

LONDON HYDRAULIC POWER COMPANY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1997

Company Registration Number: Z55



A04 *AHOT840K* 599
COMPANIES HOUSE 25/02/98

COMPANIES HOUSE 27/01/98

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REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The Company owns an underground mains system which is being used for communication purposes. The Company's trading results derive from ancillary operations arising out of ownership of the assets concerned. It is the directors' intention to continue the business in line with current activities.

RESULTS FOR THE YEAR

The results for the year are set out in the profit and loss account on page 6. The loss for the year after taxation is £36,000 (1996: £31,000).

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS

The following directors held office during the year under review.

J A Chisholm
A R Twite

Other than as set out below, the directors have no interest in the shares of the Company, nor any disclosable interest in any contracts or arrangements with the Company, either subsisting at the end of the financial year or entered into since their date of appointment.

REPORT OF THE DIRECTORS (continued)

Cable and Wireless plc ordinary shares of 25p each:

The beneficial interests of the directors holding office on 31 March 1997 and their families in the shares of the ultimate holding undertaking were as below:

| | J A Chisholm | A R Twite |
|--|--------------|-----------|
| Ordinary shares | | |
| At 31 March 1996 | 7,756 | - |
| At 31 March 1997 | 7,848 | - |
| Options to acquire ordinary shares | | |
| At 31 March 1996 (or date of appointment if later) | | |
| SAYE | 4,787 | 7,164 |
| SESOS/RESOS | 4,000 | 63,858 |
| Granted in the year | | |
| SAYE | 695 | - |
| SESOS/RESOS | - | 10,000 |
| Exercised in the year | | |
| SAYE | (1,348) | - |
| SESOS/RESOS | - | - |
| At 31 March 1997 | | |
| SAYE | 4,134 | 7,164 |
| SESOS/RESOS | 4,000 | 73,858 |

| | |
|-------|---|
| SAYE | <i>Options granted under the C&W Employee Savings Related Share Option Scheme</i> |
| SESOS | <i>Options granted under the C&W Senior Employees Share Option Scheme</i> |
| RESOS | <i>Options granted under the C&W Revenue Approved Share Option Scheme</i> |

By order of the Board



C J Athersych
Secretary

STATEMENT OF 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 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 in the United Kingdom have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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.

REPORT OF THE AUDITOR

AUDITOR'S REPORT TO THE MEMBERS OF LONDON HYDRAULIC POWER COMPANY

We have audited the financial statements on pages 6 to 11.

Respective responsibilities of directors and auditor

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 affairs of the Company as at 31 March 1997 and of the loss of the Company 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
8 Salisbury Square
London EC4Y 8BB

29 May 1997

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1995 1997

Approved

| | Notes | 1997 £'000 | 1996 £'000 |
|--|-------|---------------|---------------|
| TURNOVER from continuing operations | 2 | 107 | 113 |
| Operating costs | 3 | (108) | (107) |
| OPERATING (LOSS)/PROFIT from continuing operations and (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | <u>(1)</u> | <u>6</u> |
| Taxation on profit on ordinary activities | 5 | (35) | (37) |
| LOSS FOR THE FINANCIAL YEAR | 11 | <u>(36)</u> | <u>(31)</u> |

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

The notes on pages 9 to 11 form part of these financial statements.

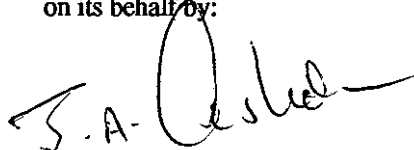
BALANCE SHEET

At 31 March 1995 1997

| | Notes | 1997 £'000 | 1996 £'000 |
|---|-------|---------------|---------------|
| FIXED ASSETS | | | |
| Tangible assets | 6 | <u>2,957</u> | <u>3,064</u> |
| CURRENT ASSETS | | | |
| Debtors | 7 | 551 | 481 |
| CREDITORS: amounts falling due within one year | 8 | (36) | (37) |
| NET CURRENT ASSETS | | <u>515</u> | <u>444</u> |
| NET ASSETS | | <u>3,472</u> | <u>3,508</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 10 | 166 | 166 |
| Profit and loss account | 11 | 264 | 193 |
| Revaluation reserve | 11 | 2,957 | 3,064 |
| Other reserves | 11 | 85 | 85 |
| SHAREHOLDERS' FUNDS | | | |
| Equity | | <u>3,464</u> | <u>3,500</u> |
| Non Equity | | <u>8</u> | <u>8</u> |
| | | <u>3,472</u> | <u>3,508</u> |

The notes on pages 9 to 11 form part of these financial statements.

The financial statements on pages 6 to 11 were approved by the Board of Directors on 29 May 1997, and signed on its behalf by:



J A Chisholm
Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31 March 1995 1997 *1997*

| | 1997 £'000 | 1996 £'000 |
|-------------------------------------|---------------|---------------|
| Loss for the year retained | (36) | (31) |
| Net decrease in shareholders' funds | <u>(36)</u> | <u>(31)</u> |
| Opening shareholders' funds | 3,508 | 3,539 |
| Closing shareholders' funds | <u>3,472</u> | <u>3,508</u> |

NOTE OF HISTORICAL COST LOSSES AND PROFITS

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Reported (loss)/profit on ordinary activities before taxation | (1) | 6 |
| Difference between historical cost depreciation and actual depreciation charge for the year calculated on the revalued amount | 107 | 107 |
| Historical cost profit on ordinary activities before taxation | <u>106</u> | <u>113</u> |
| Historical cost profit retained for the year after taxation | <u>71</u> | <u>76</u> |

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 Company accounting policies, which have been applied consistently, is set out below.

(a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified to include the revaluation of certain properties.

(b) 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 of Mercury Communications Limited, in whose consolidated accounts a Group cash flow statement is included.

(c) Depreciation

Depreciation of tangible fixed assets is set aside on the basis of providing for the cost or revaluation, less estimated residual value, in annual instalments over the estimated lives of these assets. All assets are depreciated over 40 years.

(d) Deferred taxation

The Company does not provide for deferred tax unless there is a reasonable probability that the liability will arise in the foreseeable future. Where deferred tax is provided, the liability method is used.

2. TURNOVER

Turnover comprises amounts derived from ancillary operations of an underground mains system used for communication purposes, net of VAT.

3. OPERATING COSTS

| | 1997 £'000 | 1996 £'000 |
|------------------------|---------------|---------------|
| Auditor's Remuneration | 1 | - |
| Depreciation | 107 | 107 |
| | <u>108</u> | <u>107</u> |

Having regard to the special nature of the Company's business, an analysis of operating costs in the manner described by the Companies Act 1985 is not appropriate. 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 Company's business.

4. DIRECTORS' EMOLUMENTS

No director received any remuneration in connection with services provided to the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| The charge for taxation, based on the Company's result for the year, comprises: | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Current year U.K. corporation tax at 33% (1996: 33%) | <u>35</u> | <u>37</u> |

If deferred tax had been fully provided in 1997 under the liability method the tax charge for the year would have decreased by £70,000 (1996: decrease £35,000).

6. TANGIBLE ASSETS

| | Plant and Equipment £'000 |
|-----------------------------------|---------------------------------|
| Valuation | |
| At 1 April 1996 and 31 March 1997 | <u>4,259</u> |
| Depreciation | |
| At 1 April 1996 | 1,195 |
| Charge for the year | 107 |
| At 31 March 1997 | <u>1,302</u> |
| Net Book Value | |
| At 31 March 1997 | <u>2,957</u> |
| At 31 March 1996 | <u>3,064</u> |

The directors revalued the plant and equipment in February 1988 from a net book value of £nil to reflect its fair value for current use to other companies in the Mercury Communications Group who utilise the assets and pay for utilisation.

7. DEBTORS

| Amounts falling due within one year | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Amounts owed by the parent undertaking | <u>551</u> | <u>481</u> |

8. CREDITORS

| Amounts falling due within one year | 1997 £'000 | 1996 £'000 |
|-------------------------------------|---------------|---------------|
| Accruals and deferred income | 1 | - |
| Corporation tax | <u>35</u> | <u>37</u> |
| | <u>36</u> | <u>37</u> |

9. DEFERRED TAXATION

| Potential Liability | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Tax effect of timing differences due to: | | |
| Excess capital allowances | <u>976</u> | <u>1,046</u> |

There is no provision for deferred taxation in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 1997

10. SHARE CAPITAL

| Authorised, allotted, called up and fully paid | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| 79,000 Ordinary shares of £2 each | 158 | 158 |
| 790 5% Non-Cumulative Preference shares of £10 each | 8 | 8 |
| | <u>166</u> | <u>166</u> |

The preference shares have the right to vote at all General Meetings and are entitled to 4,000 votes per share. The preference shares rank first upon a winding up and are entitled to £10,000 per share.

11. RESERVES

| | Profit and Loss Account | Revaluation Reserve | Other Reserve |
|-------------------|----------------------------|------------------------|------------------|
| | £'000 | £'000 | £'000 |
| At 1 April 1996 | 193 | 3,064 | 85 |
| Loss for the year | (36) | - | - |
| Transfer | 107 | (107) | - |
| At 31 March 1997 | <u>264</u> | <u>2,957</u> | <u>85</u> |

12. POST BALANCE SHEET EVENTS

On 28 April 1997, an offer for shares took place to effect the merger of the intermediate holding undertaking, 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.

13. RELATED PARTY TRANSACTIONS

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose transactions and balances with related parties on the grounds that 100% of its voting rights are controlled directly or indirectly by Mercury Communications Limited, in whose consolidated accounts all relevant transactions have been disclosed.

14. ULTIMATE HOLDING UNDERTAKING

The Company's immediate parent undertaking is City Cable (Holdings) Limited which is registered in England and Wales.

The most immediate holding company for which consolidated accounts are prepared is Mercury Communications Limited, a company registered in England and Wales. A copy of Mercury Communications Limited's financial statements can be obtained from Mercury Communications Limited, New Mercury House, 26 Red Lion Square, London WC1R 4HQ.

The head of the group in which the results of the Company are consolidated and the ultimate parent 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.