253.6	372.2
Amounts owed by fellow group undertakings	182.9	359.2
Other debtors	11.3	0.4
Prepayments and accrued income	129.1	41.5
	576.9	773.3
Amounts falling due after more than one year:		
Other debtors	0.7	8.8
Pension prepayment	61.6	-
	62.3	8.8
Total debtors	639.2	782.1

14. Creditors

	2005 £m	2004 £m
Amounts falling due within one year:		
Trade creditors	**334.9**	362.2
Net obligations under finance leases	**0.7**	1.9
Amounts owed to fellow group undertakings	**168.9**	275.0
Other creditors	**13.9**	5.5
Accruals and deferred income	**337.1**	278.0
	855.5	922.6

	2005 £m	2004 £m
Amounts falling due after more than one year:		
Net obligations under finance leases	**0.3**	0.6

	2005 £m	2004 £m
The net finance lease obligations due after more than one year are repayable as follows:		
Between one and two years	0.3	0.6
	0.3	0.6

Notes to the financial statements (continued)
Year ended 31 March 2005

15. Provisions for liabilities and charges

	lote	At 1 Anril 2004 £m	Additions / (releases) £m	Utilised £m	At 31 March 2005 £m
Redundancy	(0	4.9	24.3	(6.7)	22.5
Property	(ii)	94.0	17.7	(31.9)	79.8
Network	(iii)	22.1	6.9	(3.7)	25.3
Other	(iv)	-	5.3	-	5.3
		121.0	54.2	(42.3)	132.9

(i) Redundancy
The provision for the cost of redundancies announced during the year has been utilised within nine months of the balance sheet date.

(ii) Property
A provision has been made for the best estimate of the unavoidable lease payments on vacant properties, being the difference between the rental due and any income expected to be derived from their being sub-let. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

(iii) Network
A provision has been made for the best estimate of the unavoidable costs associated with redundant network capacity. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

(iv) Other
The provision for the cost of restructuring (non staff costs) is expected to be utilised within one year.

16. Share capital

Authorised:	2005 £m	2004 £m
3,949,680.250 ordinary' shares of £1 each	3,949.7	3,949.7
849,319.750 deferred shares of £1 each	849.3	849.3
425.000 non-voting redeemable participating shares of £1 each	0.4	0.4
425,000 voting redeemable fixed rate preference shares of £1 each	0.4	0.4
150,000 unclassified shares of £1 each	0.2	0.2
	4,800.0	4,800.0
Allotted, called up and fully paid:		
Equity interests:		
3,032,942,458 (2004: 3,032,942,458) ordinary shares of £1 each	3,032.9	3.032.9

The authorised share capital of the company at the comparative balance sheet date has been amended to accurately reflect the individual classes of shares authorised.

Notes to the financial statements (continued)
Year ended 31 March 2005

17. Reserves

	Foreign exchange translation reserve	Profit and loss account £m	Share premium account £m
At 1 April 2004	0.1	(2,984.0)	0.8
Retained profit for the year		10.5	
At 31 March 2005	0.1	(2,973.5)	0.8

18. Operating lease commitments

At 31 March 2005 the Company was committed to making the following payments during the next year in respect of operating leases:

	2005		2004	
	Land and buildings fm	:her £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	4.1	3.4	5.3	7.7
Between one and five years	8.2	12.0	8.2	13.9
Alter five years	23.1	3.5	24.6	6.2
	35T4	JO	38J	27T

19. Commitments

Capital commitments at the year end amounted to £25.2 million (2004: £19.9 million).

In addition to the capital commitments above the Company has a number of operating commitments arising in the normal course of business. The most significant of these relate to network operation and maintenance costs, and outsourcing arrangements for the provision of certain services including human resources and information technology systems management. In respect of operation and maintenance costs, in the event of the default of another party, the Company may be liable to additional contributions under the terms of the agreements.

20. Related party transactions

The company is controlled by Caxton Holdings Ltd, Lakeside House, Cain Road, Bracknell, RG12 1XL. Under FRS 8 'Related Party Disclosures', 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 the Group. There are no transactions with any other related parties.

21. Pension scheme

The Company operates for its employees a number of defined contribution schemes. The Company is also a member of a pension scheme operated by the Group and providing benefits based on final pensionable pay. Particulars of the actuarial valuations of the group schemes are contained in the accounts of Cable and Wireless pic.

Notes to the financial statements (continued)
Year ended 31 March 2005

21. Pension scheme (continued)

The pension cost charged for the year represents contributions payable by the Company to the above schemes. During the year these contributions amounted to £16.2 million (2004: £20.4 million). No amounts were outstanding at the end of the financial yeur in respect of this charge.

22. Ultimate parent company and controlling undertaking

The Directors regard Cable and Wireless pic. a company registered in England and Wales, as the ultimate parent company and controlling undertaking. The largest group in which the results of the Company are consolidated is that of which Cable and Wireless pic is the parent company. The consolidated financial statements of Cable and Wireless pic may be obtained from the Secretary, Lakeside House. Cain Road, Bracknell, RG12 1XL. No other group accounts include the results of the Company.

23. Post balance sheet events

On 16 August 2005. Cable and Wireless pic announced that it had reached agreement to acquire the entire issued share capital of Chelys Limited ('Energis') on a debt and cash free basis, save for Energis' finance lease obligations of approximately £37 million, for an initial cash consideration of £594 million. On completion, Cable and Wireless pic will inject approximately £35 million in cash, which is expected to be recovered within the first year after completion, to meet Energis' short-term working capital requirements. In the third year following completion, Cable and Wireless pic has agreed to pay a contingent consideration of between zero and £80 million, payable in cash or shares at Cable and Wireless pic's option, dependent on the level of Cable and Wireless pic share price. Completion of the agreement occurred on 11 November 2005.