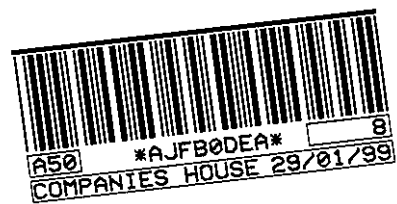


Company Registration No. Z55

**LONDON HYDRAULIC POWER
COMPANY**

Report and Accounts

31 March 1998



LONDON HYDRAULIC POWER COMPANY

REPORT AND ACCOUNTS 1998

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of Directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Reconciliation of movements in shareholders' funds	6
Note of historical cost losses and profits	6
Balance sheet	7
Notes to the accounts	8

LONDON HYDRAULIC POWER COMPANY

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Wallace
N Mearing-Smith
R Drolet

SECRETARY

R Drolet

REGISTERED OFFICE

Caxton Way
Watford Business Park
Watford
Hertfordshire
WD1 8XH

AUDITORS

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

LONDON HYDRAULIC POWER COMPANY

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES AND REVIEW OF 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 AND DIVIDENDS

The Company made a loss for the year of £107,000 (1997 - £36,000).

The Directors do not recommend the payment of a dividend (1997 - £nil).

DIRECTORS AND THEIR INTERESTS

The Directors currently serving or who held office during the year were as follows:

J Chisholm	(resigned 2 June 1997)
A Twite	(resigned 2 June 1997)
G Wallace	(appointed 2 June 1997)
N Mearing-Smith	(appointed 2 June 1997)
R Drolet	(appointed 2 June 1997)

Where the Directors held any interest in the shares of Cable and Wireless plc or Cable & Wireless Communications plc, such interest is disclosed in the accounts of Cable & Wireless Communications plc, except as stated below:

Ordinary shares of Cable & Wireless Communications plc:

	At 1 January 1997 (or later date of appointment)	Shares acquired	Shares disposed	At 31 March 1998
N Mearing-Smith	153,949	-	-	153,949

Options to subscribe for ordinary shares in Cable & Wireless Communications plc:

	At 1 January 1997 (or later date of appointment)	Granted Number	Exercised Number	At 31 March 1998	Exercise Price	Date from which exercisable	Expiry Date
R Drolet	57,542	-	-	57,542	\$4.583	1/5/97	2/7/03

EMPLOYEES

The Company has no employees. Most Group employees are employed by a fellow Group Company, Cable & Wireless Communications plc.

LONDON HYDRAULIC POWER COMPANY

DIRECTORS' REPORT

PAYMENTS TO SUPPLIERS

The Company does not enter into contracts with suppliers. Cable & Wireless Communications Services Limited, a fellow Group Company, enters into most contracts with suppliers to the Cable and Wireless Communications Group.

YEAR 2000

The matters relating to the impact of the Year 2000 issue on the reporting systems and operations of the Company are set out on page 23 of the 1998 Annual Report and Accounts of Cable & Wireless Communications plc.

AUDITORS

During the year, KPMG Audit plc resigned and Arthur Andersen were appointed as auditors.

Approved by the Board of Directors
and signed on its behalf by:



R Drolet

Secretary

22 January 1999

LONDON HYDRAULIC POWER COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year:

The Directors are responsible for ensuring that in preparing the accounts, the Company has:

- selected appropriate accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards, subject to any explanations and material departures disclosed in the notes to the accounts; and
- prepared the accounts 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 the financial position of the Company which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

LONDON HYDRAULIC POWER COMPANY

AUDITORS' REPORT TO THE MEMBERS OF LONDON HYDRAULIC POWER COMPANY

We have audited the accounts on pages 6 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of Directors and Auditors

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

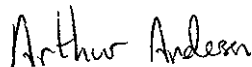
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, 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 accounts 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 accounts.

Opinion

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



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

22 January 1999

LONDON HYDRAULIC POWER COMPANY

PROFIT AND LOSS ACCOUNT

Year ended 31 March 1998

	Note	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
TURNOVER		-	107
Other operating expenses (net)		-	(1)
Depreciation and amortisation		(107)	(107)
OPERATING LOSS and LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(107)	(1)
Taxation	3	-	(35)
LOSS FOR THE FINANCIAL YEAR	9	(107)	(36)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 March 1998

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
Opening balance	3,472	3,508
Loss for the year	(107)	(36)
Closing balance	3,365	3,472

NOTE OF HISTORICAL COST LOSSES AND PROFITS

Year ended 31 March 1998

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
Loss on ordinary activities before taxation	(107)	(1)
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	-	106
Taxation	-	(35)
Historical cost profit retained for the year after taxation	-	71

All activities derive from continuing operations.

The accompanying notes form an integral part of these statements.

LONDON HYDRAULIC POWER COMPANY

BALANCE SHEET

31 March 1998

	Note	31 March 1998 £'000	31 March 1997 £'000
FIXED ASSETS			
Tangible assets	4	2,850	2,957
CURRENT ASSETS			
Debtors	5	515	551
CREDITORS: amounts falling due within one year	6	-	(36)
NET CURRENT ASSETS		515	515
NET ASSETS		3,365	3,472
CAPITAL AND RESERVES			
Called up share capital	8	166	166
Profit and loss account	9	264	264
Revaluation reserve	9	2,850	2,957
Other reserves	9	85	85
SHAREHOLDERS' FUNDS			
Equity		3,357	3,464
Non Equity		8	8
		3,365	3,472

These accounts were approved by the Board of Directors on 21 January 1999, and signed on its behalf by:



R Drolet

Director

The accompanying notes form an integral part of these statements.

LONDON HYDRAULIC POWER COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

1. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies, which have been applied consistently in the preparation of the accounts, are as follows:

(a) Basis of preparation

The accounts are prepared in accordance with applicable Accounting Standards in the United Kingdom and on the historical cost basis.

(b) Turnover and revenue recognition

Turnover, which excludes value added tax, is accounted for on the accruals basis. Revenue is recognised in the period in which the service is provided. Turnover comprises amounts derived from ancillary operations of an underground mains system used for communication purposes.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost or valuation, net of depreciation and provision for permanent diminution in value.

(i) Depreciation

Depreciation is provided on the difference between the cost of tangible fixed assets and their estimated residual value in equal annual instalments over the estimated useful lives of the assets. The Directors review the useful economic lives and estimated residual values of all assets annually. Where expectations are significantly different from previous estimates, the remaining net book values of the assets are depreciated over the remaining useful economic life.

The current estimated useful lives are as follows:

Communications network plant and equipment:

- ducting and network construction	10 to 40 years
- electronic equipment and cabling	10 to 15 years
- other network plant and equipment	6 to 25 years

Non-network plant and equipment 3 to 10 years

(d) Deferred taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The Company provides for deferred tax only when there is a reasonable probability that the liability will arise in the foreseeable future. Where deferred tax is provided, the liability method is used. No deferred tax assets are recognised in respect of accumulated tax losses.

(e) Pension costs

The Company participates in a defined benefit pension scheme for certain employees. The regular cost of providing benefits is charged to operating profit over the service lives of the members of the scheme so as to achieve a constant percentage of pensionable pay.

(f) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1 (Revised), the Company has not prepared a cash flow statement because it is a wholly owned subsidiary of a Company incorporated in Great Britain which is part of a Group which prepares a consolidated cash flow statement (see Note 11).

LONDON HYDRAULIC POWER COMPANY

NOTES TO THE ACCOUNTS Year ended 31 March 1998

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Directors did not receive any remuneration during the year (1997 - £nil).

Cable & Wireless Communications plc, a fellow Group Company, employs most of the Group's employees. Details of staff numbers and staff costs for the Group are disclosed in the accounts of Cable & Wireless Communications plc.

3. TAXATION

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
The charge for taxation, based on the Company's result for the year, comprises:		
Current corporation tax at 31% (1997 - 33%)	-	35
If deferred tax had been fully provided in 1998 under the liability method the tax charge for the year would have decreased by £nil (1997 - £70,000).		

4. TANGIBLE ASSETS

	Network Cable Plant and Equipment £'000
Valuation	
At 1 April 1997 and 31 March 1998	4,259
Depreciation	
At 1 April 1997	1,302
Charge for the year	107
At 31 March 1998	1,409
Net book value	
At 31 March 1998	2,850
At 31 March 1997	2,957

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.

5. DEBTORS

	31 March 1998 £'000	31 March 1997 £'000
Amounts falling due within one year:		
Amounts owed by the parent undertaking	515	551

LONDON HYDRAULIC POWER COMPANY

NOTES TO THE ACCOUNTS Year ended 31 March 1998

5. CREDITORS

	31 March 1998 £'000	31 March 1997 £'000
Amounts falling due within one year:		
Accruals and deferred income	-	1
Corporation tax	-	35
	<u>-</u>	<u>36</u>

7. DEFERRED TAXATION

	31 March 1998 £'000	31 March 1997 £'000
Potential Liability:		
Tax effect of timing differences due to		
Excess capital allowances	-	976
	<u>-</u>	<u>976</u>

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

8. SHARE CAPITAL

	31 March 1998 £'000	31 March 1997 £'000
Authorised, allotted, called up and fully paid:		
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.

9. RESERVES

	Profit and Loss Account £'000	Revaluation Reserve £'000	Other Reserve £'000
At 1 April 1997	264	2,957	85
Loss for the year	(107)	-	-
Transfer	107	(107)	-
At 31 March 1998	<u>264</u>	<u>2,850</u>	<u>85</u>

LONDON HYDRAULIC POWER COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

10. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard No. 8 not to disclose related party transactions with Cable & Wireless Communications plc Group Companies.

11. ULTIMATE PARENT COMPANY AND CONTROLLING UNDERTAKING

The Directors regard Cable and Wireless plc, 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 plc is the parent Company. The consolidated accounts of Cable and Wireless plc may be obtained from 124 Theobalds Road, London, WC1X 8RX.

The smallest Group in which the results of the Company are consolidated is that of which Cable & Wireless Communications plc is the parent Company. The consolidated accounts of Cable & Wireless Communications plc may be obtained from Caxton Way, Watford Business Park, Watford, Hertfordshire, WD1 8XH.