TC99-040

KC/KS

DOCKET NO. TC99-040

In the Matter of - IN THE MATTER OF THE APPLICATION OF CABLE & WIRELESS GLOBAL MARKETS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
4/19	99	Filed and Docketed;
4/23	99	Weekly Filing;
8/6	99	Order Granting COA;
8/6	99	Docket Closed.

TC 99-040

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APR 1 9 1999
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

April 16, 1999

VIA FEDERAL EXPRESS

Mr. William Bullard, Jr.
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

Re: Application of Cable & Wireless Global Markets, Inc. for Authority to Provide Resold Intrastate Interexchange Services.

Dear Mr. Bullard:

Enclosed for filing with the South Dakota Public Utilities Commission, please find an original and 10 copies of Cable & Wireless Global Markets, Inc.'s ("CWGM") application for authority to provide intrastate interexchange telecommunications services on a resale basis. Also enclosed is a check in the amount of $250.00 to cover the requisite filing fee.

Also enclosed is a duplicate of this filing and a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Please do not hesitate to contact me if you have any questions regarding this filing.

Respectfully submitted,

Melissa M. Smith

Melissa M. Smith

Enclosure

DC01/SMITM/79434.1

TC99-040

Before the
PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Application of	)	
	)	
Cable & Wireless Global Markets, Inc.	)	
	)	Docket No. ______
For a Certificate to Operate as a Reseller of	)	
Interexchange Telecommunications Services	)	
And for Approval of Its Initial Tariff	)	

APPLICATION OF
CABLE & WIRELESS GLOBAL MARKETS, INC.

Cable & Wireless Global Markets, Inc. ("CWGM" or "Applicant"), by its undersigned attorneys and pursuant to SDCL 49-31-3 and ARSD § 20:10:24:02, hereby applies to the Public Utilities Commission of the State of South Dakota ("Commission") for a Certificate of Authority to provide intrastate telecommunications services to the public within South Dakota through the resale of similar services offered by other certificated interexchange carriers ("IXCs") in the state. Applicant further requests that the Commission approve its initial proposed tariff effective as of the date of the order granting authority. In support thereof, Applicant provides the following information as well as a proposed tariff.

I. The Applicant

1. Applicant is a Delaware corporation that is headquartered at 1275 Pennsylvania Avenue N.W., Washington, DC 20004, (202) 319-0582. CWGM was incorporated on May 5, 1998. Its federal tax identification number is 54-1931494. CWGM an indirect wholly-owned subsidiary of Cable and Wireless plc, a publicly traded company organized under the laws of England and Wales. A copy of the Applicant's Articles of Incorporation is attached hereto as *Exhibit A*.

2. Applicant is in the process of obtaining its qualification to transact business within the state of South Dakota as a foreign corporation. A copy of the qualifying document and the name and address of the registered agent will be forwarded to the Commission upon receipt as *Exhibit B* hereto.

3. The Federal Communications Commission granted Applicant limited global resale authority on August 5, 1998 in File No. ITC-98-474.

4. CWGM's officers and directors are as follows:

Robin Beesley, President
James Finian Crowe, Director
Joseph Daniel Fitz, Director
Andrew Haire, Secretary
Marcello Hallake, Asst. Secretary

All officers and directors can be reached through the principal office at 1275 Pennsylvania Ave., NW, Washington DC 20004.

5. CWGM is registered and in good standing to provide telecommunications services in Iowa, New Jersey and Texas. CWGM has applications for long distance resale authority pending in several states, including Arkansas, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Washington and Wisconsin. Applicant is in the process of applying for long distance resale authority in all 50 states, where required. CWGM has not been denied registration or certification in any state. No complaints have been filed against Applicant with any state or regulatory commission regarding the unauthorized switching of customers' telecommunications providers and the act of charging customers for services that have not been ordered.

II. Designated Contacts

6. Correspondence or communications pertaining to this application should be directed to Applicant's attorneys of record:

Philip V. Permut
Melissa M. Smith
Kelley Drye & Warren LLP
1200 19th Street, N.W.
Suite 500
Washington, DC 20036
(202) 955-9600 (Telephone)
(202) 955-9792 (Facsimile)

7. Questions concerning the ongoing operations of CWGM following certification and concerning customer service complaints and regulatory matters should be directed to:

Robin Beesley
Cable & Wireless Global Markets, Inc.
1919 Gallows Road
Vienna, Virginia 22182
(703) 760-3594 (Telephone)
(703) 760-3407 (Facsimile)
Toll free: 1-800-205-5771

Applicant does not have an office in South Dakota. However, customer service is available to answer questions relating to billing and other customer service matters 24 hours a day, 7 days a week by calling toll-free 1-800-635-0304.

III. Description of Authority Requested

8. CWGM seeks authority to operate as a reseller of interLATA and intraLATA intrastate telecommunications services to the public on a statewide basis. Specifically, CWGM requests authority to provide a full range of 1+ interexchange services including, *inter alia*, toll free service, virtual private network service ("VPN") and audio-conferencing.

9. All of CWGM's services will be provided pursuant to the terms and conditions set forth in its proposed intrastate services tariff, which is attached hereto as *Exhibit C*.

10. CWGM has no plans at this time to construct any telecommunications facilities of its own in South Dakota and seeks no construction authority by means of this Application. CWGM will offer service to its subscribers using the communications networks of IXCs and local exchange companies authorized in South Dakota to provide facilities-based telecommunications service.

11. CWGM will abide by all rules governing telecommunications resellers which the Commission has promulgated or may promulgate in the future, unless application of such rules is specifically waived by the Commission.

IV. Description and Fitness of the Applicant

12. CWGM has the financial, managerial and technical ability necessary for the provision of intrastate services in the State of South Dakota. Applicant's parent company, Cable and Wireless plc, has been involved in the telecommunications industry for over 120 years. Cable and Wireless plc subsidiaries and affiliates serve more than 17 million customers and

operate in more than 70 countries worldwide. Moreover, CWGM's senior management team has a wealth of experience in the telecommunications industry. Biographies of CWGM's senior management team are attached hereto as *Exhibit D.*

13. CWGM is financially qualified to provide resold telecommunications services within the State. As a newly-formed company, CWGM has no significant financial history. However, as an indirect, wholly owned subsidiary of Cable and Wireless plc, CWGM has access to the financing and capital necessary to provide the proposed services. Attached hereto as *Exhibit E* is the most recent Securities and Exchange Commission ("SEC") Form 20-F of Cable and Wireless plc, the Applicant's parent company. As this Exhibit demonstrates, Cable and Wireless plc is a robust and healthy company, possessing sufficient resources to ensure CWGM's continued operations throughout the United States, including South Dakota.

V. <u>Marketing</u>

14. CWGM's marketing program for South Dakota is undetermined at this time.

VI. <u>Public Interest Consideration</u>

15. CWGM's entry into the South Dakota marketplace is in the public interest because CWGM intends to offer an attractive service to South Dakota consumers at reasonable rates.

16. In addition to the direct benefits delivered to the public by its services, CWGM's entry into the interexchange marketplace will benefit the public indirectly by increasing competition, spurring lower costs and improving services in response to consumer demand.

VII. Requested Regulatory Treatment

17. CWGM will be a non-dominant reseller of interexchange telecommunications. CWGM therefore requests to be regulated by the Commission in the same relaxed fashion extended to other similarly situated non-dominant resellers.

WHEREFORE, Cable & Wireless Global Markets, Inc. respectfully requests that the Commission grant it authority to transact the business of a reseller of interexchange telecommunications services within the State of South Dakota, that the Commission regulate it in a streamlined fashion and that the Commission approve its initial tariff effective on the date of the order granting authority.

Respectfully submitted,

By: Melissa Smith

Philip V. Permut
Melissa M. Smith
Kelley Drye & Warren LLP
1200 19th Street, N.W.
Suite 500
Washington, DC 20036

Its Attorneys

Dated: April 16, 1999

VERIFICATION

County of Fairfax)
) ss.
State of Virginia)

I, ROBIN BEESLEY, am PRESIDENT of Cable & Wireless Global Markets, Inc. and I am authorized to make this verification on behalf of said corporation. The statements made in the foregoing application are true of my own knowledge, except as to those matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct, this 11th day of March, 1999.

R. Beesley

Subscribed and sworn before me this
11th day of March, 1999.

Cynthia M. Radcliff

My Commission expires: Embossed Hereon Is My Commonwealth of Virginia Notary Public Seal My Commission Expires March 31, 2000 CYNTHIA M. RADCLIFF

DC01/SMITM/69584.1

EXHIBIT A
Articles of Incorporation

State of Delaware

Office of the Secretary of State PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "CABLE & WIRELESS GLOBAL MARKETS, INC.", FILED IN THIS OFFICE ON THE FIFTH DAY OF MAY, A.D. 1998, AT 9 O'CLOCK A.M.

Edward J. Freel, Secretary of State

2892666 8100

991005655

AUTHENTICATION: 9507264

DATE: 01-06-99

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 05/05/199[illegible]
941172006 - 2093666

CERTIFICATE OF INCORPORATION

OF

CABLE & WIRELESS GLOBAL MARKETS, INC.

The undersigned incorporator, for the purpose of incorporating or organizing a corporation under the General Corporation Law of the State of Delaware, certifies:

FIRST: The name of the corporation is Cable & Wireless Global Markets, Inc. (the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is United Corporate Services, Inc., 15 East North Street, Kent County, Dover, Delaware 19901. The name of its registered agent at such address is United Corporate Services, Inc.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is One Thousand Five Hundred (1,500) shares of Common Stock, and the par value of each such share is One Cent ($0.01).

FIFTH: The name and mailing address of the incorporator is Marcello Hallake, Esq., Morgan, Lewis & Bockius, 101 Park Avenue, New York, New York 10178.

SIXTH: Elections of directors need not be by ballot unless the By-Laws of the Corporation shall so provide.

SEVENTH: The Board of Directors of the Corporation may make By-Laws and from time to time may alter, amend or repeal By-Laws.

EIGHTH: No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

NINTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

IN WITNESS WHEREOF, I have signed this Certificate this 5th day of May, 1998.

M Hallak

Marcello Hallake
Incorporator

EXHIBIT B
To Be Late-Filed

EXHIBIT C
Initial Tariff

TELECOMMUNICATIONS SERVICE

CABLE & WIRELESS GLOBAL MARKETS, INC.

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

RESOLD INTEREXCHANGE SERVICES TARIFF

Rules and regulations applicable for furnishing of Resold Interexchange Services by Cable & Wireless Global Markets, Inc. between one or more points in the State of South Dakota as authorized by the South Dakota Public Utilities Commission. This tariff is on file with the Commission and may be inspected during regular business hours. Copies may also be inspected during regular business hours at the principal place of business of Cable & Wireless Global Markets, Inc., 1275 Pennsylvania Avenue, N.W., Washington, D.C. 20004.

CHECK SHEET

The Title Page and Pages 1 through 51, inclusive, of this Tariff are effective as of the date shown. Original and revised pages and any supplement as listed below contain all changes from the original Tariff that are in effect on the date shown.

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CONCURRING, CONNECTING AND PARTICIPATING CARRIERS

None

EXPLANATION OF SYMBOLS

(R) - To signify a rate reduction
(I) - To signify a rate increase
(C) - To signify a changed regulation
(T) - To signify a change in text but no change in rate or regulation
(S) - To signify a reissued matter
(M) - To signify a matter relocated without change
(N) - To signify a new rate or regulation
(D) - To signify a discontinued rate or regulation
(Z) - To signify a correction

REFERENCE TO OTHER TARIFFS

References made in this Tariff to other tariffs of this Company or to tariffs of other companies are to the tariffs in force as of the effective date of this Tariff, and to amendments thereto and successive issues thereof.

1. APPLICATION OF TARIFF

This Tariff contains the regulations and schedule of rates applicable to the provision of Service offered by Cable & Wireless Global Markets, Inc. (hereinafter referred to as the "Company") between one or more points in the State of South Dakota. In the event of any conflict between the provisions of this Tariff and the provisions of any Service Order, Service Request, or Special Network Arrangement, the provisions of this Tariff shall control only to the extent required by law.

2. DEFINITIONS

Certain terms used generally throughout this Tariff are defined below. The terms defined in this Tariff include the plural as well as the singular. Unless otherwise expressly stated, the words "herein," "hereof," "hereunder" and other similar words refer to this Tariff as a whole and not to any particular subsection. The words "include" and "including" shall not be construed as terms of limitation.

Access Circuit: A digital or analog Communications Channel between a Hub and a point on the Network side of Company Equipment.

Authorized User: A person, firm, corporation or any other entity approved by the Customer and the Company to use the Service furnished to the Customer.

Availability: The ability of a Connection to transmit and receive the Customer's voice, data and other electronic signals between the Network Termination Points at the ordered bit rate and level of Transmission Quality.

Bandwidth: The level of channelized capacity (in Kilobits per second) provided by a Connection.

Bit: The smallest unit in a binary system of information transfer.

Bit-Error Ratio: The number of errors in the transmission of Bits over a given period of time.

Breach: An uncured Event of Default.

Charges: The rates and charges, including but not limited to Usage Charges, Monthly Charges, Special Construction Charges and Termination Charges, assessed the Customer in accordance with this Tariff.

Commission: South Dakota Public Utilities Commission.

Communications Channel: A path for the transmission of communications between two or more points.

2. DEFINITIONS (Cont'd)

Company: Cable & Wireless Global Markets, Inc.

Company Equipment: Any telecommunications equipment owned or leased by the Company and that forms part of the Network, including any such Company Equipment situated at any Location, but excluding Customer Premises Equipment. Company Equipment also includes Company Facilities.

Company Facilities: Facilities, equipment, software or wiring supplied by or on behalf of the Company for the purpose of furnishing Service. Company Facilities do not include the facilities, equipment, software or wiring supplied by Other Facilities Suppliers.

Connection: A Communications Channel between Network Termination Points selected by the Customer over which voice, data and other electronic signals can be transmitted by the Customer or User.

Continental United States: The contiguous forty-eight (48) states.

Customer: A person, firm, corporation or any other entity that orders Service and is responsible for the payment of Charges and compliance with the Company's regulations. A person, firm, corporation or any other entity that reasonably appears to be acting with the Customer's authority shall be deemed to be acting on behalf of the Customer.

Customer Premises: The Customer's or User's place(s) of business, residence or other location for the origination or termination of Service.

Customer-Premises Equipment ("CPE"): Equipment owned or leased by the Customer or Authorized User at a Location and connected to the Network on the Customer's or Authorized User's side of a Network Termination Point. CPE also includes Customer-Provided Equipment.

Customer-Provided Equipment: Facilities, equipment, software or wiring supplied by the Customer or User in connection with Service.

Demarcation Point: The point at which the Company Facilities are interconnected with Customer-Provided Equipment.

Direct Access Line: A dedicated physical telecommunications link between the customer equipment and the Company's POP.

2. DEFINITIONS (Cont'd)

Dollars: United States Dollars.

Effective Date: Date that Customer accepts service.

Entity: Any corporation, public limited company, limited company, partnership, trust or other legal entity.

Event of Default: Any material act or omission that, if not cured within the applicable time period, constitutes a failure to fulfill an obligation under a Service Order.

FCC: Federal Communications Commission.

Force Majeure Conditions: Causes beyond Company's control, including acts of God; acts of public enemy; acts of any country, state, political subdivision; fires; floods; riots; civil disorder and strikes.

Hub: A site on the Network connected to a Point of Presence and that receives telecommunications from a Location and routes it through the Network to one or more other Locations.

Intellectual Property: Patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, inventions, copyrights and copyright rights, processes, formulae, logos, trade secrets, industrial models, customer lists, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

2. DEFINITIONS (Cont'd)

Location: The premises owned or occupied by the Customer (or any Authorized User) that forms one end of a Location-Pair and at which a Network Termination Point is located.

Location-Pair: Two (2) Locations specified by the Customer between which the Company provides a Connection.

Minimum Annual Commitment: The minimum annual amount a Customer must spend for a specified period.

Minimum Service Period: The minimum period that a Customer may subscribe to Service.

Monthly Charge: A flat charge assessed the Customer each month for the use of the Company's Service.

Network: Collectively, Company Facilities and Company Equipment.

Network Interface Specifications: The specifications relating to the interface between the Network and any Customer-Premises Equipment attached to the Network.

Network Termination Point: A point representing the physical and management boundary between the Network and Customer Premises Equipment. The Network Termination Point is on the Network side of the Customer Premises Equipment.

Operational Service Date: The date when any Service, or any part of it, is first made available to the Customer by the Company or the date when the Customer first starts to use such Service (or any part of it), whichever date is the earlier.

Other Facilities Supplier: An entity other than the Company that provides facilities or services in connection with the Service furnished by the Company under this Tariff and not as a part of a joint undertaking with the Company to furnish Service under this Tariff.

2. DEFINITIONS (Cont'd)

Performance Credit: A credit issued by the Company to the Customer in accordance with Section 3.3.4 of this Tariff.

Point of Presence (POP): A physical location at which a local access channel, the public switched telephone network, or other Communications Channel interconnects with Company Facilities for the origination or termination of communications.

Scheduled Service Date: The date upon which Service is scheduled to commence.

Service: The telecommunications service or services offered by the Company under this Tariff.

Service Agreement: An Agreement between a Customer and the Company containing descriptive information describing the Service the Company agrees to furnish to the Customer.

Service Interruption: An interruption of service begins when the Company becomes aware of the interruption and ends when it attempts to notify the Customer that Service has been restored or the Customer fails to cooperate with the Company so as not to allow the Company to restore Services as quickly as possible. Interruptions due to normal maintenance shall not constitute a Service Interruption.

Special Network Arrangement: A particular configuration of services and associated rates and regulations designed to meet Customer telecommunications needs.

Service Order: An order for service as described in Section 3.2.1 of this Tariff.

Service Term: The period that the Customer subscribes to Service. The Service Term may be longer than the Minimum Service Period.

Special Construction: Installation, procurement or deployment of facilities at the Customer's request not normally used by the Company to provide Service.

Tariffs: The Company's Tariff No. 1 and other tariffs on file with this Commission.

2. DEFINITIONS (Cont'd)

Termination Charges: The charges specified in Section 3.3.3 of this Tariff.

Transmission Quality: Digital transmission with not more than 1 errored bit in 1,000,000 bits of digital data as measured by a fifteen minute intrusive bit error rate tester (BERT).

United States: The forty-eight (48) contiguous states and the District of Columbia, Hawaii, Alaska, Puerto Rico, and the U.S. Virgin Islands.

Usage Charge: A charge assessed the Customer for the use of the Company's Service. Usage Charges are assessed as specified in Sections 5 and 6 of this Tariff.

Year of Service: The period of twelve (12) months commencing on the Effective Date and, thereafter, each successive period of twelve (12) months from such date.

3. REGULATIONS

3.1. Undertaking of the Company

3.1.1. Scope

(A) The Company undertakes to provide Service between the one or more points described herein in the State of South Dakota, in accordance with this Tariff.

(B) The Company shall maintain sole and absolute discretion over the routing of Service furnished under this Tariff. In the event that the Company is required to make special arrangements to meet the requirements of the Customer, the applicable charges for Special Construction will be assessed in accordance with the applicable provisions of Section 3.2.2 of this Tariff.

(C) The rates and regulations contained in this Tariff apply only to the interexchange services furnished by the Company and do not apply, unless otherwise specified, to the lines, facilities or services provided by a local exchange telephone company or other Common Carrier for use in accessing the services of the Company.

3.1.2. Availability of Service

(A) Service is available twenty-four (24) hours per day, seven (7) days per week, subject to the availability of facilities and subject to transmission, atmospheric, topographical and like conditions. The Company may limit or interrupt the use of Service because of (i) the lack of transmission medium capacity, (ii) the need to perform maintenance, modifications, upgrades, relocations, testing or other similar activities necessary for the provision of Service, or (iii) any cause beyond its control.

(B) The use and restoration of Service during emergency conditions shall be in accordance with Part 64, Subpart D, Appendix A, of the FCC rules and regulations, 47 C.F.R. Part 64 (1997), which specifies the priority system for services.

(C) The Company reserves the right, when necessary, to arrange for Service to be furnished through the facilities of Other Facilities Suppliers or other entities or through the use of agents or subcontractors.

3. **REGULATIONS** (Cont'd)

3.1. Undertaking of the Company (Cont'd)

3.1.3. Liability of the Company

(A) Except as stated in this Section 3.1.3, the Company shall not be liable for damages of any kind, including without limitation consequential, special or indirect damages, arising out of or related to events, acts, rights or privileges contemplated in this Tariff. This Tariff does not limit the liability of the Company for willful misconduct, if established as a result of judicial or administrative proceedings.

(B) THE COMPANY MAKES NO WARRANTY, EITHER EXPRESSED OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE, CONCERNING THE COMPANY'S FACILITIES, EQUIPMENT, SOFTWARE OR SERVICE, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. THE COMPANY DOES NOT AUTHORIZE ANYONE, WHETHER A COMPANY EMPLOYEE, AGENT, SUB-CONTRACTOR, OR OTHERWISE, TO MAKE A WARRANTY OF ANY KIND ON ITS BEHALF AND THE CUSTOMER SHOULD NOT RELY ON ANY SUCH STATEMENT.

3. REGULATIONS (Cont'd)

3.1. Undertaking of the Company (Cont'd)

3.1.3. Liability of the Company (Cont'd)

(C) NEITHER THE COMPANY NOR ANY OF ITS MANUFACTURERS, SUBCONTRACTORS OR SUPPLIERS WILL BE LIABLE TO THE CUSTOMER FOR LOST REVENUES, LOST PROFITS, LOST DATA, OR OTHER SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGE OR FOR LOSS, DAMAGE OR EXPENSE DIRECTLY OR INDIRECTLY ARISING FROM THE CUSTOMER'S OR ANY OTHER PARTY'S USE OF OR INABILITY TO USE EQUIPMENT, SERVICES OR SOFTWARE EITHER SEPARATELY OR IN COMBINATION WITH OTHER EQUIPMENT OR FOR COMMERCIAL LOSS OF ANY KIND, WHETHER OR NOT THE COMPANY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE OR LOSS, NOR SHALL ANY RECOVERY AGAINST THE COMPANY, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE, STRICT LIABILITY OR OTHERWISE) BE GREATER IN AMOUNT THAN THE CHARGES PAID BY THE CUSTOMER TO THE COMPANY UNDER THIS TARIFF. THE CUSTOMER ASSUMES ALL RISKS AND LIABILITY FOR LOSS, DAMAGE OR INJURY TO PERSONS OR PROPERTY OF THE CUSTOMER OR OTHERS ARISING OUT OF USE OR POSSESSION OF THE EQUIPMENT, SERVICES AND SOFTWARE PROVIDED UNDER THIS TARIFF.

(D) The liability of the Company for damages arising out of mistakes, interruptions, omissions, delays, errors or defects occurring in the course of furnishing Service under this Tariff, and not caused by the failure or negligence of the Customer or Customer-Provided Equipment or service, shall in no event exceed the amount set forth in Section 3.3.4. No other liability in any event shall attach to the Company.

3. REGULATIONS (Cont'd)

3.1. Undertaking of the Company (Cont'd)

3.1.3. Liability of the Company (Cont'd)

(E) The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to any acts of God, fire, lightning, explosion, flood, extreme weather conditions or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; any national emergencies, insurrections, riots or wars; or any labor difficulties.

(F) The Company shall not be liable for any act or omission of Other Facilities Suppliers or any other entity furnishing Customer-Provided Equipment or service used in connection with the Service furnished in this Tariff; nor shall the Company be obligated to meet any service levels in its tariffs if the Customer connects Other Facilities Suppliers' services with the Company's services or facilities; nor shall the Company be liable for any damages or losses due to the failure or negligence of the Customer or User or due to the failure of Customer-Provided Equipment.

(G) The Company shall not be liable for any damages, including Usage Charges, the Customer may incur as a result of the unauthorized use or misuse of the Service or Company Facilities, or Customer-Provided Equipment or services. Unauthorized use or misuse includes, but is not limited to, the unauthorized use or misuse of Service or Customer Provided Equipment or services by the Customer's employees, third parties, or the public. The Company does not warrant or guarantee that it can prevent unauthorized use or misuse, and the Customer is responsible for controlling access to, and use of, the Service and its own equipment, facilities or services.

3. REGULATIONS (Cont'd)

3.1. Undertaking of the Company (Cont'd)

3.1.3. Liability of the Company (Cont'd)

(H) The Company shall not be liable for damages for any accident or injury occasioned by the use of Customer-Provided Equipment or for any defacement or damage to Customer Premises or Customer-Provided Equipment resulting from the installation and existence of Customer-Provided Equipment.

(I) The Company shall not be liable for the interception or breach in privacy or security of any Service or communications provided under this Tariff.

(J) The Company shall not be liable for:

(i) Libel, slander, or infringement of copyright arising from or in connection with the transmission of communications by means of the Service provided by the Company;

(ii) Infringement of patents or trade secrets arising from the combination, connection, or use of the Service with Customer-Provided Equipment, facilities or services;

(iii) Any act or omission of the Customer, User or any Other Facilities Supplier;

(iv) Changes in any of Company Facilities, Service, operations or procedures that render any equipment, facilities or services provided by the Customer or User obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance; or

(v) Any claim arising out of an act or omission of the Customer or User pertaining to the encryption of data to be transmitted via the Service.

3. REGULATIONS (Cont'd)

3.1. Undertaking of the Company (Cont'd)

3.1.3. Liability of the Company (Cont'd)

(K) In no event shall Company be liable for any delay or other failure to perform hereunder that is due to Force Majeure Conditions.

(L) Customer shall have the obligation to mitigate any damages that it incurs

(M) Each provision of this Tariff limiting or excluding liability operates separately and survives independently of the others.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer

3.2.1. Service Ordering

(A) A Customer shall provide the Company with a written Service Order specifying the date on which Service is requested to commence, the Service points, the duration of Service, the type and transmission speed of facilities required, and any special arrangements requested. Such Service Order also shall contain, at a minimum, the following information (i) name; (ii) address; and (iii) telephone number.

(B) A request to reconfigure or add a Communications Channel, or otherwise order new Services or vary any of the Services or to vary any part of the Services, will be treated as a new order for Service, subject to a Minimum Service Period. A request to rearrange a Communications Channel may be subject to Termination Charges set forth in Section 3.3.3(C). Requests to renew a Service for an additional Service Term must be received by the Company at least 7 days before the end of the Service Term to avoid any charges.

(C) After receipt of an initial Service Order, the Company will indicate its acceptance by signing that Service Order and providing to the Customer a Scheduled Service Date, which will be an estimate as to when the Service will commence. The Customer shall notify the Company, in writing within 10 days of the Company's acceptance, whether the Company should process the Service Order. The Service shall commence on its Operational Service Date.

(D) An application for Service may be changed or cancelled prior to the Scheduled Service Date by the Customer upon written notice to the Company, provided the Customer pays all costs, including any costs assessed by Other Facilities Suppliers, incurred by Company in accommodating any change or cancellation.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.1. Service Ordering (Cont'd)

(E) In the event the Operational Service Date does not occur on or before the thirtieth (30th) day following the Scheduled Service Date, or the Company notifies the Customer that Service will not be furnished, the following shall apply:

(i) If the delay is due to any act or omission of the Customer or User, the Customer may cancel the application for Service and shall pay all costs incurred by the Company in preparing to furnish Service.

(ii) If the delay is due to any cause other than those specified in Section 3.2.1(E)(i), the Customer may cancel the application for Service and no cancellation charges shall apply.

(iii) As an alternative to termination, the Customer may request and the Company shall provide a new Scheduled Service Date.

(F) As provided in Section 3.2.1(B) of this Tariff, if the Customer wishes to order new Services or to vary any of the Services or to vary any part of any Service, it shall notify the Company in writing, detailing the proposed change and the reason for it, as provided in this Subsection. Within a reasonable time, not exceeding thirty (30) working days of receipt of a proposal under this Subsection, the Company shall respond by notifying the Customer in writing whether such proposal is feasible, together with the resulting financial, contractual, technical and other effects. The Customer shall notify the Company in writing, within 10 days of receipt of the Company's response, whether or not the Company is to proceed and make the change. A proposed change shall be effective upon the written authorization of both the Customer and the Company.

(G) The Customer shall provide information on a continuing basis as required by the Company to prepare, install, furnish and maintain Service.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.2. Charges for Special Construction and Overtime

(A) The Charges for Service requiring Special Construction by the Company will be developed on a case-by-case basis. The Company may require the Customer to pay in advance the Charges for Special Construction as set forth in Section 3.2.4 of this Tariff. The Company shall be responsible for preparing and filing any necessary special construction tariffs or tariff revisions for this purpose. The Customer is responsible for obtaining all necessary permits or concessions.

(B) Charges for Special Construction will be based on such elements as cost of equipment and materials, cost of installation, engineering, labor, supervision, general and administrative expense, overhead, interest during construction, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the provision of Special Construction. The Company shall notify the Customer of the estimate of such Charges, and the Customer shall notify the Company in writing within 10 days thereafter whether to proceed with the proposed Special Construction.

(C) The Charges set forth in Section 5 of this Tariff are based upon the costs of activities performed during the Company's normal working hours. The Company will assess additional charges calculated to recover any direct out-of-pocket costs (e.g., labor and third party payments) incurred by the Company when, at the request of the Customer, installation of or modification to Service occurs outside the Company's normal working hours.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.3. Payment for Service

(A) The Customer is responsible for payment of all Charges for Service furnished by the Company to the Customer. Charges for each Service shall commence on its Operational Service Date. Charges, including but not limited to Special Construction Charges, Monthly Charges and Usage Charges, shall be paid within 30 days of the date of the Company invoice (the "Due Date"). Usage Charges shall be assessed in arrears. Monthly Charges will be assessed in advance. Invoices will be submitted monthly, quarterly, or annually in advance, as specified by the Customer.

(B) The Company shall send invoices to the Customer at the address specified in the Service Order. The Customer shall provide the Company 30 days' advance notice in writing of any change in the invoice address. The Company will implement the change as soon as reasonably practicable. The Customer's responsibility for timely payment of all Charges is not changed due to the Customer's failure to receive an invoice.

(C) The Customer shall not be excused from paying the Company for Service provided to the Customer or any portion thereof on the basis that unauthorized use or misuse occurred over the Service. The Customer shall indemnify and hold harmless the Company against all costs, expenses, claims or actions arising from unauthorized use or misuse of any nature of the Service.

(D) A Customer that does not pay any item on an invoice that is not subject to a bona fide dispute shall be assessed interest on the unpaid amount at the lesser of (i) prime plus three percent (3%) or (ii) the highest rate of interest allowed by the laws of the State of South Dakota.

(E) The Customer shall pay all imposed duties and sales, use, transfer, value-added service, gross receipts, excise and similar taxes that (i) are lawfully levied on the Company by a duly constituted taxing authority against or upon the Services or (ii) the Company is required by law to levy or withhold with respect to such Services.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.3. Payment for Service (Cont'd)

(F) If the Company initiates legal proceedings to collect any amount due hereunder and the Company substantially prevails in such proceedings, then the defendant Customer shall pay the reasonable counsel fees and costs of the Company in prosecuting such proceedings and appeals therefrom.

(G) Federal, state and local sales, use, excise and other taxes, as well as government accessed fees and surcharges, where applicable, shall be added to the Charges contained herein, unless the Customer provides a properly executed certificate of exemption from such taxes. It shall be the responsibility of the Customer to pay these taxes and to accept the liability of any such unpaid taxes that may become applicable.

(H) The amounts resulting from taxes, fees, or exactions imposed against the Company, its property, or its operations, excepting only taxes imposed generally on corporations, shall be billed to its customers pro rata by the Company when applicable.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.4. Advance Payments and Deposits

(A) The Customer may be required to provide suitable security, including but not limited to a deposit, bank letter of credit, or advance payment, to be held by the Company as a guaranty of the payment of Charges. Such security may be applied at any time, at the option of the Company, in payment of any unpaid Charges for Service furnished to the Customer or in payment of applicable Termination Charges. Such a deposit will not exceed an amount equal to an aggregate of three (3) months' recurring and nonrecurring charges for all Services and Company Facilities to be provided to Customer plus, where special construction is necessary in order to install the Services and/or Company Facilities, an amount equal to the estimated aggregate nonrecurring charges (if any) for such construction, whenever incurred. The Company shall refund deposits to Customers in accordance with Section 3.2.4(C).

(B) When a Service Order is canceled, at the Customer's request, prior to the commencement of Service, the deposit will be applied to all applicable Charges.

(C) The Company, upon the termination of Service, will refund within sixty (60) days the Customer's deposit, or the balance in excess of unpaid Charges, if any, for Service.

(D) The fact that a deposit has been made does not relieve the Customer from complying with the Company's regulations or from the prompt payment of bills; nor does it constitute a waiver or modification of the regulations of the Company providing for the termination of Service for nonpayment of any sums due the Company for Service rendered.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.5. Billing Disputes

(A) When the Customer disputes a bill for the Company's Service, the Customer shall (i) pay any undisputed portion of the bill and, at the Customer's election, pay the disputed portion pending resolution of the dispute; (ii) advise the Company in writing that the bill or any portions thereof are disputed by the Customer; and (iii) provide a written explanation of the basis for the dispute within thirty (30) days of the invoice date in question.

(B) The Company will review the Customer's bill and notify the Customer within thirty (30) days of the outcome of its review. If the Company agrees with the Customer, it shall credit the Customer's account for any disputed amounts paid by the Customer. If the Company disagrees with the Customer, any disputed amount unpaid by the Customer shall become payable upon notice to the Customer.

(C) If there remains a disagreement about the disputed amount after investigation and review by the Company, the Customer may file an appropriate complaint with the South Dakota Public Utilities Commission. The address of the Commission is:

South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

(D) Billing inquiries may be directed to the Company at its toll free number: 1-800-205-5771

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.6. Use of Service

(A) Service shall be used to transmit communications of the Customer or Authorized User in a manner consistent with the terms and conditions of this Tariff and the policies and regulations of the Federal Communications Commission and other State authorities involved.

(B) Service is furnished subject to the condition that the Customer or Authorized User not use such Service for any illegal purpose, or in a manner that violates the law, or for annoying any person, or in a manner that interferes with the reasonable use of the Company's Service by other customers or users.

(C) The Customer shall ensure that the use of Service by the Customer or Authorized User shall not (i) interfere with any other Service offered by the Company; (ii) endanger the safety of the Company's employees or the public; or (iii) damage or require change in or alteration of Company Facilities or interfere with the proper functioning of such facilities. If any equipment, facilities or services provided by the Customer or User is causing or is likely to cause such hazard or interference, the Company may suspend or terminate Service as set forth in Sections 3.3.1 and 3.3.2 of this Tariff, and the Customer shall take such steps as shall be necessary to remove or prevent such hazard or interference.

(D) The Customer shall comply with all conditions imposed on the use of services provided by Other Facilities Suppliers.

(E) The Customer shall indemnify and hold harmless the Company against all loss and damage resulting from the failure of the Customer or Authorized User, patron, lessor or similar entities to observe the provisions of this Tariff.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.7. Customer Premises Provisions

(A) The Customer shall provide to the Company all reasonable personnel, power and space required to operate all Company Facilities installed on the Customer Premises.

(B) Prior to commencement of installation of Company Facilities, the Customer and Company shall have determined the location of Company Facilities at the Customer Premises and the Customer, at its own expense, shall have completed any preparatory work required by the Company at the Customer Premises or to Customer-Provided Equipment to ensure technical compatibility with Company Facilities or Service.

(C) The Customer shall be responsible for making Customer Premises available, upon reasonable notice and at reasonable hours, for such tests and inspections as may be necessary to determine compliance with the requirements of this Tariff regarding the installation, operation or maintenance of Company Facilities or Customer-Provided Equipment.

(D) The Company undertakes that its employees, agents and sub-contractors shall observe the Customer's reasonable site regulations previously advised in writing to the Company. In the event of any conflict between such site regulations and this Tariff, the terms and conditions of this Tariff shall prevail.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.8. Provision of Equipment and Facilities

(A) The Company shall not be responsible for the installation, operation or maintenance of Customer-Provided Equipment. Where Customer-Provided Equipment is connected to the Service furnished under this Tariff, the responsibility of the Company shall be limited to the furnishing of Service under this Tariff and to the maintenance and operation of such Service; subject to this restriction, the Company shall not be responsible for:

(i) the through transmission of signals generated by Customer-Provided Equipment; or

(ii) the reception of signals by Customer-Provided Equipment; or

(iii) network control signalling where such signalling is performed by Customer-Provided network control signalling equipment.

(B) Customer-Provided Equipment for use in connection with this Service shall be so constructed, maintained and operated as to be technically compatible with Company Facilities and Service to the Company's satisfaction, shall not be capable of transmitting or receiving any message or communication over the Service except in accordance with this Tariff, and shall be in compliance with all FCC rules and regulations. Any special interface equipment or reasonable security procedure necessary to achieve compatibility between Customer-Provided Equipment and Company Facilities or Service shall be provided at the Customer's expense.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.7. Customer Premises Provisions

(A) The Customer shall provide to the Company all reasonable personnel, power and space required to operate all Company Facilities installed on the Customer Premises.

(B) Prior to commencement of installation of Company Facilities, the Customer and Company shall have determined the location of Company Facilities at the Customer Premises and the Customer, at its own expense, shall have completed any preparatory work required by the Company at the Customer Premises or to Customer-Provided Equipment to ensure technical compatibility with Company Facilities or Service.

(C) The Customer shall be responsible for making Customer Premises available, upon reasonable notice and at reasonable hours, for such tests and inspections as may be necessary to determine compliance with the requirements of this Tariff regarding the installation, operation or maintenance of Company Facilities or Customer-Provided Equipment.

(D) The Company undertakes that its employees, agents and sub-contractors shall observe the Customer's reasonable site regulations previously advised in writing to the Company. In the event of any conflict between such site regulations and this Tariff, the terms and conditions of this Tariff shall prevail.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.8. Provision of Equipment and Facilities

(A) The Company shall not be responsible for the installation, operation or maintenance of Customer-Provided Equipment. Where Customer-Provided Equipment is connected to the Service furnished under this Tariff, the responsibility of the Company shall be limited to the furnishing of Service under this Tariff and to the maintenance and operation of such Service; subject to this restriction, the Company shall not be responsible for:

(i) the through transmission of signals generated by Customer-Provided Equipment; or

(ii) the reception of signals by Customer-Provided Equipment; or

(iii) network control signalling where such signalling is performed by Customer-Provided network control signalling equipment.

(B) Customer-Provided Equipment for use in connection with this Service shall be so constructed, maintained and operated as to be technically compatible with Company Facilities and Service to the Company's satisfaction, shall not be capable of transmitting or receiving any message or communication over the Service except in accordance with this Tariff, and shall be in compliance with all FCC rules and regulations. Any special interface equipment or reasonable security procedure necessary to achieve compatibility between Customer-Provided Equipment and Company Facilities or Service shall be provided at the Customer's expense.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.8. Provision of Equipment and Facilities (Cont'd)

(C) If the Customer is not in compliance with the requirements of FCC rules, including Part 68, associated with Customer-Provided Equipment, the Company may take such action as necessary, including the suspension and/or termination of Service, to protect Company Facilities and personnel and will promptly notify the Customer of the need for protective action. The Company shall upon request provide the Customer with a statement of necessary technical specifications for Customer-Provided Equipment.

(D) The Customer or Authorized User may not rearrange, disconnect, remove, modify or attempt to repair or permit others to rearrange, disconnect, remove, modify or attempt to repair any Company Facilities without the prior written consent of the Company. The Customer shall be responsible for Company Equipment while it is at a site and shall not add to, modify or in any way interfere with the Company Equipment. The Customer shall be liable to the Company for any loss or damage to Company Equipment, except in so far as any such loss or damage is attributable to the negligent or willful act or omission of the Company, its employees, agents or sub-contractors.

(E) Title to any Company Facilities in connection with the Service shall not vest in the Customer or User, and the Customer will cooperate fully with the Company to recover any Company Facilities after any termination of Service.

(F) The Customer shall cooperate with the Company in the installation, testing, operation and maintenance of equipment and facilities used in connection with the provision of Service pursuant to this Tariff. The Customer shall at its own expense provide reasonable assistance and facilities to the Company in the installation of equipment, shall provide at its own expense any electricity required for the proper functioning of such equipment and shall provide or procure at its own expense suitable accommodation, facilities and environmental conditions for housing of such equipment and all necessary electrical and other installations and fittings.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.9. Ownership and Intellectual Property Rights

(A) Ownership of all Intellectual Property in any Company equipment, software, operating manuals and associated documentation made available as part of any Service or otherwise generated in connection with this Tariff shall remain the absolute property of the Company or its licensors.

(B) Where software is made available to the Customer in connection with any Service, the Company grants the Customer a non-exclusive, nontransferable license to use such software solely in connection with such Service and for no other purpose.

(C) The Customer shall not, without Company's prior written consent, copy or reproduce or decompile or modify any licensed software, nor copy the manuals or documentation, except to the extent strictly necessary for proper use of the Service and for back-up purposes. Any such permitted reproduction shall be solely in object code form.

(D) The Customer shall keep any licensed software and any other material containing the Company's Intellectual Property in confidence and shall ensure that it is not copied, disclosed or used other than as authorized under this Tariff.

(E) The Customer shall not make any modification to any licensed software without the Company's prior written consent. The Intellectual Property rights in any permitted modifications shall vest in the Company.

(F) The Customer agrees to sign any agreement reasonably required by the owner of the Intellectual Property rights in any material supplied to the Customer under this Tariff in order to protect the owner's interest in that Intellectual Property.

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.10. Intellectual Property Rights Indemnity

(A) The Company shall indemnify the Customer against all claims and proceedings arising from infringement (or alleged infringement) of any Intellectual Property Rights enforceable in the United States by reason of the Customer's use of any Service or any item provided as part of the Service. As a condition of this indemnity the Customer shall:

(i) notify the Company promptly in writing of any allegation of infringement; and

(ii) make no admission relating to the infringement; and

(iii) allow the Company to conduct all negotiations and proceedings and give the Company all reasonable assistance.

(B) If at any time an allegation of infringement of Intellectual Property rights is made, the Company may at its own sole discretion and expense modify the Service, or any item provided as part of the Service, so as to avoid the infringement, provided that any such modification does not materially affect the performance of the Service.

(C) The indemnity in Section 3.2.10(A) does not apply to infringements occasioned by the Customer's or Authorized User's use of the Service, or any item provided as part of the Service, in conjunction with other equipment, facilities, service or software not provided by the Company, or to infringements occasioned by designs or specifications made by the Customer or User. The Customer shall indemnify and hold harmless the Company against all claims, proceeding and expenses arising from such infringements described in this Section 3.2.10(C).

3. REGULATIONS (Cont'd)

3.2. Obligations of the Customer (Cont'd)

3.2.11. Liability of the Customer

(A) The Customer shall be liable for any damages to or loss of Company Facilities, Company Equipment or Service or for any injury to the Company's employees, agents or sub-contractors caused by the negligence or willful act of the Customer's officers, employees, agents or sub-contractors or the Customer's Authorized Users, patrons or lessors.

(B) The Customer shall be responsible for the payment of all costs and expenses, including reasonable counsel fees and disbursements, incurred by the Company in connection with any legal or other proceedings and any appeals therefrom to collect any Charges due pursuant to Service under this Tariff or to enforce any terms or conditions of this Tariff against the Customer where the Company substantially prevails in such proceedings.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service

3.3.1. Suspension by the Company

(A) The Company may, without incurring any liability, suspend Service to the Customer if such action is necessary to protect Company employees, agents, sub-contractors, Facilities, Equipment or Service; provided, however, that the Company shall make reasonable efforts to give the Customer prompt advance notice of any such suspension. The Company will endeavor, consistent with its responsibilities as a common carrier, to coordinate routine maintenance requirements.

(B) Without affecting rights under Section 3.3.2 for breach, upon non-payment of any sum owing to the Company for more than 30 days beyond the date of invoice for Service or upon violation of any of the terms or conditions governing the furnishing of Service under this Tariff, the Company may, by 24 hours advance notice to the Customer, without incurring any liability, suspend the furnishing of Service under this Tariff.

(C) Suspension for cause does not relieve the Customer of any obligation to pay Charges that have accrued under Section 3.2.3 and Section 5 of this Tariff.

(D) Should the Company restore Service after suspension, the Customer shall be responsible for the payment of any Charges, including reconnection charges or other costs, associated with the suspension and restoration of Service.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.2. Termination by the Company

(A) The Company may terminate Service to the Customer for cause, without incurring any liability, after suspension of Service for nonpayment or noncompliance with any provision of this Tariff if such nonpayment or noncompliance is not corrected within thirty (30) days following the suspension of Service.

(B) The Company may terminate Service to the Customer for cause, without incurring any liability, when the Company has reason to believe that the Customer provided false or misleading information to the Company in connection with a Service Order.

(C) The Company may terminate Service to the Customer for cause, without incurring any liability, following the initiation by or against the Customer of a proceeding in bankruptcy, reorganization, insolvency, receivership or assignment for the benefit of creditors.

(D) The Company may terminate Service to the Customer for cause, without incurring any liability, if required to cease Service or any material portion of the Service as a result of a change in any applicable laws, in contemplation or acknowledgement of or to avoid the consequences of any change, order, judgment or decision. The Company may substitute another service in the above circumstance that substantially meets all Customer needs and is not higher in price and meet all its obligations under this Tariff assuming the substitute service is available within thirty (30) days of the termination date of the original service.

(E) The Company may terminate Service to the Customer for cause, without incurring any liability, if Customer fails to perform or comply with any material covenant, condition, or obligation under this Tariff, unless such Breach is cured within thirty (30) days of written notice by the Company of such breach. Customer may have an additional thirty (30) days to cure if it can demonstrate it is capable of curing within that additional period. Termination of one service or a part of a service is not cause for termination of remaining services.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.2. Termination by the Company (Cont'd)

(F) Termination for cause does not relieve the Customer of any obligation to pay Charges that have accrued under Section 3.2.3 and Section 5 of this Tariff or for any Termination Charges under Section 3.3.3.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.3. Termination by the Customer

(A) Termination At End of Minimum Service Period: Upon sixty (60) days written notice to the Company, the Customer may terminate Service that shall have completed a continuous Minimum Period of Service, subject to the payment of all outstanding Charges for Service rendered.

(B) Termination Before End of Service Term: Upon termination of the Service by the Customer prior to the end of the Minimum Period of Service, the Customer shall pay the following charges:

(i) all outstanding Charges for Service rendered;

(ii) the difference between the discounts applied as a result of the intended annual commitment or Service Term and the discounts applicable to the actual commitment or Service Term; and

(iii) all Charges that would have been due for payment under the Service Order less what has already been paid; and

(iv) all additional Charges, that the Company may incur from Other Facilities Suppliers as a result of the termination.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.3. Termination by the Customer (Cont'd)

(C) Termination by Rearrangement or Relocation of Communications Channel: Upon ninety (90) days' written notice to the Company, and as provided in Section 3.2.1(F), the Customer may request a rearrangement (e.g., a change in transmission speed) or relocation (e.g., a change in address) of a Communications Channel, subject to the payment of:

(i) all outstanding Charges for Service rendered; and

(ii) all applicable reconfiguration charges for the rearranged or relocated Service.

(D) Termination by Replacement of Service: Upon ninety (90) days' written notice to the Company, and as provided in Section 3.2.1(F), the Customer may terminate Service, by replacing it with another Company Service, subject to the following conditions:

(i) the Customer shall pay all outstanding Charges for the Service rendered;

(ii) the Service to be replaced shall have completed a continuous period of service of at least 12 months. If the Service has not completed a continuous period of service of 12 months, the Customer shall pay to the Company all Charges which would have been payable had the Service completed such a period;

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.3. Termination by the Customer (Cont'd)

(D) Termination by Replacement of Service (Cont'd)

(iii) the Service Term for the new Service shall be at least as long as the outstanding Service Term for the Service to be replaced and in any event shall not be less than 12 months;

(iv) the Customer shall pay all applicable reconfiguration charges for the new Service.

(E) Increased Commitment to Same Service: Upon ninety (90) days' written notice to the Company, and as provided in Section 3.2.1(F), the Customer may extend its Service Term or increase its volume commitment for Service, without penalty. Upon receipt of such request for extension, the appropriate discount level applicable to such extension or increase shall apply, beginning on the date Customer receives such modified Service pursuant to the increased volume commitment.

(F) Termination Without Liability: Customer may terminate without liability to the Company under the following circumstances:

(i) Termination of Service by the Company under Section 3.3.2(D) of this Tariff;

(ii) The Company loses, lets lapse, or has modified in a significant manner, any required license, permit, consent or approval of any governmental authority, body, or instrumentality of competent jurisdiction.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.4. Performance Credit for Service Interruptions

(A) The Customer must report a Service Interruption within 48 hours from the time the Customer becomes aware of such Service Interruption. Service Interruptions may be reported 24 hours a day, 7 days a week to an appropriate fault reporting number that the Company will provide to the Customer for that purpose. The Customer shall at the time of the report provide the Company with a contact telephone number and name to enable the Company to advise the Customer on its progress to resolve the Service Interruption. A Service Interruption begins when the Customer reports it and ceases when (i) the Company restores Service and has attempted to contact the Customer or (ii) the Customer fails to cooperate with the Company so as to not allow it to restore Service as quickly as possible.

(B) No Performance Credit shall apply for: any failure on the part of the Customer to perform its obligations under this Tariff; any failure or malfunction of Customer-Provided Equipment; any necessary interruption due to additions or changes to Service; any cooperative testing as specified in Section 3.2.7 of this Tariff; any act or omission by the Customer, User or Other Facilities Supplier; any electrical or other power outage; or any failure of performance due to causes beyond the Company's control as specified in Section 3.1.3(E) of this Tariff.

3. REGULATIONS (Cont'd)

3.3. Suspension and Termination of Service (Cont'd)

3.3.4. Performance Credit for Service Interruptions (Cont'd)

(C) When Service is interrupted due to causes other than those specified in Section 3.3.4(B), a Performance Credit shall be applied as follows. No other liability shall attach to the Company.

(i) For purposes of calculating Performance Credits applied as a proportion of Monthly Charges, each month will be deemed to have thirty (30) days. In no event shall the Performance Credits exceed the Monthly Charges assessed the Customer for one month.

(ii) No Performance Credit is applicable to Usage Charges, Special Construction Charges or Termination Charges.

(iii) In the event a Service Interruption results from a failure of the facilities of Other Facilities Suppliers, the Company's liability for a Performance Credit shall be limited to the credit, if any, received by the Company from the Other Facilities Suppliers.

(D) Performance Credits are calculated at the end of each month or billing cycle. Performance Credits will be applied to the next invoice or invoices as necessary.

(E) In the event that the Customer reports a Service Interruption and the Company determines that no Service Interruption has occurred or that the Customer is responsible for the Service Interruption, the Company will assess the Customer the Company's actual cost of investigating the report.

3. REGULATIONS (Cont'd)

3.4. Confidentiality

3.4.1. The Company and Customer shall keep in confidence and shall not disclose to any person (other than employees or professional advisers who need to know the information) any information (whether written or oral) of the other party which is designated and marked confidential, without the written consent of the other party. This obligation does not apply to information which:

(A) is in the public domain or comes into it other than by violation of this Tariff or by breach of an agreement of the Customer and Company;

(B) is rightfully obtained from other parties without restriction;

(C) can be shown to have been already lawfully in the possession of the receiving party or independently developed by it prior to the disclosure; or

(D) is developed independently by the receiving party without use of confidential information; or

(E) is obtained from a third party who is free to divulge the same; or

(F) is disclosed in response to an order or request from a court, the FCC, or other regulatory body with jurisdiction over the Company or Customer, provided however that the Company or Customer shall first have been given reasonable notice and opportunity to object to the order or request and/or to obtain a protective order covering the confidential information to be disclosed.

3.4.2. This obligation survives the expiration or termination of Service for a period of two years.

3. REGULATIONS (Cont'd)

3.5. Assignment

All or part of the Service or any rights or obligation associated therewith may not be assigned or in any manner transferred without the written consent of the Company, which shall not be unreasonably withheld.

3.6. Notices

Except as otherwise provided in this Tariff or in any Service Order, notices or other communications between Customer and Company required or permitted under this Tariff shall be in writing and shall be mailed by registered or certified mail, return receipt requested, postage prepaid, or transmitted by overnight courier, hand delivery (including delivery by courier), or facsimile transmission, to the person(s) whose name and business address appear in the relevant Service Order, and the effective date of any notice shall be the date of delivery of such notice, not the date of mailing. By written notice, the Company or the Customer may change the party to receive notice and/or the address to which such notice is to be delivered.

4. SERVICE OFFERINGS

4.1. Virtual Network Service

4.1.1. Service Description

Virtual Network Service ("VNS") is a telecommunications service offering virtual private network connectivity capable of transmitting voice, data, facsimile, video and other communications. Access to VNS is provided through dedicated channels or through the public switched telephone network. Features of VNS include the following:

(A) Each extension on the Customer's virtual private network is assigned a seven-digit global dial plan number.

(B) Customers can block calls to certain destinations, regardless of whether the locations are on or off the Customer's virtual private network.

4.1.2. Types of Service

(A) OnNet: VNS between extensions on the Customer's virtual private network.

(B) On-OffNet: VNS that originates on the Customer's virtual private network and terminates on an extension that is not on the Customer's virtual private network.

(C) Off-OnNet: VNS that originates on an extension that is not on the Customer's virtual private network and that terminates on the Customer's virtual private network.

4. SERVICE OFFERINGS (Cont'd)

4.1. Virtual Network Service (Cont'd)

4.1.3. Locations Served

(A) OnNet: Available on an intrastate basis between points within the State of South Dakota.

(B) On-OffNet: Available on an intrastate basis between points within the State of South Dakota.

(C) Off-OnNet: Available on an intrastate basis between points within the State of South Dakota.

4. SERVICE OFFERINGS (Cont'd)

4.2. Toll Free Service

4.2.1. Service Description

Toll Free Service is a telecommunications service which allows a caller to place calls to a Customer at no cost to the calling party by dialing a telephone number that is assigned to a Customer Premise and that employs a toll-free area code.

Toll Free Service includes tracking features such as account codes, which can be used to control and track service usage by designated callers. Also, Customers can safeguard against unauthorized calling through use of security codes, i.e., any call made without a valid security code will not complete.

4.2.2. Types of Service and Locations Served

Intrastate Toll Free Service: Callers located in the State of South Dakota may place calls to Customer Premises located in South Dakota.

4. SERVICE OFFERINGS (Cont'd)

4.3. Audioconference Services

4.3.1. Service Description

Audioconference Service is a telecommunications service that allows Customers to establish audio telephone calls with multiple participants who may be located at different sites. In advance of the conference call, an Audioconference bridge is allocated to the call and the phone number for accessing the bridge is provided to participants. Participants join the conference call by calling the audioconference bridge phone number and either presenting identifying information to the Audioconference coordinator or keying in a conference code identification number ("Dial-in Service"). Under certain circumstances, "Dial-Out Service" may be available as well; i.e., the Company Audioconference coordinator will call nominated conference participants to bridge them onto the conference call.

4.3.2. Locations Served

Audioconference Service is available on an intrastate basis within the State of South Dakota.

5. RATES

5.1. Virtual Network Service

5.1.1. OnNet VNS Usage Charges

$ 0.0480 per minute

5.1.2. On-OffNet VNS Usage Charges

$ 0.110 per minute

5.1.3. Off-OnNet VNS Usage Charges

$ 0.110 per minute

5. RATES (Cont'd)

5.2. Toll Free Service

5.2.1. Intrastate Toll Free Service Usage Charges

$0.12 per minute

5. RATES (Cont'd)

5.3. Audioconference Service

5.3.1. Dial-In Service Usage Charges

Service	US $ Per Minute
Toll Free Dial-In Access	.60 – first 150,000 minutes per month .24 – in excess of 150,000 in any given month
Standard Dial-In Access	.50

5.3.2. Dial-Out Service Usage Charges

$ 1.68 per minute

6. SPECIAL NETWORK ARRANGEMENTS (SNAs)

6.1. **[RESERVED]**

EXHIBIT D
Management Bios

SENIOR MANAGEMENT TEAM
CABLE & WIRELESS GLOBAL MARKETS, INC.

David Sexton – Chief Executive Officer

David is Chief Executive Officer of Cable & Wireless Global Markets, responsible for its overall strategy and performance. At the age of sixteen, David entered the telecommunications industry as a trainee at British Telecom ("BT"). His career at BT spanned a number of management roles at the local, regional and national levels. In 1981, he was appointed Technical Director of BT's first subsidiary, Telecom Gold Ltd., a company specializing in messaging and information services. In 1987, he became a Director of Dialcom Group as BT began to globalize its value added service operations under a single brand. In 1989, David joined Mercury Communications (now known as Cable & Wireless Communications) as General Manager, Managed Network Services. The division excelled in procuring large scale outsourcing and managed network service contracts. He was appointed Sales Director in 1993, and Managing Director of the Corporate Business Unit in 1995, responsible for developing business within Mercury's corporate customer base. During this period, Mercury expanded rapidly, winning major contracts in Norwich Union, Great Universal Stores, Lloyds-TSB and a number of major government departments.

Philip Embury – Chief Financial Officer

Philip Emburey is Chief Financial Officer of Cable & Wireless Global Markets. He is responsible for the financial performance of the division. Philip is a Chartered Accountant having qualified in 1980 with Arthur Andersen. He spent two years on secondment in Italy returning to London as Audit Manager. He has extensive experience of acquisitions and Stock Exchange transactions.

Philip has been with the Cable & Wireless Group since 1990. He has held several senior finance roles in Mercury Communications and was Head of Group Accounting in the Cable & Wireless Corporate Office. Philip moved to Cable & Wireless Global Markets in 1997 and was involved in the successful launch and implementation of the business.

Robin Beesley – Vice President & General Manager, ServiceNet Relations

Robin has worked at Cable & Wireless for the past ten years. Specifically, for the previous four years, Robin has worked in the United States managing its global customers in the banking and IT services industry. He was involved in the procuring of a series of contracts from ServiceNet, an Anderson Consulting enterprise. Prior to joining Cable & Wireless, Robin spent eight years with BT International as the Sales Manager for Un. ed States customers.

EXHIBIT E
Financials

To lead the world in integrated communications

Annual Report on
Form 20-F 1998

EXHIBIT
2

CABLE & WIRELESS

As filed with the Securities and Exchange Commission

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: March 31st 1998

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10309

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

(Exact name of Registrant as specified in its charter)

ENGLAND AND WALES

(Jurisdiction of incorporation or organisation)

124 Theobalds Road, London WC1X 8RX, United Kingdom

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange*
Ordinary Shares of 25p each	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

2,278,986,029 Ordinary Shares of 25p each

1 Special Rights Preference Share of £1

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark which financial statement item the registrant has elected to follow.
☐ Item 17 ☒ Item 18

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*Not for trading, but only in connection with the registration of American Depositary Shares.

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PART I

INTRODUCTION

Cable and Wireless plc is a public limited company incorporated under the laws of England and Wales. The principal executive offices of the Company are located at 124 Theobalds Road, London, WC1X 8RX, United Kingdom.

As used in this Annual Report, references to the "Company" and "Cable & Wireless" are to Cable and Wireless plc, references to the "Group" and "Cable & Wireless Group" are to the Company, its consolidated subsidiaries and "associated companies and joint ventures" (companies which are less than majority-owned and are accounted for according to the equity method) unless the context otherwise requires. References to "Cable & Wireless Group Companies" are to any companies within the Cable & Wireless Group.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared on the basis of generally accepted accounting principles in the United Kingdom ("UK GAAP"), which, as described in Note 39 of Notes to Consolidated Financial Statements, differ in certain material respects from generally accepted accounting principles in the United States ("US GAAP"). Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements of the Cable & Wireless Group (including the notes thereto) included herein.

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the United States Private Securities Litigation Reform Act of 1995.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Annual Report contains certain forward-looking statements which include, but are not limited to: (i) statements regarding the results of operations and financial condition of Cable & Wireless Group Companies; (ii) statements of plans, objectives or goals of Cable & Wireless Group Companies or its management, including those related to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes", "anticipates", "expects", "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Cable & Wireless cautions investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include: (i) the effect of, and changes in, regulation and government policy in the countries in which Cable & Wireless Group Companies operate; (ii) the effects of competition and price pressures on the demand for products and services; (iii) the ability of acquiring companies to achieve cost-savings and operational synergies through the integration of constituent entities; (iv) the ability of Cable & Wireless Group Companies to service their future operational and capital requirements; (v) the timely development of and acceptance of new products and services; (vi) the effect of technological changes in communication and information technology; (vii) the Hong Kong dollar continuing to be pegged to the US dollar, and (viii) Cable & Wireless's ability to complete its year 2000 programme. Cable & Wireless cautions investors that the foregoing list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to Cable & Wireless, investors and others should carefully consider the foregoing factors and other uncertainties and events. Such forward-looking statements speak only as of the date on which they are made, and Cable & Wireless does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

References to a year in this Annual Report are, unless otherwise indicated, references to the Company's fiscal year ending March 31st of such year. In this Annual Report, financial and statistical information is, unless otherwise indicated, stated on the basis of such fiscal year.

EXCHANGE RATES

The Company publishes its consolidated financial statements in pounds sterling. In this Annual Report, references to "£" and "p" are to pounds sterling and to pence, respectively, the lawful currency of the United Kingdom, references to "$", "US dollars" and "cents" are to the lawful currency of the United States, and references to "HK$" are to the lawful currency of Hong Kong. This Annual Report contains translations of certain pound sterling amounts into US dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise indicated, the translation of pounds sterling into such US dollars have been made at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Revenue Bank of New York in effect on March 31st 1998 which was £1.00 to $1.68.

The following table sets forth, for the periods indicated, the average, high, low and period-end Noon Buying Rates for pounds sterling expressed in US dollars per £1.00.

Year ended March 31st	Average[1]	High	Low	Period end
1993	1.69	2.00	1.41	1.51
1994	1.50	1.59	1.46	1.49
1995	1.56	1.64	1.51	1.62
1996	1.56	1.62	1.50	1.53
1997	1.60	1.71	1.50	1.64
1998	1.64	1.69	1.60	1.68

[1] The average of the Noon Buying Rates on the last day of each full month during the relevant period.

On September 15th 1998 the Noon Buying Rate was £1.00 to $1.67.

A substantial portion of the Group's assets, gross turnover and operating costs are denominated in currencies other than sterling. See "Item 9 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Exchange Rates".

ITEM 1 – DESCRIPTION OF BUSINESS

THE GROUP

The Cable & Wireless Group is a leading international provider of telecommunications and multimedia communications services. The Group operates and has interests in telecommunications companies and multimedia service providers that together operate in over 50 countries including Hong Kong, the United Kingdom, the United States, Australia, the Caribbean and Japan. The Group's operating revenue is derived principally from public telecommunications, including international and domestic fixed line and mobile telephone services, facsimile and data transmission services, leased circuits and the sale and rental of telecommunications equipment manufactured by others.

The Company was formed in 1929 through the merger of UK companies that had pioneered international submarine cable telegraph and radio communications. Following World War II, the Company became wholly owned by HM Government. Subsequently, through public offerings commencing in 1981, HM Government sold its entire interest in the Company with the exception of the Special Share. The Company's ordinary shares, nominal value of 25p each, are listed on the London Stock Exchange and the Frankfurt Stock Exchange and ADRs representing the ordinary shares are listed on the New York Stock Exchange, Inc.

The Group's principal operations are located in Hong Kong, the United Kingdom, the United States and the Caribbean. In Hong Kong, the Group operates through its subsidiary, Hongkong Telecom and Hongkong Telecom's principal subsidiaries, Hong Kong Telephone, HKTI, and Telecom CSL. At March 31st 1998 the Group owned 54.1 per cent of Hongkong Telecom. In the United Kingdom, the Group has in the past operated principally through its subsidiary Mercury, but now principally operates through Cable & Wireless Communications plc, an entity in which the Group has a 53 per cent interest. In the United States, the Group operates through its subsidiary Cable & Wireless Inc. and in the Caribbean, the Group operates through companies and branches and on many of the islands.

HONG KONG

Historically, the largest part of the Group's business has been centred in Far East Asia; its principal operations in that region being located in Hong Kong.

HONGKONG TELECOM

Hongkong Telecom, the Company's principal subsidiary, was incorporated in 1987 and is the holding company of a group of companies including Hong Kong Telephone, HKTI and HKTCAS as its wholly-owned subsidiaries. The shares of Hongkong Telecom are listed on the Hong Kong Stock Exchange and ADSs representing those shares are listed on The New York Stock Exchange, Inc. and The Pacific Stock Exchange, Inc.

The majority of Hongkong Telecom's assets are currently in Hong Kong, the principal exceptions being investments in international submarine cables. Hongkong Telecom intends to participate in business opportunities or make investments in Greater China (the mainland PRC, Taiwan, Macau) and elsewhere in the Asia Pacific region when it believes that such investments are likely to generate benefits for Hongkong Telecom. In April 1993, Hongkong Telecom and C&W announced the formation of a joint venture company to pursue mutually beneficial business opportunities. See "Regional Development". C&W may also directly pursue investment and business opportunities in the PRC and elsewhere in the Asia Pacific region.

Hongkong Telecom operates in all the major markets for telecommunications services in Hong Kong. The principal operating subsidiaries of the Company and their core businesses are as follows:

- HKTI, Hong Kong Telephone and HKTCAS are jointly licensed to provide external telecommunications services and facilities, respectively, and local fixed telecommunications network services under the Amended HKT Licence which expires on June 28th 2010 and may be renewed for a further 15 years. Under the Framework Agreement, HKTI, Hong Kong Telephone and HKTCAS have the exclusive right to provide certain international services until January 1st 1999 and the exclusive right to provide international facilities until January 1st 2000. For the purposes of this report, references to HKTI in respect of international services and to Hong Kong Telephone in respect of local fixed telecommunications network services shall apply equally to each of the parties to the Amended HKT Licence, namely HKTI, Hong Kong Telephone and HKTCAS, in terms of ability to provide the services and facilities referred to.

- Telecom CSL provides cellular mobile telephone services in Hong Kong under its non-exclusive PMRS licences which, subject to further renewal by the Telecommunications Authority, expire on January 11th 2003 for GSM, on July 23rd 2002 for D-AMPS and on September 30th 2006 for PCS. HKTCSL also holds a number of other non-exclusive licences for paging and value added services.

- HKTIMS provides Internet access and narrowband on-line content and transactional services under its PNETS licence dated April 10th 1996 which is renewable by OFTA on May 1st of each year. HKTIMS also provides broadband content services including Video on Demand. The VOD services are provided under a VOD programme services licence issued to HKTVOD which expires on February 9th 2010.

Economic Conditions in Asia

Many Asian economies have recently experienced significant adverse economic developments including increased interest rates, reduced economic growth rates, increased corporate bankruptcies, declines in the market value of shares listed on stock exchanges and decreases in foreign currency reserves. Although the Hong Kong economy has been affected to date to a somewhat lesser extent than other Asian economies, the recent developments in Asia have affected the Hong Kong economy, as indicated by the 2.8 per cent fall in gross domestic product in the first quarter of the 1998 calendar year. In addition, in recent months the value of the Hong Kong dollar against the US dollar has been under pressure due, among other reasons, to speculative attacks. There has been speculation in the media that the Hong Kong Government may withdraw its official support for the fixed exchange rate between the Hong Kong dollar and the US dollar and permit the market exchange rate of the Hong Kong dollar and the US dollar to fluctuate without government intervention. To date, the Hong Kong government has stated that it intends to maintain its support for the fixed exchange rate. There can be no assurance, however, that the Hong Kong Government will not change its exchange rate policy in the future, or that any such change will not result in the depreciation of the value of the Hong Kong dollar against the US dollar. In the event that the adverse economic conditions in the Asia Pacific region continue, or in Hong Kong develop further, the Group's financial performance may be materially adversely affected. See also "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations".

Hongkong Telecom Development and Revenues

During the year ended March 31st 1998 Hongkong Telecom continued to make significant progress in reshaping its business recognising global developments in liberalisation and technology and in an increasingly competitive market. In anticipation of changes in its operating environment, Hongkong Telecom adopted development plans designed to maintain and enhance value focused on programmes of rebalancing growth and efficiency.

- The most significant contributor of Hongkong Telecom's revenue and profits in the past several years, including the year ended March 31st 1998 has been international telephone services. Whilst Hongkong Telecom will continue to invest for growth in this area, there will be increasing pressure on prices and margins as the world's international telecommunications markets continue to liberalise and as competitive licences are issued for the provision of external telecommunications services and facilities in Hong Kong with effect from January 1st 1999 and January 1st 2000 respectively.

- Hongkong Telecom is focused on rebalancing its portfolio of earnings to develop growth in its non-IDD business areas with particular focus on the expansion of the local network and delivery of enhanced services. Hongkong Telecom's wholly digital local network represents considerable value which will be exploited through the development and provision of both enhanced narrowband and broadband services. Planned programmes for the short term include investments in interactive multimedia services and mobile services. Hongkong Telecom has successfully grown revenues derived from its other core businesses by a cumulative annual rate of 18 per cent over the last five years. These non-IDD revenues represented 52 per cent of overall turnover in the year ended March 31st 1998 (compared to 39 per cent in 1995). During the year ended March 31st 1998 Hongkong Telecom launched the world's first commercial interactive television service and acquired Pacific Link, which was then Hong Kong's fourth largest mobile operator.

- Hongkong Telecom will continue to expand its international business with a focus on enhancing its international network and connectivity. New competitive international services will be delivered to meet the needs of local and multinational customers. Hong Kong is one of the leading telecommunications centres in the Asia region in terms of international connectivity and its range of enhanced telecommunications services. Hongkong Telecom is working to strengthen its international position and Hong Kong's standing as one of the pre-eminent telecommunications hubs for the Asia Pacific region.

- As a result of developments in the international telecommunications industry and the rapid pace of liberalisation of global telecommunications markets, Hongkong Telecom and the Hong Kong Government agreed to enter into negotiations for the early surrender of the HKTI Licence in exchange for fair compensation. Following detailed and complex negotiations, on January 20th 1998 Hongkong Telecom, HKTI, Hong Kong Telephone and HKTCAS entered into the Framework Agreement with the Hong Kong Government for the early surrender of the HKTI Licence in return for a package of compensation measures.

- The Framework Agreement enabled Hongkong Telecom to obtain fair compensation for the early surrender of the HKTI Licence and create a more certain regulatory environment for itself. Under the Agreement, competition for Hong Kong's international telecommunications services and facilities will commence on January 1st 1999 and January 1st 2000 respectively. The Framework Agreement provided for Hongkong Telecom to receive a package of compensation measures principally comprised of an amended licence extending to 2010 and renewable for 15 years thereafter; HK$6.7 billion in cash free of tax; the end to royalty payments from January 20th 1998; and the ability to rebalance local tariffs to effect the end to the cross-subsidy of local services by international services revenues. See: " – HKTI – The HKTI Licence" and " – HKTI – Competitive International Services". Hongkong Telecom supports the introduction of a more level regulatory regime in Hong Kong to encourage investment and fair competition in all areas of telecommunications.

- Hongkong Telecom will continue to diversify its telecommunications activities outside Hong Kong, such as its involvement with China's Beijing-Jiujiang-Guangzhou cable project and investments in MobileOne (Asia) Pte Limited in Singapore and Taiwan Telecommuncations Network Services Company Limited.

- The continuing development of Hongkong Telecom's portfolio will be through growth in revenues together with prudent management of costs with the goal of maintaining margins. Productivity gains have been delivered through initiatives such as the three year job reduction programme commenced in 1995 and during 1998, Hongkong Telecom intends to continue its focus on efficiency through incentives such as performance-related remuneration for staff and through the reduction of organisational layers to enhance responsiveness to rapidly changing market conditions.

- Hongkong Telecom continues to differentiate its products and services through a focus on excellent quality of service, innovation and effective marketing and continues to invest to enhance levels of customer satisfaction.

On February 8th 1998 China Everbright Holdings Company Limited, a significant enterprise under the leadership of the State Council of the PRC, announced the sale of its approximately 7.6 per cent holding in Hongkong Telecom to a wholly-owned subsidiary of China Telecom (Hong Kong) Group Limited. As a result, China Telecom (Hong Kong) Group Limited became the second largest shareholder in Hongkong Telecom with an increased holding of approximately 13 per cent. China Telecom (Hong Kong) Group Limited is a wholly-owned subsidiary of the Directorate General of Telecommunications P&T, China.

Hongkong Telecom Revenues

Substantially all of Hongkong Telecom's revenue is derived from business carried out in Hong Kong. A breakdown of revenue by category of activity is as follows:

	Year Ended March 31st		
	1996	1997	1998
	(in HK$ millions)		
Operating Revenue			
International telephone services	16,528.0	17,395.2	16,993.5
Local telephone services	4,068.1	4,569.7	5,176.4
Other telecommunications services	5,940.6	7,839.1	9,624.0
Equipment sales and rental	1,806.5	1,859.7	1,973.3
Computer, engineering and other services	1,062.0	914.1	1,273.8
Total Operating Revenue	29,405.2	32,577.8	35,041.0

International Telephone Services

HKTI's revenues are derived from the external telephone services which include IDD calls, operator assisted overseas calls, external dial up audio content services and other services related to overseas calls. The revenues for such services are derived from HKTI's retail tariffs in respect of outgoing calls and accounting rate payments for incoming calls received from foreign telecommunications administrations or recognised private carriers. As a result of different tariffs, accounting rates and delivery fees on different routes, the percentage of total revenue derived from calls to and from a particular destination does not necessarily correlate with the percentage of outgoing minutes of external traffic to that destination. See "HKTI Description of Business – Telecommunications services – International Telephone Services" and "Hong Kong Telephone Description of Business – Telecommunications Services".

Local Telephone Services

Hong Kong Telephone earns revenue on local telephone services in Hong Kong including retail charges for installation and rental of various types of exchange lines charges for public payphones, local dial-up audio content services and for certain other telephony and non-telephony services. It also earns revenue from wholesale interconnect services and leased lines to other licensed telecommunications operators in Hong Kong. Hong Kong Telephone does not make metered charges for standard local calls (including facsimile and data transmissions over voiceband calls). See "Hong Kong Telephone Description of Business – Telecommunications Services".

Other Telecommunications Services

Other telecommunications services revenue includes charges for local leased lines, private network services, facilities management and value added services supplied by Hong Kong Telephone, VPN services, broadcast uplinking and downlinking services and telegram and telex services supplied by HKTI, mobile services and value added services supplied by Telecom CSL, Internet and interactive services provided by HKTIMS and equipment sales and rental and computing services. See "HKTI Description of Business", "Hong Kong Telephone Description of Business", "Telecom CSL Description of Business" and "HKTIMS Description of Business".

HKTI Description of Business

The HKTI Licence

The HKTI Licence was granted on October 1st 1981 by the Hong Kong Government pursuant to the terms of the Telecommunication Ordinance. Under the HKTI Licence, HKTI had the right until September 30th 2006 to provide, on an exclusive basis, certain circuits and services that are external to Hong Kong.

On January 20th 1998 Hongkong Telecom, HKTI, Hongkong Telephone and HKTCAS entered into the Framework Agreement with the Hong Kong Government for the early surrender of the HKTI Licence in return for a package of compensation measures.

Pursuant to the Framework Agreement, the HKTI Licence was surrendered on March 31st 1998 and at that time the scope of Hongkong Telecom's non-exclusive FTNS Licence was amended to include HKTI and HKTCAS as licensees and the scope of the licence was amended to include the provision of international services and circuits that HKTI had been authorised to provide under the HKTI licence. The requirement that Hong Kong Telephone and HKTI remain structurally separate was removed. The Amended HKT Licence is held jointly and severally by Hong Kong Telephone, HKTI and HKTCAS, which are jointly and severally liable for all the obligations under that licence. Although the Amended HKT Licence is non-exclusive, under the Framework Agreement, competition for external telecommunications services will be introduced with effect from January 1st 1999 and competition for external telecommunications facilities will be introduced with effect from January 1st 2000.

The principal terms of the Framework Agreement are as follows:

- The obligation of HKTI to make payments of royalties to the Hong Kong Government under the HKTI Licence ceased with effect from January 20th 1998.

- Hong Kong Telephone will be allowed to increase its monthly rental charge for residential exchange lines in accordance with an agreed implementation schedule commencing January 1st 1999. This rebalancing is intended to remove the cross-subsidisation of residential exchange lines with revenue from external services. The current monthly charge for residential exchange lines is HK$68.90 and the new limits for this charge will be no more than HK$90.00 from January 1st 1999 no more than HK$100.00 from January 1st 2000 and no more than HK$110.00 from January 1st 2001. No price controls will apply to this charge from January 1st 2002, although they will continue to be subject to the tariffing obligations under the Amended HKT Licence.

- The increase of charges for residential exchange lines is subject to Hong Kong Telephone meeting certain benchmarks by January 1st 1999 for making its local loop available to the other FTNS licensees under the terms of existing commercial agreements.

- Removal of the price controls on Hong Kong Telephone's business exchange line tariffs with effect from July 1st 1998, although they will continue to be subject to the tariffing obligations under the Amended HKT Licence.

- Hong Kong Telephone has agreed to limit any increases in its charges for certain services (other than residential and business exchange lines) in accordance with the existing price control formula, subject to a review to be conducted by the Government after January 1st 2000.

- The commencement of industry consultation about proposed modification of the existing revenue sharing arrangements which require HKTI to pay delivery fees to local operators (the FTNS, PMRS and PCS Licensees) on all external calls which pass through the HKTI gateway. The public consultation period for such review was closed on June 26th 1998 and it is expected that the review will be completed by the third quarter of 1998.

- Payment by the Hong Kong Government to the Company of cash compensation of HK$6,700 million, net of tax. The first instalment of HK$3,350 million was received on March 31st 1998 and the second and final payment was received by the Company on June 30th 1998.

- The Regulatory Agreement which currently regulates the ownership and control of HKTI will be terminated with effect from January 1st 2000.

International Telephone Services

Under the HKTI Licence, HKTI was granted the exclusive right to provide international public telephone services to subscribers to the PSTN by radio, submarine cable and such overland cables as are authorised. The Amended HKT Licence provides for this right to continue on a non-exclusive basis until June 28th 2010 but under the Framework Agreement HKTI will retain its exclusivity for external services until January 1st 1999. External telephone calls involve the establishment of a connection across a number of interconnected networks operated by different carriers. HKTI operates network facilities between the local networks in Hong Kong (consisting of the networks of Hong Kong Telephone, the FTNS Licensees, the PMRS Licensees and the PCS Licensees) and the networks of HKTI's corresponding international telecommunications administrations or recognised private carriers.

HKTI has entered into operating agreements for direct connection with the appropriate overseas telecommunications administrations or recognised private carriers under the general auspices of the ITU. These agreements govern both the rates of payment by HKTI to the overseas administrations or carriers for terminating outgoing international calls originated in Hong Kong and the rates of payment by those administrations or carriers to HKTI for terminating in Hong Kong incoming external calls. The general practice among telecommunications administrations and recognised private carriers is for payments due in respect of the termination of traffic to be recorded, collected and forwarded by the administration or carrier in the country from which the call is made. Settlements among such administrations and carriers are made on a net basis. If HKTI does not have an operating agreement for direct connection with, or the agreement has not been implemented by, the overseas telecommunications administration or private carrier to which a call is directed, operating agreements are sought whereby calls can be routed through an intermediate switching centre, paying the intermediary a rate agreed by the terminal parties.

In April 1996, HKTI reached agreement with the US international carriers on its settlement rates for the following 3 years, such arrangements include a reduction in the settlement rate over that period of approximately 24 per cent. This reduction is expected to lead to an increase in volumes of international telecommunications traffic which may offset the fall in revenue resulting from such reduction.

HKTI also enters into interconnect agreements with Hong Kong Telephone and the FTNS Licensees, the PMRS Licensees and the PCS Licensees. HKTI pays such operators a delivery fee for originating and terminating international telephone traffic. Hong Kong Telephone, the FTNS Licensees, the PMRS Licensees and the PCS Licensees conduct all the billing and collection functions for international calls that are billed to their respective customers in Hong Kong and maintain the customer interface. Therefore these licensees collect customer retail payments for outgoing calls and pay to HKTI an amount that is equal to HKTI's retail tariff less the relevant delivery fee. From this payment HKTI must make an accounting rate outpayment to the relevant international administration in the terminal country. HKTI receives an accounting rate inpayment from international administrations for incoming calls. From this inpayment HKTI must make payment of a delivery fee to the relevant local operator that delivers the call within Hong Kong. See "Hong Kong Telephone Description of Business – Telecommunications Services".

The current delivery fee payable by HKTI is a fixed amount for each international call originated or terminated by the respective local network. The existing rate structure for external delivery fees was implemented by the Telecommunications Authority and took effect from October 1st 1995. This structure is intended to have a term of five years, subject to significant market developments such as a fundamental change in accounting rates. The delivery fee payment varies for three different zones that have been identified as China Short Haul (Shenzhen and Guangdong provinces and Macau) – HK$0.63 per minute, China Long Haul (any other destination in China) – HK$1.60 per minute and the Rest of the World (all areas other than China Short Haul and China Long Haul) – HK$2.23 per minute.

The fundamental changes in the Hong Kong market place that will result from the introduction of competition for external services commencing January 1st 1999 and the global downward trend of the international settlement rates, will require a replacement for the current delivery fee arrangement. That arrangement is a non-cost based revenue-sharing approach, with the fee level determined by reference to the level of accounting rates for particular destinations. The introduction of ISR, which will be applicable on an end-to-end basis only to certain liberalised destinations, will allow the bypassing of the international accounting rate system and hence the current delivery fee mechanism will be no longer sustainable. A public consultation process on delivery fee reform is currently underway, and OFTA is expected to release its findings in the third quarter of 1998.

International Telephony Traffic

In the year ended March 31st 1998, approximately 83 per cent of outgoing external telephone traffic minutes from Hong Kong (including voice, facsimile and data communications) was to the mainland PRC, United States, Taiwan, Canada, Japan, United Kingdom, Macau and Singapore.

The relative balance of incoming traffic streams continues to be affected by the refile of calls through third countries, often in association with a call back service. The volume of refiled traffic is dependent upon the relative accounting rates between, on the one hand, Hong Kong and the country of origination and, on the other hand, the accounting rates between the transit country and Hong Kong and the cost of carrying the calls from the originating country to the transit country.

Inbound to outbound call ratios are also being affected by callback services which effectively substitute an inbound call for an outbound call and therefore cause a significant increase in inbound calls. Callback may occur with or without refile. To date, callback without refile has typically had an immaterial impact on HKTI's revenue (for a discussion of the impact of callback on Hong Kong Telephone see "Hong Kong Telephone – Telecommunications Services" and for a general discussion of callback services see "HKTI – Competitive International Services"). Refile and callback have caused an imbalance in the inbound to outbound call ratios on the routes from key liberalised countries to Hong Kong. The ratios of incoming traffic volume to outgoing traffic volume on the United States, United Kingdom and Australia to Hong Kong routes at March 31st 1998 was approximately 6:1, 3:1 and 7:1 respectively.

The volume of outgoing telephone traffic minutes to the PRC, which accounted for 62 per cent of outgoing tariff minutes in the year ended March 31st 1998 increased at an annual compound rate of approximately 6 per cent over the three years ended March 31st 1998. The Company believes that the rate of traffic growth has been stimulated by the gradual relaxation of macroeconomic controls previously implemented within the PRC by the PRC Government and further reductions in IDD tariffs for external calls from China during the fiscal year ended March 31st 1998.

In recent months, Hongkong Telecom has detected an increasing amount of international traffic which by-passes the HKTI international gateway, thereby infringing HKTI's current exclusivity. OFTA has investigated a number of complaints, and has taken action against several illegal operators. In addition, with the approval of OFTA, Hong Kong Telephone has suspended the termination of calls from several telephone numbers on its network and several telephone numbers on the networks of the other FTNS Licensees which were suspected to be carrying illegal traffic. While it is difficult to estimate the revenue loss from the illegal activities identified, Hongkong Telecom believes it could be as high as HK$35 million per month. Hongkong Telecom intends to pursue legal action to recover the lost revenue.

HKTI Transit and Other Services

Under the Framework Agreement, HKTI, Hong Kong Telephone and/or HKTCAS have the exclusive right to provide international telecommunications services routed in transit via Hong Kong until January 1st 1999. After January 1st 1999 they will have the right to provide such services on a non-exclusive basis. As a result of several decisions by the Telecommunications Authority under the HKTI Licence, which have been continued under the Framework Agreement, there are limits on the scope of HKTI's remaining exclusivity. See "– Competitive International Services".

Telecommunications carriers in a number of countries in the Asia Pacific region are seeking to attract telecommunications transit business from large corporations, some of which have selected Hong Kong as the hub and management centre for their international private telecommunications networks. Hongkong Telecom believes that HKTI's success in attracting and retaining such business has been mainly attributable to high quality service, close attention to individual customers' requirements and price competitiveness when compared with other hubs in the Asia Pacific region. HKTI is using advances in satellite and submarine cable technology to improve further the quality and cost of service.

HKTI also has the right to provide international television and voice programme transmission services to and from Hong Kong. However, the Chief Executive in Council may direct that other licensees are able to provide such services. A number of Hong Kong's terrestrial and satellite broadcasters have been granted uplinking and downlinking licences to transmit programme content internationally to and from their production and broadcasting facilities and short term uplinking and downlinking licences were issued to address the high capacity requirements of broadcasters during the period of, and immediately after, the change of sovereignty in Hong Kong on June 30th 1997. It is unlikely that the Hong Kong Government's Fixed Telecommunications Review will result in the issue of additional licences enabling other carriers to provide uplinking and downlinking services. Until January 1st 2000 HKTI also has the exclusive right to provide external and international public telegram services. The contribution of the local and international telex and telegram service to total revenue of HKTI is not significant and is declining.

International Leased Circuits and Circuit Services

Under the Framework Agreement, HKTI, Hong Kong Telephone and HKTCAS have the exclusive right until January 1st 2000 to provide international circuits and facilities, including radiocommunication facilities, cable termination facilities, coast stations, coast earth stations within Hong Kong for maritime mobile services and maritime mobile satellite services, aeronautical stations and aeronautical earth stations for aeronautical mobile services and aeronautical mobile satellite services. After January 1st 2000, they will have a non-exclusive right to provide such facilities.

HKTI also has the right to provide external private circuits, although the Chief Executive in Council may direct that other licensees provide private circuits. A private circuit is one operated by an organisation or company for the specific purpose of providing communication (voice or data) solely within the organisation or company.

As of March 31st 1998 HKTI had international leased telecommunications circuits capacity of 646 Megabits per second, representing a 51 per cent annual compound growth rate in circuit capacity for the three years then ended. Customers for international leased circuits include companies establishing international private networks (for example banks, stockbrokers and multinational corporations), many of which require an international network of leased circuits. HKTI offers related network management services, including restoration and back-up facilities and cost control. HKTI also leases international circuits to service providers who provide competitive external telecommunications services. For example, IVANS providers currently lease international circuits from HKTI and providers of competitive international facsimile, data and VPN services will also lease international circuits from HKTI. It is expected that as the number of providers of non-exclusive international telecommunications services increases there will be increasing demand for international leased circuits from HKTI.

Competitive International Services

Over the past several years, the Telecommunications Authority has sought to clarify its interpretation of the scope of HKTI's exclusivities under the HKTI Licence and to expand the range of services which did not fall within the scope of HKTI's exclusivities, such as various forms of data communications (code and format conversions, protocol conversion, store and forward and store and retrieve), facsimile communications (store and forward or store and retrieve) and value added voice communications (value added voice services that do not amount to real time telephonic conversation) such as voice mailbox and audiotext services. The Telecommunications Authority has also issued a number of statements that seek to further explain opportunities to provide competitive services and its views on their relationship with the HKTI Licence. These documents have included a statement dated March 24th 1995 authorising callback services and a statement on the scope of the HKTI Licence issued on April 23rd 1996 ("International Statement"). The International Statement clarifies the Telecommunications Authority's views on the scope of HKTI's exclusive circuits and services.

The Telecommunications Authority has issued a number of licences for competitive services not previously licensed. In June 1995 the Telecommunications Authority issued Guidance Notes for the Application for SPETS Licences and in October 1996 issued Guidance Notes for the Application for Licences for the Provision of VPN. In June 1997, the Telecommunications Authority announced the names of the 14 successful applications for licences for the provisions of VPN services in Hong Kong, one of which was granted to HKTC. At March 31st 1998 a total of 19 VPN licences were issued by OFTA. Further, following the commitment made by the Hong Kong Government to the WTO agreement on Basic Telecommunications Services, International Simple Resale of fax and data services were introduced in January 1998.

Although the Framework Agreement provides for HKTI to retain certain exclusivities until the relevant liberalisation dates, services such as those noted above which have been the subject of prior liberalisation by the Telecommunications Authority will continue to be non-exclusive.

Over the past three years, in anticipation of rapid liberalisation of the telecommunications sector in Hong Kong, the Honkong Telecom Group has developed strategies to prepare for the new environment including proactively reshaping its organisational structure to improve efficiency and responsiveness and entering into the negotiations with the Hong Kong Government that led to the signing of the Framework Agreement. The impact of liberalised services will depend on various factors such as developments in international accounting rates, increasing use of refile, developments in technology, the relative cost of delivery over external circuits and the external telephone service, the effectiveness of policing infringements of Hongkong Telecom's remaining exclusive rights until the relevant liberalisation dates and whether other countries allow the termination of such liberalised services carried over international leased circuits. Hongkong Telecom is well positioned to compete in the provision of liberalised services in the local market based on its services with advanced features, focus on customer service and a well established position in the provision of such services.

Callback Services

The International Statement authorised callback services in Hong Kong. A number of service providers, including Hong Kong Telephone, offer callback services and calling card services for Hong Kong based customers using the international switched network of HKTI. Prior to July 1st 1995, the provision of such services did not have a significant revenue impact upon Hongkong Telecom. However, since service providers are now using callback services to improve the margin available and have offered significant discounts on the price of international calls originated on their network, callback services create an opportunity for the FTNS Licensees to secure increasing amounts of incoming traffic and the associated delivery fee by reaching arrangements with the callback operators. However, with the introduction of competition for external telecommunications services from 1999, it is expected that there will be increased pressure for lower international settlement rates. This in turn is expected to drive down the price of external call service provided to Hong Kong consumers to a level at least as low as, or maybe lower than, that currently offered by callback operators. Consequently, the environment for operating callback services is expected to then become much less favourable. See "Telecommunications Services – International Telephony Traffic" and "Hong Kong Telephone – Description of Business – Telecommunications Services".

Non-Telephony Services and Transit

International Simple Resale of fax and data services was introduced in January 1998 but service providers will be required to use international circuits provided by HKTI until January 1st 2002. There were a total of nine such licensed operators in mid-June 1998. As a result, a portion of the facsimile and data services which previously had to be provided using HKTI's telephone service has migrated to facsimile and data services provided by service providers other than HKTI although, as noticed above, this must be done via HKTI's International circuits until January 1, 2000.

The International Statement provides that HKTI's exclusivity with respect to transit traffic is limited to arrangements between administrations or private operating agencies of countries with no direct interconnecting circuits for the exchange of traffic through a third country in accordance with the International Telecommunication Regulations of the ITU. The Telecommunications Authority takes the view that the routing through Hong Kong of external services for which no such 'transit' arrangement is in place is not within the exclusivities of HKTI. The Telecommunications Authority has therefore proposed to authorise service providers to provide refile or hubbing services that fall outside such transit arrangements. In the Telecommunications Policy Statement, the Hong Kong Government stated that it does not intend to impose any restrictions on "transit" or "refile" services provided that they do not breach any licence conditions or international regulations.

VPN Services

A VPN service provided by a licensed operator enables customers (both corporate groups and organisations) to set up virtual private networks for communications between their offices in different countries. The international circuits used to provide the VPN service are acquired by the VPN operators from HKTI and shared between the VPN operator's customers on a dynamic basis. The service does not enable communications between different customers. HKTI has provided VPN services in Hong Kong since 1992. By March 31st 1998, a total of 19 VPN licences had been issued, including one to Hong Kong Telephone. The Telecommunications Authority has also issued guidelines on the scope of permissible organisations that may be served by the VPN licensees. A VPN call between related parties may be connected over a PSTN at one end provided that there is a leased line connection at the other end and a prescribed set of criteria are observed.

A proportion of intra-corporate and intra-organisation external traffic previously delivered using the HKTI external telephone service has since migrated to competitive VPN services supplied using external circuits provided by HKTI. See also "Hong Kong Telephone – Telecommunications Services".

Internet Telephony and *Mobilesat*

Internet telephony is an emerging business leveraging on the growth and widespread adoption of Internet networking. It can be used as an alternative to traditional circuit-switched telephone services. The International Statement provides that, if an Internet user employs personal computer based software to hold telephone conversations over the Internet and the Internet service provider carries this communication as part of its standard Internet data service, then this will not be an infringement of HKTI's exclusive rights to provide external services. However, if the service provider openly offers telephony by acting as a PSTN gateway, the Telecommunications Authority regards this as an infringement of HKTI's exclusivity. A number of Internet telephony software products are already available and more are expected in the future. OFTA drafted a proposed policy statement on the operation of Internet phone services and asked for comments from HKTI before public release. HKTI submitted amendments to OFTA's proposed Internet policy statement in July 1997 and stated its position that the International Statement has already clearly stated OFTA's position in relation to Internet phone services and that there have been no technical developments which warrant alternation of HKTI's exclusive rights. At this stage it is not possible to assess the financial impact that Internet telephony applications will have on HKTI's international telephone service revenues although the impact is likely to be diluted by the introduction of competition for telecommunications services from January 1st 1999. However, in addition to the factors outlined above, this impact is likely to be a function of the quality of Internet telephony services, increased Internet subscriber numbers in Hong Kong, the available capacity on the Internet to carry this traffic and the relative cost of IDD services.

The International Statement also states that the use of handsets for mobile satellite telephony services such as the proposed low earth orbit services may be offered competitively. However, a gateway station operated in Hong Kong would fall within HKTI's current exclusivities which will expire on January 1st 2000. The Iridium MSS system is expected to become operative during the fourth quarter of 1998 and OFTA is currently working to reserve and allocate the required spectrum. Video conferencing services (as distinct from video telephony) may also be offered competitively.

Self Provided and Shared Capacity

The Hong Kong Government has issued a number of SPETS Licences. The Telecommunications Authority also proposed in the International Statement that the division of a higher bandwidth international leased circuit into lower bandwidth dedicated circuits will also be allowed (without any resale or subleasing of circuits), effectively enabling a group of private international leased circuit users to share an IPLC on a dedicated capacity basis if they shared liability for that capacity jointly and severally.

Telecommunications Network

HKTI has established and operates a number of telecommunications facilities pursuant to the terms of the Amended HKT Licence, comprising radio stations, cables and such equipment and apparatus as is necessary to carry out the services permitted by that licence. HKTI has proprietary interests in, and access to, extensive capacity in submarine cables throughout the Asia Pacific region. In January 1997, the Asia Pacific Cable Network was launched and in October 1997, the FLAG (Fibre optic Link Around the Globe) cable system was completed. Within the next two years a number of new optical fibre cable systems are planned to be constructed with investment by HKTI as well as a number of other overseas telecommunications administrations. These will include FLAG, Sea-Me-We 3 (the South East Asia-Middle East-Western Europe system) and China-US cable systems. HKTI's investment in these new cables is expected to amount to approximately HK$900 million over the two years to March 31st 2000.

As at March 31st 1998, 20 satellite dishes located at HKTI's earth station complex in Hong Kong and geostationary satellites located over the Pacific and Indian Oceans provided satellite communications facilities. HKTI leases satellite capacity from The International Telecommunications Satellite Organisation and from Asia Satellite Telecommunications Company Limited, a company in which the Company has an indirect equity interest. External telephone calls to and from Hong Kong are routed predominantly through HKTI's three international gateway exchanges which provide a capability of handling some 36,000 simultaneous international telephone calls.

Hong Kong Telephone Description of Business

Introduction

Until July 1995, Hong Kong Telephone had the exclusive right to provide all local public telephone facilities and services in Hong Kong. Since then, the Hong Kong Government has awarded three other FTNS Licences. Each of the FTNS Licences, including that issued to Hong Kong Telephone, is valid for a period of 15 years and, at the time the FTNS Licences were issued, the Hong Kong Government indicated that no further local fixed line licences would be issued until July 1998 at the earliest. Following the early surrender of the HKTI Licence, the Hong Kong Government announced that it would undertake a review of fixed telecommunications services in Hong Kong, and that review (the Fixed Telecommunications Review) is now underway. It is anticipated that this review will be completed by the end of 1998.

Telecommunications Services

Hong Kong Telephone is one of four local telephone operators in Hong Kong. It provides local delivery services for international telephone calls made to and from its network. As the delivery fee paid by HKTI for such calls significantly exceeds the interconnect charge payable to any second local operator that carries that call to the end user, arbitrage opportunities exist for the receipt and immediate hand-off of incoming and outgoing international calls. IDD competition is stimulated by the ability of the FTNS Licensees to access customers directly over the Hong Kong Telephone network to secure the delivery fee. The FTNS Licensees offer IDD services using usual outbound calling techniques via the HKTI network as well as IDD services using callback techniques. A market for incoming calls is created, particularly for the traffic of callback operators who generate large volumes of incoming external calls and who can determine to which local network those calls will be delivered. If a callback operator routes its traffic through an FTNS Licensee, that FTNS Licensee would be entitled to the delivery fee rather than Hong Kong Telephone (which would only be entitled to the lower interconnect payment). The Telecommunications Authority has recently issued a preliminary determination to the effect that such local refile is contrary to the spirit and intent of the charging principles published by OFTA in its various statements on interconnection. A final determination is expected to be published by OFTA by the end of September 1998. The existence of the delivery fee regime has allowed the other FTNS Licensees to offer deep discounts on IDD calls delivered via callback. Hong Kong Telephone has responded to these pressures through a variety of competitive responses, including the introduction in April 1997 of its own "0060" callback service.

Hong Kong Telephone also provides a variety of direct exchange lines for business and residential premises together with associated line feature services and Datapak, a public data network which supplies high integrity data transmission facilities for computers. Data transmission facilities allow data or facsimile transmissions to be made from any exchange line on Hong Kong Telephone's network. An international service, Datapak International, is available to more than 100 countries, including the United States, Japan and many European countries. Customers who are not directly connected to Datapak can obtain dial up access to that network through the public telephone network for both local and international data transmissions.

The Hong Kong Telephone network also carries a wide range of switched telecommunications services licensed by the Hong Kong Government, many of which are provided by companies other than Hongkong Telecom. Hong Kong Telephone's customers include FTNS licencees, PMRS providers, PCS licencees, numerous paging systems, Internet service providers, and a number of electronic mail systems and financial information service providers. Accordingly, most of the PSTN traffic is carried on the Hong Kong Telephone network either as retail traffic of Hong Kong Telephone or wholesale traffic carried for another licensee. In 1997, Hong Kong Telephone launched the first fixed-mobile integration service in Hong Kong. The first service introduced was a pager and mobile alert, where a signal is sent to the subscriber's pager or mobile phone when a voice mail message is received on the specified fixed line phone.

Hong Kong Telephone supplies local private telecommunications circuits to wholesale customers such as FTNS Licensees, PMRS Licensees and the PCS Licensees and retail customers such as banks. Hong Kong Telephone also provides local links for private international telecommunications circuits leased by HKTI to its customers. Other services provided by Hong Kong Telephone include payphones, dial up audio content services and a variety of value added facsimile services. Hong Kong Telephone is now entitled to provide VPN services under a VPN licence issued in June 1997.

Network and Equipment

Hong Kong Telephone has approximately 3.59 million telephone lines in operation serving Hong Kong's population of approximately 6.6 million. It operates one of the most modern telecommunications networks in the world, including a comprehensive optical fibre network with approximately 300,000 kilometres of fibre contained in approximately 4,450 kilometres of cable. Over 90 per cent of calls made in Hong Kong make use of the optical fibre network. Digitalisation of the network was completed in July 1993 and now all transmission links for exchange junctions are digital and all exchange equipment incorporates digital technology.

The total number of telephone lines in service grew 4.6 per cent during the year ended March 31st 1998, to approximately 3.59 million. The percentage of business lines was approximately 41 per cent of the total number of telephone lines in service at that date.

Hong Kong Telephone's fully digital network is capable of supporting a wide range of customer services using voice, data and text applications including video services, ISDN services and enhanced customer calling features. In early 1997 Hong Kong Telephone launched the first broadband ATM service in Hong Kong and the Telecommunications

Authority recently approved its tariff for introducing residential cell relay services (between a service provider and its home user customers) on its broadband network. Parties interested in applying for a VOD Programme Services licence have shown interest in this new residential call relay service. Hong Kong Telephone will be committing some HK$2,400 million over the next three years to the development of its broadband network.

Telecom CSL Description of Business

Mobile

Telecom CSL's Mobile Unit is primarily engaged in providing cellular mobile radio telephone and paging services. The Hong Kong cellular market is highly competitive and continues to demonstrate robust growth with a penetration rate over 35 per cent, which is amongst the highest in the world.

The Mobile Unit operates a digital network launched in mid 1993 which utilises the European GSM standard and supports two different brands, the 1010™ brand, which is targeted at business customers, and the One2Free™ brand, which is targeted at young customers. The customer base attributed to the *One2Free* brand had grown some 400 per cent to approximately 250,000 customers in the year to March 31st 1998. The *1010* brand had approximately 350,000 customers at that date.

In January 1998, Telecom CSL completed its acquisition of the mobile business of Pacific Link for HK$4,835 million in cash. Licences for PCS and D-AMPS mobile services and an established network of radio base stations and retail outlets were acquired together with some 260,000 D-AMPS customers. Following enhancements to network coverage and quality, the D-AMPS network was re-launched in late May 1998 under the brand 1+1™ targeted at the mass consumer segment.

The combination of the networks and operations of Pacific Link and Telecom CSL during the 12 months following the acquisition is anticipated to generate significant economies of scale and to result in cost efficiencies and improved competitiveness. In addition, Telecom CSL will continue its focus on implementation of dual band GSM/PCS technologies.

Telecom CSL offers international roaming on its GSM networks extending the range of the mobile telephone system. Customers are able to use their mobile phones in regions throughout the world where compatible technology is available without requiring any reprogramming of, or modification to, their handsets. Automatic GSM roaming is already available in approximately 50 different countries on four continents including PRC (the world's first GSM PRC roaming service) and the United Kingdom. Telecom CSL was also the first Hong Kong GSM operator to expand roaming services to the United States, Canada and Japan.

At March 31st 1998, Telecom CSL was Hong Kong's cellular mobile services market leader with a 38 per cent market share (compared to 29 per cent in the prior fiscal year) having increased its customer base by approximately 120 per cent to some 860,000 in the year then ended.

Telecom Systems and Products

The Telecom Systems and Products Unit sells a full range of customer premises equipment including basic telephone sets, facsimile machines, small business telephone systems, PABX equipment, personal computers, modems, office automation equipment, home-use cordless telephones, mobile telephones and pagers. These products are sold through 22 retail shops in Hong Kong, as well as through franchised outlets and telephone sales. These products are also sold within mainland China by a sales team operating exclusively in that country. The Unit also designs and provides bespoke telecommunications systems that integrate voice and data switching equipment from various suppliers. It also supplies and installs local and wide area data network equipment. Hongkong Telecom does not manufacture telecommunications equipment.

Services

The Services Unit provides a wide range of services, including telephone information, commercial advertising in telephone directories, enhanced facsimile, video conferencing and computer based messaging services.

HKTIMS Description of Business

Hongkong Telecom has been undertaking development of multimedia services since 1993 when a wholly-owned subsidiary of the Company, HKTIMS, was established to take advantage of the evolving convergence of communications, computing, entertainment and information services through new digital technology.

In April 1996, HKTIMS launched its Internet access services under the *Netvigator* brand. As at May 31st 1998 *Netvigator* had grown its market-leading customer base to approximately 250,000 customers, representing 42 per cent of the market. There are currently approximately 125 Internet service providers in Hong Kong.

In March 1998, HKTIMS launched its on-line interactive television services, anchored by VOD, home shopping, music-on-demand and karaoke-on-demand. At May 31st 1998, HKTIMS had registered more than 80,000 customers for iTV services of which some 38,000 had been connected. In May 1998, the initial iTV services were supplemented by the launch of home banking, offered in conjunction with the Bank of China Group and Supernetvigator™ offering high-speed Internet access at rates up to 1.5 megabits per second.

Regional Development

Hongkong Telecom intends to pursue business opportunities and investments in the PRC and elsewhere in the Asia and Pacific region when it believes that such investments are likely to generate benefits for Hongkong Telecom.

The Company and Hongkong Telecom intend to participate in mutually beneficial business opportunities within Asia. In April 1993, Hongkong Telecom and the Company established a joint venture company, Great Eastern Telecommunications Limited, which is 51 per cent owned by the Company and 49 per cent owned by Hongkong Telecom to develop such opportunities. GET owns the Group's interests in Sino-British Submarine Systems Company Limited and MobileOne (Asia) Pte Limited.

Relationship Between The Company And The Hongkong Telecom Group

Services that the Company makes available to members of the Cable & Wireless Group benefit the Hongkong Telecom Group. The provisions of these services is governed by a management agreement between the Company and Hongkong Telecom signed on December 28th 1994 and includes the supply of management and senior staff, strategic planning and product evaluation, marketing, business development, engineering resources, forecasting, corporate insurance and personnel functions, training and training facilities, technical expertise and procurement. Either party can terminate the agreement by giving not less than two years prior written notice to the other.

On May 26th 1998 Hongkong Telecom entered into formal agreements with Cable & Wireless Global Markets for the provision of telecommunications services to global customers Under these agreements Hongkong Telecom will transfer to CWGM those customer accounts which the parties believe would benefit from global account management and it will become the exclusive supplier of telecommunications services in Hong Kong and the Asia region to CWGM. In addition, Hongkong Telecom will provide to CWGM certain technical and administrative services in connection with the global businesses. See "Cable & Wireless Global Business – Cable & Wireless Global Markets".

Other Operations in Hong Kong

The Group also has a 29 per cent interest in Asia Satellite Telecommunications Company Limited, a satellite operator.

The shares of AsiaSat are listed on the Hong Kong Stock Exchange and American Depositary Shares representing those shares are listed on the New York Stock Exchange, Inc.

OTHER ASIA

People's Republic of China

Cable & Wireless is seeking opportunities to promote its own unique world-wide networking, mobile communications, customer support and service provision expertise to enhance the PRC's rapidly expanding telecommunications market place.

The Company has consolidated its resources with those of Hongkong Telecom in Beijing, Guangzhou and Shanghai. Under a management team reporting to Hongkong Telecom's Executive Director, Mr Linus Cheung, are integrated representative offices, business development and customer service functions and product sales departments.

Macau

Macau, is a Portuguese administered territory which borders on China's Guangdong province. Telecommunications in Macau are provided by CTM. CTM is managed and 51 per cent owned by the Company. The other shareholders of CTM are Portugal Telecom, which owns 28 per cent, CITIC Pacific, which owns 20 per cent, and Direccao dos Servicos de Correios e Telecomunicacoes de Macau, which owns 1 per cent. CTM was formed in 1981 and has an exclusive 20 year franchise to operate local and international telecommunications services in and from Macau.

Other Operations in Asia

The following table summarises the Group's other subsidiaries and equity investments in the region:

Region/Country	Company	Equity Interest	Principal Operation
Indonesia	Cable & Wireless Mitratel Ltd	38%	Telecommunications services in Kalimantan
	PT Mitracipta Sarananusa	50%	Holding company
	PT Ma Ca Ser	55%	Submarine cable installation and maintenance
	Cable & Wireless Indonesia Ltd	100%	Representative office
PRC	Sino-British Submarine Systems Ltd	49%	Submarine cable installation and maintenance
Philippines	Eastern Telecommunications Philippines, Inc.	40%	Telecommunications services in Metro Manila and international telecommunication services
Singapore	MobileOne (Asia) Pte Ltd	30% owned by GET	Mobile operator
Thailand	Compunet Corporation Ltd	40%	Private data transmission networks
Taiwan	Taiwan Telecommunications Network Services Co Ltd	21% owned by Hongkong Telecom	Value added telecommunications service provider

UNITED KINGDOM

CABLE & WIRELESS COMMUNICATIONS PLC

INTRODUCTION

C&W Comms is the largest provider of integrated telecommunication and television entertainment services in the United Kingdom. It is also one of the largest suppliers of carriers' carrier telecommunication traffic in the United Kingdom and the tenth largest carrier of international traffic in the world. C&W Comms provides a comprehensive range of telecommunication services, including local, national and international voice and data services, internet services and, through resale, mobile telecommunication services on a national basis. C&W Comms also provides multichannel television and Internet services within its franchise areas. At March 31st 1998, C&W Comms had approximately 1.6 million residential and business telephone customers and 0.8 million cable television customers.

Since its formation, C&W Comms has undertaken major steps to integrate fully its combined entities and has reorganised its businesses to establish four market-facing units covering four target customer types: residential customers (Consumer Markets); small-to-medium-sized enterprises (Business Markets); large corporate customers (Corporate Markets); and international and domestic carriers' carrier services (International & Partner Services). These market-facing units in turn leverage common support functions such as network management, customer service operations and information and billing systems.

C&W Comms digital telecommunications network supports a broad range of voice and data telecommunications services that can be provided to almost any business establishment in the United Kingdom. Upon completion of the construction of its broadband cable and local telecommunications networks, which already pass approximately four million residences and business establishments, C&W Comms will offer a broad range of voice and data telecommunications services plus multichannel television and other broadband services to approximately six million potential residences, representing approximately 25 per cent of all homes in the United Kingdom (including 59 per cent of all homes in Greater London), and substantially all small to medium sized businesses within its 47 cable franchise areas.

TURNOVER

The table below sets forth C&W Comms' turnover by principal categories of service for each of the years ended March 31st 1998, 1997 and 1996.

	Year Ended March 31st		
	1998	1997	1996
		(in £ millions)	
Consumer Markets			
Direct telephony	219	-	-
Indirect telephony	104	131	148
Cable television	172	-	-
Total Consumer Markets	495	131	148
Business Markets	366	360	421
Corporate Markets	587	614	634
International & Partner Services	806	625	503
Total Turnover	2,254	1,730	1,706

THE FORMATION OF C&W COMMS

On October 22nd 1996, the Company, Bell Atlantic (at that time, NYNEX) and BCI announced that they had entered into an agreement to create, subject to certain conditions, a leading provider of integrated telecommunications, information and entertainment services in the United Kingdom by combining Mercury, NYNEX CableComms, and BCM, as enlarged by the acquisition of Videotron, under the ownership of a newly formed holding company called Cable & Wireless Communications plc. On completion of this combination, C&W Comms became the largest provider of integrated telecommunications and television entertainment services in the United Kingdom. On June 12th 1998, a consortium of banks managed a global offering of the whole of BCI's equity interest in C&W Comms.

As at March 31st 1998 the Company and Bell Atlantic Corporation owned, directly or indirectly, approximately 52.6 and 18.5 per cent, respectively, of the issued share capital of C&W Comms. Public shareholders own the remaining 28.9 per cent.

C&W Comms' Competitive Advantages

C&W Comms has certain competitive strengths that position it to compete effectively against BT and other potential competitors serving the UK market.

Regulatory Environment and Market Position

C&W Comms believes that the UK regulatory climate is generally favourable for its operations. UK telecommunications policy generally favours facilities based competition as opposed to the unbundled resale regime favoured in the United States. At this stage of the development of the UK market, Oftel has rejected demands from service providers to allow them cost based network services without having to build competing network elements. In addition, the UK regulatory regime places greater burdens on those operators with significant market power, giving C&W Comms greater operational flexibility than BT. Finally, C&W Comms believes that the availability of number portability and reciprocal charging arrangements between operators will generally favour C&W Comms and other facilities based competitors over BT.

National Network Presence

C&W Comms' network creates a competitive advantage in the UK market. The expanded direct coverage arising from the integration of Mercury's extensive long distance network and its local loop infrastructure with the networks of the Cable Cos enables C&W Comms to offer products utilising intelligent network capabilities to all customer segments in a greater geographic area than that covered by the respective networks of its constituent companies.

C&W Comms is able to provide access, either direct or indirect, to almost all small to medium sized enterprises and large corporate businesses in the United Kingdom. When C&W Comms completes construction of its cable TV networks, direct access will be available to approximately 25 per cent of all homes in the United Kingdom. C&W Comms believes that the ability to connect directly to customers offers competitive advantages. In addition, C&W Comms can provide telecommunications services to substantially all potential UK customers by indirect connection to its network. As a national operator, C&W Comms benefits from cost advantages in network operations and marketing.

Cable companies in the United Kingdom have been deploying fibre optic networks close to the home with coaxial and twisted copper pair components for the final drops. C&W Comms believes that the consumer network architecture adopted by the Cable Cos provides the transmission capacity required to provide economically all foreseeable digital telecommunications and television services.

Integrated Products and New Services

C&W Comms believes it is well positioned in the C&W Comms Franchises to integrate a complete range of communications products, including multichannel television, fixed and mobile telephony and Internet and data services, and to offer these products at competitive prices to the residential and business market segments. Product integration provides customers with increased value and a broadened range of services, and can also help reduce re dential customer churn. As part of its marketing efforts, C&W Comms will determine how best to maximise customer take up through the variety and value of its product offerings.

Additionally, C&W Comms offers its customers integrated packages of products, such as "telebusiness", corporate Internet services, on-line Internet access services and number portability. In the future, C&W Comms will offer these products along with digital television products such as near video on demand.

Pricing Flexibility

Modifications to Mercury's PTO licence made in June 1996 and February 1997 mean that C&W Comms is no longer required to publish prices for national services or be subject to the prohibition on undue preference or discrimination in relation to these services. This provides C&W Comms with an advantage relative to BT, giving it the same pricing flexibility as new entrants in the UK dom tic telecommunications market. Oftel has determined that Mercury is a "well-established" operator in the international markets for retail services and services to other operators (also known as carriers' carrier or wholesale services) on all international routes save for the US route. In respect of the Canadian and German routes, however, Oftel considers Mercury to be "well-established" in relation to the international market for services to other operators only. Mercury's pricing flexibility in respect of retail services for Canada and Germany is therefore unrestricted although it is still obliged to file carriers' carrier tariffs on these routes. On all other international routes, the regulatory burden of price publication remains on retail services.

Advanced Technology

C&W Comms' digital telecommunication network is capable of supporting a wide range of services and all anticipated growth of traffic volumes. Moreover, C&W Comms network management systems enable it to offer a broad range of sophisticated customer support services ranging from total contract management of large corporate customers' telemarketing centres to switch-based residential value-added services, such as call forwarding, call waiting and number portability. C&W Comms' value added services can enhance C&W Comms' competitiveness while also providing a net contribution to C&W Comms' results. In addition, C&W Comms believes these services enhance customer loyalty thereby reducing the risk of churn.

Strong Management Team and Strategic Relationships

C&W Comms has recruited its senior executives both from within its constituent companies and from other well established corporations. C&W Comms' senior executive team has the requisite experience to integrate and operate a business of the scope and scale of C&W Comms.

C&W Comms will also benefit from close working relationships with the Company and Bell Atlantic and these relationships provide it with access to significant bodies of accumulated experience and technological capability. C&W Comms believes that its relationships with its principal shareholders also offer opportunities to develop one or more global alliances to enhance its carriers' carrier business and to develop sophisticated "one stop" service offerings for large corporate and multinational customers operating in the United Kingdom.

Financial Strength

The relative financial strength of C&W Comms by comparison with its constituent companies was reflected in its ability in early 1998, to issue new debt securities on improved terms. C&W Comms believes that its financial position is stronger than that of its principal facilities-based competitors, other than BT, and represents a further competitive advantage as C&W Comms completes the construction of its broadband and telephony local distribution network elements in its C&W Comms Franchises.

Strategy and Near-Term Initiatives

C&W Comms' strategy is to build upon its position as a major competitive provider of integrated telecommunications and television entertainment services in the United Kingdom to achieve sustainable growth in revenues and earnings. C&W Comms intends to enhance its competitive position in these markets through internal growth and, where appropriate, acquisitions and other combinations. While the UK telecommunications and cable television markets continue to undergo consolidation, and participants frequently discuss possible combinations, C&W Comms will only consider potential acquisition targets which are believed to offer significant enhancements to shareholder value. The key elements of C&W Comms near-term initiatives include:

Continue to Realise Revenue Synergies and Cost Savings – Optimum Resource Review

During the fiscal year 1998, C&W Comms has continued its drive to realise cost savings and revenue-enhancing synergies arising out of its formation. This objective was reflected in the appointment in early 1998 of Coopers & Lybrand Management Consultants to advise on an Optimum Resource Review process designed to target and implement further cost saving measures. The review identified further operating inefficiencies and duplication within C&W Comms, resulting in an ongoing programme to reduce employee headcount by approximately 1,500. In addition, a reduction in overhead expenditure of approximately £11 million per annum was identified as achievable through a property rationalisation strategy.

Revenue savings continue to be derived from the cross-selling of the services of former Mercury and the Cable Cos. and through the continued migration of indirect customers to direct connection. Interconnection charges for telecommunications services are also falling, as are programming charges resulting in direct cost savings.

Improve Programming and Video Services

Programme supply contracts with owners of television channels carried on C&W Comms' network are being renegotiated to allow C&W Comms to deliver more consumer-friendly cable television packages. A formal review of existing television channels is underway to ensure C&W Comms continues to carry the best available programmes. The process of aligning the channels carried in the former BCM, Videotron and NYNEX CableComms systems will continue. Work is underway to source additional television channels for the launch of a digital television service. Cable transmission facilities for digital television are currently being constructed and a commercial service offering of over 200 digital satellite channels is planned. In addition, in June 1998, C&W Comms announced the purchase of a majority stake in Two-Way TV, a company specialising in provision of interactive digital television services. In November 1997, C&W Comms entered into a short term, non-exclusive agreement with BSkyB covering the provision of programming, including for digital and analog pay-per-view, and cooperation on the launch and marketing of digital television services.

Offer Integrated Service Package

C&W Comms offers packaged services to encourage single service customers to take multiple services. Such packages are generally offered at a discount to the single service price. The "Unity Packages" currently available to residential customers were introduced on September 1st 1997, offering combined telephony and cable television services in C&W Comms' cable television franchise areas. These packages are known as Headstart, Jigsaw and Vision Plus. See "– Telecommunication – Products and Services – Other Telecommunication Services – Dual Product Packages".

Standardise Information and Billing Systems

C&W Comms has embarked upon a complete review of its information systems strategy to ensure that this reflects and supports the new goals and objectives of C&W Comms and fits the strategy for efficiency being led by Cable & Wireless. The move to fully integrated systems that will support the combined businesses will mean that a number of systems from the separate companies will no longer be necessary. The capitalised cost of these systems and associated hardware is being progressively written off, as they are being replaced. Some of the larger systems will continue to be depreciated for up to three years before being written-off.

Deliver Excellent Customer Service

The establishment of world class customer service is key to the development and growth of C&W Comms. Performance measures and step targets for all processes have been established and C&W Comms monitors progress on a routine basis. Significant improvements have already been made, particularly in access to customer services and consumer field installations.

The achievements of improving customer satisfaction and reducing unit costs underpin the customer operations strategies. While process improvements continue in the short term, two key projects – the integration of the Cable Cos' subscriber management systems onto a single platform and the consolidation of call centres – are expected to deliver the potential for improved customer interface alongside economies of scale. Both of these projects are currently scheduled for completion by September 1998.

C&W Comms is also committing significant investments to upgrade its network (e.g., national and international Asynchronous Transfer Mode backbone and Synchronous Digital Hierarchy upgrades) in order to leverage new customer applications and improve network performance.

Maintain its Successful National Marketing and Branding

A marketing campaign, launched publicly on September 15th 1997, was developed with an additional marketing budget of approximately £35 million for the period to March 31st 1998. This new campaign, using the theme "Cable & Wireless – What can we do for you?" sought to raise awareness of both the Cable & Wireless brand name and the range of services available through a wide variety of media, including television, national newspaper advertisements and posters. The results captured to date show that all performance targets for the brand campaign have been met or exceeded and it is widely acknowledged to have been a highly successful introduction of the new brand. C&W Comms believes that this will create a more favourable environment for the acquisition and retention of customers.

TELECOMMUNICATIONS

Introduction

C&W Comms is one of the largest telecommunications services provider in the United Kingdom after BT, the former state owned monopoly telecommunications services provider. C&W Comms offers a wide range of telecommunications services, principally domestic and international fixed link voice telephony and data services. See "Products and Services". Rather than attempting to cover the whole UK market, C&W Comms' strategy is to provide basic voice and data services to a broad market and to seek actively to provide tailored or customised telecommunications solutions to customers operating within specific market segments and industries. C&W Comms operates in two broad markets which it describes as the retail market and the carriers' carrier market. C&W Comms' targeted retail customers include; (i) all residential customers within C&W Comms' Franchises, as well as high volume customers nationally; (ii) small office and home office businesses, as well as medium-sized UK-based companies and (iii) large corporate customers as described below. C&W Comms' targeted carriers' carrier customers include other licensed operators in the United Kingdom, service providers in the United Kingdom and overseas telecommunications operators.

Customers and Marketing

C&W Comms serves the principal segments of the £21 billion UK end user telecommunications market: the consumer, business and large corporate segments as well as the carriers' carrier telecommunications market. The UK carriers' carrier market is estimated by C&W Comms to have generated industry wide revenues of £1.7 billion in the year to March 31st 1997.

Consumer

As at March 31st 1998, C&W Comms had approximately 1.4 million consumer customers, directly or indirectly connected for telecommunications services with approximately 780,000 directly connected for cable TV services. These customers are served by the Consumer Markets unit. C&W Comms regards price tracking and rapid response to pricing changes as an important factor in attracting and retaining customers in this segment. At present, approximately 22 per cent of C&W Comms' revenues, including those from cable television, are derived from this activity. C&W Comms expects the number of its direct residential customers to increase in the next several years because of the improved penetration resulting from marketing and customer service initiatives and the continuing build out of its local networks.

Business Markets

C&W Comms serves approximately 130,000 business market customers. At present, approximately 16 per cent of C&W Comms revenues are derived from this customer base which is served by the Business Markets unit. C&W Comms believes that its ability to compete for business market customers is enhanced by its increased ability to provide direct connections to customers, thereby permitting the complete range of C&W Comms' products and services to be offered and eliminating the need for customers to dial extra digits or install an automatic dialer to access C&W Comms' network. This will also serve to reduce various interconnection costs which will enhance C&W Comms' pricing flexibility. C&W Comms believes that the advertising and promotional campaigns that it has launched, while targeted primarily at residential customers, should also have a positive impact in the business market segment.

Large Corporates (including Multinational Corporations)

At present, approximately 26 per cent of C&W Comms' revenues are derived from large corporate customers, which are served by the Corporate Markets business unit. C&W Comms has approximately 1,200 large corporate customers. This business unit is organised along vertical and geographic market sectors of broadly similar scale. Each account is managed by a dedicated account manager and a team of specialists.

C&W Comms believes that its ability to compete effectively for the telecommunications services revenues from large corporate customers is derived from a combination of its full national coverage, complete product portfolio, commercial flexibility and credibility as the recognised competitor to BT in the corporate market. It has also been enhanced by the acquisition of Anite Networks and Grant and Taylor cabling operations. See "Regulatory Framework – Regulatory Regimes – United Kingdom".

Carriers' Carrier

At present, C&W Comm's I&PS is responsible for approximately 36 per cent of C&W Comm's revenues derived from sales of telecommunications services to other UK based and international carriers. The increasing number of competitors in the UK telecommunications market and the emergence of new services, such as Internet services, have expanded, and are expected to continue to expand, the demand for carriers' carrier telecommunications services. C&W Comms expects to continue to be a major provider of services to the carriers' carrier market, exploiting the scale and scope of its network and existing relationships with overseas operators. One of C&W Comms' key objectives will be to position itself as the supplier of choice to other licensed operators, service providers and overseas telecommunications operators by providing a broad range of competitively priced, high quality telecommunications services. An objective of HM Government in granting the new IFLs was to establish the United Kingdom as a hubbing centre for European telecommunications traffic and C&W Comms plans to take advantage of opportunities which this growth may provide.

Products and Services

C&W Comms offers a wide range of telecommunication services, principally international and national fixed-link voice telephone and data communications services, tailored to meet the telecommunications requirements of its targeted customers. In addition to these basic telecommunications services, C&W Comms delivers customised services to meet the specific telecommunications requirements of large corporate customers. Customised services include specialised telebusiness, corporate networks and mobile applications programmes. See – Other Telecommunications Services – "Customised Services".

Switched Telecommunications Services

Basic Telephone Services. C&W Comms provides direct connections to customers within its cable television franchise areas. In addition, C&W Comms provides business customers with direct connection to the C&W Comms network, principally through fibre or microwave links over its own network or over lines leased from other operators.

C&W Comms also offers an indirectly connected service in which the customer uses another operator's local loop (such as BT or Kingston Communications (in Hull)) for the local part of the call. The BT exchange interconnects to the C&W Comms network and delivers designated calls to C&W Comms which then takes responsibility for delivery of the long distance and/or international call. Indirectly connected calls are managed and billed by C&W Comms although the customer uses a BT local circuit and can continue to make and receive calls via BT. C&W Comms offers this service to customers outside its cable television/telephony franchise areas when the volume of traffic is not expected to make it economical to provide a direct connection. As at March 31st 1998, over 700,000 customers (active and inactive) were indirectly connected to the C&W Comms network.

International Telephone Services. International telephone traffic comprises: (i) calls to locations outside the United Kingdom that originate with C&W Comms' customers in the United Kingdom and are delivered by C&W Comms through arrangements with non-UK operators ("international outgoing traffic"), (ii) calls originated outside the United Kingdom by non-UK operators' customers that are delivered by C&W Comms to locations within the United Kingdom ("international return traffic") and (iii) calls that are originated overseas and then routed directly by C&W Comms' international switches to another international destination ("international switched transit traffic"). See – "Pricing and Interconnect – International Interconnect".

Domestic Telephone Services. Domestic telephone traffic, including indirectly connected traffic, comprises local and national calls and calls to mobile telephones that are originated by C&W Comms' customers and terminate either on C&W Comms' or other operators' networks within the United Kingdom. C&W Comms receives payments for calls originating in another operator's network that terminate in C&W Comms' network and for providing its customers with access to the services of another operator's network. See – "Pricing and Interconnect – Domestic Interconnect".

Virtual Private Network Services. VPN services such as C&W Comm's Centrex™ service enable organisations to connect both large and small sites into a single corporate network. These services offer customers special features, such as a private numbering plan using C&W Comms' public switched telephone network, instead of a customer dedicated leased line network.

Other Telecommunications Services

Leased Circuit Services. C&W Comms provides leased circuit services, both nationally and internationally for its UK customers. C&W Comms' range of leased circuit services includes standard point to point national and international circuits, end to end managed services and specialist fast provisioned services for niche markets. C&W Comms also offers a range of satellite delivered services to the oil and gas exploration sector and other specialist customers.

Data Services. C&W Comms provides a range of data services, including traditional, industry standard, data transport services (e.g., Frame Relay). The data services portfolio also includes national and international switched services based on ATM standards, (e.g. C&W X.25 Global service and C&W Router Global service). In addition, C&W Comms provides a range of packaged data solutions on a national basis. Conferencing services for video and voice are provided publicly and within private networks; voice messaging services on shared platforms or through management of customers' own equipment; electronic mail gateways allowing interworking of different company electronic mail systems; and telex and fax services (real time, store and forward and broadcast).

In early 1998, C&W Comms acquired Anite Group plc's UK network and cabling operations for £47 million. This acquisition enlarged C&W Comms' customer base, increased penetration of the market, and allowed it to enhance its service to customers by doubling its in-house data expertise and provisioning capability.

Callink Services. C&W Comms provides a comprehensive range of Callink, or translated number, services, offering customers, through direct or indirect connections, a range of call pricing options from free calls, through local calls to national calls and premium rate pricing. These services enhance the customers' ability to offer telephone delivered service to their target markets.

Cellular Telephony Services. C&W Comms, is a cellular telecommunications service provider, reselling the network services of mobile network operators such as Cellnet and Vodafone to the business and consumer markets. C&W Comms supplies mobile telephony equipment from manufacturers such as Nokia and Ericsson, together with a range of value added services and products such as mobile data services, private wire capabilities, allowing a mobile fleet to act as an extension of an office network, insurance and maintenance services and special billing services. The mobile product/service portfolio is fully integrated into C&W Comms' portfolio of products and is sold through the three retail business units. Part of C&W Comms' strategy is to move towards fixed/mobile integration. See "Regulatory Framework – Regulatory Regimes – United Kingdom".

On-Line Internet Services. C&W Comms launched Internet services for its residential and corporate customers in October 1996. C&W Internet provides nationwide Internet access at local call rates using a standard browser. Web browsing, electronic mail and news are included with unlimited use. The service is competitively priced and includes up to 64 kbps access, 5 MB of free Web space and round-the-clock customer service. Corporate Internet provides nationwide leased line and Frame Relay Internet access, and, where required, includes a managed router at customers' premises. C&W Comms also provides secure Internet services, managing customers' firewalls to protect their networks as well as managed Internet services targeted at specific industry needs. A further recently launched innovation is the Cable & Wireless WebCommerce Service, providing a platform to allow processing of retail transactions on-line.

Operator Services. C&W Comms provides a range of operator services to its own customers and to customers of other licensed operators in the United Kingdom. These services are provided from C&W Comms sites in the United Kingdom. The staffing and operation of some of these sites has been contracted to Excell. However, the specification of the services and the equipment used is owned by C&W Comms.

IFL Products. C&W Comms has recently made available products targeted at holders of the new IFLs. See "Regulatory Framework – Regulatory Regimes – United Kingdom". The new products include interconnection at C&W Comms cable stations, managed connection of international services from the landing point to the customers' premises in the United Kingdom, interconnection at C&W Comms Terminal International Centre, circuits to transit the United Kingdom between cable stations, submarine cable restoration services, sale of existing C&W Comms IRU's of submarine cable systems capacity and conversion of international private leased circuits to IRUs and backhaul.

Customised Services. In addition to the sale of the basic and value-added products described above, C&W Comms specialises in the provision of customised services to many of its largest corporate customers in the United Kingdom. C&W Comms delivers a range of customised services in three core areas: telebusiness, complex voice networks and data networks. Telebusiness offerings include the installation of premises equipment, the provision of tailored network capabilities, and the provision of specialised management statistics to allow customers to operate large and small call centres. Call centres offer service to the end customers, using the telephone as the principal means of communicating. Complex voice and data networks can be designed, installed and operated for large customers to meet their entire data and/or voice networking requirements. C&W Comms also provides a full outsourcing solution for certain of its customers, assuming management of their telecommunications department.

Dual Product Packages. C&W Comms offers within its C&W Comms' Franchises dual product cable television and telephony packages. These dual product packages provide customers within these areas with a range of cable television packages integrated with its telephony services. These services are priced to compete with the prices of similar products offered separately by BSkyB and BT. They include both a range of basic television packages, the "Unity Packages", launched on September 1st 1997, together with the option to add certain "Premium" channels, including sports and movie channels, and provide the customer with the additional benefit of dealing with just one communications company. At March 31st 1998, there were approximately 600,000 subscribers for dual product packages. Based on past experience, C&W Comms believes that customers with both cable television and telecommunications services are less likely to terminate service than those with only cable television service. See "Regulatory Framework – Regulatory Regimes – United Kingdom – Bundling of Services".

Pricing and Interconnect

As a result of increased competition, telephony prices in the UK telecommunications market have declined significantly over the last few years. Price remains an important competitive factor for residential and small office and home business customers, although in its other business segments, C&W Comms' pricing strategy is to sell predominantly on value rather than on price alone. C&W Comms' tariffs for both domestic and international telephone calls are set on the basis of a per second rate which varies according to the destination and time of a call. Except for a minimum fixed charge, C&W Comms charges customers only for the actual time elapsed during a call. Leased circuit services are charged at a fixed rate regardless of usage.

International Interconnect

Turnover from international telephone services is derived from outgoing calls made by customers in the United Kingdom and from receipts from overseas telecommunications operators for incoming calls which are passed to C&W Comms' network for delivery to their final destinations within the United Kingdom or overseas. In turn, C&W Comms makes payments to overseas operators for the international use of their facilities to deliver the outgoing calls from its customers. See "Regulatory Framework – Regulatory Regimes – United Kingdom". C&W Comms enters into operating agreements with overseas carriers to provide for interconnection between its network and the domestic networks of overseas carriers. At March 31st 1998, C&W Comms had operating agreements for international switched telephone service with over 140 carriers, including carriers in the United States, France, Germany and Japan. 32 of these agreements involve relationships with Group companies or associates as shareholder or manager of a carrier.

Relationships with overseas international carriers are becoming increasingly commercial. I&PS is active in managing this transition profitably. This includes developing relationships with the new operators which are emerging in many countries to challenge the former monopoly operators. It also involves, where appropriate and where costs can be reduced, exploiting liberalisation by routing certain international traffic outside correspondent relationships.

Domestic Interconnect

Tariffs for national calls are influenced by interconnect charges payable to BT as the dominant operator in the UK telecommunications market. BT's interconnect rates are regulated by Oftel. BT's interconnect charges were previously determined on an annual basis, but from October 1st 1997 BT's interconnect charges will be controlled through a price control mechanism linked to the UK Retail Price Index. The interconnect rate entitles an operator to compensation for (i) terminating in its network a call that has originated in another network, (ii) providing its customers with access to those services of another network operator which are invoiced by such other network operator, and (iii) transit of traffic between two networks. Interconnection with other licensed operators is an important component of C&W Comms' network, since the majority of the traffic handled by C&W Comms originates from, or terminates on BT's or on other licensed operators' networks. C&W Comms operates under interconnection agreements with BT and a number of other licensed operators, including cellular, PCN, ISR and cable operators. See "Regulatory Framework – Regulatory Regimes – United Kingdom".

Cable Television

Data regarding homes in the C&W Comms Franchises are based primarily on 1991 population census figures compiled by the HM Government's Office of Population Censuses and Surveys ("1991 Census Figures"). There can be no assurance that the number of homes in a C&W Comms Franchise has not increased or decreased since the 1991 census was conducted. Data regarding businesses in a franchise area are C&W Comms' estimates based primarily on publicly available information. Although believed by the Company to be reliable, there can be no assurance that such data accurately reflect the number of businesses in the relevant C&W Comms Franchise.

Introduction

C&W Comms is licensed to provide cable television services in 47 franchise areas covering approximately 6 million Equity Homes and approximately 420,000 businesses in the United Kingdom. The UK market for multichannel television entertainment services is estimated by C&W Comms to have generated industry-wide revenues of approximately £1.5 billion for the year ended March 31st 1997, comprising approximately £0.6 billion from cable television and £0.9 billion from satellite television.

General

C&W Comms is in the process of constructing broadband, multiservice communications networks which make extensive use of fibre optic cable and are capable of providing cable television, telephony and other telecommunications services to both residential and business customers in the C&W Comms Franchises. C&W Comms has not started constructing its network in certain franchise areas. See "– C&W Comms' Network". As of March 31st 1998, these networks, including cable TV-only networks, had passed more than 4.1 million equity homes.

The following table sets out certain data concerning the C&W Comms Franchises for the year ended March 31st 1998.

Operating Statistics (Unaudited)

	3 months to Dec. 1996[1]	3 months to March 1997[1]	3 months to June 1997[1]	3 months to Sept. 1997	3 months to Dec. 1997	3 months to March 1998
Cumulative Homes Passed (000s)[2]	3,189	3,438	3,630	3,838	3,999	4,147
Cumulative Homes Released to operations (000s)[3]	2,934	3,239	3,418	3,591	3,752	3,850
Penetration % – cable television[4]	19.5%	19.1%	19.1%	19.4%	20.1%	20.3%
Churn % – cable television[5]	29.3%	28.4%	28.1%	27.6%	27.8%	28.5%
Cable television customers (000s)	573	619	653	698	753	780
Average monthly revenue per cable TV customer[6]	£22.93	£22.24	£22.43	£21.18	£22.07	£22.59

NOTES:

(1) Proforma: Derived by aggregating statistics from BCM, Mercury, NYNEX CableComms and Videotron.

(2) Homes Passed – A home is "passed" when activated plant is available at the individual home curtilage (boundary). Homes in this definition may require further action to determine whether construction and installation is economically feasible. The figures indicated are cumulative to the end of the period shown at the top of the relevant column.

(3) Homes Released to Operations – A home is "released to operations" when no additional works are required by the construction department to ensure the home is serviceable. The figures indicated are cumulative to the end of the period shown at the top of the relevant column.

(4) Penetration – The measurement of the take-up of cable TV services. Penetration rate for cable TV service is the number of cable television customers connected on a particular date, divided by the total number of homes released to operations on that date, expressed as a percentage.

(5) Churn – The discontinuance of cable TV services to a customer either voluntarily or involuntarily, commonly measured as a rate from period to period. C&W Comms calculates twelve month rolling churn rate by dividing the number of its customers that have been disconnected during the previous twelve months by the average number of customers during that period.

(6) Average monthly revenue per cable television customer: Excludes VAT and represents (i) the total consumer cable television revenue for the given period divided by the number of months in such period, divided by (ii) the average number of customers in such period.

Opportunities for interactive and integrated services which may be offered in the C&W Comms Franchises in the future include the following:

Digital television. Digital television is a technology which allows customers to have access to a much higher channel capacity. The increased capacity can be used for more broadcast channels, as well as for PPV, NVOD, broadband Internet access, games, home shopping/banking and a wide range of other interactive services. The primary aim of digital television will be to give more control to the customer. C&W Comms is currently working on the introduction of digital television services. Implementation of digital services would require C&W Comms to make minor network upgrades to its broadband coaxial distribution network, to build a new head-end in Bromley and to replace the current set-top boxes in customers' homes. In February 1998, C&W Comms announced that it would launch digital television services and that it is planning a £100m investment in its digital TV infrastructure. The Company intends to employ Internet-based operating software developed by Network Computers, Inc. for these services.

Near video on demand. NVOD technology allows individual subscribers to select, on a PPV basis, from a range of channels sharing film, event and sports programming available at staggered start times. Such a service provides the subscriber with a wide choice of programming options and flexibility in terms of viewing times, but requires the use of a relatively large number of channels.

Video on demand. VOD is an improvement of the NVOD service which allows the viewer a much greater choice of programming selected from the service provider's inventory for viewing at a specific time of the viewer's choice. As with NVOD, the programming selected would be transmitted over the network and is likely to be delivered to a converter box in the subscriber's home in viewable form only to the particular subscriber requesting the programme, on a PPV basis. The provision of true VOD in the United Kingdom is still likely to be several years away as a result of the current cost of the video servers and switching equipment needed. However, the upgrade to digital technology will provide a suitable platform for VOD.

C&W Comm's Network

C&W Comm's telecommunications infrastructure supports a network containing approximately 8,500 kilometres of fibre optic cable trunk network with points of presence in every major city in the United Kingdom; 47,606 kilometres of fibre optic, coaxial and copper cable in its local loop. C&W Comms also has a substantial international network.

Much of C&W Comm's cable TV network has sufficient transmission capacity with which to offer digital television services. C&W Comms commenced the upgrade of its cable TV infrastructure in 1997, which it estimates will cost approximately £110m. The time period over which this infrastructure will be digitalised has not yet been finally determined by C&W Comms, however, the specifications and initial supplier for the digital set-top boxes have been selected by C&W Comms. C&W Comms believes that cable TV networks, with their integrated return path, provide certain advantages in the provision of digital television over satellite and terrestrial broadcasting which must rely on a separate return path. See "Competition – United Kingdom – The UK Telecommunications and Cable TV Markets".

International Network

C&W Comms has ownership rights or IRUs in 22 digital cable systems that are directly connected to the United Kingdom. C&W Comms has landing rights for ten of these systems, the remainder being landed by BT and accessed via BT's national transmission network to the frontier stations. C&W Comms also has ownership rights or IRUs in 39 other international digital submarine cables around the world and leases international transmission capacity from three satellite operators: INTELSAT, EUTELSAT and GORIZON. C&W Comms operates seven satellite earth stations at its site in Whitehill near Oxford, three at its London Docklands site and one in Brechin in Scotland. The Brechin satellite dish is used primarily for communications with offshore oil and gas rigs. C&W Comms' has bilateral arrangements with over 120 telecommunications operators worldwide and believes its international facilities provide it with a significant global network.

National Trunk Network

C&W Comms' core trunk transmission network is fully digital and comprised, at March 31st 1998, approximately 8,500 kilometres of optical fibre cable routes as well as point to point microwave systems. Stretching from Scotland to the southern coast of England, the network serves approximately 138 cities and towns in the United Kingdom.

The trunk cable network principally uses cable either in its own ducts or in third party wayleave routes (for example, those of British Rail Telecommunications and London Regional Transport). C&W Comms owns submarine cable routes crossing the Irish Sea and the Bristol Channel and leases fibres on a number of other cables owned by third parties.

Local Access Network

Outside the C&W Comms Franchises, C&W Comms' local distribution network is provided predominantly for heavy users of telecommunication services. Local access is mainly provided on either fibre optic cables or on line of sight microwave with some copper transmission. Within the C&W Comms' Franchises, as at March 31st 1998, C&W Comms had approximately 780,000 cable television customers and 925,000 telephone customers connected to its own fibre optic local distribution cables. In addition, approximately 1,000 customers are connected via leased lines rented from BT and approximately 400 are connected via circuits leased from other local cable operators.

Cable Television/Telephony Networks

The cable television/telephony businesses of the C&W Comms operating companies are at varying stages of development. As at March 31st 1998, construction had not begun in three of the C&W Comms' Franchises whilst in another 11, it had been completed. As at March 31st 1998, C&W Comms had passed approximately 4.1 million homes, representing 70 per cent of total homes in the C&W Comms Franchises.

Network Architecture

C&W Comms' networks within the C&W Comms' Franchises are designed to take integrated two-way broadband cable television systems. The networks utilise fibre optic cables on major trunk routes from a central location containing the cable television head-end and telephony switch or switches to nodes which serve approximately 2,400 homes.

C&W Comms' networks make extensive use of fibre optic cable. The main benefits of deploying fibre in place of traditional coaxial cable or copper wire result from its smaller size, greater capacity, increased functionality and decreased requirements for periodic amplification of the signal. These factors contribute to lower installation and maintenance costs and increase the variety and quality of the services provided.

Each cable television system generally has the capacity to carry over 50 channels of television plus radio, teletext, telecommunications and other related services. This capacity could be increased four to eight times by the addition of digital compression techniques. The networks are also capable of conveying video and high speed data transmissions, thus providing the basis for video conference facilities, television surveillance services and computer communications.

Because of the nature of moving picture video, substantial transmission capacity, known as bandwidth, is required to provide a cable television programme to the customer. The inherent bandwidth limitations of twisted pair copper wire historically used in telephone networks have to date presented a substantial obstacle to the use of existing telephone networks for the provision of cable television services. Coaxial cable provides substantially greater bandwidth than twisted pair copper wire and fibre optic cable can provide substantially greater bandwidth than coaxial cable.

C&W Comms' telephony networks employ an open architecture using a combination of SDH and PDH technology for system resilience. Voice and high speed data services such as ISDN, DPNSS, DASS2 and ATM may be provided across the network.

Network Construction Costs

Construction of integrated cable television/telephony systems is capital intensive, requiring substantial investment for network costs, including construction costs, such as trenching and laying underground ducts, cable television and telephony plant, network electronics and head-end equipment; customer costs, including converters, customer electronics and installation of cable from the network to the customer's home; and other costs such as switching offices, land and buildings, computers and capitalisation of pre-operating costs and labour.

Construction costs for each C&W Comms operating company will vary depending upon housing density, geographical terrain and the types of underground conditions encountered. Construction expenses in the United

Kingdom have been higher than comparable costs in the United States, primarily because of the logistics in laying the fibre optic and coaxial cables for the networks necessitated by the UK's prohibition on aerial construction. Therefore, nearly all cable installation in the United Kingdom requires hand or machine excavation, backfill to specification and permanent reinstatement of surfaces in compliance with the New Roads and Street Works Act 1991. This Act has, however, standardised fees for inspection of construction works by local government authorities and standardised specifications for reinstatement of property following excavation. As a result, construction delays previously experienced by cable operators because of separate and often lengthy negotiations with local government authorities have been reduced.

Build Milestones

Each C&W Comms operating company's telecommunications licence has minimum build "milestones" based on the number of premises to be passed by the C&W Comms operating company's systems in its franchise areas by specified dates, except for the City and Westminster, for which there are no minimum build milestones. For PDSL franchises, all but the final milestones may be varied by the Director General without public consultation if he considers it to be in the interests of sound commercial development of the system. The final milestone for these franchises can only be modified following a public comment period and with the approval of the Director General. In relation to the LDSL franchises, any milestone modifications are made by the ITC.

C&W Comms' operating companies have experienced difficulties, as have its competitors, in meeting build milestones. At March 31st 1998 C&W Comms' operating companies had not met 12 final and five interim build milestones for their 47 cable television licences. It is also anticipated that a number of future milestones may not be met. C&W Comms has met with both Oftel and the ITC in relation to all of C&W Comms' existing build milestones, with a view to reaching agreement on revised build milestones. To date, final agreement has not been reached, and there can be no assurance that C&W Comms will be able to obtain determinations to revise the interim build milestones or licence amendments to change the final build milestones of its non-complying franchises. Failure to comply with final build milestones is a licence breach which could result in Oftel or the ITC (as appropriate) commencing enforcement proceedings which could ultimately lead to the revocation of the relevant cable television and telecommunication licence. See also "Regulatory Framework – Regulatory Regimes – United Kingdom – UK and European Telecommunication Regulation of C&W Comms-Cable Cos' Licenses Under the Telecommunications Act".

INFORMATION SYSTEMS

C&W Comms operates approximately 450 information systems, of which approximately 37 are material to its business. Of these material systems, two are general management systems, eight are billing systems, 23 are customer service and operational support systems and four are accounting systems. Mercury developed 13 of these systems, in some cases with the assistance of independent consultants. The other 24 systems are owned by C&W Comms or are operated under licence from third parties. CWC Comms has implemented a core backbone network linking all its major sites. It currently has two large data centres and five smaller ones.

C&W Comms migrated all financial processes used by its constituent companies to a standard financial process software application package in December 1997 to provide consistent financial systems across the business. This has resulted in improved processes for financial control and reporting, as well as procurement and asset management.

C&W Comms is integrating all cable customer call management and billing systems into the NYNEX CableComms system, Integrated Customer Management System. This integration, which will be complete by September 1998, will standardise processes in these call centres, improve service and rationalise IT support. C&W Comms intends that the Integrated Customer Management System will eventually support all residential and some business customers. CWC Comms is also currently reviewing options for standardising its other billing and customer care systems.

In the interim, C&W Comms continues to support and enhance its existing billing systems to offer improved bundling, packaging and discounting capabilities in support of the changed requirements from the formation of C&W Comms.

C&W Comms has negotiated with a leading third party vendor for the outsourcing of management and operation of certain of its core systems. This will involve the transfer of over 1,000 C&W Comms IT-related employees to this vendor as well as the transfer of certain IT-assets. The Company expects to realise significant value from such

- outsourcing, by leveraging the skills of a leading IT outsource partner to optimise the value of the Company's complex IT systems, especially given the infrastructure renewal programme.

C&W Comms continues to invest in network operational support systems. It is currently implementing a suite of systems, "Network Resource Management", which will give an integrated inventory of the physical and logical network. This will enable C&W Comms to manage customer services centrally with less local intervention.

C&W Comms has established a project team to manage the conversion of software and systems and any upgrades to customer premises equipment to ensure continued operation from the year 2000. C&W Comms estimates that the cost of such conversions is approximately £70 million, including £20 million for new capital investment.

Certain Considerations and Uncertainties

By bringing together Mercury, NYNEX CableComms and BCM, C&W Comms became a company with the size and scope to compete effectively in the United Kingdom. C&W Comms recognises, however, that a number of challenges and uncertainties remain regarding the integration of its constituent companies and future regulatory, competitive and technological developments in the markets in which C&W Comms operates.

Integration

The C&W Comms business areas and management are completing the process of integration. C&W Comms is working to establish a company-wide customer billing and administration system. The one-off costs of the reorganisation were approximately £200 m, about one quarter of which was the cost of transferring the systems and operations in order to deliver improved customer service. However, there can be no assurance that C&W Comms will be able to achieve the contemplated level of operational or technical integration or that the expected medium and long term cost savings or operational synergies will be achieved or that any of its strategic initiatives, including national branding, will be successful.

New International Facilities Licences

HM Government's decision in 1996 to remove the duopoly, shared by BT and Mercury, on the provision of international facilities which led to the granting of more than 80 new IFLs is resulting in further price reductions for international traffic. Reductions in the retail and wholesale prices of international traffic may result in volume growth and increased demand for capacity, and, in the short term, C&W Comms may be able to exploit its network capacity to mitigate the impact on C&W Comms' revenues of falling prices for international traffic. C&W Comms has developed and is implementing strategies for attracting new international traffic in response to the anticipated pricing pressures. C&W Comms' initial response is seeking to acquire additional traffic in Europe, taking advantage of wholesale opportunities that arise through liberalisation of various European telecommunications markets, without incurring material additional capital expenditure. C&W Comms is also active in developing its position as the supplier of infrastructure to the new IFLs.

Competition

C&W Comms operates in highly competitive markets. Most telecommunications sectors in which it operates continue to be characterised by intense price competition. Given the trends towards liberalisation of markets, continued deregulation and the expanding number of entrants into telecommunications markets, competitive pressures are expected to continue to intensify. For a full description of the competition faced by C&W Comms, see "Competition – UK Telecommunications Markets".

The cable television markets in which C&W Comms is active are also highly competitive. The advent of digital television, while seen as a significant opportunity for C&W Comms, is also likely to bring further competitive pressures into the market, in particular with the introduction of a new means of transmission – digital terrestrial television. For a full description of the competition faced by C&W Comms see "Competition – Cable Television Industry".

Control by Principal Shareholders

At present, C&W owns approximately 52.7 per cent and Bell Atlantic approximately 18.6 per cent of the issued and outstanding shares of C&W Comms on a fully diluted basis. As a result of these holdings, C&W is entitled to appoint six directors (including the chairman and the chief executive officer) and Bell Atlantic two directors. The further directors are board appointments, on the recommendation of the nominating committee. As a result of their combined voting power, C&W and Bell Atlantic acting together are able to determine the outcome of most matters requiring approval of the shareholders of C&W Comms, including the appointment of directors. C&W, Bell Atlantic and BCI entered into a shareholders' agreement setting out the terms of the relationship among them in respect of C&W Comms, although as a result of the diposition of its stake in C&W Comms the agreement has, in most respects, ceased to have effect with regard to BCI. Among other matters, the C&W Comms Shareholders' Agreement and the C&W Comms Articles of Association contain certain provisions by which directors appointed by C&W or Bell Atlantic may have veto rights in respect of certain circumstances. While directors appointed by C&W and Bell Atlantic are not generally entitled to vote on board resolutions to approve contracts between their respective groups and C&W Comms, these arrangements and certain of the veto rights may be less stringent in relation to C&W Comms' participation in global alliances.

Leverage and Financial Structure

As at March 31st 1998, C&W Comms had total long-term indebtedness of £2.6 billion ($4.4 billion) and this indebtedness may restrict C&W Comms' future activities. C&W Comms expects to have significant capital needs for the foreseeable future, in particular to cover the build-out requirements set forth in its cable television licences. At present the budgeted capital expenditures for the two year period to March 31st 2000, total approximately £2 billion ($3.4 billion). In addition, C&W Comms also expects to require funding for working capital purposes for the foreseeable future. It is anticipated that C&W Comms' peak total outstanding indebtedness during the two year period to March 31st 2000 will be £3.0 billion ($5.0 billion). C&W Comms expects that cash flow from operations will contribute towards its funding requirements. In addition, a variety of funding sources were secured in a refinancing effected during 1997 and early 1998, including the issue of debt securities, a medium-term bank facility and an asset securitisation. C&W Comms may also seek additional equity or debt financing for future acquisitions, which it considers from time to time.

Based on anticipated cash flows and funding requirements, C&W Comms expects to have sufficient funds to meet its budgeted capital expenditure requirements. If, however, C&W Comms' future cash flows are lower than expected or additional capital expenditures are required, additional debt or equity financing may be necessary. There can be no assurance that such financing will be available, or, if available, that its terms will be attractive to C&W Comms.

Taxation

NYNEX CableComms' continuing status as a US (as well as a UK) taxpayer will mean that its earnings will be taxed at the higher of the US rate and UK rate, and that beneficial tax attributes will produce savings only to the extent that they are available in both countries. In this regard, NYNEX has claimed substantial US tax deductions in respect of losses incurred by NYNEX CableComms Group, and losses that have already been deducted for US tax purposes will not be available to produce tax savings for NYNEX CableComms now that it is owned by C&W Comms. In addition, under the current structure certain members of the NYNEX CableComms Group are not part of a UK tax group, and therefore may not be able to transfer the benefit of losses to affiliates. C&W Comms has agreed not to take specified actions that would trigger gain recognition, or loss recapture, for NYNEX. These include, among other things, restrictions, for a period of five years, on (i) sale of NYNEX CableComms Securities or stock of the Winston Entities or (ii) a sale by NYNEX CableComms or the Winston Entities of a substantial portion of their assets, including stock of subsidiaries. The continuing exposure to two tax systems, as well as the need to take account of US tax considerations in operating NYNEX CableComms and to observe C&W Comms' contractual obligations to NYNEX, may restrict the flexibility of C&W Comms in managing NYNEX CableComms, and may make it more difficult to achieve synergies.

Regulatory Environment

In general, C&W Comms will be affected by the complex regulatory environment in the United Kingdom, Europe and internationally. Regulatory developments in the United Kingdom and Europe, in particular, may have a significant impact on C&W Comms. See "Regulatory Framework – Regulatory Regimes – United Kingdom".

While C&W Comms operates a single nationwide telecommunications network under the PTO licence held by Mercury, which will include the respective networks of Mercury and the Cable Cos, Oftel has stated informally that it may wish for C&W Comms ultimately to operate under one single telecommunications licence with respect to all of its telecommunication activities. This would involve a revocation of the existing licences held by Mercury and the Cable Cos and the issue of a new telecommunications licence to C&W Comms. In the meantime, C&W Comms is operating under the Mercury licence but all licences held by the Cable Cos remain effective.

C&W Comms' operating companies have experienced, as have its competitors, difficulties in meeting build milestones. At March 31st 1998, C&W Comms' operating companies had not met 12 final and five interim build milestones for their 47 cable television licences. It is anticipated that a number of future milestones will also not be met. C&W Comms has met with both Oftel and the ITC in relation to all of C&W Comms' existing build milestones, with a view to reaching agreement on revised build milestones. There can be no assurance that C&W Comms will be able to obtain determinations to revise the interim build milestones or licence amendments to change the final build milestones of its non-complying franchises. Failure to comply with final build milestones is a licence breach which could result in Oftel or the ITC, as appropriate, commencing enforcement proceedings which could ultimately lead to the revocation of the relevant cable television and telecommunications licences.

Technological Change

Rapid technological changes in communications and information technology are removing traditional boundaries between the telecommunications, computing and television entertainment. This is redefining the markets in which C&W Comms operates and the products and services it offers. In addition, technological changes have led to the rise of a number of viable alternatives to fixed link transmission for both national long distance and local traffic. The technologies and network infrastructure employed by C&W Comms may prove to be less economical than those employed by its current or future competitors and may be rendered obsolete by future developments.

MERCURY PERSONAL COMMUNICATIONS (TRADING AS ONE 2 ONE®)

One 2 One, a joint venture partnership ultimately owned equally by the Company and US West International, launched its mobile phone service on September 7th 1993, initially servicing the London area. Since then, its coverage has grown to serve 95 per cent of the population in Great Britain.

In March 1998 *One 2 One* had attracted 1.2 million customers to its service, equal to 13.3 per cent of the national mobile phone market. *One 2 One's* Time Plans allow customers to choose the level of free calling which best suit their needs, offering the lowest available mobile evening and weekend call rates, together with free voice mail service and free message retrieval when using the *One 2 One* service in Great Britain. *One 2 One* enjoyed strong growth during the last year, revenues were up 109 per cent and customer base increased by 94 per cent. In the same period, *One 2 One* gained 30 per cent of net new mobile telephone customers, ahead of all other UK operators.

On April 28th 1994 Orange Personal Communications Services Limited (a wholly-owned subsidiary of Hutchison Telecom UK Limited-itself a joint venture between Hutchison Telecom, Barclays Bank and British Aerospace) launched its PCN service under the brand name Orange. Orange currently provides service in an area covering 95 per cent of the population. Orange, now listed on the London Stock Exchange, is *One 2 One's* primary competitor in PCN technology.

MMC INVESTIGATION INTO CALLS TO MOBILE PHONES

At Oftel's request the MMC commenced an investigation on March 5th 1998 into the pricing of calls to mobile phones both at the retail and wholesale level.

The parties to the investigation are Cellnet, Vodafone and BT (Cellnet and Vodafone for the level of termination rate charged and BT for the margin they retain between wholesale and retail). There will potentially be knock-on effects for Orange and *One 2 One* and for other fixed line operators including C&W Comms if the MMC concludes that pricing levels are too high and require regulatory intervention to reduce them. The MMC was due to publish its conclusions on September 4th 1998 but a 3 month extension has been granted for further deliberations.

OTHER EUROPE

In Europe, excluding the United Kingdom, the Group has businesses in a number of countries including those in Eastern and Central Europe. The Group has businesses in France, Belgium, Switzerland, Spain, Italy, Ireland, the Netherlands, Latvia, and Bulgaria.

On April 10th 1998, the Company announced that it had reached agreement to sell its 20 per cent interest in Bouygues Telecom S.A. to Telecom Italia S.p.A. and that the two companies were exploring opportunities for co-operation on international networks and provision of services to global customers. On April 15th 1998, the first part of a Telecom Italia/Cable & Wireless global partnership was announced with the Company agreeing to sell Telecom Italia an interest in Cable & Wireless Inc. and Cable & Wireless West Indies Limited and to create a joint operating company to optimise service to multinational customers.

On July 13th 1998, following expressions of interest from the other shareholders of Bouygues Telecom, the Company announced that it had sent an offer for the sale of its 20 per cent interest in Bouygues Telecom to all of the shareholders of that company. As a result, the Company's intended sale of this interest to Telecom Italia will not proceed.

The Company continues to progress its detailed discussions with Telecom Italia concerning their intended global partnership. Those discussions are focused on ways for the two companies to participate jointly in the provision of telecommunications services and to invest in the United States and the Caribbean. The Company does not, however, expect that Telecom Italia will acquire a direct interest in Cable & Wireless West Indies or Cable & Wireless Inc.

Vebacom and CWE

On March 25th 1997 the Company and VEBA dissolved their strategic alliance in the European Union (outside the UK) and Switzerland which had been established in October 1995, following formal agreements signed in June 1995. Upon creation of the alliance, the Company paid consideration of DM1,927 million for a 45 per cent interest in Vebacom. In December 1995, VEBA paid DM92 million for a 50 per cent interest in CWE. The strategic alliance was dissolved by VEBA purchasing the Company's 45 per cent interest in Vebacom, and the Company purchasing VEBA's 50 per cent interest in CWE. The Company received a net cash consideration of approximately DM2,120 million on completion.

The decision to dissolve the strategic alliance resulted from the differing strategic objectives of the partners. The Company's current focus in Europe is to ensure the success of C&W Comms, concentrating its efforts in continental Europe on developing business which will strengthen and support C&W Comms' position.

Following the purchase of VEBA's 50 per cent interest in CWE on dissolution of the strategic alliance described above, the Company now owns 100 per cent of CWE. CWE has subsidiary companies in France, Belgium, Switzerland, Spain, Italy, Ireland, and the Netherlands.

VEBA is the single largest shareholder in the Company. See "Item 4 – Control of Registrant".

OTHER OPERATIONS IN OTHER EUROPE

The following table summarises the group's other subsidiaries and equity investments in the region at March 31st 1998.

Region/Country	Company	Equity Interest	Principal Operation
Belarus	Belarus-Netherlands Belcel Joint Venture	50%	Mobile operator
Bulgaria	Radio Telecommunications Company OOD	49%	Mobile operator
Denmark	Tilts Communications A/S	63%	Holding company of interest in Lattelekom
Europe	EUTELSAT	1.96% Quota	Satellite operator
France	Bouygues Telecom	20%	Mobile operator
Israel	Bezeq The Israel Telecom Corp	10%	Domestic and international telecommunication services
Latvia	Lattelekom SIA	49% owned by Tilts	Exclusive domestic and international basic telecommunication services
Russia/Kazakhstan	PeterStar Company Limited	11%	Integrated local, long distance and international telecommunications service provider
	PLD Telekom Inc. (Registered in Delaware)	32%	Group of companies operating domestic and international services in Russia and mobile service in Kazakhstan

On July 31st 1998, the Group increased its holding in Bezeq to 13 per cent. On August 14th 1998, the Company completed the sale of its interests in Belarus-Netherlands Belcel joint venture, PLD Telekom Inc. and Peterstar Company Limited. On September 18th 1998, the Company sold its interest in Lattelekom SIA and TILTS Communications A/S (the Danish holding company). At September 22nd 1998, the Group was negotiating the sale of its interests in Bouygues Telecom.

BERMUDA, CARIBBEAN AND LATIN AMERICA

INTRODUCTION

The Group provides some or all of the domestic, international, fixed line and mobile telecommunications in Bermuda, Panama and 14 different countries in the Caribbean, with Jamaica, Barbados, the Cayman Islands, Bermuda, Trinidad and Tobago and Panama providing the major sources of revenue.

Revenue for the region relies heavily on international traffic which accounts for some 64 per cent of gross revenues. Revenue for the year ended March 31st 1998, excluding the Company's associate company in Trinidad and Tobago, has grown by 39 per cent with international revenue growing by 22 per cent. The majority of the increase can be attributed to the commencement of operations in Panama from May 29th 1997. To address the impact of lower international accounting rates on the region's revenue, the Group is engaged in a programme aimed at rebalancing international and national tariffs.

The Group's telecommunications operations in the region have continued their growth of recent years. In those countries where the Group provides domestic telephone services, the total number of telephone lines in service totalled approximately 1,296,000 at March 31st 1998 (March 31st 1997: 820,000 lines) an increase of 58 per cent. This growth has been dominated by Panama (381,000 lines at the year end) and Jamaica, where the network development programme has resulted in an increase of 63,000 lines in the last year. Cellular lines increased by 22 per cent over the last year to total 99,000 at March 1998.

As evidence of its commitment to the region, the Group has spent over approximately US$1 billion in the last three years, including laying the Eastern Caribbean Fibre System in 1995/96 at a cost of US$66 million and the Cayman-Jamaica Fibre System in 1996/97 at a cost of US$29 million. These cable systems are part of the vehicles for delivery of the new value added products and services being made available throughout the region, including specific applications for the financial sector.

JAMAICA

The Group has a 82 per cent interest (79 per cent interest at March 31st 1998) in Cable & Wireless Jamaica Limited (formerly Telecommunications of Jamaica Limited), a company established in May 1987 to develop both domestic and international telecommunication services in Jamaica. The Jamaican Government awarded the All Island Telephone Licence, covering the full range of telecommunications services under a number of individual licences, to CWJ exclusively in 1988. This licence, which expires in 2013, provides the Jamaican Government with the authority to monitor the performance of the company in meeting its obligations under the licences and to regulate the rates charged by the company under a Scheme of Control arrangement. The national telecommunications system of Jamaica is fully digital.

Cable & Wireless Jamaica has commenced proceedings against the Minister for Commerce and Technology (whose portfolio includes telecommunications) seeking an order quashing the Minister's decision to issue VSAT licences to five ISPs and an order preventing the Minister from issuing any further such licences. These VSAT licences purport to authorise the licensees to provide their own facilities-based international services to and from Jamaica. Cable & Wireless Jamaica asserts that the Minister's decision to issue these VSAT licences is void as it infringes Cable & Wireless's exclusive international licence. Cable & Wireless Jamaica believes its position to be meritorious but, given the nature of the case and the status of the proceedings, the Company is not in a position to predict the outcome and can give no assurance that the outcome will be favourable.

Cable & Wireless Jamaica has also commenced proceedings against the Minister in relation to the Minister's rejection of Cable & Wireless Jamaica's most recent rate application. Cable & Wireless Jamaica is seeking an order requiring the Minister to refer the matter of the rate application to a Referee, as required under Cable & Wireless Jamaica's domestic licence. Cable & Wireless Jamaica considers this action is necessary to achieve certainty in the interpretation of the Scheme of Control provisions in the domestic licence, which set out the basis on which Cable & Wireless Jamaica's authorised rate of return is to be calculated.

BARBADOS

The Group provides domestic and international telecommunications in Barbados. Domestic telecommunications are provided through the Barbados Telephone Company Limited, in which the Group has a 74 per cent interest; international telecommunications are provided through Barbados External Telecommunications Limited, in which the Group has an 85 per cent interest. The telecommunications services of BARTEL and BET are provided under exclusive licences, both of which expire in 2011.

CAYMAN ISLANDS

The Group provides both domestic and international telecommunications services in the Cayman Islands under an exclusive licence signed in 1991 which expires in 2011.

The Group's telecommunications network in the Cayman Islands is entirely digital with international connectivity through the Cayman-Jamaica Fibre System.

BERMUDA

The Cable & Wireless Group is currently providing international services in Bermuda under a licence that is subject to a three year period of notice although a new 15 year non exclusive licence will be granted to its Bermuda operating entity on November 1st 1998 (see below). Bermuda is an important circuit relay station for the Group's submarine cable network. Bermuda is connected to the United States, Ireland and the United Kingdom by the Bermuda spur on the PTAT digital fibre optic cable system which became operational in November 1989. The cable link between Bermuda and the British Virgin Islands, known as CARAC (Caribbean Atlantic Cable), provides links to the Eastern Caribbean Fibre System. In January 1997 the Bermuda Government granted a Bermudan registered company an international licence to provide international telecommunications services in competition with the Company. Two other offers of a licence in local fixed and mobile services were also taken up by third parties. The fixed licence was granted to Quantum Communication Limited (formally known as North Atlantic Telecommunications) in which the Company now has a 35 per cent shareholding.

On August 20th 1998, the Company negotiated a settlement of its dispute with the Bermuda Government regarding the alleged breach of the Group's exclusive international licence resulting from the issue of the second international license. The settlement established a mutually acceptable regulatory framework for the provision of telecommunications services in Bermuda in which it will, inter alia, issue a new 15 year licence to the Group's Bermuda operating entity.

TRINIDAD AND TOBAGO

The Group has a 49 per cent interest in Telecommunications Services of Trinidad and Tobago Ltd which provides both domestic and international telecommunications services in Trinidad and Tobago. TSTT's licence is due to expire in 2009.

PANAMA

On May 29th 1997 the Company paid US$652 million to acquire 49 per cent and management control of the state owned telecommunications company of Panama, Instituto Nacional De Telecommunicaciones, S.A. renamed Cable & Wireless Panama, S.A., following a competitive bid. The government holds 49 per cent of the shares while the remaining 2 per cent is held by Cable & Wireless Panama, S.A. employees through a trust fund. For the ten months ended March 31st 1998 Cable & Wireless Panama, S.A. reported gross revenues of US$266 million, and profit before tax of US$118 million.

Cable & Wireless Panama, S.A. has an exclusive licence to offer basic local, national long distance and international telecommunications services until December 31st 2002. Under the terms of this licence certain network modernisation and quality of service targets must be met with tariffs being governed by a price cap until 2000. Cross subsidies between services are to be eliminated prior to the introduction of competition in the basic services in 2003. Cable & Wireless Panama, S.A. acquired a second cellular licence for US$72.6 million in November 1997. Service began in January 1998. In the ten months ended March 31st 1998, Panama invested US$109 million in capital expenditure. The company introduced local measured service in January 1998 and reduced international long distance rates by 20 per cent.

OTHER OPERATIONS IN THE CARIBBEAN AND LATIN AMERICA

The following table summarises the Group's other branches, subsidiaries and equity investments in the region.

Region/Country	Company	Equity interest	Principal operation
Caribbean		Branches	Exclusive domestic and international telecommunications services in Anguilla, Antigua, British Virgin Islands, Montserrat, St Lucia, St Vincent and Turks and Caicos Islands.
Caribbean	Cable & Wireless Caribbean Cellular Ltd	100%	Maritime mobile services in Antigua, St Kitts & Nevis, Jamaica, St Lucia, St Vincent and the Grenadines
Dominica	Cable & Wireless Dominica Ltd	80%	Exclusive domestic and international telecommunication services
Grenada	Cable & Wireless Grenada Ltd	70%	Exclusive domestic and international telecommunication services
St Kitts & Nevis	Cable & Wireless St Kitts & Nevis Ltd	65%	Exclusive domestic and international telecommunication services

NORTH AMERICA

In the United States, the Group primarily provides domestic long distance voice, data, leased circuit and facsimile telecommunications services to business customers. The Group also offers its customers switched international telephone services through arrangements with certain US carriers pursuant to which international calls are transferred from the Group's US network to the networks of the international carrier and then transmitted on the carrier's network. Additionally, the Group provides international leased circuit capacity acquired from underlying facilities based carriers and made available to users. At March 31st 1998 the Group had approximately 100,000 customers using its long distance service, representing less than 1 per cent of the US market for such services.

In the United States, the volume of domestic telephone traffic on the network operated by the Group grew from approximately 4,170 million minutes in 1997 to approximately 4,511 million minutes in 1998, an 8.2 per cent increase. The Group's share of international traffic from the United States increased from approximately 832 million minutes in 1997 to 1,283 million minutes in 1998.

The Group has established and manages a digital network in the United States, the largest telecommunications market in the world. The Group owns fibre optic capacity running from New York to Washington DC, Washington DC to Chicago, Chicago to Atlanta, Washington DC to Atlanta, Atlanta to Miami and Atlanta to New Orleans. The Group supplements this network by leasing additional capacity from other carriers. This leased capacity provides an extension of the network to Boston from New York, to Los Angeles, San Francisco, Dallas, Kansas City, St. Louis and Philadelphia from Chicago and to Los Angeles via Houston from New Orleans, as well as to all major US cities. Virtually all the Group's US digital network incorporates fibre optic cable.

On September 14th 1998, the Company acquired MCI Telecommunications Corporation's Internet business for US$1.75 billion (approximately £1,070 million). As a result of this acquisition, the Group will acquire a tier one Internet business comprising the following assets:

- A United States nationwide Internet Backbone comprising 22 domestic nodes, 15,000 interconnection ports, approximately 40 peering agreements for the exchange of Internet traffic, routers, switches, modems, e-mail servers and other support equipment;

- MCI's dedicated access customer base consisting of approximately 3,300 corporate customers;

- MCI's Internet service provider customer base. MCI has approximately 1,300 ISP customers, including 130 international directly connected customers in some 75 countries around the world. These ISP customers contract with business and mass market Internet users to provide Internet access, billing and customer services;

- An internet dial up business which provides Internet access throughout the United States to more than 250,000 consumers and approximately 60,000 business users;

- MCI's web hosting and managed firewall services business which consists of a customer base of over 100 companies and the associated web hosting servers.

The Company intends to integrate this Internet business with the Cable & Wireless Group's existing operations in the United States and will employ approximately 1,000 specialist Internet employees who are to be transferred from MCI.

REST OF THE WORLD

The principal operations of Group companies accounted for under the Rest of the World include Australia, Japan and South Africa, together with the Global Businesses of Cable & Wireless.

AUSTRALIA

On August 18th 1997, the Company's shareholding in Optus increased to 49 per cent when it purchased the Bell South group's 24.5 per cent share. In addition, the Company received free options to acquire shares in Optus that if exercised take its stake up to a maximum of approximately 55 per cent. The options become exercisable when Optus is listed on the Australian Stock Exchange. Optus is accounted for as an equity investment in the 1997/8 Group accounts.

Optus was incorporated in 1991 as the holding company of Australia's first non-governmental telecommunications carrier. Optus operated in competition with Telstra, the former monopoly supplier, in the provision of fixed and satellite networks and with both Telstra and Vodaphone in the provision of mobile networks until June 30th 1997 when the fixed network duopoly and mobile network triopoly came to an end. Since the launch of its mobile services in June 1992 and international and national long distance services in November 1992, Optus has attracted more than two million users of those services, which can now be accessed by 92 per cent and 99 per cent respectively of the Australian population. During this period, Optus has developed an advanced telecommunication network based on wireline, long distance and local access, mobile and satellite systems with connections to international cable and satellite networks.

The wireline and mobile systems extend to the major cities of Australia and selected regional and rural areas, with the satellite system covering all of Australia and New Zealand. Since June 1993, when the licensing of Vodafone brought the Telstra/Optus mobile services duopoly in Australia to an end, Optus has been one of three operators licensed to operate a digital mobile network. In addition, Optus is authorised to resell capacity on Telstra's existing analogue mobile network until the year 2000 when that network is due to be substantially closed.

In May 1995, Optus entered into a joint venture with Continental CableVision Inc., Publishing & Broadcasting Limited and Seven Network Limited to establish a hybrid fibre/coaxial cable broadband local access network to supply cable television and telephony services to residential and small business customers in Australia. This venture, called Optus Vision Pty. Limited, was owned 46.5 per cent by each of Optus and CCI, 5 per cent by PBL and 2 per cent by SNL. In March 1997, Optus acquired all the shares in Optus Vision held by the other shareholders, in exchange for notes convertible into Optus shares in the case of CCI and SNL and notes redeemable for cash or convertible into Optus shares in the case of PBL.

Since commencing operations in February 1992, Optus has built a significant market position with estimated market shares of 17 per cent of minutes in the Australian long distance market and 30 per cent of all Australian mobile users (estimated as at June 30th 1998).

Using its broadband local network Optus provides local call services to residential customers in certain areas of Sydney and Melbourne. Optus also offers cable TV services (launched in September 1995) to customers in Sydney, Melbourne and Brisbane. Optus plans to use its broadband local network to market a range of telecommunications, entertainment and interactive services to business and residential customers in the future.

INTERCONNECTIONS

Payments to other carriers for interconnection are Optus' largest expense. The principal categories of these payments are:

- international (principally outpayments to overseas carriers);
- long distance (principally payments to Telstra for long distance call origination/termination); and
- mobile (principally analogue mobile resale payments to Telstra and digital mobile termination payments to both Telstra and Vodaphone).

The rates for international outpayments are set by bilateral negotiation and payments to Telstra are governed by the Australian telecommunications regulatory environment.

Optus has negotiated its principal interconnect charges on a number of occasions since the initial prices were set in 1991. Most of the long distance and mobile charges described above, which applied until June 30th 1997, have been re-negotiated at lower rates that were applied retrospectively from July 1st 1997. Interconnect charges will continue to be re-negotiated on an annual basis in the future.

Products

Long Distance Services

The Optus long distance service carries international and national wireline long distance telephone calls throughout Australia and internationally, in addition to various value added services such as Calling Card, Total Access Services (eg. 1-800 numbers) and operator services. Long distance accounted for approximately 36 per cent of Optus revenues during 1997/98.

At June 30th 1998, Optus long distance was available to more than 99 per cent of the Australian population. Optus had approximately 2 million long distance users at June 30th 1998 of which 1.4 million were pre-selected to Optus. The balance use an override code to access Optus' long distance services.

Optus uses its own network for the trunk portion of the majority of its long distance calls. Optus uses the Telstra local access network to originate and terminate most long distance calls, although origination and termination also occur on the Optus CBD customer access network or broadband local network and termination occurs on Optus' mobile networks and other carriers' networks. Optus pays fees to other carriers for origination and termination services and for carriage of long distance calls on country routes where it does not have network facilities of its own. Optus receives payments for the termination of international calls on its network.

Since the commencement of long distance services in 1992, the volume of traffic carried by Optus has grown and its market share was an estimated 17 per cent of minutes as at June 30th 1998.

Mobile Communications Services

Optus is one of Australia's three mobile telephone network operators. Optus, Telstra and Vodafone each operate a digital mobile network and Telstra also operates an analogue mobile network. Optus re-sells capacity from the Telstra analogue mobile network, provides service from its own digital mobile network and provides a satellite-based service called *MobileSat*.

Since commencing commercial services in June 1992, Optus has rapidly grown its share of the mobile market. At June 30th 1998, Optus had approximately 1.7 million users, representing an estimated market share of 30 per cent. Mobile service provision and the sale of mobile equipment accounted for approximately 46 per cent of Optus' revenues during 1997/98.

Optus' digital mobile service offers a number of features which make it more attractive than analogue service, such as: automated international roaming to over 40 countries; Optus SurePage™ (which displays text messages on the user's handset); and encrypted voice transmission. In addition, Optus' digital mobile offers wireless data capabilities. These data applications, such as remote e-mail access, faxing, LAN access and stock quotes, are expected to be a significant area of growth over the next few years.

Optus has recently increased its digital mobile coverage to 92 per cent of the Australian population and continues to subsidise the cost of digital handsets to customers who sign minimum term service contracts.

These features and initiatives have encouraged the growth in the number of Optus mobile digital users. At June 30th 1998, these users totalled approximately 1,198,000, including those who are customers of Optus' service providers. This represents an estimated market share of 33 per cent of all digital mobile users.

Optus' digital mobile users generate an average revenue per user almost double that of its analogue users. This calculation takes into account payments made by other carriers to Optus for terminating their calls to Optus' digital users. Additionally, average interconnect charges per minute paid by Optus to terminate digital calls are substantially lower than the wholesale air-time payments made for analogue use.

Optus commenced the resale of analogue mobile services in 1992. The Federal Government has confirmed that, as required by the conditions of Telstra's mobile licence, the analogue network will be substantially closed by January 1st 2000.

At June 30th 1998, Optus had approximately 490,000 analogue mobile customers. Optus is encouraging the migration of analogue customers to its digital network by promoting the enhanced features and qualities of digital services and through special promotional offers.

Optus launched the world's first satellite-based digital mobile vehicle mounted phone system in August 1994. At June 30th 1998 Optus had approximately 7,000 *MobileSat* customers.

Business Network Services and Other

Optus Business Network Services consists of a range of services available to large businesses and government. BNS accounted for 13 per cent of Optus' revenues during the financial year ended June 30th 1998.

Optus BNS comprises:

- video and information services provided primarily by satellite for broadcast and corporate customers (Optus BroadNet™);
- switched voice and facsimile services for corporate customers (Optus BusinessNet™);
- leased voice and data services for corporate customers (Optus BusinessLink™);
- value added payments, messaging and transaction services (Enhanced Communication Services or ECS); and
- high speed, high capacity data services (MultiNet™)

In the year ended June 30th 1998 Optus derived approximately 25 per cent of its BNS revenue from satellite based services with the remaining 75 per cent being derived from non-satellite services.

Local Telephony

Optus launched a residential local telephony service using its broadband local network in Melbourne and Sydney on a limited basis in June 1996.

During the start-up period of the local telephony service, Optus focused on eliminating a number of software problems and restricted deployment of the service. Optus has gradually begun to increase the number of telephony customers connected to the local broadband network. At June 30th 1998, Optus had approximately 48,000 telephony customers connected to the broadband local network and intends to increase this number over the next few years. Optus anticipates that local telephony services will be available to most of the 2.1 million homes currently passed by its network by June 30th 1999.

Residential local telephony service includes a basic core service to which a range of enhanced service features may be added. The enhanced services include features such as second lines, voicemail, call forwarding, three way calling, speed dialling and call waiting, which are packaged to encourage their take-up.

In addition to providing local calls on the broadband local network, Optus has recently concluded an agreement with Telstra to resell Telstra local calls and access so that it can provide a single bill for long distance and local calls in areas where the broadband local network does not reach.

Premium TV

Premium TV was first introduced commercially in Australia in early 1995. Optus began offering its Premium TV service in selected areas in Sydney and Melbourne using its broadband local network in September 1995 under the brand name "Optus Vision". At June 30th 1998, the broadband local network passed approximately 2.1 million homes and had approximately 185,000 Premium TV customers.

Optus currently offers a choice of 30 channels, including sports, movies, news and weather, family oriented, foreign language, arts, documentaries, special interest and retransmission of the five free-to-air networks. Optus also offers a pay-per-view channel for special events. Many of the channels are exclusive to Optus and are offered 24 hours a day.

Optus experienced high levels of churn for its Premium TV service which it has sought to reduce with the introduction of service contracts, that offer customers discounts for signing for six or twelve months.

Optus believes there should be a move to non-exclusive programming within the Australian pay TV industry, particularly in relation to movie and sports programming. Optus considers that exclusive programming supply arrangements have increased the cost of programming acquisition and reduced the attractiveness of the service to pay TV consumers, with the result that penetration is lower and churn higher than it would otherwise be. In Optus' view, non-exclusive, lower cost programming would significantly improve the performance of all pay TV operators in the Australian market. Optus is actively pursuing this goal with the other pay TV operators and the programme suppliers and has reached agreement on programming supply with former Australis franchisees (Austar and ECTV).

Internet/Online Services

Optus, which has a 45 per cent market share in this sector by gigabytes, currently offers an Internet access product to both the corporate and wholesale sectors using its ATM backbone network, international cables and satellites.

Optus believes that the capacity to transmit data at high speed on its broadband local network will be an advantage as residential and business customers increasingly seek telecommunications suppliers that have the ability to deliver high capacity interactive services. Australia has a well developed information infrastructure evidenced by a high level of personal computer penetration, high computer literacy and advanced telecommunications networks. Optus is exploring the potential for online services such as high speed access to the Internet, networking solutions and E-commerce.

In May 1998, Optus announced that it had acquired Microplex, the fourth largest Internet Service Provider in Australia. Optus plans to use this acquisition to leverage its move into the residential and small business Internet/online market.

NETWORK

The Optus network comprises a national and international long distance network, customer access networks in certain central business districts and suburban areas, a mobile network and a satellite network.

Long Distance Network

Optus has built a long distance fibre optic network between certain major cities in Australia with connections to international cable and satellite networks and recently integrated an ATM network with this backbone. As at June 30th 1998, over 8,700 km of long distance links were in place from Brisbane to Perth via Sydney, Canberra, Melbourne and Adelaide. These links currently carry 88 per cent of the long distance portion of all Optus traffic. Optus leases lines or acquires switched carriage services from Telstra on routes where it is not economic to own facilities.

Switching centres for national long distance traffic are located in six Australian cities with international switches located in Sydney and Melbourne. Optus also has six switching centres to provide local telephony service to customers connected to the broadband local network.

Intelligent switching nodes are located in Sydney and Melbourne to provide Freephone, Calling Card and Virtual Private Network services. These nodes contain the databases that allow the intelligent routing of value added services through the long distance or Optus local access networks.

The Optus earth stations in Sydney and Perth access INTELSAT satellites located over the Pacific and Indian oceans. These links augment the Optus investment in 22 international submarine cable systems transporting voice, video and data services to and from Australia.

The JASURAUS joint venture between Optus and Telstra (31 per cent and 69 per cent share, respectively) has constructed a cable from Western Australia to Indonesia where it connects to the Asia Pacific Cable Network providing connection to major Asian countries.

For the purposes of delivering and receiving international calls, carriers establish relationships with other carriers in overseas countries. Optus has established direct relationships with over 50 different carriers in 43 countries. This has allowed Optus to reduce its reliance on Telstra for the provision of international carriage services and Telstra now delivers less than half of one per cent of Optus' outgoing international traffic. As a result of these direct relationships, Optus receives a share of the incoming international traffic from overseas.

It is intended that investment in the Optus wireline network over the coming years will principally be directed to increasing capacity to accommodate growth and/or reduce payments to other carriers.

Local Access Networks

Optus has two types of local access network, both designed to connect customers directly to its long distance and other networks.

Optus has constructed CBD customer access networks in Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra. Based on fibre optic rings in the central business districts, the CBD customer access networks also use microwave links and some lines leased from Telstra to connect corporate and government customers directly to the Optus network.

Optus has also constructed a broadband local access network in selected suburban areas of Sydney, Melbourne and Brisbane. The broadband local network is designed and constructed to provide high capacity and quality services at a low cost. This is a hybrid fibre coaxial network that has an initial two way capacity of 750 megahertz, which is sufficient to carry 64 analogue Premium TV channels, telephony, full two way high speed data transmission and other digital and interactive services. The network uses Hybrid Fibre Coaxial technology and was constructed by extending fibre optic cable to serving areas called nodes. Each node serves 500 to 1,000 homes. The subscriber homes within the area served by each node are connected by coaxial cable.

At June 30th 1998, approximately 20,000 kilometres of cable were deployed (mainly aerially), passing approximately 2.1 million homes and approximately 145,000 small and medium size businesses. The construction of the Optus local access network has been completed in Sydney, Melbourne and Brisbane. Optus has no current intention to extend this network further during the current fiscal year.

Mobile Network

Optus launched its digital mobile service in May 1993. The digital mobile network consists of a series of base stations, connected by either microwave, fibre optic cable or Telstra lease lines to base station controllers and to mobile switching centres. The mobile switching centres are connected to the Optus wireline network.

The Optus digital mobile network is based on the GSM technical standard, adopted by more than 50 other countries. As at June 30th 1998, Optus operated 1,150 base stations covering 92 per cent of the Australian population. Optus expects to add more than 1,200 new base stations over the next two years in order to significantly improve mobile coverage, particularly in the capital cities and to achieve increased capacity and quality.

In May 1998, Optus purchased 15Mhz of new 1,800 Mhz spectrum in the five regional capital cities at a cost of 51.4m Australian dollars in order to provide extra capacity and scope for future services on the GSM network. This spectrum is available for use from January 1st 2000 onwards.

Satellite Network

Optus purchased the Australian domestic satellite system in 1992. The first generation 'A' series satellites were launched in the mid 1980s. Optus launched replacement 'B' series satellites in 1992 and 1994 and expects that these satellites will provide services until at least 2005.

The satellite system extends full coverage to Australia and New Zealand and limited coverage to Papua New Guinea. The satellites are controlled and monitored from satellite tracking facilities located at Belrose, Sydney with back up facilities in Perth.

Optus' satellite system is used for the transmission of television programme content between broadcasters, the direct broadcast of remote area television services, the distribution of pay TV programming to cable, civil aviation and a wide variety of voice and data applications. The system provides back-up for the Optus long distance network.

The satellite system is also used to deliver the Optus *MobileSat* communications service. This service, which supplements Optus digital mobile, is available throughout Australia and up to 200 kilometres out to sea.

Carrier Licences

The Telecommunications Act of Australia separately licences general carriers and mobile carriers. A general carrier licence has been issued to Optus Networks and a mobile carrier licence to Optus Mobile, both wholly owned subsidiaries of Optus. Both licences allow Optus to provide services and establish networks throughout Australia. Both of these carrier licences have no fixed expiry dates.

JAPAN

As at March 31st 1997, the Company had a 17.6 per cent shareholding in International Digital Communications Inc., one of four Type 1 carriers currently licensed to provide international telecommunication services in Japan. Itochu Corporation, Toyota Motor Corporation and AirTouch International are the other principal shareholders.

Operating since 1989, IDC offers a full international telecommunication portfolio to corporate, business and residential customers. IDC's state of the art network uses digital technology for both switching and transmission. In April 1998 IDC opened a new International Network and Service and Facilities Management Centre in Tokyo designed to the highest quality standards.

IDC has over 200 operating agreements with overseas telecommunications administrations and carriers world-wide and carries approximately 20 per cent of Japan's outgoing international traffic. IDC's services include IPSTN, IPLC, ISDN, IVPN, cards (prepaid and charge), facilities management, operator and toll free. IDC's InterNet Gateway, Access and Web hosting services are linked to the premier US and Asian ISPs. IDC supports Cable & Wireless' portfolio of managed services for the Global Business division of the Company (see "Rest of the World – Cable & Wireless Global Businesses")

IDC's International network utilises Indian Ocean Region and Pacific Ocean Region satellites and numerous submarine cables including the fibre optic transpacific North Pacific Cable, the Japanese end of which is 70 per cent owned by IDC and 30 per cent by the Group. IDC is also the landing party in Japan for the new FLAG cable.

SOUTH AFRICA

Cable & Wireless has a 25 per cent shareholding in Mobile Telephone Networks (Pty) Limited of South Africa. MTN launched its mobile service in June 1993 and now has a market share of more than 43.1 per cent. MTN has experienced sound growth in the past financial year, its customer base growing from 350,000 to 463,000 at March 31st 1998, a growth rate of 32 per cent. The licence period for MTN runs from June 1994 for a period of 15 years, renewable for another 15 years. On August 20th 1998, the Company announced that it had reached agreement to sell its 25 per cent interest in MTN for approximately £257 million in cash.

CABLE & WIRELESS GLOBAL BUSINESSES

Introduction

Cable & Wireless Global Businesses comprises those businesses which the Company manages and operates as global lines of businesses, namely: Cable & Wireless Global Markets (formerly known as Cable & Wireless Business Networks); Cable & Wireless Global Card Services; Cable & Wireless Global Network and Cable & Wireless Global Marine.

On April 1st 1998, an integrated corporate structure was established for Cable & Wireless Global Businesses to accommodate each of the above businesses employing Luxembourg holding companies to facilitate consolidation at Group level.

Cable & Wireless Global Markets

CWGM, formerly known as Cable & Wireless Business Networks, was established in 1992 as a division of the Company to assist in acquiring and retaining international and global clients. CWGM now operates through a Luxembourg holding company with all trading activity conducted by a company incorporated and operating in the Shannon area of Ireland. CWGM also has subsidiaries in the USA and selected other jurisdictions including Cable & Wireless Nautec, a joint venture company established with leading Danish Information Technology specialist Maersk Data.

On April 1st 1998, CWGM entered into transfer and supply agreements with each of Cable & Wireless Communications, Cable & Wireless, Inc. and Hongkong Telecom to assume contractual responsibility for certain global multi-national corporate customers. CWGM has assumed all risk relating to those customers, bills them and bears all costs associated with their development, operation and servicing. In addition, each of C&W Comms, CWI and HKT have become the preferred supplier to CWGM (conditionally upon certain terms as to competitiveness) of all local telecommunications services relating to global multi-national corporate customers.

CWGM is responsible for serving the communication needs of multinational corporations by establishing a dedicated account and service management team with each customer (acting as a single point of contact to ensure seamless, global service across all regions), whilst integrating and directing the local and regional network and international connectivity expertise of Cable & Wireless Group Companies and partners around the world. CWGM operates a globally dispersed organisation within the Cable & Wireless Global Businesses organisation, with key presences in the US, UK and Hong Kong. CWGM also operates an industry focused approach, providing expertise in the following market sectors: finance, information technology, travel and transport, and oil and energy.

CWGM also gives Cable & Wireless Group Companies the ability to offer both Cable & Wireless managed services and customised products through the Global Service Programme. This programme co-ordinates the Group's product development activities for global managed services, resulting in a set of standard products and services (known as G-Services).

Cable & Wireless Nautec

Cable & Wireless Nautec provides tailored applications, information management and global communication services for the container transport industry. The Cable & Wireless Nautec service portfolio comprises core network services, global managed network services, network based tools for messaging and data management, and a comprehensive range of proven information management applications.

Cable & Wireless Global Card Services

CWGCS was established as a global line of business in 1997 and operates as of April 1st 1998 through Irish, Madeiran and American subsidiaries of a Luxembourg holding company to provide card services to customers located throughout the world.

On April 1st 1998, CWGCS entered into business transfer agreements and cards-related services agreements with each of C&W Comms and CWUSA, pursuant to which CWGCS has purchased the Cards Businesses of C&W Comms and CWUSA respectively. Under those agreements, CWGCS has accepted all risks relating to the Cards Businesses, will financially account for customer revenues and will manage the development and operation of the Cable & Wireless Cards Business in the UK and USA. For an initial transition period, C&W Comms and CWUSA will supply certain administrative, agency and other services to C&WGCS in the UK and US respectively.

CWGCS has also entered into a global cards services agreement with effect from April 1st 1998, with HKT, pursuant to which HKT has agreed to establish a division dedicated to Card Services; the manager of that division will report to both CWGCS and HKT.

CWGCS is actively pursuing the acquisition of cards activities held by other members of the Group.

CWGCS provides telephone calling cards to corporate and residential customers enabling them to access telecommunications services. Cards may be pre or post-paid, with the latter billed to designated accounts. CWGCS has global activities organised over three regions and offers a calling card which can be used to call in, to, and from a growing number of countries. CWGCS is focused on its core competencies of product development and marketing and sales and is a virtual line of business with outsourced platforms, customer service and distribution channels.

Cable & Wireless Global Network

CWGN was established in 1997 as a global line of business. The new organisation is a successor to Cable & Wireless Network Services which operated as a division of the Company. CWGN operates through two Irish and one United States subsidiary of a Luxembourg holding company.

CWGN directs the priorities and actions of the Cable & Wireless Group in the wholesale international communications market. Earnings are delivered through wholesale revenue in respect of the services CWGN provides to Cable & Wireless companies around the world and to major global carrier customers. CWGN focuses on four main business activities: international wholesale voice minutes; wholesale managed services for multinational companies; wholesale IP backbone and managed IP services; and point to point connections.

CWGN is also developing a Global ATM backbone network comprising gateway ATM switches located in the UK, USA, Japan, Hong Kong and Australia and connecting national and regional distribution networks. CWGN will also continue to develop a Global IP capability comprising regional hubs, peering agreements and international connectivity. CWGN will continue to leverage and expand the Cable & Wireless Group's presence in Europe, intending to obtain licences and national interconnect in all major European countries.

Cable & Wireless Omnes

Omnes was established as a joint venture between Cable & Wireless and Schlumberger in 1995 to combine Cable & Wireless' expertise in network management, telecommunications and customer service with Schlumberger's strengths in information technology and systems integration. The joint venture vehicles include a US partnership established in Delaware and companies established in the UK, Bermuda and the Netherlands. Omnes is headquartered in Houston, Texas.

Omnes is a service-and-system integrator, providing global customised network and application solutions to corporate customers. The services provided by Omnes include world-wide networking, network applications and complete information technology solutions.

Cable & Wireless Global Marine

CWGMa is a leading provider of installation, maintenance and support services to the submarine telecommunications industry. Throughout the year CWGMa has maintained its position as a leading provider of cable maintenance services. Its world-wide fleet of cable maintenance ships and associated facilities has been fully employed successfully completing cable repairs with a high level of customer satisfaction. As at March 31st 1998, the company operated a fleet of 11 cable ships, managed one cable ship on behalf of the Company's Chinese joint venture subsidiary and operated 20 underwater vehicles. In addition, the Company acquired the remainder of General Offshore, in which it previously held a minority interest and as result now adds shallow water and shore-end laying and maintenance to its portfolio of services.

Projects worked on during the year included the completion of the FLAG Cable System (28,000 kms between the United Kingdom and China/Japan), the southern leg of the Gemini System across the Atlantic, and the Venezuela Domestic system.

CWGMa continues to be at the leading edge of technology in developing surface and subsea cable handling solutions for use on board both its cable laying and its maintenance and repair ships. The CASCADE™ system, developed as a state of the art system for controlling the lie of the cable in the deep oceans, was brought into standard service during the year.

The Company believes that CWGMa remains in a strong position to continue and enhance its prominent role in the development, planning, installation and maintenance of submarine telecommunications systems and participation in the related industries.

Cable & Wireless Global Mobile

CWGMo is a division of the Company which manages the Company's shareholdings in mobile operating companies and franchises throughout the world. These businesses operate across diverse competitive and regulatory environments, utilise a comprehensive range of technologies, and serve a base of approximately 2.5 million customers (equity adjusted). CWGMo also directs and executes the Group's business development activity for mobile opportunities globally.

CWGMo aims to maximise the performance of the Group's mobile businesses through a comprehensive management programme. Operational reviews ensure that CWGMo takes a leading role in strategic and day-to-day planning, identifying key success factors and sharing expertise in order to increase efficiency, growth and revenue generation.

A central team of CWGMo experts works alongside the businesses driving best in class performance. This team focuses on products and services development and planning and strategy. It also provides technical support to promote the relevant network, IT and billing systems and call centre management. CWGMo provides marketing expertise in areas such as customer retention, pre-paid development and branding.

OTHER OPERATIONS IN THE REST OF THE WORLD

The following table summarises other branches, subsidiaries and equity investments the Group has in the rest of the world.

Region/Country	Company	Equity interest	Principal operation
Japan	Cable and Wireless (Japan) Limited	100%	Representative office
	Cable & Wireless Japan Communication Service Ltd	89%	Callback, Internet and data services
	Tokyo Digital Phone Co Ltd	8%	Regional mobile operator
	Kansai Digital Phone Co Ltd	7%	Regional mobile operator
	Central Japan Digital Phone Co Ltd	7%	Regional mobile operator
	6 Digital TU-KA companies	2.5% of each	Regional mobile operator
	NTT Personal Communications Network companies	5%	Personal Handyphone Systems
Far East Russia	Sakhalin Telecom	60%	International telecommunications
	Sakhalin Telecom Mobile	61%	Mobile operator
	Sakhalinsvyaz	38%	Domestic telecommunications services
	Nakhodka Telecom	60%	International services in Nakhodka and Vladivostok
Atlantic Islands		Branches	Exclusive domestic and international telecommunications services on Ascension Island, Falkland Islands and St Helena
Bahrain	Bahrain Telecommunications Company B.S.C.	20%	Exclusive domestic and international telecommunications services
Diego Garcia		Branch	Exclusive domestic and international telecommunications services
Fiji	Fiji International Telecommunications Limited	49%	Exclusive international telecommunications services
Maldives	Dhivehi Raajjeyge Gulhun Private Limited	45%	Exclusive domestic and international telecommunications services
Pakistan	Paktel Ltd	80%	Mobile operator
Seychelles	Cable & Wireless (Seychelles) Limited	100%	Exclusive domestic and international telecommunications services
Solomon Islands	Solomon Telekom Company Limited	42%	Exclusive domestic and international telecommunications services
Tonga		Branch	Exclusive international telecommunications services
Vanuatu	Telecom Vanuatu Ltd	33%	Exclusive domestic and international telecommunications services
Vietnam		Branch	Contract to install 250,000 lines in Hanoi
Yemen	Yemen International Telecommunications Company	51%	Exclusive international telecommunications services
World-wide	INTELSAT	3.35% Quota	Satellite operator
	INMARSAT	1.53% Quota	Satellite operator
	Gemini Submarine Cable System Limited	50%	Cable construction and operation across the Atlantic

RESEARCH AND DEVELOPMENT

GENERAL

Technical development is an important part of upgrading and improving the Group's networks. Included within capital expenditure for the year ended March 31st 1998 is £19m (1997–£103m) of technical development which formed an integral part of capital projects.

The Group continues to maintain associations with and support key universities and research institutions around the world which have relevant research capabilities. For example, the Group has access to the telecommunications research establishments of Nortel Technology and Bell Communications Research. Costs charged to operating profit, including the cost of Group Development programmes and the support for research institutions, amounted to £7m for the year ended March 31st 1998 (1997–£16m).

GROUP DEVELOPMENT

The responsibilities of Group Development include the management of strategic partnerships with suppliers and technology planning for the Group. A key objective of Group Development is to identify and manage those programmes for products and services which are best managed group-wide, facilitating them through Group funding and central programme management. Group Development is managed by a Board comprising senior representatives of the companies participating in Group Development programmes.

Group Development is also responsible for the Millennium Compliance programme throughout the Group.

Funding for Group Development in 1998 was provided by contributions agreed with the participating companies prior to the commencement of each financial year. Much of this funding is returned to the participating companies to support programme activities that are performed in those companies.

The Company is now moving towards having all intellectual property owned at Group level with a proposal that Group Development be responsible for its development. Under this approach Group Development programmes will be funded by the Company centrally. Development contracts will be placed with the Business Units and investment will be recovered by the Company via royalty and licence fees paid by the Business Units.

EMPLOYMENT POLICIES

Throughout the year ended March 31st 1998 the Group had on average 46,550 employees. The Group operates throughout the world and therefore has developed employment policies that meet local conditions and requirements. These policies are based on the best traditions and practices in any given country in which it operates. The Group continues to give particular attention to the 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 global telecommunications group, great emphasis is placed on effective employee communications and direct communication programmes have been established. The Group continues to initiate surveys which deal with employees' views and monitors progress regularly. It considers the establishment of the right priorities and environment for people essential for their performance and development and to the future of the Group.

COMPETITION

The Group provides international and domestic telecommunications services under exclusive licences in the majority of the jurisdictions in which it operates. The Group operates under non-exclusive licences in a number of jurisdictions, including the United Kingdom, the United States, Japan and Australia, where competition in the telecommunications industry is promoted as a matter of government policy. Other jurisdictions may also decide to promote competition, and there can be no assurance that any of the Group's existing exclusive licences will be renewed on an exclusive basis or that Governments will not seek to withdraw their exclusivity. See "Regulatory Framework".

HONG KONG

The Hong Kong telecommunications market has evolved from an environment in which local services were provided by Hong Kong Telephone under an exclusive franchise to one in which there are a number of local fixed line carriers, mobile carriers and service providers. The market for external service is now undergoing a similar, but more significant, transition. On January 20th 1998 Hongkong Telecom entered into the Framework Agreement with the Hong Kong Government for the early surrender of the HKTI Licence in return for a package of compensation measures. The Framework Agreement provides for the introduction of competition for external services from January 1st 1999 and for facilities-based competition from January 1st 2000. See "Hong Kong – HKTI Description of Business – Telecommunications Services" and "Hong Kong – HKTI Description of Business – Competitive International Services".

Telecommunications services may only be provided in Hong Kong under licences granted by the Hong Kong Government pursuant to the Telecommunication Ordinance. The competing licensees include carriers who are licensed to establish significant public telecommunications infrastructure in Hong Kong (principally HKTI, Hong Kong Telephone, the FTNS Licensees, the PMRS Licensees and the PCS Licensees) and service providers (principally the PNETS Licensees) who are licensed to establish limited facilities and to supply retail services using the networks of the carriers.

In its policy statement issued on January 20th 1998 following the signing of the Framework Agreement, the Hong Kong Government indicated that the number of PNETS licences to be issued for the supply of international telephony services was not likely to be limited. The Hong Kong Government also stated its intention to amend the scope of the licences held by the existing FTNS Licensees to include the provision of external services from January 1st 1999 and external carrier facilities from January 1st 2000. The Hong Kong Government's policy on the number of carrier licences is the subject of a review which is expected to be completed in the third quarter of 1998. That review may result in the issuing of further FTNS and other non-exclusive carrier licences for the provision of external and local fixed network telecommunications facilities. The number of PNETS licences are unlimited and they are available on application.

Below is an overview of the current licensees and of the industry in Hong Kong:

- Exclusive International Carrier – HKTI has rights to provide on an exclusive basis, until the relevant liberalisation dates, and non-exclusively thereafter, a number of international telecommunications circuits and services under the Amended HKT Licence. See "Hong Kong – HKTI Description of Business".

- Local Fixed Line Carriers – Local fixed line network infrastructure transmission services are provided by Hong Kong Telephone and the FTNS Licensees. See "Hong Kong – Hong Kong Telephone Description of Business".

- Local Mobile Carriers – Local mobile cellular network and services currently are supplied by the PMRS Licensees and the PCS Licensees. Telecom CSL holds a PMRS licence and competes in cellular mobile services markets in Hong Kong. See "Hong Kong – Telecom CSL Description of Business".

- Local Radiocommunications Service Providers – There are currently a large number of paging operators in Hong Kong who hold Radio Paging Systems licences. The Hong Kong Government has invited tenders for cordless access service licences and a decision on their issue of these licences is pending. See "Hong Kong – Telecom CSL Description of Business" and "Hong Kong-Hong Kong Telephone Description of Business".

- International and Local Service Providers – Service providers holding the appropriate PNETS licences may provide non-exclusive international services using international circuits supplied by HKTI and local telecommunications services in Hong Kong using the switched and leased capacity of Hong Kong Telephone and the FTNS Licensees. For example Hong Kong's Internet access providers, including HKTIMS, must hold a PNETS licence. Providers of VPN services in Hong Kong must also hold a form of PNETS Licence. See "Hong Kong – HKTI Description of Business" and "Hong Kong – Hong Kong Telephone Description of Business".

- Wireline Pay Television Service Providers – Wharf Cable Limited is currently Hong Kong's only provider of wireline pay television services and the Hong Kong Government has stated that it does not intend to issue further licences of this type until 1998 at the earliest.

In addition to the telecommunications licences set out above, a number of video content services using telecommunications infrastructure require additional licensing under the Television Ordinance, including the supply of pay television, VOD and other broadcasting services. HKTVOD received a VOD programme services licence on February 11th 1998. See "Regulatory Framework – Regulatory Regimes – HKTIMS Regulatory Regime". Direct broadcasting via satellite is currently regulated under uplinking licences issued under the Telecommunication Ordinance.

UNITED KINGDOM

THE UK TELECOMMUNICATIONS AND CABLE TV MARKETS

The UK Telecommunications Industry

Since the abolition of BT's monopoly in 1982 the UK telecommunications market has grown both in terms of the actual number of subscribers and usage. The high degree of competition in the market, coupled with regulatory initiatives, has resulted in significant price reductions for consumers as well as an increased focus on product diversity and quality of services.

C&W Comms believes the total UK market for telecommunications services will continue to grow as a result of increased competition to deliver improved and new services to both business and residential customers at competitive prices. It also believes that among its present competitors, only BT possesses the network capability to compete effectively in all segments of the UK telecommunications services market. In addition, C&W Comms believes that few of its other potential competitors will develop and operate their own fully integrated national or regional networks capable of providing the broad range of telecommunications and television entertainment services offered by C&W Comms. Accordingly, C&W Comms believes there will be a limited number of competitors capable of offering a broad range of services under a single national brand at competitve prices.

C&W Comms operates in highly competitive markets. Several of C&W Comms' existing and potential competitors have greater financial resources than C&W Comms. C&W Comms' most significant competitor, BT, is the dominant force in the UK telecommunications market. Other major competitors include AT&T, its World Partners alliance and the Global One alliance among France Telecom, Deutsche Telekom and Sprint (both such alliances specifically address the multinational corporate market), and MFS/WorldCom (with MCI expected to merge with WorldCom before the end of 1998), which also competes for corporate customers, as do Energis, Colt and ACC. BT and AT&T have announced their intention to combine their multinational corporate businesses and AT&T has indicated it will withdraw from World partners. If implemented, it is expected that this development will further enhance the competitive strength of BT. The UK telecommunications and cable television markets are also expected to experience further consolidation which, combined with the emergence of new domestic and international alliances, is also likely to increase the competition faced by C&W Comms.

As of March 1998, telecommunications licences have been granted to over 200 operators, ranging from PTOs, cable companies, ISR operators and international facilities operators, through to those operators providing SMATV, wireless local loop, satellite services, cellular telephony, public access mobile radio and private networks.

Of these licences, over 140 were granted to cable companies (including the Cable Cos) which are licensed to install and operate telecommunications systems in specified franchise areas and to provide a full range of telecommunications and broadcasting services (other than mobile services) within their licensed areas. The ITC's historic policy was to grant only a single licence for the provision of cable television services to dwelling houses in each geographical franchise with the result that cable companies currently have the exclusive right to provide such services in their franchise areas. HM Government confirmed in April 1998, however, that while this policy will continue until January 1st 2001 in existing franchise areas, after that date national PTOs, such as BT, will be allowed to provide entertainment services in all parts of the United Kingdom. Outside of existing franchise areas, the ITC will relax its policy immediately and national PTOs will be able to apply to serve those areas. BT has indicated publicly that it has no plans currently to provide broadcast entertainment services on a national basis. No such exclusivity exists in relation to telephone services or in relation to delivery of pay television services by other means such as DTH satellite. Service is now being offered or rolled out in the vast majority of the cable television franchise areas.

Mercury Data Network Services was licensed to provide ISR services on September 11th 1995 – this licence has recently been replaced by an ISVR licence. On June 6th 1996, HM Government announced the liberalisation of facilities based services on all international routes that are provided over systems connected to international cables or gateways leading into international cables. This signalled the end of BT and Mercury's duopoly over international facilities based services. In excess of 80 IFLs have been granted (including one to Videotron). See "Regulatory Framework – Regulatory Regimes – United Kingdom – UK and European Telecommunications Regulation of C&W Comms."

Cable TV Industry

Important factors which affect the success of a cable TV business are: the general demographics of the area in which the services are being provided (i.e. the desire and ability to pay for enhanced television services) the quality and range of the programming available over the cable TV network and the competitive advantages of cable TV (including pricing) over other multichannel distribution methods.

BSkyB

Despite each cable franchise licence giving a cable company a monopoly on service provision rights within the relevant franchise, competition still exists from other sources. Currently the most significant competitor in the multichannel television market is BSkyB, which offers DTH satellite television services and, therefore, does not require a cable TV network. A DTH customer must either purchase or rent a satellite dish and a receiver/decoder (a set top box) and pay subscriber fees to BSkyB for a card which, inserted in the decoder, decodes the satellite signal. Although BSkyB's DTH service currently presents substantial competition to C&W Comms' cable TV services, C&W Comms believes that cable TV has a number of competitive advantages over DTH systems. First, for a subscriber with more than one television, cable TV is significantly more economical in providing service to the additional sets than DTH. Second, installation of satellite dishes may require planning permission from local authorities. Third, satellite dishes must be installed with a line of sight orientation toward the transmitting satellite which limits or precludes placement options, particularly in urban areas, and can result in aesthetic objections to installation. Fourth, DTH subscribers who purchase, as opposed to rent, their satellite dishes must arrange and pay for any maintenance or servicing required for the dishes. Fifth, C&W Comms believes that, without substantial improvements in existing technology, BSkyB will not be able to offer integrated telephone services over its satellite network.

C&W Comms expects BSkyB to provide substantial competition for the foreseeable future and no assurance can be given that it will not become an even stronger competitor especially following the launch of BSkyB's digital satellite offer expected in 1998 or that C&W Comms will be able to compete successfully with BSkyB. A significant factor in BSkyB's favour is its role as sole supplier of many popular cable TV programmes carried by the Cable Cos. BSkyB has given undertakings to the OFT in respect of its terms of supply of programming to cable companies. However, if, in the future, BSkyB chooses to restrict the programming it makes available to cable companies or offers such programming to cable companies at prices relatively higher than those it currently charges, C&W Comms believes that its cable TV business could be at a significant competitive disadvantage. C&W Comms has recently entered into a short term, non-exclusive agreement with BSkyB covering, amongst other things, the terms of supply by BSkyB of programming for digital and analog PPV and cooperation on the launch and marketing of digital television services. BSkyB's position may be further strengthened in view of its potential ability to control the conditional access technology which is required to gain access to digital television services. Other than the considerations noted above, DTH is currently more readily available than cable TV as BSkyB is competing with generally incomplete cable TV networks and can also provide services in, for example, rural areas more readily. C&W Comms believes that if the costs of purchasing DTH equipment together with the associated maintenance costs are taken into account, then cable TV is generally cheaper than the equivalent DTH service.

In November 1996, the ITC commenced a consultation process which requested comments on the manner in which television channels are currently bundled together for wholesale to cable TV and DTH customers and sought views on whether there are ways of providing programmes at a retail and wholesale level in a less restrictive manner without undermining the economics of provision. In August 1997 the ITC announced its decision to extend this consultation into a second phase and its provisional conclusions were published in April 1998. See "Regulatory Framework – Regulatory Regimes – United Kingdom".

Digital Television

Digital television is expected to provide a wide range of additional services. Its impact will be significant as many more digital channels will be able to be transmitted in a frequency range that previously could carry only one analogue channel. This combining of channels in the same frequency range is known as multiplexing. Because affordable digital TV sets are not yet readily available it is likely that digital television will initially be received through a set top box containing a processor that can decode and decompress scrambled signals and convert them to analogue form.

BSkyB has formed a consortium, British Interactive Broadcasting, with BT, Midland Bank plc and Matsushita to operate an interactive services platform. This will give digital satellite customers access to a range of interactive services. BIB will also subsidise the retail price of digital satellite set-top boxes. No agreement exists between C&W Comms and BIB for the distribution of these services on C&W Comms' network, nor is it clear how easy it will be to translate these services to enable reception on C&W Comms' set-top boxes if C&W Comms chooses to distribute them. The BIB joint venture parties have applied to the European competition authority, DGIV, for clearance to do business.

The 1996 Broadcasting Act laid down the regulatory framework for Digital Terrestrial Television in the UK. The long term goal of DTT is to replace analogue terrestrial broadcasting with digital broadcasting within 15 years. Under the Broadcasting Act, the six available multiplexes would be given to the existing terrestrial broadcasters (BBC, ITV, Channels 4&5, S4C and Teletext Ltd) and to other applicants.

In December 1997, the ITC awarded the 12 year franchise for operating three of the six multiplexes to British Digital Broadcasting. British Digital Broadcasting is a consortium owned by Granada and Carlton, two of the largest regional ITV broadcasters. A further licence was awarded to SDN Limited on May 26th 1998, a consortium made up of NTL Incorporated, S4C and United News and Media. BDB's multiplexes along with the other multiplexes will offer customers with DTT receivers approximately 30 new television channels.

Approximately eight of the channels on DTT will be available to customers free of charge once they buy a receiver. Channels from BDB will be available on subscription. BDB are expected to subsidise the cost of set top boxes to under £200 and services are expected to be launched before the end of 1998. These DTT services are likely to be significant competition for cable TV as BDB and SDN are likely to be targeting the same potential customers as C&W Comms.

C&W Comms believes that, to the extent that DTT creates more programming content, it may be a benefit to the multichannel television industry as a whole. However, no assurance can be given that DTT will not become the preferred multichannel television technology in the future, thereby rendering cable TV systems less profitable and less viable. See "– Cable Television Industry" and "Regulatory Framework – Regulatory Regimes – United Kingdom – Digital Broadcasting".

PTOs

HM Government has recently reviewed the broadcast restrictions on BT and the other national PTOs. BT (and all other national PTOs) will now be allowed entry to the Cable TV Franchise sectors of the nationwide entertainment market from January 2001, while currently unfranchised areas will be let on a non-exclusive basis going forward with national PTOs being able to provide services in these areas. Since March 1994, BT and other national PTOs have ceased to be prohibited from bidding for these franchise licences despite the restrictions on their ability to provide nationwide broadcast entertainment services. As a result, however, of the transmission capacity limitations of twisted pair copper wires historically used in BT's telecommunications network, particularly between its local distribution points and its customers' homes, and the age and condition of older portions of BT's network, C&W Comms believes that, unless substantial improvements are made in digital compression or other technologies, BT may not be able to provide a national broadband cable television service comparable to that offered by the Cable Cos without substantial capital investment. Furthermore, BT has publicly indicated that it currently has no plans to provide broadcast entertainment services on a nationwide basis.

On September 29th 1993, the ITC issued a statement in which it took the position (shared by Oftel and the DTI) that BT and the other national PTOs may provide VOD services under their existing national PTO licences. The Cable Cos similarly are not prevented from providing VOD services within their franchise areas. In order to offer VOD services on a broad scale, C&W Comms believes that BT would have to upgrade its existing telecommunications switches and to install video distribution facilities. As discussed in "Regulatory Framework – Regulatory Regimes – United Kingdom – Broadcasting Regulation – Cable TV Licences", BT conducted a trial of a VOD system in the towns of Ipswich and Colchester (which are not within the cable TV franchise areas of the Cable Cos) in 1996/7 in collaboration with BSkyB and has undertaken trials in Westminster but has not yet offered the service in other areas. C&W Comms is unable to assess fully the technical feasibility or timing of BT or any other provider offering VOD services. No assurance can be given that VOD will not provide substantial competition to C&W Comms in the future.

Other Competitors to Cable TV

In addition to the then existing UK terrestrial channels (BBC1, BBC2, ITV and Channel 4), a new terrestrial channel, Channel 5, began broadcasting in March 1997. C&W Comms does not believe the introduction of Channel 5 had a significant impact on its business as the introduction only made terrestrial television marginally more attractive to viewers. Channel 5 has only been allocated a limited range of frequencies to broadcast its service and is only available to approximately 74 per cent of the UK population through terrestrial distribution. For some homes, Channel 5 is only available by subscribing to cable or DTH satellite. C&W Comms intends to monitor closely all relevant technological developments and, where possible, to position itself to remain competitive.

Competition Law Reform

In August 1997, HM Government published its proposed Competition Bill for public comment. Legislation was subsequently proposed and it is expected that the proposal will become law by the end of 1998. The new rules would then enter into force twelve months after the Bill has become law. Under the terms of the proposed legislation, a general prohibition on anti-competitive agreements and practices and on abuses of dominance would be introduced. These provisions would largely mirror those already applicable under European law, namely Articles 85 and 86 of the Treaty of Rome. If passed into law, a new Competition Commission, into which the existing Monopolies and Mergers Commission would be merged, would be established with the power to fine infringing parties up to 10 per cent of their total UK turnover. A notification procedure would also be introduced under which parties could apply to the Competition Commission for exemption of their agreements from the prohibition. Like European law, there would be no exemption available for abuses of dominance. The Restrictive Trade Practices Act 1976, which requires registration of certain agreements containing restrictions and the Resale Prices Act 1976, which prohibits resale price maintenance, would be repealed.

REGULATORY FRAMEWORK

GENERAL

The telecommunications sector in most countries is subject to a greater degree of regulation than other industry sectors. This reflects the public service nature of telecommunications and, often, the structured move towards competition in the telecommunications sector. Accordingly a discussion of the various regulatory frameworks in which the Group operates is necessary for a proper understanding of the environment in which the Group conducts its business.

The Group operates under licences issued by national governments. These licences are either held by the Company itself or by local operating entities owned either wholly or partly, directly or indirectly, by the Company. In the case of local operating companies, the Company is most often a joint owner, sharing ownership either with the government concerned, or other private sector parties. If the Group does not provide both domestic and international telephone or telecommunications services for a particular territory, the Group or its associated company has arrangements with the domestic telecommunications administration covering the interconnection of calls and apportionment of revenues.

The licences of the Group are a mixture of exclusive, and non-exclusive licences and reflect existing government policy in the relevant jurisdictions. They generally give rights to provide specified services, and remain in effect for a fixed period of between 10 and 25 years or for an indefinite period, subject to notice of termination after a minimum period. Licence fees are sometimes required, either as a fixed annual fee or a fee equal to a percentage of the revenue arising from the licence.

Some licences provide that, upon their termination, the overseas government may purchase, or have the option to purchase, the property, plant and equipment of the licensee in that territory. In some cases where the Group owns an operating company jointly with an overseas government, that government has the right to purchase, at specified times, the whole or part of the Group's shareholding in the operating company.

Although telecommunications regulation is primarily jurisdiction specific, there are a number of regulatory issues which are international in their formulation and implementation. For example, in recent years the ITU, OECD and the FCC have sought the revision of the international accounting rate system which governs the amounts paid to the international operators for termination of international calls. Accounting rates on routes between many jurisdictions are now seen to be significantly above cost and the FCC, for one, has set a goal of cost based, non-discriminatory international accounting rates for common carriers to and from the United States.

On January 1st 1998 the FCC Report and Order implementing proposals outlined in its Notice of Proposed Rule Making became effective. The FCC has directed that reductions be applied to the prices US licensed carriers pay to foreign carriers for terminating US calls overseas. The Order categorises countries into four bands by their level of economic development and establishes new cost based benchmark settlement rates for each country category and a time frame in which these benchmarks must be reached, with a transitional period of proportionate reductions. Higher benchmark rates and longer transition periods apply to less developed countries.

The Order requires certain actions by US international carriers and imposes restrictions on US licensees with effect from January 1st 1998. These initiatives include:

- US international carriers are directed to negotiate settlement rate agreements that provide for a fixed expiry date and to settle at a rate that is no higher than the relevant benchmark rate.
- US licensees who have or who are seeking authorisation to provide an international facilities based service from the US to an affiliate in a foreign market, will be subject to a condition that the affiliate offer US licensed carriers a settlement rate within the FCC benchmark range.

The Company supports rationalisation of the international settlement rate system provided that it is agreed in a multilateral forum. The Company, supported by other international carriers and national governments, has opposed the unilateral approach of the FCC and has proposed a multilateral reform of the settlement rate system. The FCC has stated that it may refrain from enforcing the Order if a multilateral solution is produced to its satisfaction that results in substantially equivalent results. See "Item 3 – Legal Proceedings – Other".

It is anticipated nevertheless that with the liberalisation of the international facilities based telecommunications market in the United Kingdom and liberalisation in the European Union, United States, Canada, Australia and New Zealand, the system of parallel accounting and proportionate return will be replaced on these routes with full competition for tariffs and traffic flow.

REGULATORY REGIMES

HONG KONG

INTRODUCTION

Telecommunications services may only be provided in Hong Kong under licences granted by the Hong Kong Government or the Telecommunications Authority pursuant to the Telecommunication Ordinance. The competing licensees include carriers who are licensed to establish public telecommunications infrastructure in Hong Kong and service providers who are licensed to establish limited facilities and to supply retail services using the networks of the carriers.

The Hong Kong telecommunications market has evolved from an environment in which local telecommunications services were provided by Hong Kong Telephone under an exclusive franchise to one in which there are a number of local fixed line carriers, mobile carriers and other value added service providers. The market for international services is now undergoing a similar, but more significant, transition. On January 20th 1998 Hongkong Telecom entered into the Framework Agreement with the Hong Kong Government for the early surrender of the HKTI Licence in exchange for a package of compensation measures. The Framework Agreement provides for the introduction of competition for international services from January 1st 1999 and for facilities-based competition from January 1st 2000.

On January 20th 1998, immediately following the signing of the Framework Agreement, the Hong Kong Government issued a policy statement in which it indicated that the number of licences to be issued for the supply of international telephony services (through, for example, ISR) was not likely to be limited. The Hong Kong Government also stated its intention to amend the scope of the licences held by the existing FTNS Licensees to include the provision of international services from January 1st 1999 and carrier facilities from January 1, 2000. The Hong Kong Government's policy on the number of carrier licences is the subject of The Fixed Telecommunications Review which is expected to be completed by the end of 1998. That review may result in the issuing of further FTNS licences and other non-exclusive carrier licences for the provision of international and local fixed network telecommunications facilities. The number of PNETS licences is unlimited and they are available on application.

As a result of the Hong Kong Government policy reviews described above, it is likely that there will be increased convergance between the telecommunications and television broadcasting industries in Hong Kong, which will be reflected in a significantly changed regulatory regime.

Legislation

The Telecommunication Ordinance contains provisions with respect to the licensing and control of telecommunications, telecommunications services and telecommunications equipment in Hong Kong, including powers for the Chief Executive in Council and, subject to subsidiary legislation which may be made by the Chief Executive in Council, the Telecommunications Authority, to grant licences in respect of telecommunications services in Hong Kong. The Telecommunication Ordinance prohibits the establishment or maintenance of any means of telecommunication, the possession or use of radiocommunication apparatus and dealing in radiocommunication equipment in Hong Kong except under and in accordance with a licence granted by the Chief Executive in Council or the Telecommunications Authority.

The Telecommunication Ordinance also provides for the terms and conditions of licences granted and for the payment of fees, royalties and other charges. A licence granted under the Ordinance may at any time be cancelled or withdrawn, or suspended for a period not exceeding 12 months in the event of any contravention by the licensee of the Telecommunication Ordinance or of any condition to which the licence is subject. Any licence granted under the Telecommunication Ordinance may be cancelled or suspended at any time by the Chief Executive in Council if he considers that the public interest so requires.

On August 13th 1996 the Hong Kong Government released, for industry comment, a consultation draft of a bill to amend the Telecommunication Ordinance. A further amended draft was released for comment in January 1997. The draft bill was not introduced into the Legislative Council prior to the change of sovereignty on July 1st 1997 and therefore lapsed. In the consultation papers for the Telecommunications Review, those and other amendments to the Telecommunications Ordinance are proposed. The proposed amendments include a number of provisions which are currently only included in the FTNS licences such as facilities sharing obligations, accounting and reporting requirements, tariffing requirements and provisions prohibiting anti-competitive practices, abuse of dominant position, misleading conduct and discriminatory supply by a dominant carrier. In addition it is proposed that the Telecommunications Authority be given the power to give directions in relation to accounting rates, to issue class licences, to set technical standards, to manage the radiocommunications spectrum, and to determine the terms of supply of unbundled network elements between carriers (in addition to interconnect). Internal building wiring may also be compulsorily acquired by building owners. In addition, proposed amendments would provide a right of private action in the event of breaches of the Telecommunications Ordinance.

HKTI

HKTI Regulatory Agreement

On December 3rd 1987, CWFE, the Company, FSI, the Hong Kong Government, HKTI and Hongkong Telecom entered into an agreement, which became unconditional on January 28th 1988. Pursuant to the Framework Agreement, the HKTI Regulatory Agreement will be terminated with effect from January 1st 2000. For as long as the HKTI Regulatory Agreement is in effect, the Company and/or CWFE must retain ultimate beneficial ownership of shares in Hongkong Telecom carrying the right to exercise more than 50 per cent of the votes ordinarily exercisable at general meetings of Hongkong Telecom, except in the case of transfers made with the prior written consent of the Hong Kong Government and certain transfers of shares in Hongkong Telecom within the group of companies of which the Company is a member.

The HKTI Regulatory Agreement also contains provisions restricting the transfer by Hongkong Telecom of the share capital of HKTI, or the issue of share capital by HKTI, the composition of the Board of Directors of HKTI, any sale or other disposal by HKTI of its business property or assets whether in whole or in material part and limitations on HKTI's borrowings.

The HKTI Licence

The HKTI Licence was granted on October 1st 1981 by the Hong Kong Government pursuant to the terms of the Telecommunication Ordinance. Under the HKTI Licence, HKTI had the exclusive right until September 30th 2006 to provide, on an exclusive basis certain circuits and services that are external to Hong Kong.

On January 20th 1998 Hongkong Telecom, HKTI, Hong Kong Telephone and HKTCAS entered into the Framework Agreement with the Hong Kong Government for the early surrender of the HKTI Licence in return for a package of compensation measures.

Pursuant to the Framework Agreement, the HKTI Licence was surrendered on March 31st 1998 and at that time the scope of Hongkong Telecom's FTNS Licence was amended to include the provision of external services and circuits. The requirement that Hong Kong Telephone and HKTI remain structurally separated was removed. The Amended HKT Licence is held jointly and severally by Hong Kong Telephone, HKTI and a new holding company, HKTCAS which are jointly and severally liable for all the obligations under that licence. Although the Amended HKT Licence is non-exclusive, under the Framework Agreement, competition for external telecommunications services will be introduced with effect from January 1st 1999 and competition for external telecommunications facilities will be introduced with effect from January 1st 2000.

Retail Charges

HKTI's range of charges for its exclusive services is subject to maximum price regulation and increases above the maximum are subject to approval by the Telecommunications Authority, who may also from time to time require HKTI to review its charges. The approval of and any such review of HKTI's charges are at the discretion of the Telecommunications Authority.

Royalty

HKTI was required to pay a royalty to the Hong Kong Government at a fixed percentage of the net receipts of HKTI derived from its provision of the exclusively licensed services, except for receipts derived from transit services. The Framework Agreement provided for the royalty payable by HKTI on its exclusive rights of licence to cease with effect from January 20th 1998.

Interconnect

Under the Amended HKT Licence, HKTI is required to interconnect its network with the networks of local operators in Hong Kong. That interconnection must be in accordance with such standards as may be specified by the Telecommunications Authority as necessary to provide efficient telephone communications and other telecommunications between Hong Kong and external points. Under the Telecommunication Ordinance the Telecommunications Authority may set the terms and conditions for the interconnection of HKTI's telecommunications systems and services with the telecommunications systems and services of any other licensee in Hong Kong. Terms and conditions of interconnection are agreed by direct negotiation between HKTI and the operators of such other networks. In the event that agreement cannot be reached through such negotiation, the Telecommunications Authority will intervene to determine the relevant terms.

The delivery fee determination dated September 29th 1995 was made pursuant to the Telecommunications Authority's interconnection powers under the Telecommunication Ordinance and sets the access charges payable to Hong Kong Telephone, the FTNS Licensees and the PMRS Licensees for the local delivery of international telephone calls. See "Hong Kong – HKTI Description of Business – International Telephone Services". The current per-minute delivery fees are valid from October 1995 for a period of 5 years – China Short Haul HK$0.63, China Long Haul HK$1.60, and Rest of World HK$2.23 and apply to all of the FTNS licensees, PMRS licensees and PCB licensees. HKTI does not currently directly connect to the networks of other licensees.

With the introduction of competition for external services commencing January 1st 1999, together with the global downward trend of international accounting rates, the current revenue sharing mechanism of the delivery fee will no longer be sustainable. In February 1998, OFTA issued a consultation paper on reforming the delivery fee structure. This review is expected to be completed by the third quarter of 1998.

HONG KONG TELEPHONE

The Amended Hong Kong Telephone Licence

All of the FTNS licences contain the same terms and general conditions but include different special conditions. However, only Hong Kong Telephone is currently subject to dominant carrier provisions in the FTNS licence in those markets in which it is deemed to be dominant. Currently, Hong Kong Telephone is deemed to be dominant in all the markets for the provision of fixed telephone services in Hong Kong.

The dominant carrier provisions of the Amended Hong Kong Telephone Licence include requirements for Hong Kong Telephone to have approved and to publish all of its tariffs (including any discount methodologies), to provide a full range of accounting information to the Telecommunications Authority and to abide by regulations forbidding abuse of a dominant position. A non-dominance declaration in a relevant market is an important development for Hong Kong Telephone as it will allow pricing flexibility for Hong Kong Telephone to engage in fair and effective competition in the external call services market. In June 1997, Hong Kong Telephone made an application to the Telecommunications Authority to be declared non-dominant in the external business call market on the basis that its market share in that market was below the 75 per cent threshold for presumed dominance. Following an extended period of industry consultation, in November 1997 OFTA rejected Hong Kong Telephone's petition on the grounds that there is no valid distinction between the business and residential markets for external calls. OFTA invited Hong Kong Telephone to resubmit its non-dominance application on the basis of the combined business and residential market.

Hong Kong Telephone resubmitted its application in December 1997 for non-dominance in the entire external call services market. OFTA initiated a fresh round of consultation to seek industry comments but finally rejected application in May 1998. The reasons cited by OFTA for its rejection were high market concentration by Hong Kong Telephone; alleged anti-competitive activities by Hong Kong Telephone in other markets; and declining rate of market share erosion. Hong Kong Telephone does not believe these grounds provide a proper basis for rejection and filed a request for reconsideration on July 15th 1998. This was rejected by OFTA on September 14th 1998.

Hong Kong Telephone's special conditions under the Amended HKT Licence include a USO that covers the provision of a public switched telephone service including service connection and the provision of a dedicated telephone number, a standard handset and ancillary services including directory listing and a reasonable number of public payphones. The special conditions of the licences granted to the other FTNS Licensees include obligations to establish specific network infrastructure.

Retail Pricing

Prior to the execution of the Framework Agreement, Hong Kong Telephone was subject to strict price controls under the regulations promulgated under the Telephone Ordinance. The Framework Agreement provides for removal of these price controls. Specifically, the restrictions on business exchange line tariffs were removed with effect from July 1st 1998. In addition, Hong Kong Telephone will be allowed to phase increases to its residential line rental charges over a period of three years from January 1st 1999, subject to an accelerated rollout of unbudled local loop to other FTNS Licensees. All of the present restrictions on residential line rental charges will cease from January 1st 2001. Hong Kong Telephone has agreed to limit price increases for a basket of other services to Consumer Price Index minus 4 until January 1st 2000 when this arrangement will be reviewed.

Notwithstanding removal of the statutory price controls which previously applied, Hong Kong Telephone may not, so long as it is the dominant supplier of a service, offer to supply its service at more or less than its approved tariff rates and any discounting methodologies must be approved by the Telecommunications Authority. Under the Amended HKT Licence, the Telecommunications Authority has the discretion to disallow variations in Hong Kong Telephone charges (both increases and decreases). The Telecommunications Authority must accept or reject tariff applications within a minimum time limit of 45 days for new services and charges and 30 days for revised services and charges. This disallowance power is only to be exercised in the event that the Telecommunications Authority considers that the proposed variation would contravene the competition provisions of the FTNS Licence.

Between July 1995 and July 1997 Hong Kong Telephone received tariff approval for a number of short term discounts but the Telecommunications Authority did not allow Hong Kong Telephone to introduce optional calling plans that offered volume discounts to customers. In July 1996 the Telecommunications Authority approved Hong Kong Telephone's optional calling plans for both business and residential customers. In late 1996 the Telecommunications Authority established a procedure for streamlined approval for Hong Kong Telephone's tariffs. This regime is intended to establish scope for acceptable Hong Kong Telephone discounting methodologies and to facilitate fast track approval for certain tariff applications. While Hong Kong Telephone has received some regulatory relief it will continue to be subject to pricing constraints that are less flexible than those imposed on the other FTNS Licensees, at least until it is declared non-dominant in the supply of the relevant service.

In April 1998, the Telecommunications Authority issued a direction to Hong Kong Telephone to refrain from offering certain discounts and bundled services that had not been approved by the Telecommunications Authority. On June 29th 1998 the Telecommunications Authority issued a further direction with respect to such practices, directed Hong Kong Telephone to withdraw all offers which had been made, and imposed a fine of HK$20,000.

Interconnection and Facilities Sharing

The Amended HKT Licence and the other FTNS licences incorporate certain reciprocal provisions. For example, Licensees are required to interconnect their services and networks with those of other fixed and mobile Licensees and HKTI. Hong Kong Telephone and the FTNS Licensees are also required to share certain facilities where sharing of those facilities is considered by the Telecommunications Authority to be in the public interest having taken into account a number of factors including whether the facility is a bottleneck, whether the facility has available capacity and the existence of technical alternatives for the facility.

The Amended HKT Licence and the other FTNS licences allow for intervention by the Telecommunications Authority if the terms of interconnection or facilities sharing cannot be agreed between the parties. To facilitate negotiations, the Telecommunications Authority published in the period from March to July 1995 ten statements under powers set out in the Telecommunication Ordinance outlining its current views on a number of interconnection, facilities sharing and related issues. These statements describe the manner in which the Telecommunications Authority may resolve certain issues if called upon to exercise its powers under the Telecommunication Ordinance.

Hong Kong Telephone concluded interconnect agreements with each of the FTNS Licensees between July and October 1995 prior to the proposed launch of each operator. The Telecommunications Authority has indicated that, in principle, access charges between Hong Kong Telephone and other carriers should be set at their long run average incremental cost. Local access charges paid by other licensees have typically been set at fully distributed cost. Following discussions with the Telecommunications Authority in early 1996 the then access charge arrangement between Hong Kong Telephone and the PMRS Licensees and the PNETS Licensees was reduced from HK$0.09 per occupancy minute to HK$0.067 per occupancy minute for the PMRS Licensees and HK$0.042 per occupancy minute for the PNETS Licensees. From June 1st 1998, these access charges were further reduced to HK$0.064 for the PMRS Licencees and the PCS Licensees and HK$0.033 for the PNETS Licensees.

On August 21st 1998 the Telecommunications Authority issued a determination of the FTNS interconnect charges payable between Hong Kong Telephone and New T&T Hong Kong Limited which will be applied on a retrospective basis in accordance with the commercial interconnection agreements, as follows:

	Charge per minute HK$		
	Period commencing July 1st		
	1995	1996	1997
Originating/terminating calls	0.049	0.041	0.034
Transit calls	0.021	0.028	0.027

The charges described above are to include both the charge for the time occupied by traffic on interconnected circuits and the charge for the call attempt to establish the interconnected circuits. In its determination, the Telecommunications Authority determined that for the period from July 1st 1998 to June 30th 1999 the occupancy charges and the per call attempt charges were to be separated and that different levels were to be charged for PSTN and ISDN traffic, to better reflect the causality of the underlying costs, as follows:

	Charge per minute HK$	
	July 1st 1998 to June 30th 1999	
	PSTN	ISDN
Originating/terminating calls		
Per call occupancy minute	0.022	0.022
Per call attempt	0.033	0.065
Transit calls		
Per call occupancy minute	0.019	0.015
Per call attempt	0.008	0.007

The Telecommunications Authority has encouraged the other two FTNS Licensees, Hutchison Communications Limited and New World Telephone Limited, to make reference to the levels of charges in the determination in their commercial negotiations with Hong Kong Telephone on interconnection charges.

Between July and September 1996, Hong Kong Telephone concluded agreements on a commercial basis with each of the FTNS Licensees for them to have access to Hong Kong Telephone's copper local lines between the local exchange and customer sites for voice and basic rate ISDN services. These agreements allow customers to switch their direct network connection between Hong Kong Telephone and the FTNS Licensees. The ability to provide a direct connection to customers utilising Hong Kong Telephone's network will enhance the potential of the FTNS Licensees to provide certain services to customers. There has not been widespread competition in the provision of basic services which Hongkong Telecom believes is primarily due to existing low prices charged for exchange lines which have historically been cross-subsidised by revenues from external call services. However, on a selective basis the FTNS Licensees may use these facilities to seek to gain a greater share of inbound delivery fees in respect of international calls and to provide new services that are facilitated by a direct network connection.

Pursuant to the Framework Agreement, as a condition for Hong Kong Telephone to be able to rebalance its local exchange line rental, Hong Kong Telephone has offered to make available local exchange lines at agreed exchanges covering at least a total of 50 per cent of residential exchange lines in Hong Kong to the other FTNS licensees by January 1st 1999 under the terms of existing commercial agreements. The endorsed offer was forwarded to the other three FTNS operators on March 24th 1998. However, only Hutchison Communications Limited has accepted Hong Kong Telephone's offer and New World Telephone Limited has requested that OFTA makes a determination. Hongkong Telecom is considering a legal challenge to OFTA's power to make such a determination.

Number Portability

The Telecommunications Authority has issued a direction to Hong Kong Telephone, under powers set out in the Telephone Ordinance and Hong Kong Telephone's FTNS licence, to provide fixed line inter-operator number portability. Such arrangements allow a customer to move from one FTNS network to another FTNS network while retaining the same telephone number. Inter-operator portability will be provided where the support systems are in place and where it is technically feasible to do so. Hong Kong Telephone is currently implementing the technical arrangements for such portability. Hong Kong Telephone has been providing geographic number portability to its customers since July 1995. This type of portability does not require the complex inter-operator systems and financial reconciliation of inter-operator portability.

The Telecommunications Authority has the power to give directions regarding the equitable sharing of the costs of number portability. In 1995, the Telecommunications Authority released an initial consultation paper on fixed line inter-operator number portability which contemplates per-line set up costs being charged by the licensee from whose network the number has been transferred. The proposed charge does not reflect the substantial amount of costs incurred by Hong Kong Telephone in implementing the number portability solution required by the Telecommunications Authority. Hong Kong Telephone has requested OFTA to make a determination and a statement was issued by OFTA in September 1997 that the cost be shared by the retail customer of telephone line services.

OFTA commissioned the National Economic Research Associates to study the issues of introducing Mobile Number Portability and proposed in early June 1998 that MNP by a distributed database solution (with FTNS operators providing the look-up service) be implemented from January 1999. Subsequently, OFTA appointed industry working parties to discuss the implementation of MNP and advise on the development of a code of practice for the implementation and facilitation of MNP. In late August, OFTA released a code of practice for the implementation of MNP, together with a direction to the FTNS Licensees, the PMRS Licensees and the PCS Licensees to facilitate MNP so that the code of practice can be fully complied with by March 1st 1999. The commercial arrangements for the implementation of MNP and the provision of database "look-up" services have yet to be determined.

Universal Service Obligations

In January 1998, OFTA issued a determination on the USO and calculated an annualised total net cost of HK$475 million for the period August 1996 to March 1997. The amount will be shared by the contributing parties in accordance with their external traffic minutes. An interim rate of HK$0.134 will be applicable to each external traffic minute for the period April 1st 1997 to July 31st 1998 until the 1997/98 USC is determined in August 1998.

The Information Technology and Broadcasting Bureau proposed in the Fixed Telecommunications Review which was issued in April 1998 to open USO, by geographical areas for public tender in 1999 after a trial run of USO tendering for public payphone services in 1998. The annual USC required for the payphones amounted to HK$74 million which is equivalent to a monthly average of around HK$2,000 per uneconomic payphone. Hong Kong

Telephone disagrees with the proposals of USO tender of public payphones in 1998, citing that it is premature due to a lack of competing infrastructure.

Based upon the agreed schedule of local tariff rebalancing with the Hong Kong Government in the Framework Agreement, it is anticipated that the significance of USC to Hong Kong Telephone will decline substantially as rebalancing of local exchange line tariffs is achieved.

HKTIMS – Regulatory Regime

In early 1996 the Hong Kong Government confirmed that it would amend the Television Ordinance to require the licensing of VOD services and that it would issue two such VOD programme services licences in 1997. The necessary amendments to the Television Ordinance were implemented in May 1997. A special purpose subsidiary of HKTIMS received a VOD programme services licence on February 10th 1998, at which time the Government stated that a decision on the award of a second licence would be deferred until the legal implications of civil litigation involving two of the other applicants had been assessed.

HKTIMS is currently subject to a separation and financial monitoring regime and there are special conditions in the HKTIMS licence to ensure that the market power possessed by Hong Kong Telephone is not abused to the disadvantage of other multimedia operators.

Wharf Cable Limited, a sister company of one of the FTNS Licensees, was granted a wireline pay television licence in 1993 which was to be exclusive until 1996. In March 1995, the Hong Kong Government extended this exclusive licence until July 1998 but, by virtue of a March 1996 court ruling, the licence does not extend to VOD services.

Provision of Internet access must be licensed as a telecommunications service by the Telecommunications Authority and HKTIMS was issued with a PNETS licence on April 10th 1996 for its *Netvigator* service. In March 1997, the Telecommunications Authority formed IIAC to advise it on the regulatory regime for broadband networks and services. The IIAC submitted its final report to the ITBB in May 1998. It is anticipated that the Television Policy Review will result in significant changes to the licensing regime for interactive multimedia services and that there will be greater convergence between the television broadcasting and telecommunications industries. Hongkong Telecom cannot yet make any assessment of the impact such changes may have.

UNITED KINGDOM

Introduction

The principal legislation which regulates the activities of C&W Comms in the United Kingdom is the Telecommunications Act, the Wireless Telegraphy Acts and the Broadcasting Act (the successor to the Cable and Broadcasting Act). Other legislation, such as the New Broadcasting Act, also has an impact on the activities of C&W Comms through the regulation of digital television services.

Mercury is licensed under the Telecommunications Act to operate its telecommunications systems and under the Wireless Telegraphy Acts to operate its microwave and satellite transmissions. The Cable Cos are licensed under: (i) the Broadcasting Act, which permits the holder to provide cable TV services to a specified franchise area; (ii) the Telecommunications Act, which allows the holder to construct and operate the physical network necessary to provide cable TV and telecommunications services in a specified franchise area; and (iii) in respect of NYNEX CableComms only, the Wireless Telegraphy Acts for microwave transmissions within its franchise areas.

The Telecommunications Act

There are two principal types of licence which may be granted under the Telecommunications Act to operate a telecommunications system: a class licence and an individual licence granted to a particular person.

The most important type of individual licence is the PTO licence under which operators are generally authorised to provide voice and data services over network infrastructure within the United Kingdom run by the licensee. Mercury and each of the Cable Cos have PTO licences. Until December 19th 1996, only BT and Mercury were authorised to provide international services over their own international fixed telecommunication systems. Certain PTOs were, however, authorised to provide ISR services under their PTO licences whereas other operators providing ISR services require separate ISR licences. Since then, over 80 licences have been granted which permit the provision of services over international facilities.

PTO licences contain a wide range of conditions designed, in particular, to ensure that all PTOs provide a basic range of telecommunications services and meet requests for interconnection with networks run by other licensees entitled to request interconnection. Cable companies' licences do not require them to provide voice telephony services until they become a "well established" operator (see below) but do require them to offer cable television services to homes passed by their network.

Once a PTO is determined by the Director General to be a "well established" operator in respect of a particular service, generally an obligation to provide such services on request, is imposed. The main effects of the imposition of a service obligation is that the licensee is required to publish tariffs and is prohibited from showing undue preference or undue discrimination in relation to the relevant services. "Well established" for these purposes generally means that the licensee has 25 per cent or more of what is, in the opinion of the Director General, the relevant market.

The Director General is responsible for enforcing the conditions of telecommunications licences and has the authority to make orders under the Telecommunications Act, enforceable in the UK courts, to secure compliance with those conditions. The Director General has the power to modify licence conditions with a licensee's consent although the process is under review at present. The Secretary of State has the power, however, to prevent any modifications so agreed.

The Wireless Telegraphy Acts

If the operation of a telecommunications system involves the use of equipment or apparatus for the provision of services by means of radio frequency spectrum, including microwave and satellite frequencies, the operator must be licensed under the Wireless Telegraphy Acts. The Radiocommunications Agency, an executive agency of the DTI, is responsible for overseeing and enforcing Wireless Telegraphy Acts licences, including spectrum pricing and management.

The Broadcasting Act

The Broadcasting Act established the ITC to license and regulate commercial television services (terrestrial, satellite and cable). The ITC's functions include granting licences for cable TV and satellite TV broadcasting (other than the BBC which operates under Royal Charter) and regulating the commercial television sector by issuing codes on programming, advertising and sponsorship, monitoring programming content and enforcing compliance with the Broadcasting Act and licence conditions. The ITC has the power to vary licences and to impose fines in the event of a breach of the licence conditions. The ITC also enforces ownership restrictions on those who hold or may hold an interest in licences issued under the Broadcasting Act.

The licences awarded to cable companies were originally called Prescribed Diffusion Services Licences. Following the repeal of the Cable and Broadcasting Act, the Broadcasting Act introduced a new licence for cable services called a Local Delivery Service Licence.

The Broadcasting Act allowed cable companies to elect to convert certain PDSLs to LDSLs with the same term. Some of the PDSLs held by the Cable Cos have been converted. The Telecommunications Act licence associated with each PDSL or the LDSLs, as appropriate, commits the relevant cable company to a timetable regarding the build out of the network in the licensed coverage area.

As of December 8th 1997, cable TV licences had been granted for cable TV franchise areas covering approximately 16.5 million homes in the United Kingdom. Ten cable franchise licence holders have requested that they be relicensed on a non-exclusive basis following the DTI's policy review about the restrictions on national PTOs' ability to convey broadcast entertainment services (see "– Review of Regulation – Broadcasting Regulation" below). This should result in lower licence fees and reduced build milestones targets. One of these franchise areas (Eastbourne and Hastings) belongs to C&WComms. The relicensing process is expected to be completed by the end of 1998.

Review of Regulations

UK Government Policy

A General Election was held on May 1st 1997 which saw the election of the first Labour Government for 18 years. The new Government has begun to review regulatory and public policy in a number of areas that have an impact on C&W Comms' business. References within this Annual Report to "HM Government" refer to the previous Conservative Government prior to May 1st 1997 and the new Labour Government after that date.

Two regulatory reviews have been announced by HM Government. A general review of regulatory processes in the gas, electricity, water and telecommunication industries is currently underway. Issues for consideration include accountability to customers, transparency, regulatory authorities headed by panels rather than individuals, price controls (including profit sharing) and the duties of the regulator. Conclusions are expected towards the end of 1998. Any recommendations relating to the telecommunications sector emerging from this review are likely to be considered in the context of a second review specifically to examine the regulation of the telecommunications and broadcasting industries. This consultation will involve a review of the roles of the ITC and Oftel and is expected to commence in the summer of 1998. The Department for Culture, Media and Sport Select Committee reported in May 1998 and recommended the establishment of a new Department of Communications and a communications regulation commission taking over the functions of all statutory and self-regulatory bodies for media and communications. It also made recommendations on Internet regulation.

UK and European Telecommunications Regulation of C&W Comms

Mercury's Licences under the Telecommunications Act

Mercury principally operates under two licences granted under the Telecommunications Act: its PTO licence and the Telecommunications Services Licence. The most important of these licences is Mercury's PTO licence, granted on November 5th 1984, which authorises Mercury to operate a fixed-link nationwide public network and connect to foreign networks for a minimum term of 25 years. Mercury is also authorised to provide all types of domestic and international telecommunications services over fixed, but not mobile, links. Mercury's PTO licence is revocable on 10 years' notice, which may be given at any time after November 8, 1999. Mercury's PTO licence may also be revoked by the Secretary of State at any time on certain grounds.

In February 1997 modifications were made to Mercury's PTO licence including the suspension of Mercury's service obligations until and unless Mercury is determined by Oftel to be a "well established" operator, removing the prohibition on linked sales and the requirement to provide itemised information, and incorporating the new fair trading condition described below. The main effect of suspending these service obligations is that Mercury is no longer required to publish its tariffs and is no longer subject to the obligation not to show undue preference or exercise undue discrimination for those services for which it is well established (currently all national services and certain international services). Oftel has defined two main groups of markets for international telecommunications services: services provided to retail customers and services provided to other operators (carriers' carrier). In relation to international retail services, Mercury has been determined to be a well-established operator on all country routes with the exception of the United States, Germany and Canada. This results in Mercury being obliged to file international retail tariffs on all routes except the United States, Germany and Canada along with carriers' carrier tariffs on the Canadian and German routes only.

Cable Cos' Licences under the Telecommunications Act

Each Cable Co operates under its PTO licence granted under the Telecommunications Act which authorises it to construct and operate the physical network for the provision of telecommunications services including cable TV (i.e., the conveyance of television programming to residential homes). The PTO licences also permit the Cable Cos to connect their respective networks to other telecommunication networks and systems, including terrestrial broadcasting systems, satellite delivery systems and any other telecommunications networks or systems inside the United Kingdom.

None of the Cable Cos has been determined to be a "well-established" operator. Although a telecommunications licence is granted for a particular franchise area, it is not exclusive, and a cable company generally competes in the provision of telephone and other telecommunications services with other PTOs, such as BT.

Each Cable Co is subject to minimum build milestones based on the number of premises in the franchise area required to be passed by the cable TV network by specified dates. At March 31st 1998, C&W Comms' operating companies had not met 12 final and five interim build milestones. Oftel is responsible for enforcing compliance with build milestone schedules where they are contained in telecommunications licensees and the ITC is responsible for enforcing such compliance where those milestones are contained in Broadcasting Act licences. Failure to comply can result in revocation of the relevant licence. The telecommunications licences can also be revoked on other grounds, substantially the same as those set out in Mercury's PTO licence.

All of the Cable Cos' PTO licences now (except Videotron's licence for the City of London and Westminster) have a term of 23 years from the date of grant. PTO licences granted other than for cable TV, including Mercury's PTO licence and Videotron's licence for the City of London and Westminster, are currently issued for a term of 25 years from the date of grant.

Licences under the Wireless Telegraphy Acts

Mercury and NYNEX CableComms hold licences under the Wireless Telegraphy Acts for the operation of their respective telecommunications systems, which involve the use of radio frequency spectrum including microwave and satellite frequencies. Neither BCM nor Videotron has radio frequency spectrum, and, accordingly, do not require similar licences.

Spectrum Management

The UK Parliament has recently passed enabling legislation to implement proposals detailed in a White Paper on radio frequency spectrum management published by HM Government in June 1996. The new charging mechanism will include auctions for new spectrum allocations. The new legislation may result in a significant increase in annual spectrum fees for C&W Comms.

Licensing Directive

The European Commission adopted the Licensing Directive in April 1997. This Directive, which had to be implemented in the United Kingdom by December 31st 1997, provides a common framework for general authorisations and individual licences for the provision of telecommunications services. This resulted in amendments to various telecommunications legislation and standard licences. A further consultation is taking place in 1998 to ensure that existing licence conditions in all operators' licences are amended to comply with the requirements of the Directive.

Interconnection Agreements With Other Operators

BT now offers a published standard interconnection agreement to other telecommunications operators. On September 23rd 1997, BT and C&W Comms signed a new interconnection agreement based on BT's standard contract, replacing the previous agreement between BT and Mercury dated November 1994.

Mercury has interconnection agreements in place with many of the other Telecommunications Act licensees in the UK market, such as those operating cellular and personal communication networks, the Cable Cos, cable companies and others including MFS, COLT and Energis. C&W Comms also has interconnection agreements or less formal accounting arrangements with international operators world-wide.

Retail Price Regulation

BT was previously subject to retail price cap regulation on approximately 65 per cent of its revenues pursuant to the terms of the August 1992 price cap review. The new price control of RPI less 4.5 per cent took effect on August 1st 1997 and will remain until 2001, but only in relation to the bottom 80 per cent of residential customers by bill spend. Oftel has indicated that this is likely to be the last retail price control imposed on BT. The level of retail rates charged by Mercury and the Cable Cos and telecommunications providers other than BT are not limited by specific regulation by any HM Government entity, but are subject to general competition and fair trading rules.

Number Portability

Business and residential telecommunications customers changing their telephone services from one telecommunications service provider to another previously had to change their telephone numbers. BT's PTO licence was modified in July 1996 to incorporate a condition which supports the implementation of number portability and on January 6th 1997, the Director General determined BT's costs in providing number portability and the charges it can make to other operators to recover those costs. C&W Comms believes that the absence of number portability was a significant impediment to competition in the telecommunications market and that its implementation will provide and is providing BT's competitors with access to greater numbers of customers.

Key Current Issues in Telecommunications Regulation

Implementation of Interconnection Directive

In June 1997, the European Commission adopted the Interconnect Directive. The directive aims to guarantee the rights of operators to obtain interconnection with the networks and services of others. Operators with "significant market power" must provide interconnection on cost-oriented terms. These principles also apply to European cross-border interconnection traffic. The Directive had to be implemented by December 31st 1997. In November 1997, the DTI and Oftel published a consultation document on the proposed UK implementation of the Directive in the United Kingdom. The key elements of these proposals were:

- modification of the interconnection condition of all operators' licences;
- identification of BT and Kingston Communications as having significant market power in the fixed telephony market and Cellnet and Vodafone in mobile (though not in the national market for interconnection);
- classification of those operators that would have access to cost-orientated interconnection rates, representing in Oftel's view a slight widening from the current position; and
- requirements on those telecommunications operators with special or exclusive rights in another sector to produce separate accounts where the turnover in that sector exceeds ECU 50m. This may apply to certain of C&W Comms' Franchises over time.

These proposals were implemented via a Statutory Instrument laid before Parliament on December 10th 1997 and came into force on December 31st 1997. Consultation on certain aspects of the regime, in particular access to cost-oriented rates is, however, continuing during 1998.

Indirect and Equal Access

Indirect access is access by a customer to a network through another operator's network whereas equal access means pre-selection by the customer of the indirect access operator on dialling parity, where the number of digits dialled for calls over the first (access) network is the same as for calls over the second (indirect) network. In July 1996, Oftel released a statement setting out its policy on indirect and equal access, dealing with the continued provision by BT of indirect access to Mercury and other operators, the possible extension of the obligation imposed on BT to include equal access and the possible extension of an indirect access obligation to Mercury and other "non-dominant" operators.

Oftel concluded in its statement that indirect access will remain an important route for many customers who are not yet able to take advantage of competition in direct connections to receive the benefits of the competitive provision of telecommunications services and that, given BT's continuing dominant position in the direct access network, BT should continue to be obliged to provide indirect access to other operators. However, Oftel also concluded that this obligation on BT should not extend to providing equal access to other operators. Oftel, having commissioned a cost benefit analysis, concluded that, rather than a net benefit, there would be a significant net cost in implementing equal access. Further, Oftel concluded that "non-dominant" operators (such as Mercury and the Cable Cos) should not be required to give indirect access to other operators. Oftel has stated that it considers the "well-established" operator threshold of 25 per cent of customer connections in a relevant market to be a useful guide in determining whether a "non-dominant" operator should, in the future, be required to grant indirect access to other operators. Oftel stated that this threshold would not automatically mean that the operator would be required to grant indirect access, but that Oftel would investigate the issue further in respect of that operator and market conditions generally once that threshold was reached.

The European Commission has finalised proposals requiring the introduction of equal access by those operators with significant market power by January 1st 2000. If those proposals are adopted, an European Directive will require the introduction of equal access in the United Kingdom on this date, subject to the deferment rights of member states under the proposals. In November 1997, Oftel published for consultation its proposals to deem BT and Kingston Communications as having significant market power in the fixed line telecommunications market.

MMC investigation into calls to mobile phones

At Oftel's request, the MMC commenced an investigation on March 5th 1998 into the pricing of calls to mobile phones both at the retail and wholesale level.

The parties to the investigation are Cellnet, Vodafone and BT (Cellnet and Vodafone for the level of termination rate charged and BT for the margin they retain between wholesale and retail). There will potentially be knock-on effects for Orange and *One 2 One* and for other fixed line operators including C&W Comms if the MMC concludes that pricing levels are too high and requires regulatory intervention to reduce them.

The MMC was due to publish its conclusions on September 4th 1998 but a 3 month extension has been granted for further deliberations.

Convergence Green Paper

On December 3rd 1997, the European Commission adopted its Green Paper on the convergence of the telecommunications, media and technology sectors and the implications for regulation. This signaled the start of a five month long consultation process which finished in April, 1998. The conclusions of this review, expected to be published at the end of 1998, and any resulting Directives and any United Kingdom specific regulation in this area, may have a significant impact on the way in which C&W Comms is regulated in the United Kingdom and elsewhere in Europe.

Broadcasting Regulation

Cable TV Licences

Under the Broadcasting Act, cable companies may carry certain television and radio services on their networks. Cable TV licences require cable companies to ensure that certain foreign satellite programmes carried by them conform to ITC requirements and that advertisements, which the cable company itself inserts, conform to the Broadcasting Act's advertising requirements. Under ITC policy, PTO's were restricted under their telecommunications licences from providing broadcast entertainment on a national basis. Each cable TV licence gives the holder the right to provide television services within the cable television franchise area using cable television distribution networks. This policy has recently been subject to review by HM Government and a statement was issued in April 1998 ending the policy of exclusive franchising, for areas already franchised, from Janurry 1st 2001 and permitting currently non-franchised areas to be opened up on a non-exclusive basis immediately. National PTOs may apply to provide entertainment services in areas not already franchised or where a cable operator decides to waive its rights to exclusivity. It remains unclear whether it is technically or economically viable to provide broadcast television on BT's, or the national PTO's, existing networks.

BT and other national PTOs currently cannot compete directly with cable companies in providing broadcast services over their telephone network because their present telecommunications licences do not authorise them to convey or provide broadcast entertainment services to residential customers. In addition, such activity would require a licence under the Broadcasting Act the granting of which was inconsistent with historic ITC policy. However, affiliates of PTOs have always been permitted to hold cable TV licences and affiliates of BT hold a number of them. Since March 1994, the PTOs have been permitted to apply directly for LDSLs in new franchise areas and the ITC has stated that, in principle, BT, and other PTOs may offer VOD services because this service does not fall within the Telecommunications Act licence restrictions. To date, neither BT nor any other company in the United Kingdom provides VOD services to the public, although BT conducted VOD trials in Colchester, Ipswich and Westminster during 1996/1997.

Price Regulation

The Telecommunications Act licences of the Cable Cos require them to provide broadcast entertainment services without exhibiting undue discrimination. The licences also require cable companies to furnish details of prices for broadcast entertainment services and changes in prices for broadcast entertainment services to the Director General and to make those details available for public inspection. However, there is no control of the level of retail prices charged by the cable companies for broadcast entertainment services other than general fair trading provisions. C&W Comms can provide no assurance that these retail prices will remain free of further control.

Licence Term

Each Cable Co hold either an PDSL or an LDSL. The terms and conditions for renewal of the cable TV licences are governed by the Broadcasting Act.

C&W Comms has 47 cable television licences, one of which is due to expire in 2001, one in 2002, three in 2004, 38 in 2005, one in 2011 and two not later than 2013. In addition, C&W Comms holds LPSLs. These are licenses of ten years' duration issued by the ITC for the provision of local television programmes within a cable company's cable television franchise area. They are licences which relate to particular content as opposed to cable television licences which authorise and regulate the carriage of that content. Each LPSL authorises a particular local channel. C&W Comms has 11 LPSLs, three of which expire in 2000, three in 2001, two in 2004 and three in 2005.

The ITC has modified the cable television licences of all cable companies to give effect to the New Broadcasting Act and the Advanced Television Services Regulations. These modifications relate, in particular, to changes in the ownership rules, and compliance with EC standards for digital transmission.

Restrictions on Transfer

The transfer of LDSLs and PDSLs to a third party is permitted with the prior written consent of the ITC. The ITC has discretion to refuse any proposed transfer of a cable TV licence, and must be notified of any change in shareholding of a company holding a cable TV licence. The Cable Cos notified the ITC of the change in control resulting from the formation of C&W Comms.

Bundling of Services

The ITC has announced a wide ranging consultation into the way in which pay television channels are marketed at the wholesale and retail levels. Issues considered included the competition and consumer effects of minimum carriage requirements, the practice of deep discounting premium channels and the bundling of telephony and cable television. The ITC published its conclusions from the consultation on June 26th 1998. They confirmed that minimum carriage requirements are to be prohibited in future on pay-TV channels for all new agreements from July 1st 1998. For existing agreements, the prohibition will apply from July 1st 1998 for services broadcast for digital reception and from January 1st 2000 for services broadcast for analogue reception. There will be two important exceptions to this general prohibition. First MCRs will be allowed to continue for a yet to be determined period for existing channels which are contractually exclusive to one platform (e.g. cable, satellite) where those contracts were entered into before April 1st 1998. Second, new channels may, for the first 12 months of their operation, negotiate MCRs with their distributors. Introductory offers of this kind will allow viewers the opportunity to become acquainted with new channels and indicate their interest in having those channels included in the bundles of channels they purchase. The ITC has said it will continue to look into the practices of deep discounting and the bundling of cable television with telephony. The final outcome of this consultation will have important implications in terms of the flexibility afforded to C&W Comms in packaging its television and telephony services.

Conditional Access Regulation

The Conditional Access Class License and Guidelines require conditional access services to be provided on a non-discriminatory basis, address anti-competitive agreements or abuse of a dominant position and provide cable operators such as C&W Comms with the right to control the presentation of services to its customers through a process known as transcontrol. In October 1997, Oftel published, for consultation, the principles it would use when examining the prices proposed by a conditional access provider.

Access Control Regulation

The DTI and Oftel are exploring how to extend these provisions to cover non-broadcast services, for example, interactive services.

In July 1997, Oftel and the DTI published a joint consultation document on the extension of the UK conditional access regulatory regime to cover non-broadcast and digital non-television services. These regulations are designed to complement those currently in place for digital broadcast television services. The regime has potentially important implications for the terms of access to digital networks and should be finalised in 1998.

Digital Broadcasting

The introduction of digital technology by C&W Comms would greatly increase the number of channels it is able to provide, allow it greater flexibility in packaging channels and enhance the provision of services such as PPV which require greater bandwidth than existing services. BSkyB has announced its proposed launch of a digital satellite service in 1998 and DTT is also currently scheduled to be launched in 1998.

Digital Terrestrial Broadcasting

The New Broadcasting Act introduced a legal framework for the regulation of digital terrestrial broadcasting. Most of the New Broadcasting Act's provisions on digital terrestrial broadcasting came into force on October 1st 1996.

The New Broadcasting Act permits the provision of digital programme services, digital additional services (e.g. text-based services) and qualifying services. Broadly speaking, qualifying services are the digital equivalent of services provided in analogue form by existing terrestrial broadcasters such as ITV, Channel 4 and the new Channel 5.

The New Broadcasting Act distinguished between multiplex service providers, that is those providing the transmission infrastructure, and digital programme providers, that is, those providing the programmes to be transmitted. Both need to be licensed under the New Broadcasting Act (except the BBC which may act as a digital programme provider under its Royal Charter), although the holders of existing licences for ITV, Channel 4 and Channel 5 and the public teletext service will not require new broadcast licences in order to simulcast their existing output in digital form.

On January 31st 1997 applications for further digital terrestrial multiplex licences were received by the ITC from BDB, Digital Television Network (owned by NTL Incorporated) and S4C Digital. BDB, a consortium incorporating Carlton Communications and Granada Group, and S4C Digital were successful in their applications and were awarded multiplex license; BDB's licence for three multiplex frequencies only being awarded after BSkyB had withdrawn from the consortium at the ITC's request. The BDB parties have applied to the European Commission's Competition Authority, DGIV, for clearance for their joint venture. On December 19th 1997 the ITC granted multiplex licences to BDB and to Digital 3 and 4. A licence was granted to SDN Limited on May 26th 1998 a consortium made up of NTL, S4C and United News and Media.

BDB must begin its service within 12 months of the grant of its licences unless a later date is agreed by the ITC. BDB has publicly announced that it will launch this year.

C&W Comms will be under a "must carry" obligation for digital qualifying services (i.e., digital simulcasts of current analogue television broadcasts) once those digital qualifying services commence and if C&W Comms is operating a digital system. See "Cable & Wireless Communications plc – Cable Television – Interactive Services – Future Services – Digital television".

UNITED STATES

The principal legislation regulating telecommunications services in the United States is the Communications Act of 1934 as amended by the Telecommunications Act of 1996. Title II of the Communications Act establishes a comprehensive regulatory regime for common carriers involved in interstate or international communications by wire or radio. CWUSA is licensed under the Communications Act. Because it offers interstate and international telecommunications services to businesses generally and not just to selected customers, CWUSA, one of the Group's subsidiaries in the US, is a common carrier subject to Title II regulation.

Title II requires common carriers to provide telecommunications services upon reasonable request, to provide services on rates and terms which are just and reasonable, to obtain the approval of the FCC for the construction of new or the extension of existing international facilities, for the initiation of service offerings, and to file tariffs describing their rates and services with the FCC for its approval. The FCC has, by regulation, suspended certain other requirements for non-dominant common carriers providing domestic interstate telecommunications services. CWUSA is deemed, for these interstate purposes, a non-dominant common carrier. CWUSA may thus, under the current FCC regulation, construct new interstate facilities, offer new services and set interstate prices with minimal FCC review, pursuant to tariff, and subject to general FCC reporting requirements.

CWUSA offers international telecommunications services principally on a resale basis. In the past it has been deemed a dominant carrier for these purposes because it is an affiliate of a foreign company. However, in light of new FCC policies, CWUSA's status has been modified from dominant to non-dominant on resold switched service and on most private line routes that it operates.

The Communications Act also establishes limits to investment in common carrier radio licences, such as cellular and personal communications services, by corporations owned or controlled by non-US citizens, such as the Company. The FCC has discretion to waive these limits in some circumstances, especially for corporations from World Trade Organisation Member Countries, such as the United Kingdom.

CWUSA also provides intrastate as well as interstate telecommunications services, and accordingly is subject to the communications regulations of the various states. The terms of such regulations vary from state to state. In many states, however, the regulatory agencies have the authority to determine which companies may provide intrastate communications services and the prices and terms of such services.

BERMUDA AND THE CARIBBEAN

Historically, the Group has operated in Bermuda and the Caribbean under exclusive licences from the relevant Governments. However, some Governments in the region are examining their respective telecommunications sectors with a view to possible restructuring of the sectors including, in some cases, the introduction of competition.

While the Company will seek to protect the Group's position it will also look to work with governments where possible to ensure that telecommunications services are provided in the most efficient manner possible including where that may involve the introduction of competition.

AUSTRALIA

REGULATORY ENVIRONMENT AFTER JUNE 30TH 1997

As a further stage in the process of liberalising Australia's telecommunications market underway since 1992, new legislation was introduced effective from July 1st 1997, substantially altering the regulatory environment. The main changes in the post July 1997 regulatory environment are as follows:

- the restriction on the number of fixed network and mobile services carriers has been removed. Any person can become a carrier and construct network facilities for provision of telecommunications services to the public. The regulatory requirements which must be fulfilled to obtain a carrier licence are not significant;

- many of the rights formerly granted to carriers have been extended to carriage service providers, including those with limited or no network facilities of their own. Carriage services providers are entitled to pre-selection (long distance) and to be supplied with access and interconnection by a carrier on a non-discriminatory technical basis and potentially at cost-based prices;

- there has been a shift away from telecommunications specific regulation to principles of general competition law to regulate the telecommunications industry, particularly in relation to market behaviour. As a result, some of the previous constraints on Telstra's competitive behaviour have been removed or diluted, potentially allowing Telstra to engage in more vigorous price competition;

- however, telecommunications specific regulation of access and interconnection has been retained and the Australian Competitions and Consumer Commission has significant powers to determine the terms and conditions, including price, on which access and interconnection are supplied by access providers to access seekers;

- carrier powers to enter third party property and to construct facilities on that property and carrier immunities from state and territory environmental and planning laws have been substantially reduced. Most network facilities require local council consent, although specified facilities considered to have a low environmental impact can continue to be constructed with the benefit of powers and immunities; and

- the industry specific regulator, AUSTEL, has been disbanded, and its competition related functions, including in respect of access and interconnection, have been transferred to the general competition law regulator, the ACCC. A new regulator, the Australian Communications Authority, has been established to take responsibility for technical, numbering, consumer and radio communications matters.

The new regulatory regime is still in the early stages of development. Some subordinate regulatory instruments are still in the process of development and there is uncertainty about the approach and attitude of the regulators, particularly the ACCC. Accordingly, it is difficult for Optus to assess the impact of the new regulatory regime on its business.

ITEM 2 – DESCRIPTION OF PROPERTY

The principal tangible fixed assets of the Group comprise transmission plant and exchange equipment, which is located throughout the Group's world-wide operations, but principally in the United Kingdom and Hong Kong. The Group's leasehold land and buildings principally comprise certain of its telephone exchanges and technical and administration centres. The term of the Group's leases for telephone exchanges and technical centres is usually protected to ensure the continuance of essential telecommunications services and in some instances is specifically tied to the term of the Group's telecommunications licence. Nearly all such leases contain restrictions on their use for other purposes and a number of them contain restrictions on transfer.

ITEM 3 – LEGAL PROCEEDINGS

JAMAICA

Cable & Wireless Jamaica has commenced proceedings against the Minister for Commerce and Technology (whose portfolio includes telecommunications) in relation to the issue of VSAT licences to a number of ISPs in Jamaica, which Cable & Wireless Jamaica considers are in breach of its exclusive international licence. Cable & Wireless Jamaica is seeking an order quashing the Minister's decision to grant these other licences, as well as an order preventing the Minister from issuing any further such licences. Cable & Wireless Jamaica considers the action necessary to protect its rights under its existing international licence. The proceedings are at an early stage, so no predictions can be made regarding their outcome, although Cable & Wireless Jamaica and the Company consider Cable & Wireless Jamaica's position to be meritorious. An unsuccessful outcome would materially affect Cable & Wireless Jamaica's international revenues, as the licences in question allow the ISPs to carry international traffic using VSAT technology and thus bypassing Cable & Wireless Jamaica's international network.

Cable & Wireless Jamaica has also commenced proceedings against the Minister in relation to the Minister's rejection of Cable & Wireless Jamaica's most recent rate application. Cable & Wireless Jamaica is seeking an order requiring the Minister to refer the matter of the rate application to a Referee, as required under Cable & Wireless Jamaica's domestic licence. Cable & Wireless Jamaica considers this action is necessary to achieve certainty in the interpretation of the Scheme of Control provisions in the domestic licence, which set out the basis on which Cable & Wireless Jamaica's authorised rate of return is to be calculated.

OTHER

On September 26th 1997, the Company commenced legal proceedings against the FCC in the Court of Appeals for the District of Columbia appealing the Report and Order adopted by the FCC on August 7th 1997 on international settlement rates. See "Regulatory Framework – General". The appeal by the Company asserts that the FCC has neither the jurisdiction nor the necessary information to determine the settlement rates applicable for foreign carriers. The proceedings, which will not of themselves delay the implementation of the FCC's Order, are supported by a number of other international carriers. Oral arrangements were presented to the court on September 23rd 1998 although no date has been set for the delivery of judgement by the court.

Governments in some other jurisdictions in which the Group operate have indicated that they may seek to vary the terms of exclusive licences that have been awarded to the Group.

ITEM 4 – CONTROL OF REGISTRANT

In January 1995, VEBA acquired a 10.5 per cent shareholding in the then issued share capital of the Company. Except for the foregoing, there is no person known to the Company to be the record holder of more than 10 per cent of the Company's outstanding Ordinary Shares. The total number of outstanding Ordinary Shares owned by the directors and the company secretary (of whom 11 are shareholders) at September 15th 1998, was 301,432 or approximately 0.013 per cent of the outstanding Ordinary Shares. See "Item 6 – Exchange Controls and Other Limitations Affecting Security Holders".

ITEM 5 – NATURE OF TRADING MARKET

The principal trading market for the Ordinary Shares is the London Stock Exchange on which approximately 1,792,226,172 ordinary shares were traded during the period from April 1st 1997 to March 31st 1998. The ordinary shares form part of the FT-SE 100 index, which measures the performance of the top 100 UK stocks (by market capitalisation). As at March 31st 1998 the Company was the 17th largest company in the FT-SE 100 index with a market capitalisation of approximately £17,020 ($28,594 million, based on the Noon Buying Rate on March 31st 1998).

The ordinary shares are also listed on the Frankfurt stock exchange. ADRs, each representing three ordinary shares, have been issued by Citibank NA as Depositary and are listed on the New York Stock Exchange under the symbol CWP.

The table below sets forth, for the calendar quarters indicated, the high and low middle market quotations for the ordinary shares on the London Stock Exchange as reported on its Daily Official List and the high and low market quotations for the ADRs on the New York Stock Exchange.

	Pence Per Ordinary Share		US Dollars Per ADR	
	High	Low	High	Low
1995				
First Quarter	402.0	354.0	19.50	16.75
Second Quarter	448.0	388.0	22.25	19.00
Third Quarter	437.5	407.5	21.12	19.12
Fourth Quarter	474.5	407.5	22.12	19.00
1996				
First Quarter	531.5	432.5	25.25	19.37
Second Quarter	545.5	410.5	24.87	18.75
Third Quarter	459.0	399.0	21.625	18.25
Fourth Quarter	492.0	428.5	24.750	19.875
1997				
First Quarter	520.5	464.0	25.50	22.375
Second Quarter	616.0	470.5	29.75	22.625
Third Quarter	616.0	520.0	28.13	24.938
Fourth Quarter	574.5	465.0	28.75	22.563
1998				
First Quarter	758.0	487.0	38.63	23.25
Second Quarter	753.0	641.0	38.44	31.75

At September 15th 1998, 415,862 ordinary shares were held in the United States representing 0.0173 per cent of the total number of issued and outstanding ordinary shares on that date. These ordinary shares were held by 307 holders of record. As at September 15th 1998, 26,946,104 ADRs (representing 80,838,312 ordinary shares) were held in the United States by 2,103 holders of record. Since certain of such ordinary shares (or ADRs, as the case may be) are held by broker nominees, the number of holders of record may not be representative of the number of beneficial owners. At September 15th the Company had 157,916 shareholders of record.

ITEM 6 – EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Certain of the countries in which the Group and its associated companies operate have exchange controls. Operations in the countries that currently have exchange controls are not, however, material to the business of the Group and its associated companies, and the controls themselves have not materially restricted payments within the Group and its associated companies.

LIMITATION ON SHAREHOLDINGS

Subject to limited exceptions (including the Depositary of the ADRs and CRESTCO), no person is entitled to hold ordinary shares (defined in the Articles to mean any share in the capital of the Company that ordinarily carries the right to vote on a poll at general meetings) representing more than 15 per cent of all the ordinary shares then in issue nor, either alone or together with his associates (as defined in the Articles), to exercise, or control the exercise of, more than 15 per cent of the votes ordinarily exercisable on a poll at general meetings. An associate of a person includes a body corporate of which half or more of the voting power exercisable at its general meetings may be exercised or controlled, or of which half or more of the directors are or can be appointed, by the person. Any other person who is obliged to exercise or refrain from exercising any rights attaching to any ordinary share in accordance with the instructions of such person; and, if the person is a government or government department, agency or body, any other department, agency or body of such government.

If it appears to the directors that the above limitation may be exceeded, they are entitled to refuse to register any ordinary shares in the name of the relevant person unless they are first given a satisfactory declaration stating the total number of ordinary shares held by that person (and the names of any associates) and the total number of votes ordinarily exercisable by him and his associates on a poll at general meetings.

The directors are also empowered at any time to give notice in writing to any person requiring him to make such a declaration within a specified period. From the date of service of such notice until the directors declare themselves satisfied with the declaration received by them from such person, any ordinary shares held by such person shall not confer any right to attend or vote at general meetings. In addition, if within 21 days after the giving of the notice the directors are not satisfied that the person is not in contravention of the limitation on shareholdings, the directors may give a further notice requiring him to transfer ordinary shares sufficient to reduce his holding below the 15 per cent limit.

The Articles contain provision for the sale of such ordinary shares if the further notice is not complied with to the directors' satisfaction.

HM Government, as holder of the Special Share, is entitled to receive notice of, attend and speak at all general meetings of the Company, but the Special Share carries no right to vote at such meetings. Certain matters are deemed for the purposes of the Company's Articles of Association to be a variation of the rights attaching to the Special Share and are only effective with the written consent of the holder of the Special Share. These matters include a proposal for the voluntary winding up or dissolution of the Company, the creation or issue of any shares in the capital of the Company carrying voting rights which are not identical to those of the ordinary shares, a disposal or disposals of the whole or a material part of the assets of the Company and its subsidiaries and the amendment or removal of certain provisions of the Articles, including the provision that imposes limitations on shareholdings described above.

ITEM 7 – TAXATION

This summary describes the principal US federal and UK tax consequences of the purchase, ownership and disposition of ADSs as capital assets by a holder who is a citizen of or resident in the United States or otherwise subject to US federal income tax on a net income basis in respect of ADSs (a "US holder"), and who is a resident of the US for the purposes of the current income tax convention between the United Kingdom and the United States ("the Income Tax Convention"). It does not purport to be exhaustive, and, in particular, does not cover state, local or other national taxes. Accordingly, prospective investors are advised to consult their advisors with respect to the tax consequences of the purchase and ownership of ADR's.

This summary is based on current US and UK law as of the date of this document and is subject to any changes therein or in the Income Tax Convention occurring after that date.

This summary does not address the treatment of a holder of ADSs that is subject to special tax rules, including a holder (i) who owns 10 per cent. or more of the ordinary shares, or, in the case of a US corporation, who controls directly or indirectly, alone or with one or more associated corporations, at least 10 per cent of the voting stock of the Company, or (ii) who is exempt from US tax on dividends paid by the Company.

This summary takes into account prospective changes set out in the Finance (No 2) Bill following the Budget on, March 17th 1998.

For purposes of the Income Tax Convention, the current estate and gift tax convention between the UK and the US (the "Estate and Gift Tax Convention") and the US Internal Revenue Code of 1986 as amended (the "Code"), beneficial owners of ADSs (including beneficial owners of ADSs held by nominees) are treated as the beneficial owners of the underlying Ordinary Shares represented by those ADSs.

DIVIDENDS

POSITION BEFORE APRIL 6TH 1999 – ORDINARY DIVIDENDS

On payment of an ordinary dividend on the ordinary shares before April 6th 1999, the Company is required to account to the UK Inland Revenue for ACT. The rate of ACT has been fixed by reference to the lower rate of UK income tax, currently 20 per cent, and will on this basis equal 20 per cent of the aggregate of the dividend and the related ACT.

The Company may as a general matter offset a limited amount of ACT against its corporation tax liability. An individual shareholder resident in the UK who receives a ordinary dividend from the Company paid before April 6th 1999, will be entitled to a tax credit equal to 20 per cent of the aggregate of the dividend and the tax credit (or one-quarter of the dividend).

An ADR holder receiving an ordinary dividend paid before April 6th 1999, who is both a resident of the US for purposes of the Income Tax Convention (a "US resident") and the beneficial owner of the dividend is generally entitled to receive an amount (a "Treaty Payment") equal to the tax credit an individual resident in the UK would have been entitled to had he received the dividend (a "tax credit"), less withholding tax equal to 15 per cent of the total of the dividend and the tax credit. So a dividend of £80 would give rise to a tax credit of £20 less withholding tax of £15, resulting in a Treaty Payment of £5 and a total net receipt after UK taxes but before US taxes of £85.

POSITION ON OR AFTER APRIL 6TH 1999 – ORDINARY DIVIDENDS

If the Finance (No.2) Bill is enacted in its current form, the company will not be required to account for ACT on dividends paid on or after April 6th 1999. An individual shareholder resident in the UK who receives an ordinary dividend from the Company paid on or after April 6th 1999, will be entitled to a reduced tax credit equal to 10 per cent of the aggregate of the dividend and the tax credit (or one ninth of the dividend).

A US resident, therefore, will effectively cease to be entitled to a Treaty Payment in relation to dividends paid by the company on or after April 6th 1999. This is because as described above a Treaty Payment equals the tax credit less withholding tax equal to 15 per cent of the total of the dividend and the tax credit. Following the reduction of the tax credit the withholding tax would exceed the tax credit. For example if the dividend is £80, the tax credit of £8.89 would be less than the withholding tax of £13.35 and therefore no Treaty Payment will be made.

The tax credit to which entitlement is conferred by the Convention is not available if (i) the holding is effectively connected with (a) a permanent establishment situated in the UK through which the holder carries on business in the UK or (b) a fixed base in the UK from which the holder performs independent personal services, or, it is thought (ii) the holder is a US corporation which is also a resident of the UK.

Where the holder is a US partnership, trust or estate, it is thought that the tax credit will be allowed to the extent that the income of the partnership, trust or estate is subject to US tax as the income of a resident either in its hands or in those of the partners or beneficiaries. If a US trust or estate is also a resident of the UK for the purposes of the Income Tax Convention, the Treaty Payment may not be available.

Position before April 6th 1999 – Foreign Income Dividends (FIDs)

The Company may elect for a dividend to be treated as a FID. In such a case the Company will still be required to account for ACT but, assuming certain requirements are met, it will be able to reclaim some or all of the ACT, to the extent it does not have sufficient corporation tax liability against which to offset the ACT.

If the Company elects for a dividend to be treated as a FID, an individual resident in the UK will not be entitled to a tax credit and, therefore, a US resident will not be entitled to a Treaty Payment. Also the Company may not offer a scrip dividend alternative when it pays a dividend it elects to be treated as a FID. Therefore if the Company makes such an election no scrip dividend alternative will be offered to the FID.

Under certain circumstances a dividend will be deemed by law to be a FID, even if the Company does not elect for it to be treated as a FID.

The Company has elected for the interim dividend paid on March 2nd 1998, and the final dividend paid on September 1st 1998 to be treated as FIDs.

Position on or After April 6th 1999 ("FIDs")

The Company will not be able to elect to treat dividends paid on or after April 6th 1999 as FIDs.

PROCEDURE FOR CLAIMING TREATY PAYMENTS

The Depositary has made arrangements under which an ADS holder who is (i) a US corporation whose business is not managed and controlled in the UK, (ii) an individual resident in the US and not resident in the UK, or (iii) a trust or estate, all of the beneficiaries of which are resident in the US will receive payment of the tax credit, net of withholding tax, together with the payment of the dividend, provided, (i) the tax credit is not precluded by the rules set out above, (ii) in certain circumstances, the holder is not a company at least 25 per cent. of the capital of which is owned, directly or indirectly, by persons who are not individual residents or nationals of the US or, (iii) the registered holder completes a declaration on the reverse of the dividend check confirming entitlement to the tax credit and presents the check for payment within three months of the date of its issue.

Other ADS holders should claim payment within six years from the UK Inland Revenue as described in IRS Revenue Procedure 80-18, 1980-1 CB 623 (as clarified and amplified by Revenue Procedure 90-61, 1990-2.CB 657) and IRS Revenue Procedure 81-58, 1981-1 CB 678 and Revenue Procedure 84-60 (1984-2 CB 504). The first claim is made by sending the appropriate UK form in duplicate to the Internal Revenue Service Centre with which the holder's last federal income tax return was filed. Forms may be obtained from the Assistant Commissioner (International), Internal Revenue Service, 950 L'Enfant Plaza South SW, Washington DC 20024. As a claim is not made until the UK tax authorities receive the appropriate form from the Internal Revenue Service, forms should be sent to the Internal Revenue Service well before the end of the six year period. Any claim for a tax credit by a US holder after the first claim should be filed directly with FICO (International), St. John's House, Merton Road, Bootle, Merseyside, L69 9BB, England.

US TAX

Dividend

The aggregate of the dividend paid to a US Holder and the gross tax credit in respect of it (i.e. £100 in the above example) will be treated as dividend income for US federal income tax purposes to the extent it is made from current or accumulated earnings and profits of the Company as determined under US federal income tax principles. A dividend will be includable in income by a US Holder when it is actually or constructively received by a US Holder of ADRs. The amount includable will be the US dollar value of the dividend, determined at the spot pounds sterling/US dollar rate on the date the dividend is includable in income by the US Holder, regardless of whether the payment is converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations between the date the dividend payment is includable in income and the date the payment is converted into US dollars will be treated as ordinary income or loss. This income will not qualify for the dividends received deduction allowed in other circumstances to certain US corporations.

Foreign Tax Credits

Dividends received by a US Holder will be treated as foreign source income for US federal income tax purposes. For dividends paid before April 6th 1999 a US Holder who receives an £80 dividend would for US federal income tax purposes be considered to receive a distribution of £100 (£80 dividend plus the £20 gross tax credit) and would include that amount in income to the extent the distribution is paid out of the Company's current or accumulated earnings and profits. Such a US Holder would also be considered to have paid £15 of UK tax that, subject to the applicable limitations, would be creditable against such US Holder's US federal income tax liability.

For dividends paid on after April 6th, 1999 the treatment of the dividend to the US Holder is not entirely clear. A US Holder who receives the $80 dividend in the above example for US federal income tax purposes could be considered to receive a dividend of £88.89 (£80 dividend plus £8.89 tax credit). Such US Holder also could be considered to have paid £8.89 of UK tax that, subject to applicable limitations, could be creditable against such US Holder's US federal income tax liability. As described above, it is proposed that ACT will be abolished from April 6th, 1999. US Holders should consult their tax advisors concerning the effect of the recent and expected changes in UK law.

For dividends treated as FIDs, no repayable UK tax credit attaches to the dividend and accordingly no withholding tax is eligible for credit against US federal income taxes.

Capital Gains

US holders who are not resident or ordinarily resident in the UK for UK tax purposes are not liable to UK tax on gains realised or accrued on the disposal of ADSs unless the holder carries on a trade, profession or vocation in the UK through a branch or agency and the ADSs are used in or for the purposes of the trade, profession or vocation or used or held for the purposes of the branch or agency or acquired for use by or for the purposes of the branch or agency.

US holders are subject to US federal income tax on such gains to the same extent as on other gains from the disposition of stock. Such gain or loss will generally be long term capital gain or loss if, at the time of the disposition, the ADR's have been held for more than one year. The distinction between capital gain or loss and ordinary income or loss is important for purposes of the limitations on a US Holder's ability to offset capital losses against ordinary income and because US Holders who are individuals may be entitled to a preferential tax rate on long term capital gains. The Taxpayer Relief Act of 1997 provides an additional (and more favourable) capital gains rate for gains made by individuals in respect of assets held for more than 18 months. For foreign tax credit purposes, gains realised by a US Holder upon such sale or exchange generally should be US source income, but the source of loss is uncertain at this time. US Holders should consult their own tax advisors as to the implications of the Taxpayer Relief Act of 1997 to their particular circumstances. Deposits of ordinary shares by US holders in exchange for ADRs and withdrawals by US holders of ordinary shares in exchange for ADRs will not result in the realisation of gain or loss for US federal income tax purposes.

Backup Withholding

Under US Treasury Regulations, dividends paid on ADR's through December 31st 1998 will not be subject to US backup withholding tax. However, under recently finalised Treasury regulations, dividends paid after that date on ADR's to a US Holder or to non-US Holder in the US or through US or US-related persons may be subject to a 31 per cent US backup withholding tax in certain circumstances. In addition, under current Treasury regulations, the payment of proceeds of a sale, exchange or redemption of ADR's to a US Holder or non-US Holder in the US or through US or US-related persons may be subject to US information reporting requirements and/or backup withholding tax.

Inheritance Tax

ADSs held by an individual who is domiciled for the purposes of the Estate and Gift Tax Convention in the US and is not for purposes of the Convention a national of the UK do not attract UK inheritance tax on the individual's death or on transfer during his lifetime unless they form part of the business property of a permanent establishment situated in the UK or pertain to a fixed base in the UK used for the performance of independent personal services. Where ADSs are subject to both UK inheritance tax and US gift or estate tax, the Convention generally provides for tax paid in the UK to be credited against tax payable in the US.

Stamp Duty and Stamp Duty Reserve Tax

UK stamp duty reserve tax ("SDRT") is chargeable where ordinary shares are issued or transferred to the Depositary or nominee or agent for the Depositary pursuant to an arrangement under which the Depositary issues depositary receipts (such as the ADRs). The SDRT, payable by the Depositary, will generally be 1.5 per cent of the purchase price of the ordinary shares. In certain circumstances, the transfer to the Depositary's nominee or agent may give rise to a liability to ad valorem stamp duty, in which case the SDRT charge is reduced or eliminated accordingly. Such SDRT or stamp duty liability will ordinarily (in accordance with the terms of the Deposit Agreement) be charged to the person to whom ADRs are delivered in connection with the deposit of ordinary shares.

No UK stamp duty is payable on any transfer or agreement to transfer of an ADR provided that the ADR and any separate instrument of transfer or written agreement is executed and remains outside the UK. Nor is any agreement for transfer of ADRs subject to SDRT. However, if the seller of an ADR fulfils his obligations by requiring the transfer of the underlying ordinary shares (whether or not to the purchaser), the transfer instrument is, it is thought, subject to stamp duty at approximately 0.5 per cent of the purchase price. A transfer of ordinary shares which does not complete a sale is dutiable at the fixed rate of 50p.

If ordinary shares themselves are sold, SDRT at 0.5 per cent of the consideration will, subject to exceptions, be payable, generally by the purchaser. If, within six years of the date on which the agreement is made or (if later) becomes unconditional, the shares are transferred to the person with whom the agreement is made or (where the agreement was to transfer the shares to that person's nominee) his nominee and the transfer instrument is stamped on payment of the applicable stamp duty (approximately 0.5 per cent of the consideration), the stamp duty will cancel the SDRT charge and the SDRT may be repaid on making of a claim within the six year period.

ITEM 8 – SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth on the following pages should be read in conjunction with, and are qualified in their entirety by reference to, the Company's consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 20-F. The selected consolidated financial data for the five years ended March 31st 1998 are derived from the Company's audited consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENT DATA

	Year ended March 31st					
	1998[6]	1998	1997	1996	1995	1994
	$	£	£	£	£	£
	(in millions except per share and per ADR data)					
PROFIT AND LOSS ACCOUNT DATA						
Amounts in accordance with UK GAAP[1]:						
Turnover of the Group including its share of associated undertakings[2]	13,947	8,302	7,002	6,172	5,593	N/A
Group turnover	11,762	7,001	6,050	5,517	5,133	4,699
Operating profit before exceptional items	2,774	1,651	1,538	1,311	1,194	1,091
Exceptional items: charged to operating profit[3]	(420)	(250)	–	–	(60)	–
Operating profit	2,354	1,401	1,538	1,311	1,134	1,091
Other exceptional items[3]	1,406	837	–	79	(240)	–
Profit before taxation	3,669	2,184	1,418	1,341	844	1,088
Profit after taxation	3,259	1,940	1,131	1,021	600	858
Minority interests	1,095	652	454	414	348	344
Profit for the financial year	2,164	1,288	677	607	252	514
Earnings per share ("EPS")	$0.96	57.0p	30.3p	27.5p	11.5p	23.6p
Earnings per ADR[4]	$2.88	171.0p	90.9p	82.5p	34.5p	70.8p
EPS before exceptional items	$0.54	32.4p	30.3p	26.4p	23.6p	23.6p
Earnings per ADR before exceptional items	$1.63	97.2p	90.9p	79.2p	70.8p	70.8p
Dividends per share[5]	$0.21	12.25p	13.87p	12.50p	11.31p	10.31p
Dividends per ADR[5]	$0.62	36.8p	41.61p	37.50p	33.93p	30.93p
Amounts in accordance with US GAAP[1]:						
Net income	2,164	1,288	676	546	208	435
Basic Earnings per share	$0.96	57.0p	30.3p	24.8p	9.5p	20.0p
Basic Earnings per ADR[4]	$2.88	171.0p	90.9p	74.4p	28.5p	60.0p
Diluted earnings per share	$0.94	55.7p	29.5p	24.2p	9.4p	19.4p
Diluted earnings per share per ADR	$2.81	167.1p	88.5p	72.6p	28.2p	58.2p
BALANCE SHEET DATA						
Amounts in accordance with UK GAAP[1]:						
Current assets[7]	5,527	3,290	3,018	2,141	2,026	2,023
Total assets	21,922	13,049	9,669	9,020	7,875	7,456
Loans and obligations under finance leases	791	471	471	419	321	359
Creditors: amounts falling due within one year	4,701	2,798	2,289	2,257	1,745	1,678
Creditors: amounts falling due after more than one year[8]	7,016	4,176	1,823	1,689	1,340	1,177
Equity shareholders' funds	5,205	3,098	3,749	3,259	3,339	3,275
Amounts in accordance with US GAAP[1]:						
Shareholders' equity	8,654	5,151	4,191	3815	3367	3,403

[1] The Company's consolidated financial statements are prepared in accordance with UK GAAP, which differ in significant respects from US GAAP. See Note 39 to Consolidated Financial Statements.

[2] Turnover of the Group including its share of associated undertakings was not published in 1994.

[3] See Note 10 to the Consolidated Financial Statements for a discussion of the 1998 and 1996 items.

[4] Per ADR amounts have been computed on the basis that one ADR represents three Ordinary Shares.

[5] Dividends per share and per ADR are based on interim dividends paid and final dividends declared per Ordinary Shares increased by the associated ACT rebate before deduction of withholding taxes. See "Taxation".

[6] Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of £1.00 to $1.68, the noon buying rate on March 31st 1998. See "Exchange Rates".

[7] Amount of Current assets excludes debtors due after more than one year.

[8] Amount of Creditors: amounts falling due after more than one year excludes other creditors and provisions for liabilities and charges.

DIVIDENDS

The table below sets forth the amounts of interim, final and total gross dividends paid per Ordinary Share in respect of each fiscal year indicated, increased by the associated ACT rebate before deduction of withholding taxes (as described under "Taxation") and translated into US dollars per ADR (each representing three Ordinary Shares) at the Noon Buying Rate at March 31st for interim and final dividends. The dividends for the year ended March 31st 1998 are not increased by the associated ACT rebates as the Company has elected to pay these as FIDs (as described under "Taxation").

Year ended March 31st	Pence per Ordinary Share			US Dollars per ADR		
	Interim	Final	Total	Interim	Final	Total
1994	3.25	7.06	10.31	0.14	0.28	0.42
1995	3.54	7.78	11.32	0.14	0.31	0.45
1996	3.85	8.65	12.50	0.18	0.34	0.52
1997	4.25	9.62	13.87	0.21.	0.46	0.67
1998	3.75	8.50	12.25	0.19	0.43	0.62

The Company expects to pay an interim and a final dividend in respect of each fiscal year, which will normally be payable in February and September, respectively. While the Company expects to pay dividends each year, the payment of dividends will depend upon the Company's earnings, financial condition and other factors.

It is the current policy of the Company to give shareholders, other than those who have registered addresses in the United States, rights of election that enable them to receive ordinary shares in lieu of cash dividends, known as Scrip Dividends. Although the Securities and Exchange Commission is increasingly relaxed about a foreign issuer offering Scrip Dividends in the US without registration of the new shares, the tax situation as between the United Kingdom and the United States makes such an offer unattractive to US residents. As a result, the Scrip Dividend alternative offer is not being made to US resident shareholders.

There are currently no UK governmental restrictions on dividend payments to non UK shareholders applicable to the Company.

ITEM 9 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the company's consolidated financial statements and notes thereto included elsewhere in this Annual Report. These financial statements have been prepared in accordance with UK GAAP, which differs in significant respects from US GAAP. The principal differences between UK GAAP and US GAAP, as they relate to the Company, are described and reconciliations of net income and shareholders' equity to US GAAP are set out in Note 39 of Notes to Consolidated Financial Statements. Certain items which are treated as exceptional under UK GAAP would not be considered exceptional under US GAAP. A further discussion of the results of the Hongkong Telecom Group and C&W Comms plc may be obtained from the 20-F filings of those companies.

The following table sets out for each of the three years ended March 31st 1998, Group turnover, operating costs and operating profit of the Group and expresses such amounts as a percentage of total turnover. Contributions to operating profit are not analysed by the categories of service provided by the Group, as the allocation of operating costs among the Group's public telecommunications services would necessarily be arbitrary. The analysis of turnover is, however, an indication of the sources of growth of the Group's businesses. Certain prior year figures have been restated to conform with the current year presentation.

OPERATING PERFORMANCE

	1998		1997		1996	
	(in £ millions except percentages)					
Public telecommunications:						
International telephone services	2,996	42.8%	2,804	46.3%	2,560	46.4%
Domestic telephone service	1,862	26.6	1,553	25.7	1,442	26.1
Cable television and other multimedia services	203	2.9	-	-	-	-
Other telecommunications services	1,385	19.8	1,165	19.3	986	17.9
Other:						
Equipment sales and rental	241	3.4	240	4.0	307	5.6
Cable ships and contracts	314	4.5	288	4.7	222	4.0
Group turnover	7,001	100.0%	6,050	100.0%	5,517	100.0%
Telecommunications outpayments	2,247	32.1	1,789	29.6%	1,716	31.1%
Employee costs	1,002	14.3	875	14.5	897	16.3
Other operating costs	1,453	20.8	1,198	19.8	1,014	18.4
Depreciation and amortisation	898	12.8	650	10.7	579	10.5
Operating costs	5,600	80.0%	4,512	74.6%	4,206	76.3%
Operating profit	1,401	20.0%	1,538	25.4%	1,311	23.7%

YEAR ENDED MARCH 31ST 1998

TURNOVER

Cable & Wireless is a global provider of telecommunications services. These include fixed and mobile international and domestic telephone services, leased circuits, Internet, cable television, multimedia services, data transmission and the sale and rental of telecommunications equipment. Additional revenues come from the charter and use of the Group's cableship fleet.

Total turnover of £8,302 million includes the Group's share of turnover from joint ventures and associates amounting to £1,301 million. Turnover from joint ventures and associates is up 37 per cent on the previous year. Turnover of the Company and its subsidiaries grew by 16 per cent to £7,001 million with increases in all principal business regions. International telecommunications revenues increased by 7 per cent to £2,996 million and domestic telecommunications services by 20 per cent to £1,862 million. The overall volume of calls has increased at higher rates of growth, but has been partly offset by falling tariffs, particularly on international routes.

For the first time this year the Group has significant cable television and multimedia revenue. This amounted to £203 million, or 3 per cent of the Group's revenue.

Revenue from other telecommunications services increased by 19 per cent to £1,385 million. Turnover from equipment sales and rental stayed level at £241 million. Turnover from cableships and contracts was 9 per cent up at £314 million.

Turnover by Region
Hong Kong

	£m	% increase/(decrease)
International telecommunications services	1,346	(5)
Domestic telecommunications services	408	9
Other telecommunications	749	17
Other revenue	255	12
Turnover	2,758	3

Turnover in Hong Kong showed steady growth, rising 3 per cent to £2,758 million. Discounting the effect of exchange rates, however, turnover in Hong Kong grew by 8 per cent. Hongkong Telecom has continued to focus on rebalancing its revenue streams to reduce its reliance on international telecommunications revenue. Hongkong Telecom's other core businesses showed strong growth of 14 per cent (19 per cent in underlying currency) and contributed over 50 per cent of the total turnover.

International telecommunications services. Revenue from international telecommunications services declined by 5 per cent, (2 per cent in underlying currency). This reflects the region's economic problems during the second half of the financial year and higher levels of callback traffic on certain routes. There was less impact on profitability because the lower revenues were offset in part by lower outpayment costs resulting from reduced accounting rates with foreign carriers. Hongkong Telecom's own callback service has been highly successful in winning back and stabilising its share of international direct dial calls.

Overall international traffic increased by 4 per cent. China traffic showed steady growth of 8 per cent.

Domestic telecommunications services. Domestic telecommunications revenues grew by 9 per cent (13 per cent in underlying currency). This growth was underpinned by steady growth and a successful local wholesale business. Business connections increased by 7 per cent, although the slowing Hong Kong economy affected growth in the second half of the year. Targeted marketing campaigns stimulated demand for second lines in the home for fax and Internet use. Second line penetration in Hong Kong is 15 per cent.

Other telecommunications services. Other telecommunications services comprise mobile, data services and interactive multimedia services. Interactive multimedia services comprise the *Netvigator* Internet Service and following its launch in March 1998, Interactive Television (iTV).

Mobile revenues grew by 22 per cent, (28 per cent in underlying currency). Pacific Link contributed 5 per cent of total mobile revenues following its acquisition in January 1998. As the leader in the mobile market, Hongkong Telecom had over 860,000 customers at the year end.

Revenue from data services continued to grow strongly at 31 per cent (36 per cent in underlying currency). International connectivity has increased with substantial investment in new international submarine cable systems including the Fibre optic Link Around the Globe (FLAG), SEA-ME-WE 3 and China-US. International leased circuit capacity has grown by 69 per cent. Hongkong Telecom has substantially increased its revenue from Internet services through retail access charges from *Netvigator*, website advertising sales, wholesale services to other providers and expanding digital data traffic. Hongkong Telecom's *Netvigator* Service has strengthened its market leadership by increasing its customer numbers to 235,000.

By the year end Hongkong Telecom had attracted over 50,000 customers to its world leading iTV interactive multimedia service. Hongkong Telecom will introduce new broadband applications throughout 1998 to stimulate further demand and maximise the use of its local network.

United Kingdom	£m	% increase
International telecommunications services	736	17
Domestic telecommunications services	831	24
Cable television	179	-
Other telecommunications	461	34
Other revenue	39	-
Turnover	2,246	31

Nearly all UK turnover comes from C&W Comms which was formed during the year from a merger of Mercury Communications ('Mercury'), Bell Cablemedia and NYNEX CableComms. Because the merger took place on April 28th 1997, the above figures include Mercury's results for the first month of the year and the results of C&W Comms for the other 11 months.

To enable a meaningful comparison, analysis of C&W Comms' results uses pro forma information which assumes that C&W Comms had been in existence throughout the current and previous fiscal periods.

C&W Comms organises its operations into a number of market segments. The turnover from these operations is shown below:

C&W Comms	£m	% increase/(decrease)
Consumer markets	524	21
Business markets	371	(7)
Corporate markets	587	(5)
International & Partner Services	801	36
Turnover	2,283	12

C&W Comms is the largest integrated communications company in the UK, offering voice, data and television services through its local, national and international digital network. At the same time as merging Mercury with the cable companies to form C&W Comms, its revenues increased by 12 per cent in the face of heavy pricing pressure and total volume (as measured by minutes of voice communications delivered through its network) increased by 30 per cent. The number of directly connected residential customers grew by 26 per cent to over 1.1 million.

Consumer markets. Revenues grew by 21 per cent to £524 million compared with £432 million for the previous year. While revenue from directly connected services increased by 48 per cent, the figure for indirect services fell by 21 per cent due to continuing pressure on long distance and international prices. Indirect customers are those connected to the network via other local operators.

Cable television revenue grew by 30 per cent.

Total penetration of homes released to operations rose from 27.4 per cent to 28.9 per cent by the end of March 1998. The proportion of customers taking both telephony and cable TV services rose from 47 per cent to 54 per cent. Average revenue per customer rose from £32.58 to £35.59 per month.

Business markets. Revenue in the business market fell from £400 million to £371 million – a reduction of 7 per cent. Contributing factors were continuing pressure on prices in the market and a one off price adjustment to realign C&W Comms' tariffs. C&W Comms has about 8 per cent of the small and medium sized business market in the United Kingdom. Volume, as measured by minutes of voice communications delivered, grew by 12 per cent during 1997/98.

International & partner services. International & Partner Services provides wholesale services to other operators and has grown strongly during the year. Revenue increased by 36 per cent to £801 million while traffic volumes grew by 64 per cent to 7.5 billion minutes.

All cable operators in the UK use C&W Comms to carry some or all of their national and international traffic. C&W Comms also supplies backbone and local access capacity to carriers and service providers across the market sectors. Mobile companies also use C&W Comms for a large proportion of their international Business, as do competitive local exchange carriers, Internet service providers and resellers.

In serving these customers, C&W Comms has a strong competitive advantage due to its extensive national and international networks and 120 bilateral agreements with other telecoms operators around the world. 95 per cent of C&W Comms' international traffic is carried on the Group's network. C&W Comms is now one of the world's largest carriers of international traffic.

The Caribbean	£m	% increase
International telecommunications services	518	18
Domestic telecommunications services	226	72
Other telecommunications	54	105
Other revenue	11	102
Turnover	809	34

Turnover in the Caribbean rose by 34 per cent to £809 million. A significant component of the increase was the inclusion of £162 million turnover from Panama from June 1997. After adjusting for the effects of currency and excluding Panama, underlying growth was 11 per cent with the main growth in Jamaica at 16 per cent and Antigua at 26 per cent. There were strong revenue performances from a number of other islands, notably Cayman, Dominica and Grenada.

At £518 million international revenue was 18 per cent up on last year. Panama contributed £72 million and the other operations in the region were 2 per cent higher than the previous year (5 per cent in underlying currency) with a 9 per cent increase in volumes. The region carried 1,086 million minutes of international traffic, including 117 million minutes from Panama.

Reducing the dependence on international revenue remains one of the major goals in the Caribbean. On January 1st 1998, Panama began its own re-balancing process with the introduction of new tariffs. These included a measured rate for local calls, which had previously been free of charge. Re-balancing proposals have been presented to seven other governments with four further proposals in the pipeline.

The number of exchange lines in the region increased 34 per cent to 1,131,100. In Jamaica, the number of installed lines rose by 62,000 to 415,000. In Panama, the total installed lines were 381,000 up 14 per cent since the business was acquired.

Major development programmes are underway in Panama which include:

- A mobile service launched on January 20th 1998. In just over two months, it has built a customer base of almost 7,000 customers.
- A payphone development programme, 600 new payphones have been installed.
- A programme to replace all the electro-mechanical switches.

North America	£m	% increase/(decrease)
International telecommunications services	324	37
Domestic telecommunications services	328	-
Other telecommunications	56	(4)
Turnover	708	14

Turnover in the North American region grew by 14 per cent to £708 million, driven largely by increases in international telecommunications services. The North American region mainly comprises Cable & Wireless USA, where total switched minutes increased by 13 per cent to 5.8 billion.

Turnover from international telecommunications services provided by Cable & Wireless USA grew by 37 per cent to £324 million. The increase is mainly attributable to the growth of wholesale carrier business, global products and revenues from customised network services.

Other Regions

Other regions comprise Asia other than Hong Kong ('Other Asia'), mainland Europe and the rest of the world. These territories account for 8 per cent of the Group's turnover.

Other Asia turnover for the year was up 37 per cent to £162 million, of which £140 million came from Macau.

The rest of the world includes CWGMa (the world's largest installer and maintainer of submarine cables), CWGM (the Group's multinational client business) and the Group's many other businesses around the world. CWGMa and CWGM together increased their turnover by 4 per cent to £199 million.

OPERATING COSTS

The Group's total operating margin before exceptional items remained constant at 20 per cent.

Before exceptional items, outpayments to other telecommunications administrations and carriers increased by 20 per cent (1996/97 – 4 per cent) to £2,155 million. Outpayments as a percentage of switched telecommunications turnover increased from 41 per cent to 44 per cent.

Employee costs increased by 15 per cent to £1,002 million. Before acquisitions employee costs fell by 3 per cent to £852 million.

Depreciation, before exceptional items, increased by 28 per cent to £833 million. Depreciation before acquisitions and exceptional items was up 10 per cent.

Other operating costs, excluding exceptional items, rose by 14 per cent to £1,360 million. Before acquisitions other operating costs reduced by 4 per cent to £1,156 million.

Operating Costs by Region Before Exceptional Items

Hong Kong	£m	% increase/(decrease)
Outpayments	696	(7)
Employee costs	318	(1)
Depreciation	194	8
Other	498	23
Operating costs	1,706	3

Through a strong emphasis on tight cost control and efficiency Hongkong Telecom has contained growth in total operating costs to 3 per cent (7 per cent in underlying currency) operating margin was maintained at 38 per cent.

Outpayments fell by 7 per cent (10 per cent in underlying currency). Hongkong Telecom has been successful in reducing accounting rates with other international carriers, resulting in savings in international outpayments. An increased proportion of callback traffic has also reduced international outpayments, but this is offset by an increase in local delivery fees payable where other operators complete these calls in Hong Kong.

Staff costs fell by 1 per cent (increased 3 per cent in underlying currency – less than the rate of Hong Kong inflation) as the business continued to reduce staff numbers. Hongkong Telecom achieved its three year target of reducing staff in its core businesses to 13,500 at the year end and is driving for continued productivity improvements with initiatives such as performance related pay.

Depreciation charges have increased by 8 per cent (11 per cent in underlying currency) to £194 million. The rise reflects the Hongkong Telecom's continued investment in international and local network and equipment. This includes the advanced broadband network that delivers interactive multimedia services.

United Kingdom	£m	% increase
Outpayments	878	62
Programming costs	106	–
Employee costs	291	46
Depreciation	440	46
Other	293	–
Operating costs	2,008	43

C&W Comms accounts for £1,974 million of the United Kingdom's total operating costs. On a pro forma basis, C&W Comms' costs were £2,002 million reflecting the extra month's costs of the cable companies. One of the main benefits of merging Mercury with the cable companies has been economies of scale through eliminating duplication.

On a pro forma basis, outpayments and programming costs rose 18 per cent, excluding the benefit of the £80 million settlement of interconnect rates with British Telecom in 1996/97.

On a pro forma basis, operating costs in 1996/97 represented 30 per cent of sales. In 1997/98 the figure had fallen to 24 per cent. In absolute terms, operating costs fell £55 million to £554 million – a reduction of 9 per cent. In addition, during the last financial quarter, C&W Comms reviewed all aspects of its operations. As a result it identified the potential for further efficiencies and cost reductions and announced in April 1998 that this programme would result in a headcount reduction of 1,500. Most of this will be from areas of the business which do not directly affect the interface with customers. C&W Comms is also exploring the outsourcing of certain non-core functions to reduce costs further.

The Caribbean	£m	% increase
Outpayments	142	11
Employee costs	153	40
Depreciation	86	34
Other	150	40
Operating costs	531	30

Total operating costs in the Caribbean region increased by 30 per cent to £531 million. Panama accounted for £92 million. Excluding the effect of Panama, operating costs rose by 7 per cent.

Outpayments rose by 11 per cent – less than the increase in international revenue. Outpayments as a percentage of international revenue fell by 2 per cent to 28 per cent. Excluding Panama, employee numbers fell by 5 per cent through voluntary termination plans. Employee costs were 16 per cent higher than the previous year, mainly because of severance costs and the impact of the cost of a retrospective wage settlement in Jamaica.

North America	£m	% increase/(decrease)
Outpayments	412	26
Employee costs	99	(11)
Depreciation	41	7
Other	108	4
Operating costs	660	14

Total operating costs of the North American region increased by 14 per cent to £660 million, mainly as a result of higher outpayments.

Outpayments rose by 26 per cent to £412 million mainly reflecting the growth in international traffic.

Employee costs in Cable & Wireless USA declined by 11 per cent to £99 million. Reductions in headcount offset higher average salary costs resulting from the need to retain staff in a competitive market.

Other Regions

Other Asia, mainland Europe and the rest of the world account for 10 per cent of the Group's operating costs, a total of £542 million, an increase of 3 per cent over the previous year.

Associates and Joint Ventures

The Group has interests in over 35 associates and joint ventures. Many are in the early stage of their development and their revenues are growing rapidly.

Cable & Wireless' share of the turnover of associates and joint ventures was £1,301 million, a rise of 37 per cent over the previous year. The turnover of the principal joint ventures is shown below:

	£m	Growth %
One 2 One	274	109
Optus	404	42
Gemini	100	-
MTN	96	66
Others	427	-
Share of turnover	1,301	37

The high growth in the period is attributable to the rapid expansion of One 2 One, plus an increased stake in the fast growing Optus business and first time revenues from the Gemini cable system.

The Group's share of the operating profits of associates and joint ventures was £33 million compared to a loss of £127 million in 1996/97. This includes a reduction in the Group's share of losses at One 2 One (£63 million in 1997/98 compared with £108 million in the previous year) and the elimination of £93 million of losses in Vebacom which was sold last year.

The interest within the associates and joint ventures totalled £65 million, up by 55 per cent on the previous year.

Exceptional and Non Recurring Items

The Group's profit and loss account includes a number of exceptional items which have a net profit before tax effect of £587 million. These items are described in note 10 to the accounts and comprise:

- a £158 million write off of assets in Hong Kong.
- a £92 million charge to cover the costs of a legal case in CWI.
- a £519 million profit on the disposal of 5.4 per cent of Hongkong Telecom.
- a £200 million fundamental reorganisation at C&W Comms.
- a £518 million profit on the surrender of Hongkong Telecom's exclusive international licence.

Other non-recurring items of £91 million included a £34 million gain on the sale of a stake in Netcom and a £47 million gain on the sale of a stake in OCCEL.

Taxation

Taxation totalled £244 million. The tax charge benefits from a £36 million tax credit arising on the exceptional items. Before exceptional items, the effective tax rate is 18 per cent compared to 20 per cent in the previous year. This rate is significantly lower than the statutory UK tax rate of 31 per cent, partly because much of the Group's income is generated in jurisdictions with lower tax rates and partly due to the tax losses carried forward within C&W Comms.

Minority Interests

The minority interests charge increased by 44 per cent to £652 million. £67 million of this figure relates to the exceptional items. Minority interest before exceptional items has increased by 29 per cent, reflecting higher profits from Hongkong Telecom and the changes in the composition of the group in the year. The major components of minority interest are £440 million for Hongkong Telecom (54 per cent owned by the Group), £69 million for C&W Comms (53 per cent owned by the Group) and £30 million for Panama (49 per cent owned by the Group).

The minority interests in the net assets of the Group have increased by £987 million, reflecting the increases in the minority stake in Hongkong Telecom and the minority shareholdings in C&W Comms and Panama.

YEAR ENDED MARCH 31ST 1997

TURNOVER

Total turnover of £7,002m includes the Group's share of turnover from associates amounting to £952m. Turnover from the associates is up 45 per cent on the previous year. Excluding Vebacom, which has now been sold, growth in turnover was 38 per cent.

Turnover of the Company and its subsidiaries grew by 10 per cent to £6,050m with increases in all business regions. International telephony revenues increased by 10 per cent to £2,804m, domestic telephone services by 8 per cent to £1,553m and other telecommunications services by 18 per cent to £1,165m. The overall volume of calls has increased at a much faster rate than these percentages but the increases have been partly offset by falling tariffs, particularly on international routes. Turnover from equipment sales and rental fell 22 per cent to £240m due to the sale of Mercury's Customer Premises Equipment business in November 1995 and the sale of Mercury Paging in July 1996. Turnover from cable ships and contracts was 30 per cent up at £288m principally as a result of increased turnover from marine operations.

Turnover by Region

Hong Kong

In the year ended March 31st 1997 approximately 53 per cent of the Hongkong Telecom Group's revenue was derived from the provision of international telephone services under an exclusive licence which expires in 2006, granted to a subsidiary of Hongkong Telecom by the Hong Kong Government. Hongkong Telecom has regular discussions with the Hong Kong Government on various aspects of Hongkong Telecom's operations and the telecommunications regulatory environment in Hong Kong, including the possibility of early surrender of the HKTI Licence in exchange for fair compensation. It is currently not possible to say whether any agreement will be reached with the Hong Kong Government in relation to the HKTI Licence and, if so, the nature and amount of any compensation that would be received by HKTI.

Turnover in Hong Kong showed good growth, rising 10 per cent to £2,665m, partly resulting from Hongkong Telecom's success in building up domestic sources of revenue to reduce its reliance on international telephone revenues.

International telephone services. Revenue from international telephone services rose by 5 per cent to £1,426m as lower accounting rates stimulated increased volume of international traffic. The overall volume of international traffic increased by 12 per cent. Traffic to and from the PRC was 6 per cent higher than in the previous year with the rest of the world showing an increase of 17 per cent. In particular, incoming traffic from the PRC recovered strongly in the second half of the year partly due to a reduction in IDD tariffs for international traffic out of the PRC.

Domestic telephone services. Revenue from domestic telephone services continued to grow, increasing by 12 per cent to £374m driven by a steady increase in the number of lines. The number of lines in service rose 5 per cent to 3.44m with business lines growing by 7 per cent and residential lines by 3 per cent. There is currently a significant demand for second lines in the home reflecting the growing demand for dedicated lines for fax and Internet access. Under the existing price cap scheme, there was an average increase in tariffs of 3.5 per cent on August 1st 1996. Also contributing to the revenue growth were higher interconnect revenues from other fixed telephone network services and from Hong Kong's mobile operators.

Other telecommunications services. Revenue from other telecommunications services grew by 25 per cent to £639m. There was a significant growth in leased line sales and data services, which were up by 25 per cent mainly as a result of stimulated demand in the international market.

To broaden its revenue base, Hongkong Telecom is in the forefront of developing innovative, value-added services. such as call forwarding, call waiting, PhoneMail and Caller Display. Revenues from these services grew during the year by more than 20 per cent. The Caller Display service, launched last December, attracted over 90,000 customers in the first four months.

Earlier in 1996, Hongkong Telecom introduced an Internet information service, *Netvigator*, which attracted more than 70,000 customers by the end of the year. Its high level of service, innovative local content and access to further special services helped to give *Netvigator* a lead position in a highly competitive market.

In the intensely competitive mobile sector, Hongkong Telecom CSL saw strong growth in its mobile services revenue. It remained the market leader, increasing its customer numbers by 45 per cent to 390,000. It has two distinct mobile brands: the premium *1010* brand targeted primarily at the business market and the mass market *One2Free* brand, launched in November, which added more than 50,000 new customers.

United Kingdom

Turnover in the UK grew to £1,718m. This is mainly accounted for by Mercury, now part of C&W Comms. C&W Comms was formed on April 28th 1997 and therefore there was no impact on the Group in the year ended March 31st 1997 from the acquisition of BCM and NYNEX CableComms. Mercury's turnover from international and domestic services, which covers switched traffic from Partner Services, the corporate business market, the business and residential market and the international return market, was 2 per cent higher at £1,284m. Mercury's switched minutes were 15 per cent higher at almost 16 billion.

Partner services. The most significant change in the mix of Mercury's business over the past several years has been the increased proportion of turnover derived from Partner Services. The increasing numbers of operators offering services to the retail market has created opportunities to carry their traffic.

Since the early 1990s, Mercury has developed relationships with a range of other service providers including cable operators, mobile operators and more recently Internet and premium rate service providers. By March 31, 1997, Partner Services traffic accounted for 24 per cent of Mercury's switched turnover, an increase of 46 per cent over the previous year.

Corporate business market. In the large business market, volumes grew by 12 per cent to £459m in the face of sustained price competition and rapidly changing customer needs. The main growth is in new services such as managed networks, telesales facilities and national and international leased circuits.

Business and residential market. Customers in the small business and residential market segment have traditionally been indirectly connected to Mercury and the company has sought to retain high volume users in this competitive market through a strategy of attractive pricing packages. This market now accounts for 25 per cent of Mercury's switched revenue. C&W Comms combines the direct local access capabilities of the cable companies with the Mercury network and enables the Group to offer a more attractive service to residential customers.

International return market. 15 per cent of Mercury's switched revenue comes from international return traffic. The volume of Mercury's international return traffic, up 13 per cent, is linked to the volume of international outgoing traffic.

Other telecommunications services. 25 per cent of Mercury's revenue comes from other telecommunication services, which are mainly in the areas of equipment sales and rental, leased circuits, cellular telephony, messaging and customised services. In 1996/97, turnover from leased circuit services was £257m, an increase of 39 per cent on the previous year.

Turnover from customised services rose by 30 per cent to £61m as Mercury provided network, telesales and mobile solutions to growing numbers of the UK's largest corporate customers.

The Caribbean

Despite lower settlement rates, turnover in the Caribbean increased by 10 per cent to £603m with the main growth in Jamaica at 12 per cent and the Cayman Islands at 11 per cent. There were strong revenue performances from a number of other islands, notably Antigua and St Vincent.

International revenue at £441m was 6 per cent higher than the previous year's figure with a 13 per cent increase in volumes.

The growth in volumes reflects the continuing development programmes in Jamaica where the number of installed lines rose by 63,000 to 353,000. Over the region as a whole, the number of lines has increased by 82,000 to 673,000.

Revenue from domestic services increased by 23 per cent to £131m. Much of the growth came from cellular revenues, particularly in Jamaica where the number of customers has now reached 55,000. In the region as a whole, the number of cellular customers rose 21 per cent to 69,000.

The Caribbean market is extremely diverse in its needs. While continuing to provide basic telephony where required, the Group in the Caribbean is increasingly focusing on new products and services, such as voicemail, Internet, leased circuits and card services. In 1997 the introduction of a seamless cellular service throughout the Caribbean will provide a further boost to revenues.

North America

Turnover of the North American region grew by 30 per cent to £621m, driven largely by increases in international telephone services. The North American region principally comprises Cable & Wireless, Inc., where total switched minutes increased by 45 per cent to over 5 billion.

Turnover from international telephone services provided by Cable & Wireless, Inc. increased by 72 per cent to £221m. The increase is mainly attributable to the growth of Cable & Wireless, Inc.'s carrier business, its global services and its revenues from customised network services.

Turnover from domestic telephone services increased by 12 per cent to £328m. The main reasons for the increase were the 17 per cent growth in general business traffic and higher revenues from specialised products.

Turnover from other telecommunication services increased 43 per cent to £51m mainly attributable to the growth in private line and global services.

Other Regions

Other regions-Other Asia, Other Europe and the rest of the world-account for 8 per cent of the Group's turnover in the year ended March 31st 1997. Other Asia turnover for the year was £118m, principally comprising the operations in Macau with turnover of £109m, an increase of 13 per cent over the previous year.

Other Europe turnover rose 18 per cent to £59m.

The rest of the world includes the Group's marine operations and the CWGM business together with the many other Group operations around the world. CWGMa, one of the largest installer and maintainers of submarine cables in the world, increased turnover by 22 per cent to £185m. CWGM, responsible for the global communication needs of multinational companies, increased turnover by 72 per cent. The Group's businesses in the Middle East, Africa and the Indian and Atlantic Oceans are long established operations with records of consistent growth. Turnover of these operations grew by 26 per cent.

Operating Costs

	1997		1996		1995	
	(in £ millions except percentages)					
Outpayments	1,789	40%	1,716	41%	1,642	41%
Employee costs	875	19%	897	21%	859	21%
Other operating costs	1,198	27%	1,014	24%	981	25%
Depreciation	650	14%	579	14%	517	13%
	4,512	100%	4,206	100%	3,999	100%

A focus on productivity improvements throughout the Group resulted in containing the increase in operating costs to 7 per cent. Outpayments to other telecommunications administrations and carriers increased by 4 per cent (1995/96-5 per cent) to £1,789m. Outpayments as a percentage of switched telecommunications turnover improved from 43 per cent last year to 41 per cent. Employee costs decreased by 3 per cent to £875m, a direct consequence of the fall in the average number of employees by 5 per cent to 37,448, particularly in Hongkong Telecom and Mercury. Operating profit per employee grew by 24 per cent to £41,000.

- Depreciation increased by 12 per cent to £650m as a result of capital expenditure on expanding the Group's operations.

Other operating costs rose by 18 per cent to £1,198m due to greater investment in marketing and product development.

Operating Costs by Region

Hong Kong

	March 31st 1997 in £ millions	% increase/ (decrease) over 1996
Outpayments	750	10
Employee Costs	324	(3)
Depreciation	180	12
Other	404	25
Total Operating Costs	1,658	10

Hongkong Telecom's operating costs grew by 10 per cent. However, tight cost controls and higher productivity meant that overhead expenses, excluding revenue related costs, grew at only 5 per cent.

Outpayments were 10 per cent higher at £750m. By negotiating improved settlement rates and adopting efficient traffic management techniques, Hongkong Telecom has reduced the unit costs it pays to overseas carriers for delivering its traffic. Staff costs decreased by 3 per cent to £324m as staff numbers fell by 1,255 during the year. This streamlining of the organisation is in line with the Company's three year programme to reduce the number of employees from 16,000 to 13,500 by March 31st 1998 through natural turnover, retraining and redeployment.

In addition, Hongkong Telecom has outsourced parts of its information technology business so taking advantage of the economies of scale offered by the outsourcer to gain further savings.

Other operating costs rose by 25 per cent principally from an increase in costs of sales and services of 60 per cent to £174m. This is in line with the increase in sales of mobile phones and other products and services.

United Kingdom

	March 31st 1997 in £ millions	% increase/ (decrease) over 1996
Outpayments	542	(19)
Employee Costs	199	(13)
Depreci ion	302	7
Other	358	6
Total Operating Costs	1,401	(8)

Total operating costs fell by 8 per cent to £1,401m. Mercury represents substantially all the UK region which includes the Company's head office. The main reason for the fall was a reduction in telecommunication outpayments. Despite rising volumes, telecommunication outpayments in Mercury fell 19 per cent during the year to £539m as a result of lower international settlement rates and interconnect charges, including the abolition of ADCs on February 7th 1996.

In February 1997, OFTEL published a draft final determination on the level of ADCs payable by Mercury for the year ended March 31st 1996. The application of these rates to this and prior periods, along with other interconnect rates agreed with BT in October 1996, has led to the reduction in outpayments. Telecommunication outpayments as a proportion of turnover were 31 per cent for the year compared with 39 per cent in the previous year.

With the average number of Mercury staff falling to 7,080, employee costs after excluding amounts capitalised were lower at £184m. Overall, significant efficiency gains have been realised in Mercury. This is reflected in an improvement of underlying margins.

The Caribbean	March 31st 1997 in £ millions	% increase/ (decrease) over 1996
Outpayments	129	8
Employee Costs	109	13
Depreciation	64	24
Other	107	(4)
Total Operating Costs	409	11

Total operating costs increased by 11 per cent to £409m. Outpayments increased by 8 per cent over the previous year in line with turnover. However, outpayments as a percentage of international revenue were less than the previous year at 30 per cent. Despite the steep rise in the number of installed lines, the Caribbean headcount fell by 2 per cent as a first step towards meeting the region's productivity targets. Employee costs were 13 per cent higher than the previous year, mainly because of severance costs and a provision for a delayed wage settlement in Jamaica.

North America	March 31st 1997 in £ millions	% increase/ (decrease) over 1996
Outpayments	327	56
Employee Costs	112	3
Depreciation	39	22
Other	102	18
Total Operating Costs	580	33

Total operating costs of the North American region increased by 33 per cent to £580m, mainly as a result of increased outpayments. Cable & Wireless, Inc.'s outpayments rose by 56 per cent to £327m, due to the rise in revenue and changes in the product mix. Employee costs in Cable & Wireless, Inc. were up by only 3 per cent to £111m despite the high revenue growth. Reductions in headcount offset normal pay increases and higher sales commissions.

Other Regions

Other Asia, Other Europe and the rest of the world account for 11 per cent of the Group's operating costs, a total of £526m, an increase of 19 per cent over the previous year. The rise was due primarily to one off restructuring costs in our Marine division and an increase in our service capabilities in Business Networks.

Associates

The Group has interests in over 60 associates. Many are in the early stage of their development and are growing revenue rapidly. During the year the Group realised £104m of value from the partial sale of our holding in Netcom and the flotation and dilution of our interest in AsiaSat.

Share of Turnover

The Group's share of the turnover of associates for 1996/97 stands at £952m, a rise of 45 per cent over the previous year. In addition to rapid progress in *One 2 One* and Optus, there were new entrants, such as Bouygues Telecom which commenced its cellular service in May 1996. In April of this year M1 in Singapore commenced its mobile service and attracted 43,000 customers in its first month.

The table shows the main components of associates' turnover and their respective growth rates.

	Turnover 1997 (in £ millions)	Growth in per cent
One 2 One	131	60
Optus	284	47
Vebacom	74	>100
MTN	58	22
Others	405	28
	952	45

Share of Profits Less Losses

The Group's share of the profits less losses of associated undertakings showed an increased loss of £169m compared with £24m in 1995/96. This includes an increase in the Group's share of losses at *One 2 One* (£127 million in 1996/97 compared with £63m in the previous year) as a result of the accelerated roll out programme and the refinement of *One 2 One's* accounting policy to amortise customer acquisition costs over 1 year instead of 3 years. The results also include losses in Vebacom for a full year at £93m compared with one quarter in the previous year at £20m. Vebacom was sold in March 1997.

Disposals of Businesses and Fixed Assets

Profits less losses on sale and termination of operations totalled £22m, including the profit on disposal of the Mercury Paging business of £12m. Profits less losses on disposal of fixed assets totalled £79m and include:

- A profit of £61m on disposal of a 10 per cent stake in AsiaSat as part of its flotation. The Group retains a 23 per cent stake in the business.
- A profit of £44m on disposal of the Group's 45 per cent interest in Vebacom. As part of the same transaction, the Group re-acquired the 50 per cent of Cable and Wireless Europe SA, taking its holding to 100 per cent.
- A profit of £43m on disposal of a 5.5 per cent stake in Netcom. The Group had acquired a 9 per cent stake in Netcom during the year in exchange for disposing of its 40 per cent stake in Tele2 AB.
- A £70m provision for the loss on disposal of Group properties.

Taxation

Taxation totalled £287m in 1996/97, an effective tax rate on profits before exceptional items of 20 per cent compared to 24 per cent in the previous year. This rate is significantly lower than the statutory UK tax rate of 33 per cent, partly because high capital expenditure on the Group's telecommunications network gives rise to capital allowances that reduce taxable income. In addition, much of the Group's income is generated in jurisdictions with lower tax rates. The Group expects to utilise its Advance Corporation Tax.

Minority Interests

Minority interests increased by 10 per cent to £454m, the result of rising profits from non wholly owned subsidiaries, particularly Hongkong Telecom and Mercury.

EXCHANGE RATES

In 1997/8 more than 50 per cent of the Group's net assets, turnover and operating costs were denominated in currencies other than sterling. Because of the Group's high proportion of overseas operations exchange rate movements can have a significant effect on net assets, turnover and operating costs when translated into sterling for financial reporting purposes.

Exchange rates for the major currencies in which the Group trades generally weakened against sterling during the year, with an adverse movement of approximately 4 per cent for U.S. dollar related currencies. If exchange rates across all currencies had remained constant, it is estimated that Group turnover and Group operating profit would have been higher by some £190 million and £50 million respectively.

SHAREHOLDERS' FUNDS

Shareholders' funds have fallen by 17 per cent to £3,098 million. The main movements in shareholders' funds, other than the retained profit for the year of £1,009 million, were goodwill charged to reserves of £1,840 million offset by £116 million written back on disposals, an unrealised profit on the partial disposal of Mercury of £138 million and a charge of £177 million relating to movements on exchange.

The main components of the goodwill written off were £790 million arising on the formation of C&W Comms, £357 million arising on the acquisition of a further stake in Optus, £353 million arising on the acquisition of Panama and £162 million arising on the acquisition of PacLink.

TREASURY AND FUNDING ACTIVITIES

The Group's principal treasury and funding operations are carried out by the London based Group Treasury in accordance with policies and authorities approved by the Board. The Company's internal treasury policies and procedures are regularly reviewed. As a matter of policy, the Group does not undertake speculative transactions that would increase its currency or interest rate exposure. Counterparty credit risk is closely monitored and derivatives activity is tightly controlled. Both UK and overseas treasury activities are subject to close management supervision and audit reviews.

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity and reflecting the long term nature of its world-wide business and asset base.

In July 1997, Cable and Wireless plc received HK$9.2 billion (£727 million) from the sale of a 5.4 per cent stake in Hongkong Telecom. The two most significant investments in the year were in May 1997 for a controlling stake in Cable & Wireless Panama for $652 million (£399 million) and in August 1997 for a further shareholding of 24.5 per cent in Optus for an initial cash payment of $730 million (£456 million). The investment in Cable & Wireless Panama was funded from short term deposits and drawings under committed bank facilities. Cash proceeds from the sale of the 5.4 per cent stake in Hongkong Telecom were used to repay these drawings and to fund the increase in the Optus shareholding.

The major funding initiative this year has been to restructure C&W Comms' debt portfolio as mentioned in last year's report. This consisted of a £2.9 billion interim working capital bank facility and four high yield notes, totalling $1.5 billion, previously issued by Bell Cablemedia and Videotron.

In July 1997 £1.0bn of short term hedging instruments was taken out to lock into rates for the C&W Comms bank facility draw downs. Average rates achieved were approximately 7.5 per cent for the period hedged. In February, three of the high yield debt notes were redeemed at a cost of $1.2 billion and were temporarily funded from the existing bank facility. The debt carried a coupon of over 11 per cent and redemption will therefore secure significant interest savings. Moreover, the notes placed overly restrictive covenants on the company.

C&W Comms then launched two sterling corporate bonds totalling £500 million. The launch comprised a seven year £300 million bond at a coupon of 7.125 per cent and a 19 year £200 million bond at a coupon of 7.375 per cent. In March C&W Comms launched three corporate Yankee bonds totalling $1.8 billion split between five years ($750 million), seven years ($650 million) and ten years ($400 million). The bonds were converted into sterling using cross currency swaps. The sterling equivalent proceeds of the Yankee bonds were £1.1 billion which gave total proceeds for all bonds of £1.6 billion. Together with interest rate swap hedging taken out earlier in the year, the average sterling funding for the Yankee issue has been fixed for five years at 7.6 per cent. The issue of the sterling and Yankee bonds proved to be the largest ever coordinated funding by a UK corporate in the respective markets.

A receivables securitisation programme for £250 million was completed in March, reducing C&W Comms' debt and gearing levels. By utilising the proceeds from the programme and the bond issues, C&W Comms was able to negotiate a new £2 billion bank facility, split equally between a five year and a 364 day facility to replace the maturing £2.9 billion facility. This transaction was closed by the year end, with £650 million of the facility being drawn.

The Group's medium and long term debt has an average maturity of approximately nine years with about 86 per cent being denominated in sterling and 14 per cent in US dollars. Approximately 89 per cent of the Group's medium and long term borrowings is currently at fixed rates of interest. A proportion of the overseas asset base is matched by foreign currency borrowings. Long term and short term interest rate instruments are used to manage the impact of interest rates on the total Group borrowing.

As at March 31st 1998, the Company has undrawn committed medium term bank facilities of £745 million with maturities ranging from 1999 through to 2002. These facilities are provided by a number of banks and can be used either to support the Company's sterling, Eurodollar and US domestic commercial paper programmes or as direct bank lending. During the year, additional bilateral facilities of £160 million were agreed and £20 million expired. None of the Company's covenants relating to loans and other financing is expected to restrict normal business activities.

The Group carries out foreign exchange hedging operations, mainly using forward rate contracts and currency options, to manage its exposures in respect of material transactions. Hedging strategies are regularly reviewed to ensure that the most effective and efficient methods are being used. Although the Group trades in over 50 countries, much of its revenue is from international traffic flows and is settled in major currencies on a regular basis. For this reason, the Group is not unreasonably exposed to localised currency fluctuations nor exchange controls.

CASH FLOW

Summary consolidated cash flow statement

	1998	1997	1996
		in £ millions	
Net cash inflows from operating activities	2,701	2,227	1,867
Return on investments and servicing of finance	(459)	(391)	(296)
Taxation paid	(284)	(260)	(251)
Capital expenditure and financial investment	(1,338)	(1,004)	(1,127)
Acquisitions and disposals	(650)	111	(500)
Equity dividends paid	(242)	(219)	(185)
Management in liquid resources (movement in short term deposits)	299	(732)	(23)
Net financing raised	229	326	543
Increase in cash in the year	256	58	28

Compared to last year operating cash flow was 21 per cent ahead at £2,701 million. This includes a £243 million benefit arising from the securitisation of trade debtors in C&W Comms. Excluding this amount, operating cash flow increased by 10 per cent. Capital expenditure for the year was up 66 per cent at £1,702 million. The major components were £399 million for Hongkong Telecom and £905 million for C&W Comms.

Cash paid to acquire investments in the year was £1,572 million, less £180 million of cash acquired with the subsidiaries, a net investment of £1,392 million. These investments are described above. In the full year £1,106 million has been realised from investments and fixed assets, principally the sale of a 5.4 per cent stake in Hongkong Telecom and the first cash payment of £264 million under the agreement for the surrender of Hongkong Telecom's exclusive international licence.

Gearing (net debt to shareholders' funds) has increased to 96 per cent. This gearing measure takes into account 100 per cent of the debt within our partly owned subsidiaries. Taking account of the minority interests, gearing would have been 53 per cent. Interest cover was 12 times on profit before tax and exceptional items; 16 times including exceptional items.

DIVIDENDS

Taking into account the year's results and their view of the Company's continuing performance, the Directors recommend a final dividend of 8.5p per share. This will result in a 10 per cent increase in total dividend over 1996/97. Dividend cover is five times.

MILLENNIUM READINESS

As a key player in the global telecommunications sector, Cable & Wireless is aware of the huge potential impact of the millennium problem and is actively addressing it to ensure a secure and stable service to customers up to, during and beyond the Year 2000. Incremental expenditure to the Group during the year ended March 31st 1998, has been £15 million, £10 million charged to operating expenses.

The Cable & Wireless Group Millennium Readiness initiative began in mid-1996. Phase I involved taking an inventory of all items that had potential exposure to Year 2000 issues. Phase II assessed those items for remediation, where necessary. Phase III, completed in June 1998, was the assessment of readiness of global suppliers for Year 2000. Cable & Wireless will continue to concentrate its efforts on obtaining appropriate commitments from all of its global suppliers concerning the millennium readiness of the many products used to provide Cable & Wireless services. Phase IV, the remediation of those items identified to have a Year 2000 impact, is ongoing and targeted to be complete by December 1998. Phase V involves the completion of testing and operation, planned for 1999.

In common with all other multinationals, Cable & Wireless also faces the various risks associated with failure to meet the millennium challenge. Such risks could include materially adverse effects from the loss of revenue from affected services, loss of business, service interruption and depression of the share price. Cable & Wireless has a comprehensive risk strategy designed to identify risks at Group level and to monitor the resolution of these risks. This strategy is then adapted at the business unit level and allows each business to identify and mitigate risks locally.

On-going contingency planning is an important component of any business and Cable & Wireless is addressing this from both a technical and business perspective, involving internal and external sources in the planning. The steps involved in such plans include identifying/assessing critical business processes by December 1998, designing millennium contingency plans by March 1999, implementation by June 1999 and testing such plans by September 1999.

At March 31st 1998, it is estimated that the cost of remediation, testing and implementation for Cable & Wireless will be between £150 million and £200 million. These costs are expected to be charged in part to capital expenditure and in part to operating costs.

EUROPEAN MONETARY UNION

The euro will be introduced from January 1st 1999 and initially the Group expects the primary impact to be on its Global Businesses as well as its operations on the Continent of Europe and Ireland. The Group has appointed a full time project manager and is undertaking an analysis of the introduction of the euro. Business units are implementing the conversion at local level.

The Group expects that the competitive implications of increased price transparency will affect some of the markets in which the Group operates, customer expectations and competitor's behaviour. Specifically, customers may expect some businesses to conduct transactions in euros sooner than other businesses; increased costs may be incurred to conducting business in an additional currency during the transition period; competitors may consolidate operations to pursue economies of scale by treating Europe as a single market; and the participating countries' pursuit of a single monetary policy through the European Central Bank may affect the economies of significant markets.

Additionally, there may be costs to modify information technology and other systems for conversion, legal costs relating to the modification of contracts and taxation and accounting costs associated with conversion. The Group is still evaluating the cost of conversion to meet the introduction of the euro.

Cable & Wireless' expectations about future costs associated with the euro and Year 2000 are subject to uncertainties that could cause actual results to differ materially from what has been discussed above. Factors that could influence the amount and timing of future costs include Cable & Wireless' success at identifying systems and programmes that contain two digit year codes, adopting programmes to permit product offerings in euro on the same basis as existing product offerings, the nature and amount of programming required to upgrade or replace each of the affected programmes, the rate and magnitude of related labour and consulting costs, and, in the case of Year 2000 issue, the success of Cable & Wireless' external counterparties and suppliers in addressing such issues.

POST BALANCE SHEET EVENTS

On April 10th 1998, the Company announced that it had reached agreement to sell its 20 per cent interest in Bouygues Telecom S.A. to Telecom Italia S.p.A. and that the two companies were exploring opportunities for co-operation on international networks and provision of services to global customers. On April 15th 1998, the first part of a Telecom Italia/Cable & Wireless global partnership was announced with the Company agreeing to sell Telecom Italia an interest in Cable & Wireless Inc. and Cable & Wireless West Indies Limited and to create a joint operating company to optimise service to multinational customers.

The lawsuit arising from a dispute between Cable & Wireless USA and MCI was settled on May 29th 1998.

At March 31st 1998 BCI owned, indirectly through two of its subsidiaries, Bell Canada International Holdings Limited and BCM Holdco Limited, approximately 14.2 per cent of the shares of C&W Comms on a fully diluted basis. On June 18th 1998 BCI sold all of its 212,383,545 shares of C&W Comms and, accordingly, ceased to be entitled to the benefits of, and is no longer bound by, most provisions of the C&W Comms Shareholders' Agreements, and BCI's appointees to the C&W Comms' board of Directors were required to resign.

On July 13th 1998, following expressions of interest from the other shareholders of Bouygues Telecom, the Company announced that it had sent an offer for the sale of its 20 per cent interest in Bouygues Telecom to all of the shareholders of that company. As a result, the Company's intended sale of this interest to Telecom Italia will not proceed.

The Company continues to progress its detailed discussions with Telecom Italia concerning their intended partnership. Those discussions are focused on ways for the two companies to participate jointly in the provision of telecommunications services and to invest in the United States and the Carribean. The Company does not however, expect that Telecom Italia will acquire a direct interest in Cable & Wireless West Indies or Cable & Wireless Inc.

On July 16th 1998 Cable & Wireless placed 112 million shares at 800p with its brokers, Cazenove & Co and Hoare Govett. This raised £887 million (US$1,449 million) which will partly fund the MCI internet acquisition referred to below.

On July 31st 1998, the Group increased its holding in Bezeq to 13 per cent.

On August 14th 1998 Cable & Wireless completed the sale of its interests in PLD Telekom Inc. and PeterStar Company Limited for £48 million in cash. As part of the same transaction, Cable & Wireless will transfer its interest in BELCEL to PLD.

On August 20th 1998, the Company announced that it had agreed to sell its 25 per cent interest in MTN for approximately £257 million. Completion is conditional on obtaining certain regulatory approvals.

On September 14th 1998, the Company acquired MCI Telecommunications Corporation's Internet business for US$1.75 billion (approximately £1,070 million). As a result of this acquisition, the Group will acquire a tier one Internet business comprising the following assets:

- a United States nationwide Internet Backbone comprising 22 domestic nodes, 15,000 interconnection ports, approximately 40 peering agreements for the exchange of Internet traffic, routers, switches, modems, e-mail servers and other support equipment;
- MCI's dedicated access customer base consisting of approximately 3,300 corporate customers;
- MCI's Internet service provider customer base. MCI has approximately 1,300 ISP customers, including 130 international directly connected customers in some 75 countries around the world. These ISP customers contract with business and mass market Internet users to provide Internet access, billing and customer services;
- an internet dial-up business which provides Internet access throughout the United States to more than 250,000 consumers and approximately 60,000 business users;
- MCI's web hosting and managed firewall services business which consists of a customer base of over 100 companies and the associated web hosting servers.

The Company intends to integrate this Internet business with the Cable & Wireless Group's existing operations in the United States and will employ approximately 1,000 specialist Internet employees who are to be transferred from MCI.

On September 18th 1998 Cable & Wireless sold its interest in Lattelekom SIA and TILTS Communications A/S (the Danish holding company).

INFORMATION ON HONG KONG

On July 1st 1997, the exercise of sovereignty over Hong Kong was transferred from the Government of the United Kingdom and Northern Ireland to the Central People's Government of the PRC. On that date, Hong Kong became a Special Administrative Region of the PRC. The agreement between the British and PRC Governments regarding this transfer is embodied in the Joint Declaration, which was signed on December 1st 1984 and subsequently ratified by both governments. Acting pursuant to the Joint Declaration, in April 1990 China's National People's Congress adopted the Basic Law, which is now the basic constitutional document of Hong Kong. The Basic Law provides that Hong Kong shall be directly under the authority of the Central People's Government of the PRC and shall enjoy a high degree of autonomy except in foreign and defence affairs, and that it shall be vested with executive, legislative and independent judicial power. It also provides that the current social and economic systems in Hong Kong shall remain unchanged for a period of 50 years after June 30th 1997. Existing freedoms, including the rights of free speech and assembly, a free press, freedom of religion, the right to strike and freedom to travel, are ensured by law, and business ownership, private property, the right of inheritance and foreign investment are legally protected.

The Joint Declaration provides that the basic policies of the PRC regarding Hong Kong and the elaboration of these policies in the Joint Declaration will be stipulated by the National People's Congress of the PRC in the Basic Law. The Basic Law provides that the Chief Executive of the Hong Kong SAR shall be recommended by a committee composed of Hong Kong residents representing a broad spectrum of distinct constituencies, such as industry, labour, and the various professions, and appointed by the Central Government of the PRC. At the end of 1996, Mr Tung Chee Hwa was selected to be the Chief Executive of the Hong Kong SAR. Under the Basic Law, the laws in force in Hong Kong prior to June 30th 1997 will remain in force, except for any that are interpreted as contravening the Basic Law and will be subject to amendment by Hong Kong's legislature. The power of interpretation of the Basic Law is vested in the Standing Committee of the National People's Congress of the PRC, although the courts of the Hong Kong SAR may interpret the provisions of the Basic Law in adjudicating cases before them, subject to certain limitations. The power of amendment of the Basic Law is vested in the National People's Congress of the PRC.

On May 24th 1998, 53 per cent of Hong Kong's eligible voters participated in the Hong Kong SAR's Legislative Council election. Legco is responsible for the drafting and enacting laws and examining and approving the Hong Kong SAR's budgets. Of the sixty Legco members, twenty are directly elected by the Hong Kong people through proportional representation in five constituencies, thirty five seats are reserved for functional constituencies representing professional sectors and the remaining ten seats are selected by a Beijing-appointed electoral committee. Of the twenty popularly-elected seats, the Democratic Party won nine, the Frontier party won four, the Citizens party won one, the Democratic Alliance for the Betterment of Hong Kong won five and one seat was won by an independent.

The Basic Law provides that the Hong Kong dollar will remain the legal tender in the Hong Kong SAR after the transfer of sovereignty. It also provides that no exchange control policies shall be applied in the Hong Kong SAR and that the Hong Kong dollar shall remain freely convertible. Hongkong Telecom's principal properties and operations are, and are likely to remain, located in Hong Kong and as such are subject to the laws of the Hong Kong SAR Region. Neither the Joint Declaration nor the Basic Law makes any specific reference to the regulatory framework applicable to the Hongkong Telecom Group after 1997.

Statistics published recently by the Hong Kong Government show that preliminary estimates indicate that Hong Kong's real gross domestic product grew by 5.3 per cent in real terms in calendar year 1997 (as compared with 5.0 per cent in 1996 and 4.6 per cent in 1995). During the same year, Hong Kong's Consumer Price Index rose by an average of 5.7 per cent (as compared with 6.0 per cent in 1996 and 8.7 per cent in 1995). In July 1998, the Hong Kong Government announced that Hong Kong's gross domestic product for the first quarter of calendar year 1998 was estimated to have contracted by 2.8 per cent. This slowdown was mainly attributed to the impact of the regional financial turmoil spreading to the Hong Kong economy.

ECONOMIC CONDITIONS IN ASIA

Many Asian economies have recently experienced significant adverse economic developments including increased interest rates, reduced economic growth rates, increased corporate bankruptcies, declines in the market value of shares listed on stock exchanges and decreases in foreign currency reserves. Although the Hong Kong economy has been affected to date to a somewhat lesser extent than other Asian economies, the recent developments in Asia have affected the Hong Kong economy, as indicated by the 2.8 per cent fall in gross domestic product in the first quarter of the 1998 calendar year. In addition, in recent months the value of the Hong Kong dollar against the US dollar has been under pressure due, among other reasons, to speculative attacks. There has been speculation in the media that the Hong Kong Government may withdraw its official support for the fixed exchange rate between the Hong Kong dollar and the US dollar and permit the market exchange rate of the Hong Kong dollar and the US dollar to fluctuate without government intervention. To date, the Hong Kong government has stated that it intends to maintain its support for the fixed exchange rate. There can be no assurance, however, that the Hong Kong Government will not change its exchange rate policy in the future, or that any such change will not result in the depreciation of the value of the Hong Kong dollar against the US dollar. In the event that the adverse economic conditions in the Asia Pacific region continue, or in Hong Kong develop further, the Group's financial performance may be materially adversely affected.

US GAAP RECONCILIATION

The Company prepares its consolidated financial statements in accordance with UK GAAP, which differs insignificant respects from US GAAP. The principal differences between UK GAAP and US GAAP as they relate to the Company include the treatment of deferred taxation, the methods of accounting for goodwill, the methods of accounting for pension costs and the treatment of restructuring costs. Net income under US GAAP was lower than that reported under UK GAAP by £nil, £1m and £61m in 1998, 1997 and 1996 respectively.

Under UK GAAP no provision is made for deferred taxation unless there is a reasonable probability that the liability will arise in the foreseeable future. US GAAP requires full provision for deferred taxation under the liability method on all temporary differences and, if required, a valuation allowance is established to reduce gross deferred tax assets to the amount which is more likely than not to be realised. In 1998 the charge for deferred taxation was £31m higher under US GAAP than that reported under UK GAAP. In 1997 the charge for deferred taxation was £14m lower under US GAAP than that reported under UK GAAP. In 1998 a gain of £138m was made on the sale of a subsidiary undertaking which was not recognised under UK GAAP. Under UK GAAP restructuring costs are charged to the profit and loss account in full irrespective of whether they have been agreed or incurred. Under US GAAP certain of these costs are only charged to the profit and loss account when certain specific criteria have been met. In 1998 restructuring costs were £20m higher under US GAAP than that reported under UK GAAP. In 1997 £15m of costs were disallowed under US GAAP.

Under UK GAAP goodwill arising on acquisition is written off against reserves in the consolidated balance sheet in the year of acquisition. Goodwill is charged to the profit and loss account when the related investment is sold or written down as a result of permanent diminution's in value, whereas under US GAAP goodwill is amortised against profit over periods varying between 5 and 40 years. The amortisation of goodwill amounted to £92m under US GAAP 1997:£30m).

Under UK GAAP pension costs and surpluses are charged or credited to the profit and loss account over the expected service life of employees. Under US GAAP costs and surpluses are similarly spread but based on prescribed actuarial assumptions which differ in certain respects from those used for UK GAAP. In 1998, the application of US GAAP to the pension costs resulted in an additional charge to the profit and loss account of £4m and in 1997 the application of US GAAP resulted in an additional credit of £11m.

Shareholders' equity under US GAAP was higher than that reported under UK GAAP by £2,053m and £442m at March 31st 1998 and 1997 respectively. See Note 39 of Notes to Consolidated Financial Statements.

INTEREST RATE SENSITIVITY

The table below provides information about the Group's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected (contractual) maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date. The information is presented in sterling equivalents, which is the Group's reporting currency. The instruments actual cash flows are denominated in sterling and other currencies as indicated in parentheses.

March 31st 1998

	Expected Maturity Date								
	1998	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
					(£ Equivalent in millions)				
Liabilities									
Underlying Long-term debt									
Fixed Rate (GBP)					200	30	984	1,214	1,515
Average interest rate					10.375%	7.53%	7.826%	8.239%	
Fixed Rate (USD)		60	60	69		453	1,079	1,721	1,736
Average interest rate		8.45%	5.6625%	6.920%		6.375%	7.576%	7.197%	
Fixed Rate (ECU)	46							46	46
Average interest rate	5.7%							5.7%	
Floating rate (GBP)	84					650		734	734
Average interest rate	7.701%					7.8327%		7.806%	
Floating rate (DEM)							120	120	120
Average interest rate							4.916%	4.916%	
Floating rate (HKD)	205							205	205
Average interest rate	5.10%							5.10%	
Floating rate (USD)	32							32	32
Average interest rate	5.50%							5.50%	
Fixed/floating rate Other	182	6	25	17	40	16	117	403	403

The fixed/floating rate Other line represents many non-material loans of various currencies and interest rates.

	1998	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
Derivatives									
Interest rate swaps									
Receive Variable to Pay Fixed (GBP)						1,200		1,200	(3)
Average pay rate						6.767%		6.767%	
Average receive rate						6.696%		6.696%	
Receive Fixed to Pay Variable (GBP)					75			75	4
Average pay rate					9.072%			9.072%	
Average receive rate					10.375%			10.375%	
Receive Fixed to Pay Variable (USD)		60						60	4
Average pay rate		5.033%						5.033%	
Average receive rate		8.450%						8.450%	

March 31st 1998

	Expected Maturity Date								
	1998	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
	(£ Equivalent in millions)								
Forward rate agreements									
Receive Variable to Pay Fixed (GBP)		1,000						1,000	0
Average pay rate		7.52%						7.52%	
Average receive rate		7.52%						7.52%	
Cross currency swaps									
Receive Fixed USD Pay Floating GBP						453	636	1,087.	(31)
Average pay rate GBP						7.278%	7.158%	7.208%	
Average receive rate USD						6.375%	6.673%	6.549%	
Receive Floating DEM Pay Floating GBP							120	120	(22)
Average pay rate GBP							6.277%	6.277%	
Average receive rate DEM							4.916%	4.916%	
Receive Fixed GBP Pay Floating USD					65			65	7
Average pay rate USD					5.876%			5.876%	
Average receive rate GBP					10.375%			10.375%	
Receive Fixed ECU Pay Floating USD	46							46	
Average pay rate USD	5.744%							5.744%	(1)
Average receive rate ECU	5.700%							5.700%	

EXCHANGE RATE SENSITIVITY

The table below provides information about the Group's derivative financial instruments and other financial instruments and presents such information in sterling equivalents. The table summarises information on instruments and transactions that are sensitive to foreign currency exchange rates, including forward exchange agreements, cross-currency swaps and long term US dollar denominated debt. For debt obligations, the table presents principal cash flows and related average interest rates by expected maturity dates. For foreign currency forward exchange agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contracted payments to be exchanged under the contract.

March 31st 1998

	Expected Maturity Date								
	1998	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
	(£ Equivalent in millions)								
Liabilities									
Underlying Long-term debt									
Fixed Rate (USD)			60	69			444	573	574
Average interest rate			5.6625%	6.920%			8.865%	8.295%	
Fixed Rate (ECU)	46							46	46
Average interest rate	5.7%							5.70%	
Floating rate (HKD)	205							205	205
Average interest rate	5.10%							5.10%	
Derivatives									
Forward Exchange Agreements									
(Receive $US/Pay GBP)									
Contract Amount	197							197	2
Average Contractual Exchange Rate	1.65							1.65	
(Receive GBP/Pay $US)									
Contract Amount	97							97	(1)
Average Contractual Exchange Rate	1.66							1.66	
Cross-currency swap									
(Receive ECU/Pay $US)									
Contract Amount	46							46	(1)
Average Contractual Exchange Rate	1.43							0.89	

The Group assesses the exposure of its overall position on a net basis, after considering the extent to which variable rate liabilities can be offset with variable rate assets, typically short term deposits and cash. The Group's objective is to minimise interest expense consistent with maintaining an acceptable level of exposure to the risk of interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and variable rate debt based on an assessment of interest rate trends. To obtain this mix in a cost efficient manner the Group primarily utilises

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interest rate swaps that have the effect of converting specific debt obligations of the Group from fixed to variable rate, or vice versa, as required. If appropriate, the Group also uses foreign currency swaps to match long term currency denominated debt to a proportion of its overseas asset base.

INTEREST AND EXCHANGE RATE SENSITIVITY COMMENTARY

In February 1998, Cable & Wireless Communications plc issued £500 million in the UK bond market. In March a further US$1.8 billion was raised in the US bond market, US$750 million 6.375 per cent 5 year, US$650 million 6.625 per cent 7 year and US$400 million 6.75 per cent 10 year bonds.

The US bonds were hedged into sterling using cross-currency swaps. The sterling equivalent proceeds of the US bonds were £1.1 billion. Together with the interest rate swaps taken out earlier in the year, the average sterling funding for the US issues has been fixed for 5 years at 7.6 per cent. Since the swaps eliminate the foreign currency exposures in the cash flows on these bonds the debt and the swaps have been placed in the interest rate sensitivity category only.

Short term hedging has been carried out in the form of Forward Rate Agreements (FRAs) which expire in 1999. These FRAs hedge draw downs made under the new C&WC £1 billion 5 year facility. Average rates achieved were approximately 7.5 per cent. At March 31st 1998, £650 million of the facility was drawn. A discussion of the Group's accounting policies for derivatives is included in the Statement of Accounting Policies in the Notes to Consolidated Financial Statements. Further Disclosure relating to derivatives and other financial instruments is included in Note 26 to the Consolidated Financial Statements.

ITEM 10 – DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The management of the business of the Company is vested in the Board of Directors who determine the overall strategy of the Company. At each annual general meeting of the Company, one third, or the number nearest to one third but not greater than one third, of the directors are required to retire from office by rotation. The directors to retire by rotation in every year shall be those who wish to retire and thereafter those who have been longest in office since their last election, but, as between persons who became directors on the same day, those to retire will, unless they otherwise agree among themselves, be determined by lot. A retiring director is eligible for re-election. All directors initially appointed by the Board of Directors hold office until the next annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the directors who are to retire by rotation at such meeting. The Company may by ordinary resolution remove any director before the expiration of his or her period of office and appoint another person in his or her place. The Board of Directors may from time to time appoint one or more directors to any executive office for such period and on such terms as it decides, and the Board of Directors may terminate any such appointment. A director so appointed to the office of Chairman, Chief Executive, Deputy Chief Executive, Managing Director, Joint Managing Director, Deputy Managing Director or Assistant Managing Director shall cease to hold such office if he or she ceases for any reason to be a director.

The directors and executive officers of the Company that served during the year ended March 31st 1998 were as follows:

Sir Brian Smith CBE – Non Executive Chairman

Sir Brian Smith was appointed Non-executive Chairman of Cable and Wireless plc in November 1995. He was a Non-executive Director with Cable and Wireless for seven years until June 1995. Sir Brian is a member of the Remuneration and Audit Committees and is a Non-executive Director of Hongkong Telecom. He is also Non-executive Chairman of BAA plc and Hydron Ltd. Sir Brian was knighted in the 1998 new Year Honours List for services to industry and the community. He is a Director of the Oxford Diocesan Board of Finance and of the John Cabot City Technical College, Bristol Trust. He is also President of the Chartered Institute of Marketing Royal Counties Branch. Sir Brian is a Freeman of the City of London and a Liveryman of the Worshipful Company of Glovers. Age 69. Sir Brian retired at the 1998 Annual, General Meeting.

Sir Ralph Robins – Non-Executive Director

Sir Ralph Robins was appointed to the Board in April 1994. He is also Chairman of Rolls-Royce plc where he has previously served as Managing Director, Deputy Chairman and Chief Executive before becoming Chairman in 1992. Sir Ralph is also Chairman of the Defence Industries Council and a former President of the Society of British Aerospace Companies. Age 65. Sir Ralph was appointed Chairman at the 1998 Annual General Meeting.

Richard H Brown – Chief Executive

Richard H Brown was appointed Chief Executive on July 1, 1996. He is also Chairman of Cable and Wireless Communications and Chairman of Hongkong Telecom. Mr Brown has more than 29 years experience in local, long distance and international telecommunications and was formerly the Vice-Chairman of Ameritech Inc, one of the major US regional telecommunications companies, and President and Chief Executive Officer of Illinois Bell. He also served as Executive Vice-President of Sprint Communications Company L.P. Immediately prior to joining Cable & Wireless, Mr Brown was President and Chief Executive Officer of H&R Block, Inc. of Kansas City, the world's largest tax preparation company. Mr Brown is a member of the Board of Directors of Pharmacia and Upjohn, Inc., one of the world's leading pharmaceutical companies, and the Seagram Company Limited. He also serves on the Ohio University Foundation Board of Trustees. Age 50.

Rodney J Olsen – Executive Director, Asia Pacific and Chairman, Asia Pacific Development Board

Rodney Olsen was appointed Chairman, Asia Pacific Development Board in June 1996. He was Deputy Chief Executive of Cable and Wireless between 1996 and 1998 and Acting Chief Executive between December 1995 and June 1996, having been Executive Director, Finance, since April 1987. Mr Olsen was appointed to the Board as Director, Far East and Pacific in 1986. He was resident in Hong Kong for 14 years and since joining Cable and Wireless in 1976, has served as General Manager, Cable and Wireless (Hong Kong), Area General Manager/Strategic Planning of the company and Managing Director of Hongkong Telephone. He is a Non-executive Director of Standard Chartered PLC. Age 52.

Robert E Lerwill – Executive Director, Finance

Robert E Lerwill was appointed Executive Director, Finance in January 1997. He joined Cable & Wireless from WPP Group plc, the world-wide marketing services group where he had been Group Finance Director since 1986. He earlier spent ten years with Arthur Andersen & Co., where he qualified as a Chartered Accountant, based in the UK. He also worked in South Africa, Russia and the Middle East. Age 46.

Linus W L Cheung – Chief Executive, Hongkong Telecom

Linus Cheung was appointed an Executive Director of Cable and Wireless plc in January 1995. He is also Chief Executive and an Executive Director of Hongkong Telecom with responsibility for the Company's operations in Hong Kong, Greater China, Taiwan and Macau. Prior to joining Hongkong Telecom, Mr Cheung was Deputy Managing Director of Cathay Pacific Airways Limited where he had responsibility for the airline's world-wide commercial activities. Mr Cheung is the Chairman of the Management Board of the School of Business at the University of Hong Kong, and is a non-official Justice of the Peace. He is also an Adviser to the Chinese Society of Macroeconomics of the State Planning Commission of the PRC. Age 50.

Stephen R Pettit – Executive Director, Global Businesses

Stephen Pettit was appointed Executive Director, Global Businesses in April 1997. His responsibilities encompass Cable & Wireless' global lines of business, Global Marine, Global Mobile, Global Markets, Global Card Services, and Global Network, together with Group Development. Mr Pettit was formerly Executive Director of Europe and Mobile and was responsible for the establishment of Cable & Wireless Communications. He joined Cable & Wireless in March 1994 as Managing Director for Europe from the British Petroleum company, where he was Chief Executive, Petrochemicals. He is also Chairman of *One 2 One*. Age 46.

Winfried F W Bischoff – Non Executive Director and Deputy Chairman

Winfried Bischoff was appointed a Non-executive Director in 1991. He is also Chairman of the Remuneration Committee and a member of the Audit Committee. He joined Schroders plc in London in 1966 and in 1971 was appointed Managing Director of Schroders Asia Limited, Hong Kong. Mr Bischoff was appointed Chairman of J. Henry Schroder & Co Limited in October 1983, Group Chief Executive of Schroders plc from December 1984 and Chairman of Schroders plc in May 1995. Age 56.

Dr Janet P Morgan – Non-Executive Director

Dr Janet Morgan was appointed to the Board in 1988. She is also a member of the Audit Committee, the Remuneration Committee and the Community Investment Committee. She is a Non-executive Director of the Scottish American Investment Company plc, the Scottish Life Assurance Company, the Nuclear Generation Decommissioning Fund Ltd., the Scottish Oriental Smaller Companies Trust plc and the NMT Group plc. Age 52.

David P Nash – Non-Executive Director

David Nash was appointed a Non-executive Director in September 1995. He is Chairman of the Audit Committee and a member of the Remuneration Committee. Mr Nash was Group Finance Director of Grand Metropolitan plc from December 1989 until December 1993 and then Chairman and Chief Executive of Grand Metropolitan's world-wide food businesses until October 1995. He previously worked for ICI plc and Cadbury Schweppes plc. Mr Nash is also Chairman of General Healthcare Group Ltd and of Kenwood Appliances Plc, and a Non-executive Director of The Energy Group Plc, Sun Life and Provincial Holdings Plc and IMRO (Investment Management Regulatory Organisation Ltd). He is Honorary Treasurer of the Prince of Wales' Business Leaders Forum. Age 58.

The Hon Raymond Seitz – Non-Executive Director

Raymond Seitz became a Board member in February 1995. He is currently Vice-Chairman at Lehman Brothers, and is a Non-executive Director of Hongkong Telecom. Until May 1994, Mr Seitz was the US Ambassador in the United Kingdom. During a career in the US Diplomatic Service spanning 28 years, he was Executive Assistant to Secretary of State George Shultz from 1981-84, Minister at the US Embassy in London from 1984-89 and Assistant Secretary of State for Europe, based in Washington, from 1989-91. Age 57.

Directors are not required to hold any qualification shares.

On January 15th 1996 a Special Resolution was passed to amend the Articles of Association of the Company to enable either the Chairman or the equivalent to the chief executive officer of the Company to be other than a British citizen within the meaning of the British Nationality Act 1981. There is no provision for retirement of directors at a specified age.

ITEM 11 – COMPENSATION OF OFFICERS AND DIRECTORS

For the year ended March 31st 1998, the aggregate compensation of all directors and officers of the Company (16 persons) paid or accrued in that year for services in all capacities was £7.3m. The aggregate emoluments of the Directors of the Company were as follows:

	1998	1997
	(in £ thousands)	
Fees of Non-executive directors	193	210
Non-executive Chairman's emoluments	269	285
Executive Directors' emoluments	2,518	2,697
Performance related bonuses	1,073	1,465
Gain on exercise of options	67	-
Deferred bonus	1,465	-
Aggregate emoluments	5,585	4,657
Compensation for loss of office	-	500
	5,585	5,157

The following table shows an analysis of the remuneration of the individual Executive Directors and fees of individual Non-Executive Directors:

	Salary and fees £	Short term performance related annual bonus £	Allowances and benefits £	1998 Total £	1997 Total £
Winfried F W Bischoff	40,000		-	40,000	40,000
Richard H Brown	692,986	367,275	56,341	1,116,602	1,243,762
Linus W L Cheung	338,575	191,504	396,920	926,999	926,376
Robert E Lerwill	301,006	158,289	3,490	462,785	173,250
Dr Janet P Morgan	40,000	-	-	40,000	40,000
David P Nash	40,000	-	-	40,000	40,000
Rodney J Olsen	432,590	226,661	14,757	674,008	696,896
Stephen R Pettit	264,142	129,424	17,214	410,780	447,089
Sir Ralph Robins	30,000	-	-	30,000	30,000
The Hon Raymond Seitz	43,333	-	-	43,333	30,000
Dr N Brian Smith	250,000	-	18,579	268,579	284,759
Former Directors	-	-	-	-	1,204,437
	2,472,632	1,073,153	507,301	4,053,086	5,156,569

Allowances and benefits include such items as company cars, fuel and medical insurance. Linus W. L. Cheung's allowances and benefits include housing and related benefits, which it is common practise to pay on behalf of senior executive officers in Hong Kong.

In addition, during the year Richard H Brown was awarded a deferred bonus relating to the year ended March 31st 1997 under which he will receive 89,250 shares in Cable and Wireless plc on April 1st 2000 on condition that he remains employed by the Group at that date. He will also be awarded a further deferred bonus of 106,880 shares on April 1st 2001 in relation to the year ended March 31st 1998 on condition that he remains in the employment of the Group at that date. The value of these shares at March 31st 1998 was £1,465,091.

Payments totalling £224,246 were made to Jonathan H M Solomon, a former director, for consultancy services.

The following table shows the shares awarded in respect of the year ended March 31st 1998 Long Term Incentive Plan transitional arrangements:

	1998 Number	1997 Number
Richard H Brown	70,163	-
Linus W L Cheung	32,683	-
Robert E Lerwill	29,684	-
Rodney J Olsen	43,177	-
Stephen R Pettit	26,986	-
	202,693	-

The allocation of shares in the Long Term Incentive Plan Transitional Scheme 1998 to the Directors was set on May .2th 1998. These shares will be awarded to the Directors on May 13th 1998. These shares represent the full entitlement of shares under this transitional scheme. The share price on May 12th 1998 was 679p. Notional allocations of shares for the 1999 transitional scheme and the Long Term Incentive Plan are shown in the table of Directors' share options.

DIRECTORS' PENSION ENTITLEMENT PER ANNUM:

	Richard H Brown £	Robert E Lerwill £	Rodney J Olsen £	Stephen R Pettit £
Accrued pension at April 1st 1997	29,545	3,333	165,348	16,049
Increase in accrued pension during year as a result of inflation	1,027	-	5,746	553
Adjustment to accrued pension as a result of salary increase relative to inflation	38[illegible]	-	17,110	3,027
Increase in accrued pension as a result of additional year's service	41,279	8,697	9,294	6,368
Accrued pension at March 31st 1998	72,239	12,030	197,498	26,002
Employee contributions during year	-	-	-	-
Age at March 31st 1998	50	46	52	46

Linus W L Cheung is a member of the Hongkong Telecom pension scheme which provides a lump sum entitlement. At March 31st 1998 Linus W L Cheung's lump sum entitlement, if he had left service at that date, was £163,823. The lump sum entitlement increased by £71,921 in the year ended March 31st 1998.

The Directors are in defined benefit pension schemes. In common with other employees, the normal retirement age is 60. 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 Director had he or she remained in service to the normal retirement date based on the final remuneration at the date of death.

If a 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.

An amount of £975,000 is included in provisions to cover the cost of former Directors' pension entitlements.

DIRECTORS' PENSION SCHEME

The Executive Directors' pension scheme, independent of other Group pension schemes, is a defined benefit scheme whereby retirement benefits based on the Executive Directors' final base salary and length of service are provided through separate trustee administered schemes. The Company pays contributions into the scheme on behalf of Executive Directors based on the recommendations of an independent actuary who carries out a valuation of the scheme every three years, or at such shorter intervals as may from time to time be agreed. None of the existing Non-executive Directors are in the Directors' pension scheme.

DIRECTORS' SHAREHOLDINGS

The beneficial interests of the Directors and their families in the ordinary shares of the Company were as follows:

	At April 1, 1997	Shares acquired	Shares disposed	At March 31st 1998
Winfried F W Bischoff	–	10,000	–	10,000
Richard H Brown	10,000	11,000	–	21,000
Linus W L Cheung	–	–	–	–
Robert E Lerwill	12,500	10,000	–	22,500
Dr Janet P Morgan	1,301	20	–	1,321
David P Nash	1,007	16	–	1,023
Rodney J Olsen	65,803	24,382	–	90,185
Stephen R Pettit	231	69,104	(60,084)	9,251
Sir Ralph Robins	1,000	–	–	1,000
The Hon Raymond Seitz	–	2,000	–	2,000
Dr N Brian Smith	20,215	18,340	–	38,555

There were no changes to the Directors' shareholdings between March 31st 1998 and May 12th 1998 except for the shares awarded to the Directors under the Long Term Incentive Plan Transitional Scheme disclosed below.

REMUNERATION COMMITTEE

The Remuneration Committee comprises all the Non-executive Directors, namely: Winfried F W Bischoff, Dr Janet P Morgan, David P Nash, Sir Ralph Robins, The Hon Raymond Seitz and Dr N Brian Smith.

The Remuneration Committee sets the Executive Directors' remuneration by reference to individual performance and market data. The Remuneration Committee considers that the Executive Directors' package is fair and reasonable for the responsibilities involved and sufficiently dependent on achievement to attract, retain and motivate directors of the quality required. It is felt that the total package reinforced with the proposed Long Term Incentive Plan will improve the achievement of long term performance. The Remuneration Committee has given full consideration to and, with the exception of the provision of two year rolling contracts, has complied with the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange.

SERVICE CONTRACTS

Executive Directors have two year rolling contracts. These contracts are reviewed on an annual basis. The Remuneration Committee believes that in the case of your Company, which operates in a highly competitive and international environment, a two year term is both appropriate and necessary to attract and retain individuals of the necessary calibre. Any compensation payments for termination would be subject to mitigation.

The Chairman and the Non-executive Directors, not being employees, have no service contracts with the Company.

BASE SALARY

The base salary for Richard H Brown is set by reference to the total remuneration for Chief Executives in a comparator group of major international telecommunications companies which recognises his value in a global employment market.

Base salaries for the other Executive Directors have been aligned to the median of the comparator group which comprises directors and senior management of 21 UK based international companies with similar profiles to Cable and Wireless plc. Any movement will reflect a combination of the achievement of personal objectives and overall contribution to long term performance of the Group.

Non-executive Directors' fees are at the rate of £30,000 per annum. An additional £10,000 per annum is paid to Non-executive Directors with additional responsibilities such as chairmanship of Board Committees. Sir Brian Smith's fees for his role as Chairman of the Company were set at the time of his reappointment.

BONUS SCHEME

In 1997, the Company replaced its previous executive bonus scheme, which had both a long and a short term element, with a new Short Term Incentive Plan and a new Long Term Incentive Plan. The aim of the new plans was twofold; firstly to ensure closer alignment between executives' and shareholders' interests and secondly to ensure that performance conditions used to determine awards under the plans are relevant and stretching.

In addition, Richard H Brown participates in a deferred bonus scheme which provides him with a number of Cable and Wireless plc shares each year. The number of shares is determined at the end of each year and is payable to him three years later conditional upon his continued employment by the Group.

SHORT TERM INCENTIVE PLAN

Awards under the Short Term Incentive Plan are linked to the Company's profit after tax, cash flow and turnover performance against pre-set targets. In addition, no awards will be made under the plan unless there has been real (inflation adjusted) earnings per share (EPS') growth (adjusted to be consistent with prior year calculations and normalised to enable the Remuneration Committee to measure underlying performance by removing, at their discretion, any anomalies such as exceptional items), during the relevant year.

The maximum award payable under the plan is equal to 60 per cent of salary. Maximum awards will only be payable if the Company's profit after tax, cash flow and turnover are 110 per cent or more of pre-set targets.

In order to foster alignment between shareholders' and executives' interests, awards under the Short Term Incentive Plan may be paid in shares, rather than cash.

LONG TERM INCENTIVE PLAN

The Long Term Incentive Plan was approved by shareholders at the Company's 1997 Annual General Meeting.

The plan makes awards in shares rather than in cash, in order to align the interests of executives and shareholders more closely.

The minimum award of shares (equivalent to 10 per cent of salary) will be made if rolling average real (inflation adjusted) EPS growth (adjusted for consistency with the prior year and normalised in the same way as the Short Term Incentive Plan) over a three year period is 2.5 per cent per annum. The maximum award (currently equivalent to 60 per cent of salary) will be made if rolling average real EPS over a three year period is 15 per cent per annum or more. This, in combination with grants under our existing share option scheme will, we believe, provide a competitive total level of long term incentive provision.

The plan is operated in conjunction with an Employees' Share Ownership Trust. The purpose of the Trust is to purchase and hold Ordinary Shares in the Company and to distribute such shares to employees upon the terms of the plan and any other future employee share scheme arrangement operated by it. The Trust may acquire such Ordinary Shares either by purchasing Ordinary Shares in the market or by the Company issuing and allotting new Ordinary Shares to the Trust.

TRANSITIONAL ARRANGEMENTS

Transitional arrangements are in place for the period between the last award under the long term element of the previous annual bonus scheme and the first pay out under the new Long Term Incentive Plan. In essence, awards will be made to Executive Directors on the same basis as under the long term element of the previous bonus plan, but will be delivered in shares rather than in cash. The scheme runs for the years ended March 31st 1998 and 1999 and details of the awards for 1998 and notional maximum awards for 1999 are given in below.

SHARE OPTIONS

Options are granted on a selective basis to the holders of key positions throughout the Group including Executive Directors. Generally, in order to be considered for the grant of share options, in addition to maintaining high levels of personal performance, an individual must either hold key skills for which there is an absolute business need or have demonstrated high potential which is important for the future of the Group.

ITEM 12 – OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

At September 15th 1998 options to subscribe for 47,779,077 Ordinary Shares were outstanding at exercise prices ranging from 185.50p to 706.00p and with expiration dates ranging from February 28th 1999 to June 7th 2008. At September 15th 1998, directors and the company secretary as a group (7 persons) held options to subscribe for 3,167,312 Ordinary Shares.

DIRECTORS' SHARE OPTIONS

At September 15th 1998, the undermentioned Directors had the following options to acquire ordinary shares of the Company under the terms of the C&W Employee Savings Related Share Option Scheme (SAYE), and the executive type schemes (C&W Revenue Approved Share Option Scheme (RESOS) and C&W Senior Employees' Share Option Scheme (SESOS)):

Scheme	Date of grant	Option price	Exercisable from	to	Richard H Brown	Linus W L Cheung	Robert E Lerwill	Rodney J Olsen	Stephen R Pettit
RESOS	07/07/89	251.50p	07/07/92	07/07/99	-	-	-	114,350	-
RESOS	07/13/90	265.00p	07/13/93	07/13/00	-	-	-	144,204	-
SAYE	12/16/91	222.50p	03/01/97	08/31/99	-	-	-	3,370	-
RESOS	08/02/93	338.04p	08/02/98	08/02/03	-	-	-	12,948 [1]	-
RESOS	03/08/94	463.10p	03/08/97	03/08/04	-	-	-	-	69,099
SESOS	03/21/94	445.30p	03/21/97	03/21/01	-	100,000	-	-	-
RESOS	06/13/94	446.50p	06/13/97	06/13/04	-	-	-	18,000	-
RESOS	06/13/94	446.50p	06/13/99	06/13/04	-	-	-	88,000	-
SAYE	06/23/94	341.84p	09/01/99	02/28/00	-	-	-	1,009	2,018
RESOS	06/13/95	413.70p	06/13/98	06/13/05	-	-	-	-	85,000
SESOS	06/13/95	413.70p	06/13/98	06/13/02	-	74,000	-	-	-
SESOS	06/13/95	413.70p	06/13/00	06/13/02	-	65,000	-	-	-
SAYE	07/03/95	336.56p	09/01/00	03/01/01	-	-	-	-	3,075
SESOS	07/03/96	420.50p	07/03/99	07/02/03	611,177	141,653	-	124,445	136,304
RESOS	07/03/96	420.50p	07/03/99	07/02/06	7,134	-	-	-	-
SAYE	12/23/96	376.56p	03/01/02	08/31/02	4,580	-	-	-	-
RESOS	01/08/97	472.40p	01/08/00	01/07/07	-	-	6,350	-	-
SESOS	01/08/97	472.40p	01/08/00	01/07/04	-	-	226,503	-	-
Total at April 1st 1997					622,891	380,653	232,853	506,326	295,496
Granted during the year									
LTIPTS99 (notional)	04/01/97	0.00p	05/12/99	-	79,430	37,000	33,605	48,880	30,550
LTIP (notional)	04/01/97	0.00p	05/10/00	03/31/07	79,430	37,000	33,605	48,880	30,550
SAYE	05/30/97	394.48p	09/01/04	02/28/05	-	-	1,977	-	-
SESOS	06/13/97	553.30p	06/13/00	06/13/04	300,000	74,578	-	-	89,000
RESOS	06/13/97	553.30p	06/13/00	06/13/07	-	5,422	-	-	
Exercised during the year									
SAYE	12/16/91	222.50p	03/01/97	08/31/99	-	-	-	(3,370)[2]	-
RESOS	03/08/94	463.10p	03/08/97	03/08/04	-	-	-	-	(69,099)[2]
Total at March 31st 1998					1,081,751	534,653	302,040	600,716	376,497
Granted between April 1st and September 15th 1998									
SESOS	06/08/98	704.60p	06/08/01	06/08/05	36,999	16,000	39,999	-	20,000
LTIP (notional)	04/01/98	0.00p	05/10/01	05/10/08	56,914	27,806	25,651	35,431	21,844
Exercised between April 1st and September 15th 1998									
RESOS	07/07/89	251.50p	07/07/92	07/07/99	-	-	-	(114,350)[3]	-
SESOS	03/21/94	445.30p	03/21/97	03/21/01	-	(100,000)[3]	-	-	-
RESOS	06/13/95	413.70p	06/13/98	06/13/05	-	-	-	-	(85,000)[3]
Total at September 15th 1998					1,175,664	478,459	367,690	521,797	111,341

[1] These options are exercisable before August 1st 1998 at the non-discounted option price of 397.70p.

[2] Rodney J Olsen and Stephen R Pettit exercised the options shown in the table above on June 26th 1997 and June 12th 1997. The closing mid-market price of the shares at these dates were 570p and 543p respectively.

[3] Lucus W.L. Cheung, Rodney J Olsen exercised the options shown in the table above on June 3rd 1998 and Stephen R Pettit exercised the options on 15th June, 1998. The closing mid-market price of the shares at these dates were 708.50p and 655p respectively.

ITEM 13 – INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Except as disclosed in Item 12 above, and as of September 15th 1998, neither the Company nor any of its subsidiaries was a party to any material transactions, or proposed transactions, in which any director, any other executive officer, any spouse or relative of any of the foregoing, or any relative of such spouse had or was to have a direct or indirect material interest.

During 1998, and as of September 15th 1998, neither any director nor any other executive officer, nor any associate of any director or any other executive officer, was indebted to the Company or any of its subsidiaries.

PART II

ITEM 14 – DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable

PART III

ITEM 15 – DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 16 – CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable

PART IV

ITEM 17 – FINANCIAL STATEMENTS

Not applicable

ITEM 18 – FINANCIAL STATEMENTS

Reference is made to Item 19(A) for a list of all financial statements filed as part of this Annual Report on Form 20-F.

ITEM 19 – FINANCIAL STATEMENTS AND EXHIBITS

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All other schedules have been omitted because they are not required under the applicable instructions or because the substance of the required information is shown in the financial statements.

"Cable & Wireless", "C&W", "Cable & Wireless Communications", "C&W Comms", "Mercury", "One 2 One", "Netvigator", "Supernetvigator", "One2Free", "1010", "1+1", "Personal Office Calling Card", "Centrex", "Cascade", "MobileSat", "Surepage", "BroadNet", "BusinessNet", "BusinessLink", "Multinet" are trade marks and service marks of Cable and Wireless plc and/or its subsidiaries and/or its affiliates.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

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CABLE AND WIRELESS PLC AND SUBSIDIARIES

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of Cable and Wireless plc
We have audited the accompanying consolidated balance sheets of Cable and Wireless plc and subsidiaries as of March 31st 1998 and 1997, and the related consolidated profit and loss accounts, statements of cash flows, statements of total recognised gains and losses and reconciliations of movements in shareholders' funds for each of the years in the three year period ended March 31st 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Cable and Wireless Communications plc, a 53 per cent owned subsidiary, which statements reflect total assets constituting 40 per cent and total revenues constituting 32 per cent in 1998, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cable and Wireless Communications plc, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United Kingdom, which are substantially consistent to auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cable and Wireless plc and subsidiaries as of March 31st 1998 and 1997, and the results of their operations and cash flows for each of the years in the three year period ended March 31st 1998, in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations for each of the years in the three year period ended March 31st 1998, and shareholders' equity as of March 31st 1998 and 1997, to the extent summarised in Note 39 to the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

May 12th 1998

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To Cable & Wireless Communications plc:

We have audited the consolidated balance sheet of Cable & Wireless Communications plc and subsidiaries as of March 31st 1998 and the related consolidated profit and loss account, reconciliation of movements in equity shareholders' funds, and cash flows for the year ended March 31st 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United Kingdom and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cable & Wireless Communications plc and subsidiaries as of March 31st 1998 and the consolidated results of their operations and their cash flows for the year ended March 31st 1998 in conformity with generally accepted accounting principles in the United Kingdom.

Certain accounting practices of Cable & Wireless Communications plc used in preparing the consolidated financial statements conform with generally accepted accounting principles in the United Kingdom, but do not conform with accounting principles generally accepted in the United States. A description of these differences and a reconciliation of net income and shareholders' funds to accounting principles generally accepted in the United States are set forth in Note 33 to the consolidated financial statements.

Arthur Andersen
Chartered Accountants
And Registered Auditors
London, England

May 8th 1998

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED MARCH 31ST 1998, 1997 AND 1996

	Note	Acquisitions	Other Continuing Operations	1998	1997	19[illegible]
			(in £ millions, except per share data)			
Turnover of the Group including its share of joint ventures and associates	3,4	635	7,667	8,302	7,002	6.1[illegible]
Share of turnover of:						
- joint ventures	11	-	(1,141)	(1,141)	(796)	(5[illegible]
- associates	11	-	(160)	(160)	(156)	[illegible]
Group turnover	3,4	635	6,366	7,001	6,050	5,5[illegible]
Operating costs	5,10	(577)	(4,773)	(5,350)	(4,512)	(4,2[illegible]
Exceptional items	10	-	(250)	(250)	-	-
Total operating costs		(577)	(5,023)	(5,600)	(4,512)	(4,2[illegible]
Group operating profit	4	58	1,343	1,401	1,538	1,3[illegible]
Share of operating profits/(losses) of joint ventures	11			37	(134)	-
Share of operating (losses)/profits of associates	11			(4)	7	[illegible]
Amounts written off in associates and joint ventures-exceptional items	10			-	-	([illegible]
Total operating profit				1,434	1,411	1,2[illegible]
Profits less losses on sale and termination of operations	8			6	22	-
- exceptional items	10			519	-	[illegible]
Exceptional costs of a fundamental reorganisation	10			(200)	-	-
Profits less losses on disposal of fixed assets	9			85	79	-
- exceptional items	10			518	-	1[illegible]
Net interest and other similar income:						
- Group	12			(113)	(52)	([illegible]
- joint ventures	11			(65)	(29)	([illegible]
- associates	11			-	(13)	[illegible]
Profit on ordinary activities before taxation				2,184	1,418	1,34[illegible]
Tax on profit on ordinary activities	10,13			(244)	(287)	(3[illegible]
Profit on ordinary activities after taxation				1,940	1,131	1,0[illegible]
Minority interests	10,14			(652)	(454)	(41[illegible]
Profit for the financial year				1,288	677	66[illegible]
Earnings per share				57.0p	30.3p	2[illegible]
Earnings per share before exceptional items				32.4p	30.3p	26.4[illegible]
Dividends per share				12.25p	11.1p	10.0[illegible]

The Group has not discontinued any operations within the meaning of Financial Reporting Standard No. 3 during 19[illegible], 1997 or 1998. Group turnover, operating profit and exceptional items are therefore derived entirely from continui[illegible] operations.

The accompanying notes are an integral part of these consolidated financial statements.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS AT MARCH 31ST, 1998 AND 1997

	Note	1998	1998	1997
			(in £ millions)	
Fixed Assets				
Tangible assets	16		8,532	5,540
Interest in net assets of joint ventures	17		704	535
Investments in associates	17		148	158
Other investments	17		197	211
Total Investments			1,049	904
			9,581	6,444
Current Assets				
Stocks	18		156	83
Debtors - due within one year	19		1,393	1,170
- securitised gross trade debtors	19	297		
- less non-returnable proceeds	19	(243)		
- net securitised trade debtors	19		54	—
- due after more than one year	19		178	207
Short term deposits	20		1,355	1,615
Cash at bank and in hand	20		332	150
			3,468	3,225
Creditors: amounts falling due within one year	21		2,798	2,289
Net current assets			670	936
Total assets less current liabilities			10,251	7,380
Creditors: amounts falling due after more than one year	22		4,202	1,847
Provisions for liabilities and charges	23		324	220
Interest in net liabilities of joint ventures	17		78	2
			4,604	2,069
Net assets			5,647	5,311
Capital and reserves				
Called up share capital	24		570	561
Share premium account	25		555	472
Profit and loss account	25		1,973	2,716
Equity shareholders' funds			3,098	3,749
Equity minority interests			2,549	1,562
			5,647	5,311
Total assets	4		13,049	9,669
Total liabilities			7,402	4,358

Interests in the net assets and net liabilities of joint ventures include the Group's share of gross assets of joint ventures of £2,389m, and the Group's share of gross liabilities of joint ventures of £1,763m.

The accompanying notes are an integral part of these consolidated financial statements.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31ST 1998, 1997 AND 1996

	Note	1998	1997	1996
			(in £ millions)	
Net cash inflow from operating activities	30	2,701	2,227	1,867
Dividends from joint ventures		10	10	8
Dividends from associates		13	10	16
Returns on investments and servicing of finance				
Interest received		131	101	82
Interest paid		(307)	(188)	(143)
Interest element of finance lease rentals paid		(10)	(5)	(8)
Issue costs of long term debt		(5)	-	(3)
Dividends paid to minorities		(294)	(325)	(252)
Dividends received from investments		3	6	4
		(482)	(411)	(320)
Taxation				
UK corporation tax paid		(80)	(72)	(49)
Overseas tax paid		(204)	(188)	(202)
		(284)	(260)	(251)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(1,702)	(1,027)	(1,002)
Sale of tangible fixed assets		275	53	21
Purchase of investments		(7)	(92)	(390)
Sale of investments		96	62	239
Capital element of finance lease rentals received		-	-	5
		(1,338)	(1,004)	(1,127)
Acquisitions and disposals				
Receipts from sales of subsidiary undertakings	34	733	28	57
Purchase of shareholdings in subsidiary companies		(737)	(154)	(5)
Payments to acquire investments in joint ventures and associates		(568)	(608)	(553)
Loans to joint ventures and associates		(80)	-	-
Receipts from sales of joint ventures and associates		2	845	1
		(650)	111	(500)
Equity dividends paid				
Dividends paid to shareholders		(242)	(219)	(185)
Management of liquid resources				
Movement in short term investments and fixed deposits (net)		299	(732)	(23)
Financing				
Issue of ordinary shares – parent		52	49	37
– subsidiary undertakings		4	7	53
Issue of Eurobonds by subsidiaries		500	-	200
Proceeds from issue of loan notes		1,089	-	-
Capital element of finance lease rental repayments		(14)	(12)	(19)
Other long term debt issued		3,719	755	439
Long term debt repaid		(5,121)	(473)	(167)
		229	326	543
Increase in cash in the year	31	256	58	28

The accompanying notes are an integral part of these consolidated financial statements.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES AND RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEARS END MARCH 31ST 1998, 1997 AND 1996

Consolidated statement of total recognised gains and losses

	1998	1997	1996
		(in £ millions)	
Profit for the financial year	1,288	677	607
Currency translation differences on foreign currency net investments and related borrowings	(177)	(137)	43
Unrealised gain on part disposal of subsidiary undertaking	138	-	-
Total gains and losses relating to the financial year	1,249	540	650

Reconciliations of movements in shareholders' funds

	1998	1997	1996
		(in £ millions)	
Profit for the financial year	1,288	677	607
Dividends -- interim	(85)	(76)	(68)
– final (proposed)	(194)	(173)	(154)
Profit for the year retained	1,009	428	385
Other recognised gains and losses relating to the year	(39)	(137)	43
New share capital issued	86	49	48
Adjustment in respect of scrip dividend	17	11	20
Goodwill written back	116	600	78
Goodwill acquired and written off during the year	(1,840)	(461)	(654)
Net (decrease)/increase in shareholders' funds	(651)	490	(80)
Opening shareholders' funds	3,749	3,259	3,339
Closing shareholders' funds	3,098	3,749	3,259

The accompanying notes are an integral part of these consolidated financial statements.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nature of Operations

Cable & Wireless is one of the world's leading international telecommunications groups, operating through subsidiaries, branches, associates and joint ventures in the United Kingdom and overseas. It provides, to both business and domestic users, services which include telephone, facsimile, telex, internet, cable television, multimedia and data transmission, making use of the most modern fixed line and mobile technology available. It has operations in over 50 countries and employs over 46,000 people. It has a fleet of 13 cableships and 21 subsea vehicles for the laying, burial and maintenance of submarine cable systems.

The Cable & Wireless Group ("the Group") also provides and manages communication facilities and services for public and private customers and provides telecommunications consultancy world-wide.

Statement of Accounting Policies

a) *Basis of preparation and accounting convention*

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP) which differ in certain material respects from generally accepted accounting principles in the United States (US GAAP). See Note 39.

The accounts are prepared in accordance with applicable accounting standards and on the historical cost basis. A new accounting standard, FRS9 – "Associates and Joint Ventures", has been adopted by the Group. These accounts have been prepared in accordance with this standard other than the treatment of goodwill on the acquisition of associates which will be implemented from April 1st 1998 in line with the implementation of FRS10 – "Goodwill and Intangible Assets". As a result, the disclosure of certain comparative information has been restated.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b) *Basis of consolidation*

The Group accounts comprise a consolidation of the accounts of the Company and all its subsidiaries together with the Group's share of the results and net assets of its associates and joint ventures. The accounts of principal subsidiaries, associates and joint ventures are generally made up to March 31st. However, where this is not practical, the results of certain subsidiaries, associates and joint ventures are based on their accounts to December 31st.

Where subsidiaries or associates or joint ventures are acquired during the year, goodwill, being the difference between cost and fair values attributed to the net assets acquired, is dealt with as a movement on Group reserves. When a disposal occurs, or where a permanent diminution in the value of goodwill is identified, goodwill is transferred from reserves and charged to the profit and loss account.

c) *Foreign currencies*

Average rates of exchange ruling during the year are used to translate the profit and loss accounts of overseas subsidiaries, associated and joint ventures.

The net investments in the Group's overseas subsidiaries, associates and joint ventures are translated into sterling at rates of exchange ruling at March 31st. Exchange differences resulting from the translation of such net investments at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at March 31st are dealt with as movements in Group reserves.

c) *Foreign currencies* continued

Where net investments are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the retranslation of such borrowings are also recorded as movements on Group reserves and any excess taken to the profit and loss account.

Foreign currency assets and liabilities are translated at the rates ruling at March 31st, and all other exchange differences are dealt with through the profit and loss account.

Results of operations in hyper-inflationary economies are translated using a relatively stable currency as the functional currency. The exchange differences arising from this process are taken to the profit and loss account.

d) *Tangible fixed assets and depreciation*

Depreciation is provided on the difference between the cost of tangible fixed assets and the estimated residual value in equal annual instalments over the estimated useful lives of the assets. These lives are:

	Lives	Average
Telephone cables and repeaters		
– analogue	12 to 20 years	14 years
– digital	15 years	15 years
Freehold buildings	40 years	40 years
Leasehold land and buildings	up to 50 years or term of lease if less	40 years
Plant	2 to 40 years	10 years
Cableships	up to 30 years	14 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 amounts.

e) *Fixed asset investments*

Associates and joint ventures are accounted for in the Group's accounts under the equity method of accounting. Other fixed asset investments in the Group's accounts and all fixed assets investments in the Company's accounts, are stated at cost less amounts written off in respect of permanent diminutions in value.

f) *Deferred taxation*

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.

g) *Stocks*

Stocks of equipment, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence. Stocks held for resale are stated at the lower of cost and net realisable value.

h) *Pensions*

The regular cost of providing benefits is charged to the operating profit over the service lives of the members of the schemes so as to achieve a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal schemes are allocated to the operating profit over the expected remaining service lives of the members.

i) *Finance leases*

Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease. The total net investment in finance leases included in the balance sheet represents total lease payments receivable net of finance lease income relating to future accounting periods.

(j) *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 lease 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.

k) *Capitalisation of interest*

Interest, net of taxation, incurred up to the time that separately identifiable major capital projects are ready for service is capitalised as part of the cost of the assets.

l) *Debenture issue costs*

The costs of issue of capital instruments such as bonds and debentures are charged to the profit and loss account on an annual basis over the life of the instrument. A corresponding amount is subsequently transferred from the share premium account to the profit and loss account reserve.

m) *Derivatives*

Interest rate risk and currency mix on long term debt is managed with the use of Forward Rate Agreements ('FRAs'), interest rate swaps and cross-currency swaps using International Swap Dealers Association documentation. Cross-currency swaps are used to hedge the initial draw down and final repayment of currency denominated debt as well as the currency payment interest flows. The principal amounts of the swap are recorded on the balance sheet. All currency denominated assets and liabilities are revalued at the balance sheet date. Interest flows on the swaps are accounted for on the accruals basis and are included as net interest in the interest expense line. Currency swaps are also used to manage the currency mix of long term debt. These swaps are accounted for on the same basis.

Interest rate swaps and FRAs are used to manage the ratio of fixed and floating debt. The notional amounts are recorded off balance sheet. Again interest flows are accounted for on an accruals basis.

Spot and forward contracts, in conjunction with swaps, are used to manage known currency flows. The interest differential is accrued over the life of the contract. Gains and losses on revaluation and maturity of the contract are taken to the profit and loss account or reserves depending on the nature of the underlying exposure.

n) *Long-term contracts*

The amount of long-term contracts, at costs incurred, net of amounts transferred to cost of sales, after deducting foreseeable losses and payments on account not matched with turnover, is included in work in progress and stock as long-term contract balances. The amount by which recorded turnover is in excess of payments on account is included in debtors as amounts recoverable on contracts. Payments in excess of recorded turnover and long-term contract balances are included in creditors as payments received on account on long-term contracts. The amount by which provisions or accruals for forseeable losses exceed costs incurred, after transfers to cost of sales, is included within either provisions for liabilities and charges or creditors, as appropriate.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Presentation of financial information

The consolidated financial statements are stated in pounds sterling, the currency of the country in which the Company is incorporated.

2 Historical cost profits and losses

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

3 Group turnover and turnover recognition

The Group's operations are all considered to fall into one class of business, namely telecommunications.

Group turnover comprises the value of all services provided and equipment sold to third parties and is accounted for on the accruals basis. At the end of each year adjustments are recorded to defer prepayments with respect to services invoiced in advance and to accrue for unbilled services. Turnover derives from:

a) Public telecommunications

Amounts accruing to the Group from international and domestic telecommunications, both fixed line and mobile, including telephone, facsimile, telex, internet, cable television, multimedia and data transmission. These services are generally provided under agreements with licensing governments. Also included is turnover arising from the ownership and/or the operation of assets which form part of the Group's world-wide communications systems, such as leased circuit services, together with amounts charged for maritime telecommunications services and management fees.

b) Other

Equipment sales and rental – turnover from the sale, leasing, rental and maintenance of terminals, communications systems, indefeasible rights of use of cable capacity and associated activities in respect of non-franchised and public telecommunications activities, except for rentals in respect of direct exchange lines which are treated as domestic telephone turnover.

Cableships – turnover from charters and from the use of the Group's ships under agreement with other cable owners and with manufacturers.

Contracts – turnover derived from consultancy fees together with the proceeds of short term contracts completed in the year and the estimated sales value of work done during the year on long term contracts relating to telecommunications systems.

The following table sets forth certain information with respect to the Group's turnover by category of service.

	1998	1997	1996
		(in £ millions)	
Public telecommunications:			
International telecommunications services	2,996	2,804	2,560
Domestic telecommunications services	1,862	1,553	1,442
Cable television and multimedia services	203	–	–
Other telecommunications services	1,385	1,165	986
	6,446	5,522	4,988
Other:			
Equipment sales and rental	241	240	307
Cableship and contracts	314	288	222
Group turnover	7,001	6,050	5,517
Share of turnover of associates and joint ventures	1,301	952	655
Turnover of the Group including its share of associates and joint ventures	8,302	7,002	6,172

4 Segmental information

Details of Group turnover, contributions to operating profit, identifiable assets, net operating assets, additions to tangible fixed assets and depreciation and amortisation by geographical region are as follows:

	1998	1997	1996
		(in £ millions)	
Group turnover			
Hong Kong	2,758	2,665	2,422
Other Asia	162	118	106
United Kingdom	2,246	1,718	1,698
Other Europe	49	59	50
Caribbean	809	603	548
North America	708	621	477
Rest of the world	366	327	273
Inter-regional turnover	(97)	(61)	(57)
Group turnover	7,001	6,050	5,517
Share of turnover of associates and joint ventures	1,301	952	655
Turnover of the Group including its share of associates and joint ventures	8,302	7,002	6,172

The Group turnover figure disclosed represents turnover of the Company and its subsidiaries to the location from which the Group supplies its telecommunications services. This is generally the same as the location to which telecommunications services are supplied. However, it does not follow that international telecommunications traffic which the Group may be responsible for carrying on part of its route would necessarily originate in that location. The Group does not have access to information on the original source or ultimate destination of international telecommunications traffic.

	Before exceptional items	Exceptional items	1998	1997	1996
			(in £ millions)		
Operating profit					
Hong Kong	1,052	(158)	894	1,007	920
Other Asia	14	–	14	10	11
United Kingdom	238	–	238	317	183
Other Europe	(15)	–	(15)	(38)	(35)
Caribbean	278	–	278	194	179
North America	48	(92)	(44)	41	41
Rest of the world	36	–	36	7	12
	1,651	(250)	1,401	1,538	1,311

Financing is dealt with at a Group level and therefore net interest and other similar income cannot be allocated to a geographic region.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4 Segmental information continued

The exceptional items are described fully in note 10.

	1998	1997
	(in £ millions)	
Identifiable assets		
Hong Kong	4,595	4,340
Other Asia	408	278
United Kingdom	4,200	1,897
Other Europe	1,097	1,168
Caribbean	1,385	1,060
North America	187	285
Rest of the world	1,177	641
	13,049	9,669

	1998	1997
	(in £ millions)	
Net operating assets		
Hong Kong	2,143	1,782
Other Asia	43	114
United Kingdom	3,638	1,537
Other Europe	10	54
Caribbean	933	690
North America	114	171
Rest of the world	255	271
	7,136	4,619
Other assets	(1,489)	692
	5,647	5,311

Other assets include tangible fixed assets not yet in service, fixed asset investments, short term deposits less loans and overdrafts.

	1998	1997
	(in £ millions)	
Additions to tangible fixed assets		
Hong Kong	456	411
Other Asia	46	26
United Kingdom	975	355
Other Europe	6	8
Caribbean	203	173
North America	53	58
Rest of the world	51	53
	1,790	1,084

4 Segmental information continued

The exceptional items are described fully in note 10.

	1998	1997
	(in £ millions)	
Identifiable assets		
Hong Kong	4,595	4,340
Other Asia	408	278
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Other Europe	1,097	1,168
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	(in £ millions)	
Net operating assets		
Hong Kong	2,143	1,782
Other Asia	43	114
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Other assets	(1,489)	692
	5,647	5,311

Other assets include tangible fixed assets not yet in service, fixed asset investments, short term deposits less loans and overdrafts.

	1998	1997
	(in £ millions)	
Additions to tangible fixed assets		
Hong Kong	456	411
Other Asia	46	26
United Kingdom	975	355
Other Europe	6	8
Caribbean	203	173
North America	53	58
Rest of the world	51	53
	1,790	1,084

5 Operating costs continued

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 meaningful. In the circumstances, the Directors have, as required by paragraph 3(3) of schedule 4 to the Companies Act 1985, adapted the prescribed format to the requirements of the Group's business.

The remuneration of the auditors in respect of audit services provided to the Group during the year was £1.5m (1997-£1.7m, 1996-£1.7m). The remuneration of the auditors in respect of non-audit services to the Company and its UK subsidiaries was £3.3m (1997-£4.6m, 1996-£3.5m), including £0.1m (1997-£2.9m, 1996-£0.4m), in respect of acquisition and disposal services.

6 Employees

The average monthly number of persons employed by the Group during the year was:

	1998	1997
	(Number)	
Hong Kong	13,985	14,187
Other Asia	2,874	1,172
United Kingdom	12,810	7,835
Other Europe	313	426
Caribbean	11,188	7,749
North America	2,251	2,442
Rest of the world	2,994	3,473
Associated undertakings	135	164
	46,550	37,448

The aggregate remuneration and associated costs of the Group employees, including amounts capitalised, were:

	1998	1997
	(in £ millions)	
Salaries and wages	1,047	886
Social security costs	52	40
Pension costs-principal schemes	54	52
Pension costs-other costs	15	14
	1,168	992

7 Pensions

The Company and its principal subsidiaries operate pension and retirement schemes which cover the majority of employees in the Group. These schemes are principally of the defined benefit type whereby retirement benefits are based on the employees' final remuneration and length of service and are funded through separate trustee administered schemes. Contributions to the schemes are made in accordance with the recommendations of independent actuaries who value the schemes at regular intervals, usually triennially. Actuarial values of the principal United Kingdom and Hong Kong pension schemes were prepared at March 31st 1996 and December 31st 1996 respectively.

The valuation of the United Kingdom Scheme disclosed an increased surplus compared with the previous valuation. The Company has thus reduced its contributions to the scheme with effect from April 1st 1996 with the agreement of the actuary. In the accounts, the surplus in the United Kingdom Scheme has been spread over the remaining service lives of the employed members.

7 Pensions continued

The United Kingdom Scheme was valued using the projected unit method and the principal assumptions were that future investment returns would, on average, be 4.5 per cent a year above the level of price inflation, that general salary growth would be 2 per cent a year above price inflation and that both pension increases and the growth of equity dividends from March 1996 levels would be in line with price inflation. The market value of the scheme's investments at the valuation date was £920m. The assessed value which the actuary placed on those investments was some 12 per cent lower. The scheme also holds some insurance policies which have an assessed value of £11m. The total assessed value of the assets was 113 per cent of the value of the aggregate benefits that had accrued to members of the scheme, allowing for expected future earnings increases in the case of employees.

Since this valuation, the Government has changed the rules concerning the recoverability of Advanced Corporation Tax for UK dividends by pension schemes. This is estimated to have reduced the future investments returns from 4.5 per cent to 4.25 per cent.

A review of the assumptions used for calculating the pension cost has been carried out with the result that they now differ from the funding assumptions in that future investments returns after adjusting for the effect of the ACT charge would, on average, be 4.5 per cent a year above the level of price inflation. Under those assumptions, as at March 31st 1997, the total assessed value of the investments was 110 per cent of the value of the aggregate benefits that had accrued to members of the scheme, allowing for expected future earnings increases in the case of employees.

On an on-going basis, the valuation of the Hong Kong Scheme revealed a reduced deficit as compared with the previous valuation of assets over the accrued rights of members. As a result, the actuary recommended, and the Company agreed to, a reduction in contributions to the Scheme with effect from January 1st 1997. In the accounts, the deficit in the Hong Kong Scheme has been spread over the expected remaining service lives of the employed members. The valuation of the Scheme showed a surplus of assets over the discontinuance rights of members as at the valuation date.

The two main sections of the Hong Kong Scheme which are open to new members were valued using the projected unit method and the four smaller closed sections of the Hong Kong Scheme were valued using the attained age method. The principal assumption is that the average long term rate of return on the scheme's assets will be 2 per cent a year higher than the rate of salary escalation. The method used to value the scheme's assets is a three year quarterly moving average method. The market value of the scheme's assets of the valuation date was £485m. The assessed value of the scheme assets at the valuation date was £472m and was 97 per cent of the aggregate benefits that had accrued to the members after allowing for expected future increases in earnings.

	1998	1997
	(in £ millions)	
The pension costs as shown in Note 6 comprise:		
Regular costs	61	60
Variation from regular costs (including interest)	(7)	(8)
	54	52

Pension schemes other than the principal schemes are accounted for on the basis of local custom and practice. Pension prepayments of £44m (1997-£45m) are included in other debtors (Note 19). Provisions for obligations to pay terminal gratuities on retirement to staff who are not members of the pension and retirement schemes are included in provisions for pensions (Note 23).

US GAAP disclosures

The following disclosures are in accordance with US pension accounting rules under SFAS 87 "Employers Accounting for Pensions". Separate disclosures are made in respect of the two principal schemes, the United Kingdom and Hong Kong schemes.

7 Pensions continued

United Kingdom scheme

The defined benefit obligations were determined using the following assumptions at March 31st 1998, 1997 and 1996:

	1998	1997	1996
		(% per annum)	
Discount rate	6.75	8.0	8.0
Rate of future pay increase	5.00	5.5	5.5
Rate of pension increase	3.50	4.0	4.0
Estimated rate of return on plan assets	7.75	8.7	8.7

The components of the pension cost for the year were as follows:

	1998	1997	1996
		(in £ millions)	
Service cost	49	46	49
Interest cost on projected benefit obligation	65	67	61
Actual return on plan assets	(218)	(104)	9
Net amortisation and deferral	132	18	(77)
Net pension cost	28	27	42
Members' contribution	(11)	(14)	(11)
Pension cost for the year under US GAAP	17	13	31

The information required to be disclosed in accordance with SFAS 87 and SFAS 88 concerning the funded status as at March 31st 1998 and 1997 is as follows:

	1998	1997
	(in £ millions)	
Accumulated benefit obligations (all benefits vested)	934	748
Projected benefit obligation	(1,037)	(828)
Plan assets at fair value (see note below)	1,204	968
Plan assets in excess of projected benefit obligation	167	140
Unrecognised transition amount	(25)	(30)
Unrecognised prior service cost	45	16
Unrecognised gain at year end	(149)	(93)
Prepaid pension cost under US GAAP	38	33

The plan assets comprise primarily investments in equity and fixed interest securities.

During 1995, Mercury's Customer Premises Equipment Division was sold and staff reductions took place following the Mercury reorganisation. As a result of this, curtailment and termination gains of £7m have been recognised within the projected benefit obligation in 1997 (1996 – £3m).

Hong Kong Scheme

The defined benefit obligations were determined using the following assumptions at March 31st 1998, 1997 and 1996:

	1998	1997	1996
		(% per annum)	
Discount rate	8.5	8.5	8.5
Rate of future pay increase	7.5	7.5	7.5
Rate of pension increase	6.0	6.0	5.5
Estimated rate of return on plan assets	9.0	9.0	9.0

7 Pensions continued

The components of the pension cost for the year were as follows:

	1998	1997	1996
		(in £ millions)	
Service cost	41	44	41
Interest cost on projected benefit obligation	40	41	39
Actual return on plan assets	10	(62)	(62)
Net amortisation and deferral	(54)	18	25
Net pension cost	37	41	43
Members contributions	(4)	(4)	(4)
Pension cost for the year under US GAAP	33	37	39

The information required to be disclosed in accordance with SFAS 87 and SFAS 88 concerning the funded status as at March 31st 1998 and 1997 is as follows:

	1998	1997
	(in £ millions)	
Accumulated benefit obligations:		
Vested	225	233
Non-vested	10	9
	235	242
Projected benefit obligation	(512)	(502)
Plan assets at fair value (see note below)	466	498
Plan assets below projected benefit obligation	(46)	(4)
Unrecognised transition amount	(13)	(15)
Unrecognised prior service cost	1	1
Unrecognised loss at year end	50	13
Accrued pension cost under US GAAP	(8)	(5)

The plan assets consist primarily of investments in equity and fixed interest securities.

8 Profits less (losses) on sale and termination of operations

Profits less (losses) on sale and termination of operations comprises profits on the sale or partial sale of operations of £6m. There is no tax charge or minority share relating to the disposals. The exceptional profit on sale and termination of operations is disclosed in note 10.

9 Profits less (losses) on disposal of fixed assets

Profits less (losses) on disposal of fixed assets largely comprises profits on disposal of a number of investment totalling £85m. The tax charge attributable to the disposal is £15m and the minority share is £ nil. The exceptional profit on disposal of fixed assets is disclosed in note 10. In 1997, profits less (losses) on disposal of fixed assets largely comprises profits on disposal of a number of investments totalling £95m, profit on disposal of a trade investment of £43m, profits of tangible fixed assets of £11m and a provision for the expected loss on disposal of Group properties of £70m.

10 Exceptional items

Exceptional items in 1998 comprised:

	Note	Exceptional items	Tax	Minority interest	1998
			(in £ millions)		
Operating items					
Charge for asset write downs and accelerated depreciation in Hongkong Telecom	(i)	(158)	-	73	(85)
Provision for outpayment surcharges in Cable & Wireless, Inc.	(ii)	(92)	36	-	(56)
		(250)	36	73	(141)
Non operating items					
Profits less (losses) on sale and termination of operations	(iii)	519	-	-	519
Exceptional cost of a fundamental reorganisation	(iv)	(200)	-	95	(105)
Profits less (losses) on disposal of international license	(v)	518	-	(235)	283
		587	36	(67)	556

(i) Due to regulatory and technological changes in the sectors in which Hongkong Telecom operates, certain of Hongkong Telecom's assets have become obsolete or their carrying value impaired. The carrying value of such assets has therefore been written down to estimated recoverable value. £158m of accelerated depreciation and write downs of certain tangible fixed assets and other assets have been charged to the profit and loss account.

(ii) Cable & Wireless, Inc. ("CWI") has been in dispute with a telecommunications carrier over surcharges invoiced above the original contracted price for carriage of traffic over the carrier's network. This case has been heard in court and the court found against CWI. CWI is appealing the case. The financial impact of the surcharges, expected to be approximately £92m, has been provided.

(iii) On July 21st 1997 the Group sold a 5.4 per cent interest in Hongkong Telecom for HK$9,177m to a subsidiary of China Telecom (Hong Kong) Limited. The transaction gave rise to a profit on disposal of £519m.

(iv) The costs of a fundamental reorganisation of £200m relate to the costs incurred in changing the nature and focus of the operations of CWC following the merger of Mercury Communications, Bell Cablemedia and NYNEX Cablecomms.

(v) On January 20th 1998 Hongkong Telecom reached agreement with the Government of the Hong Kong Special Administrative Region of the People's Republic of China for the surrender of the exclusive international licence of its wholly owned subsidiary, Hong Kong Telecom International Limited, in exchange for a package of compensation measures including HK$6,700m in cash, free of tax, payable in two equal instalments, one of which was received on March 31st 1998 and the second payable on July 1st 1998. The Group has made an exceptional profit of £518m after accounting for certain costs relating to the surrender.

There were no exceptional items in 1997.

Exceptional items in 1996 comprised a £199m profit on sale of the Company's 5.03 per cent interest in Mannesmann Mobilfunk GmbH and an exceptional charge of £120m relating to the write down of investments primarily in respect of business in Central and Eastern Europe, (£34m shown within "profits less (losses) on sale or termination of operations" and £86m shown within "Amounts written off investments in associated undertakings"). The charge included a write back of £76m of goodwill which had previously been charged directly to reserves.

Under US GAAP, there is no such classification as "exceptional items" and the amount would be included in the determination of "operating profit".

11 Associates and joint ventures

	Joint ventures	Associates	1998
		(in £ millions)	
Turnover	1,141	160	1,301
Operating costs	(1,104)	(164)	(1,268)
Operating profits less (losses)	37	(4)	33
Net interest	(88)	(2)	(90)
Share of (losses) dealt with within associated undertakings	(51)	(6)	(57)
Interest received and receivable on loans to associated undertakings	23	2	25
Share of (losses) of associated undertakings	(28)	(4)	(32)

	Joint ventures	Associates	1997
		(in £ millions)	
Turnover	796	156	952
Operating costs	(930)	(149)	(1,079)
Operating profits less (losses)	(134)	7	(127)
Net interest	(43)	(14)	(57)
Share of (losses) dealt with within associated undertakings	(177)	(7)	(184)
Interest received and receivable on loans to associated undertakings	14	1	15
Share of (losses) of associated undertakings	(163)	(6)	(169)

	Joint ventures	Associates	1996
		(in £ millions)	
Turnover	580	75	655
Operating costs	(587)	(65)	(652)
Operating profits less (losses)	(7)	10	3
Net interest	(32)	(5)	(37)
Share of profits less (losses) dealt with within associated undertakings	(39)	5	(34)
Interest received and receivable on loans to associated undertakings	10	-	10
Share of profits less (losses) of associated undertakings	(29)	5	(24)
Exceptional items: amounts written off investment in associated undertakings	(86)	-	(86)
	(115)	5	(110)

Segmental analysis of share of turnover and operating profits less (losses) of associates and joint ventures:

	1998	1997	1996
Turnover		(in £ millions)	
Hong Kong	21	16	11
Other Asia	143	109	83
United Kingdom	268	143	81
Other Europe	119	190	114
Caribbean	66	57	53
North America	-	-	2
Rest of the world	684	437	311
	1,301	952	655

11 Associates and joint ventures continued

	1998	1997	1996
		(in £ millions)	
Operating profit/(loss)			
Hong Kong	13	8	5
Other Asia	8	17	19
United Kingdom	(65)	(112)	(53)
Other Europe	(6)	(93)	(6)
Caribbean	28	23	22
North America	–	–	(1)
Rest of the world	55	30	17
	33	(127)	3

12 Net interest and other similar income

	1998	1997	1996
		(in £ millions)	
Interest receivable and similar income:			
Deposits and short term loan interest	129	99	77
Income from fixed asset investments:			
Share of profits of international telecommunications satellite organisations	13	13	11
Other income from fixed asset investments	18	10	4
Other income including net surplus on sale of assets	6	–	29
Exchange (losses)/gains on retranslation of foreign currency denominated loans and deposits	–	(1)	7
	166	121	128
Interest payable:			
Finance charges on leases	11	6	7
Bank loans and overdrafts	244	45	32
Other loans	65	138	124
	320	189	163
Less: interest capitalised	(41)	(16)	(10)
	279	173	153
	(113)	(52)	(25)

13 Tax on profit on ordinary activities

	1998	1997	1996
		(in £ millions)	
Profit/(loss) before tax:			
United Kingdom	(232)	97	211
Overseas	2,416	1,321	1,130
	2,184	1,418	1,341

13 Tax on profit on ordinary activities continued

The charge for taxation, based on the Group profit for the year, comprises:

	1998	1997	1996
		(in £ millions)	
United Kingdom:			
Corporation tax at 31 per cent (1997 – 33 per cent)			
Current	63	96	164
Deferred	(8)	17	26
Double taxation relief	(56)	(30)	(50)
	(1)	83	140
Overseas:			
Current	280	204	190
Deferred	(31)	2	–
Associates and joint ventures	23	13	12
	271	302	342
Adjustments in respect of prior years	(27)	(15)	(22)
	244	287	320

If deferred tax had been fully provided in each year under the liability method, the tax charge would have increased by £35m, (1997 – decreased by £19m, 1996 – increased by £47m), comprising:

	1998	1997	1996
		(in £ millions)	
Current year	61	37	53
Prior year	(26)	(56)	(6)
	35	(19)	47

The Group's effective tax rate varies from the statutory tax rate as a result of the following factors:

	1998	1997	1996
		(%)	
Statutory tax rate	31.0	33.0	33.0
Timing differences not provided for:			
– Timing differences included in potential deferred tax	(0.5)	(3.2)	(4.0)
– Other timing differences	(0.1)	1.2	(0.9)
Items not deductible for tax or not taxable	(2.4)	2.2	12.8
Tax rate differences	(13.7)	(12.1)	(15.2)
Prior year	(1.2)	(1.1)	(1.6)
Other	(1.9)	0.2	(0.2)
Effective tax rate	11.2	20.2	23.9

14 Minority interests

The value of non-equity minority interests is not material.

15 *Earnings per share*

	1998	1997	1996
		(in £ millions)	
Profit for the financial year attributable to shareholders	1,288	677	607
Exceptional items	(556)	–	(24)
Profit for the financial year excluding exceptional items	732	677	583
Earnings per ordinary share excluding exceptional items	32.4p	30.3p	26.4p
Earnings per ordinary share on exceptional items	24.6p	–	1.1p
Earnings per ordinary share	57.0p	30.3p	27.5p

The weighted average number of shares in issue were 2,261,511,426; 2,232,619,261 and 2,206,524,316 for 1998, 1997 and 1996 respectively.

A diluted earnings per share based on share options in issue and the conversion of unsecured loan stock is not provided as the effects on the earnings per share are not material. Additional information on earnings per share has been provided in order that the effects of exceptional items on reported earnings can be fully appreciated.

16 Tangible fixed assets

	Cables and repeaters	Land and buildings	Plant	Cableships	Projects under construction	Total
			(in £ millions)			
Cost:						
At April 1st 1997	556	695	6,772	214	621	8,858
Acquisitions	–	25	2,041	–	396	2,462
Additions	25	74	1,351	4	336	1,790
Disposals	(42)	(84)	(115)	(5)	(8)	(254)
Assets written off	–	(1)	(225)	–	–	(226)
Transfers	15	25	271	1	(312)	–
Exchange adjustments	(17)	(20)	(165)	–	(29)	(231)
At March 31st 1998	537	714	9,930	214	1,004	12,399
Depreciation:						
At April 1st 1997	243	122	2,872	81	–	3,318
Charge for the year	30	27	832	9	–	898
Eliminated in respect of disposals	(33)	(12)	(80)	(5)	–	(130)
Assets written off	–	–	(139)	–	–	(139)
Exchange adjustments	(5)	(4)	(71)	–	–	(80)
At March 31st 1998	235	133	3,414	85	–	3,867
Net book value						
At March 31st 1998	302	581	6,516	129	1,004	8,532
At March 31st 1997	313	573	3,900	133	621	5,540
Capitalized interest included in the above net book value comprises:						
At March 31st 1998	8	9	51	1	26	95
At March 31st 1997	8	9	39	1	–	57

Included in the cost of plant and cableships is £180m (1997: £33m) and £42m (1997: £42m) respectively relating to assets held under finance leases. Accumulated depreciation on these assets is £40m (1997: £11m) and £14m (1997: £13m) respectively.

	1998	1997
	(in £ millions)	
Land and buildings at net book value comprises:		
Freeholds	273	300
Long leaseholds	104	160
Short leaseholds	204	113
	581	573

17 Fixed asset investments

	Associates and joint ventures	Other investments	Total
		(in £ millions)	
Cost			
At April 1st 1997	1,404	212	1,616
Additions	732	32	764
Transfers	(293)	(15)	(308)
Disposals	(22)	(16)	(38)
Exchange adjustments	(108)	(15)	(123)
At March 31st 1998	1,713	198	1,911
Amounts written off			
At April 1st 1997	(474)	(1)	(475)
Transfers	287	-	287
Disposals	10	-	10
Excess of cost of shares over underlying assets acquired	(434)	-	(434)
At March 31st 1998	(611)	(1)	(612)
Share of post acquisition reserves			
At April 1st 1997	(239)	-	(239)
Dealt with by associates and joint ventures	(106)	-	(106)
Exchange adjustments	(4)	-	(4)
Transfers	21	-	21
At March 31st 1998	(328)	-	(328)
Net book value			
At March 31st 1998	774	197	971
At March 31st 1997	691	211	902

Investments at net book value comprise:

	1998	1997
	(in £ millions)	
Associates and joint ventures:		
Listed shares	82	42
Unlisted shares	360	444
Loans	332	205
	774	691
Other investments:		
Listed shares	87	104
Unlisted shares	34	49
ESOP shares	10	-
Interest in international telecommunications satellite organisations	66	58
	197	211

The market value of listed shares was £309m (1997-£543m) for associates and joint ventures and £119m (1997-£155m) for other investments. Loans to associated undertakings includes provisions of £ nil (1997-£6m).

START

OF

RETAKE

17 Fixed asset investments

	Associates and joint ventures	Other investments	Total
		(in £ millions)	
Cost			
At April 1st 1997	1,404	212	1,616
Additions	732	32	764
Transfers	(293)	(15)	(308)
Disposals	(22)	(16)	(38)
Exchange adjustments	(108)	(15)	(123)
At March 31st 1998	1,713	198	1,911
Amounts written off			
At April 1st 1997	(474)	(1)	(475)
Transfers	287	-	287
Disposals	10	-	10
Excess of cost of shares over underlying assets acquired	(434)	-	(434)
At March 31st 1998	(611)	(1)	(612)
Share of post acquisition reserves			
At April 1st 1997	(239)	-	(239)
Dealt with by associates and joint ventures	(106)	-	(106)
Exchange adjustments	(4)	-	(4)
Transfers	21	-	21
At March 31st 1998	(328)	-	(328)
Net book value			
At March 31st 1998	774	197	971
At March 31st 1997	691	211	902

Investments at net book value comprise:

	1998	1997
	(in £ millions)	
Associates and joint ventures:		
Listed shares	82	42
Unlisted shares	360	444
Loans	332	205
	774	691
Other investments:		
Listed shares	87	104
Unlisted shares	34	49
ESOP shares	10	-
Interest in international telecommunications satellite organisations	66	58
	197	211

The market value of listed shares was £309m (1997-£543m) for associates and joint ventures and £119m (1997-£155m) for other investments. Loans to associated undertakings includes provisions of £ nil (1997-£6m).

17 Fixed asset investments continued

Reconciliation of share of profits less (losses) of associates and joint ventures with post acquisition retained reserves:

	Joint ventures	Associates	1998
		(in £ millions)	
Share of profits less (losses) of associated undertakings	(28)	(4)	(32)
Interest received and receivable on loans to associated undertakings	(23)	(2)	(25)
Taxation charge	(17)	(6)	(23)
Dividends received	(10)	(13)	(23)
	(78)	(25)	(103)
Add back: amounts written off loans and other amounts owed by associated undertakings	(3)	–	(3)
Dealt with by associated undertakings	(81)	(25)	(106)

Associates and joint ventures: group share of net assets

	Joint ventures	Associates	1998
		(in £ millions)	
Fixed assets	1,898	244	2,142
Current assets	491	124	615
Share of gross assets	2,389	368	2,757
Current borrowings	(86)	(4)	(90)
Other current liabilities	(420)	(110)	(530)
Long term borrowings	(1,430)	(92)	(1,522)
Other long term liabilities	(134)	(39)	(173)
Share of gross liabilities	(2,070)	(245)	(2,315)
Less: loans from Group companies	307	25	332
Group share of gross liabilities	(1,763)	(220)	(1,983)
Share of net assets	626	148	774

Segmental analysis of the net assets of associates and joint ventures

	Joint ventures	Associates	1998
		(in £ millions)	
Hong Kong	26	1	27
Other Asia	56	35	91
United Kingdom	(72)	–	(72)
Other Europe	64	54	118
Caribbean	67	1	68
Rest of the world	485	57	542
	626	148	774

END

OF

RETAKE

17 Fixed asset investments continued

Reconciliation of share of profits less (losses) of associates and joint ventures with post acquisition retained reserves:

	Joint ventures	Associates	1997
		(in £ millions)	
Share of profits less (losses) of associated undertakings	(163)	(6)	(169)
Interest received and receivable on loans to associated undertakings	(14)	(1)	(15)
Taxation charge	(10)	(3)	(13)
Dividends received	(10)	(11)	(21)
Dealt with by associated undertakings	(197)	(21)	(218)

Associates and joint ventures: group share of net assets

	Joint ventures	Associates	1997
		(in £ millions)	
Fixed assets	1,192	566	1,758
Current assets	219	165	384
Share of gross assets	1,411	731	2,142
Current borrowings	(44)	(121)	(165)
Other current liabilities	(270)	(111)	(381)
Long term borrowings	(688)	(299)	(987)
Other long term liabilities	(58)	(65)	(123)
Share of gross liabilities	(1,060)	(596)	(1,656)
Less: loans from Group companies	182	23	205
Group share of gross liabilities	(878)	(573)	(1,451)
Share of net assets	533	158	691

Segmental analysis of the net assets of associates and joint ventures

	Joint ventures	Associates	1997
		(in £ millions)	
Hong Kong	11	1	12
Other Asia	49	42	91
United Kingdom	27	(25)	2
Other Europe	60	80	140
Caribbean	60	1	61
Rest of the world	326	59	385
	533	158	691

18 Stocks

	1998	1997
	(in £ millions)	
Stocks for the development of the Group's telecommunications systems	26	11
Stocks for resale	113	60
Consumable stores	17	12
	156	83

19 Debtors

	1998	1997
	(in £ millions)	
Amounts falling due within one year:		
Trade debtors (excluding securitised trade debtors)	943	932
Less: Allowance for doubtful accounts	(132)	(82)
	811	850
Amounts recoverable on contracts	–	34
Amounts owed by associated undertakings	18	52
Other debtors	396	140
Prepayments and accrued income	168	94
	1,393	1,170
Net securitised debtors	54	–
Amounts falling due after more than one year:		
Other debtors	54	107
Prepayments and accrued income	85	59
Net investment in finance leases	39	41
	178	207
Total debtors	1,625	1,377
Net investment in finance leases comprises:		
Total lease payments receivable	39	41
Total rentals received during the year under finance leases	2	2

A company within the Group is a limited partner in a number of limited partnerships which own and lease assets to third parties. Non-recourse finance of £247m (1997-£263m) has been offset, under paragraph 29 of Financial Reporting Standard No 5, against the net investments in finance leases.

Within the Group's overall working capital facilities, certain trade debts have been assigned as security against the advance of cash. This security is represented by the assignment of a pool of trade debts held by Cable & Wireless Communications plc to a trust for the benefit of the providers of this working capital facility. The financing provided against this pool takes into account, inter alia, the risks that may be attached to individual debtors and the expected collection period.

	1998	1997
	(in £ millions)	
Securitised gross trade debtors	297	–
Less: non-returnable proceeds	(243)	–
	54	–

The Group is not obliged, and does not intend, to support any losses arising from the assigned debts against which cash has been advanced. The providers of the finance have confirmed that, in the event of default in payment by a debtor, they will seek repayment of cash advanced only from the remainder of the pool of debts in which they hold an interest, and that repayment will not be sought from the group in any other way.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20 Short term deposits and cash at bank and in hand

Of the total amount shown, £21m (1997–£34m) is held in countries subject to exchange regulations which may delay repatriation. Obligations under finance leases include transactions involving the sale and lease back of certain cable network assets. As a result of these transactions £120m (1997–£nil) of the Group's short term deposits is provided as security for future payments.

The obligations to National Westminster Bank Plc for future payments by a subsidiary as a result of the sale and lease back transactions is as follows:

	(in £ millions)
1999	111
2000	105
2001	97
2002	89
After 2003	301
Minimum payments	703

21 Creditors amount falling due within one year

	1998	1997
	(in £ millions)	
Loans and obligations under finance leases:		
Bank loans and overdrafts	30	15
Bills payable	1	1
Current instalments due on loans	411	443
Obligations under finance leases	29	12
	471	471

	1998	1997
	(in £ millions)	
Other creditors:		
Payments received on account	42	59
Trade creditors	495	386
Amounts owed to associates and joint ventures	43	18
Dividends payable	194	173
Corporation tax	–	57
Other taxation and social security	147	136
Other creditors	191	163
Accruals	1,025	695
Deferred income	190	131
	2,327	1,818
	2,798	2,289

	1998	1997
	(% per annum)	
Weighted average interest rates at the end of the period applicable to the above borrowings:		
Bank loans and overdrafts	8.9	7.3
Obligations under finance leases	10.5	11.7
Bills payable and Current instalments due on loans	9.4	8.9
Overall average	9.4	8.7

22 Creditors: amount falling due after more than one year

	1998	1997
	(in £ millions)	
7% Convertible Unsecured Loan Stock repayable 2008	84	124
Other loans and obligations under finance leases:		
Sterling repayable at various dates up to 2019	1,841	687
Hong Kong dollars repayable at various dates up to 2000	–	419
US dollars repayable at various dates up to 2038	2,354	916
Other currencies repayable at various dates up to 2015	165	86
	4,360	2,108
Less: Current instalments due	(411)	(443)
	3,949	1,665
Obligations under finance leases	143	34
	4,092	1,699
Accruals and deferred income	7	8
Other creditors	19	16
	26	24
Total creditors: Amounts falling due after more than one year	4,202	1,847

	Finance leases	Loans
	(in £ millions)	
Other loans and net obligations under finance leases are payable as follows:		
1999	11	116
2000	11	108
2001	11	102
2002	14	1,336
After 2003	96	2,287
	143	3,949

The 7% Convertible Unsecured Loan Stock 2008 carries interest at 7 per cent per annum. This stock is convertible at the option of stock holders into ordinary shares in the Company on August 31 in each year up to and including 2008, on the basis of one share for every 206p of nominal loan stock.

The Group has fixed rates of interest on approximately 89 per cent of its medium and long term debt with average rates of interest of approximately 8 per cent for sterling denominated loans and 7 per cent for US dollar loans. All floating rate debt is LIBOR related. Interest rate swaps and forward rate agreements are used to manage the overall balance of fixed and floating rate debt.

Any borrowing, the liability of which is swapped into another currency, is accounted for as a liability in the swap currency and not in the original currency of denomination.

£110m of borrowings due after more than one year were secured on assets of the Group.

Borrowing facilities
At March 31st 1998, the Company and its subsidiaries had commercial paper programmes of £745m all of which was backed up by committed term facilities.

23 Provision for liabilities and charges

Deferred taxation

	in £ millions
Amounts provided:	
At April 1st 1997	161
Charge to current year profit and loss account	(51)
Other movements	(26)
At March 31st 1998	84

	1998	1997
	(in £ millions)	
Total potential liability:		
Excess capital allowances	705	671
Other	214	271
	919	942
Less: Advance Corporation Tax	(65)	(43)
	854	899

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

	1998	1997
	(in £ millions)	
Amounts provided:		
Excess capital allowances	39	44
Other	110	160
	149	204
Less: Advance corporation tax	(65)	(43)
	84	161

	1998	1997
	(in £ millions)	
Deferred tax asset:		
Advance corporation tax	65	43
Losses	377	7
Other	133	79
	575	129
Less: Deferred tax not recognised under UK GAAP	(416)	(73)
Deferred tax asset recognised under UK GAAP	159	56
Deferred tax liability:		
Capital allowances	705	673
Undistributed reserves	142	146
Other	235	209
	1,082	1,028
Less: Deferred tax not provided under UK GAAP	(839)	(811)
Deferred tax liability provided under UK GAAP	243	217
Net deferred tax liability provided under UK GAAP	84	161

23 Provision for liabilities and charges continued

The analysis of the deferred tax liability provided under UK GAAP between current and non-current amounts is as follows:

	1998	1997
	(in £ millions)	
Current:		
UK	1	23
Hong Kong	5	-
Other overseas	(55)	(10)
	(49)	13
Non current:		
UK	43	62
Hong Kong	55	58
Other overseas	35	28
	133	148
	84	161

The potential deferred tax liability does not include an amount of £769m (1997-£616m) of contingent tax liability arising on the reserves of overseas subsidiary and associated undertakings which the Group does not expect to remit to the United Kingdom.

At March 31st 1998 the holding company and some of the operating subsidiaries had tax losses available to be carried forward to future years. The tax value of these losses and the expiration dates are as follows:

	(in £ millions)
1999	-
2000	-
2001	-
After 2001	(377)
	(377)

Other provisions

	1998	1997
	(in £ millions)	
At April 1st	59	50
Acquisitions	51	-
Charge to current year profit and loss account	296	36
Amounts paid or released during the year	(166)	(26)
Disposals	-	(1)
At March 31st	240	59
Other provisions comprise:		
Pension, redundancy payments and unfunded gratuities	6	15
Ships' periodic overhauls	5	3
Reorganisation	229	41
	240	59
Deferred taxation	84	161
Other provisions	240	59
Provisions for liabilities and charges	324	220

24 Called up share capital

	1998	1997
	(in £ millions)	
Authorised:		
2,734,520,636 ordinary shares of 25p each (1997–2,734,520,636 ordinary shares of 25p each)	684	684

	1998	1997
	(in £)	
Special Rights Preference Share of £1	1	1

	1998	1997
	(in £ millions)	
Allotted, called up and fully paid:		
2,278,986,029 ordinary shares of 25p each (1997–2,242,591,030 ordinary shares of 25p each)	570	561

	1998	1997
	(in £)	
Special Rights Preference Share of £1	1	1

The Special Rights Preference Share is held by HM Government and carries no right to participate in the capital (beyond the sum of £1) or the earnings of the Company.

Allotments of ordinary shares of 25p each during the year were:

	Number of shares allotted	Gross consideration received £
In lieu of cash dividends	3,495,812	-
Under the C&W Savings Related Share Option Scheme	2,415,741	12,034,084
Under the C&W Senior Employees' Share Option Scheme	4,902,400	18,734,257
Under the C&W Revenue Approved Share Option Scheme	6,008,433	20,868,291
Under the C&W Employee Stock Purchase Plan	267,714	1,022,142
On conversion of 7% Convertible Unsecured Loan Stock 2008	19,304,899	39,768,255
	36,394,999	92,427,029

Share options

The Group operates a savings related share option scheme (SAYE) which was approved by the shareholders in September 1983 and renewed for a further 10 years by resolution passed on June 25th 1993. The scheme provides a long term savings and investment opportunity for employees who can make regular savings and utilise the proceeds of the savings account to acquire shares. The scheme is open to all UK employees of the Company and the principal UK subsidiaries in the Group. Existing options may be exercised, normally after 3, 5 or 7 years, according to the length of the option period chosen, at a price not less than 80 per cent of the market value of the shares at the time of the grant.

24 Called up share capital continued

At March 31st 1998 outstanding options granted under the SAYE scheme were as follows:

	Number of shares	Price	Normal dates of exercise
C&W Savings Related Share Option Scheme	189,402	179.00p	1998
	254,608	222.00p	1998 – 1999
	597,568	222.50p	1998 – 1999
	399,128	209.36p	1998 – 2000
	223,181	272.64p	1998 – 2000
	778,670	304.24p	1998 – 2001
	1,492,113	393.84p	1999 – 2001
	1,509,406	341.84p	1999 – 2002
	1,593,392	285.20p	2000 – 2002
	1,280,409	336.56p	2000 – 2003
	1,017,153	358.16p	2001 – 2003
	1,529,223	336.40p	1999 – 2004
	1,391,579	376.56p	2000 – 2004
	*1,284,795	394.48p	2000 – 2005
	*440,614	427.84p	2001 – 2005

* Granted during the year ended March 31st 1998.

The Group operates another investment-related plan, Employee Stock Purchase Plan (ESPP). The ESPP, which was approved by the shareholders in July of 1992, allows eligible employees of Cable & Wireless, Inc. and its US subsidiaries to acquire American Depositary Receipts (ADRs) in Cable and Wireless plc at the discounted price of 85 per cent of the market value of the ADRs on the first day of the ESPP's year. The first plan year began on October 1st 1992 and the last plan year shall end on September 30th 2002. Eligible employees authorise the Company to make payroll deductions in increments of US$10.00, with the maximum deduction of US$600.00, throughout the designated plan year. On the last day of the plan year, the Company purchases the ADRs on behalf of the eligible employees and ADR certificates are tendered.

At March 31st 1998 outstanding options granted under the ESPP are as follows:

	Number of ADRs	Price	Normal dates of exercise
Employee Stock Purchase Plan	58,749	$23.16	Sept 30,1998

The Group operates an executive share option scheme established in July 1984 which was renewed for a 10 year period by resolution of the shareholders based on June 25th 1993.

This option scheme (Revenue Approved Share Option Scheme' or RESOS') has been approved by the UK Inland Revenue. The Group also operates another share option scheme established in September 1983 which was also renewed for a 10 year period by shareholder resolution passed on June 25th 1993 (Senior Employees Share Option Scheme' or SESOS'). The two schemes are each administered by a committee consisting of directors, all or a majority of whom are non-executive directors of the Company. Options under both schemes are currently issued at an exercise price which is the market value of the ordinary shares at the time of grant. Options may normally be exercised between 3 and 10 years from date of grant in the case of options under RESOS and between 3 and 7 years from date of grant in the case of options under SESOS. Options may not be transferred or assigned to other persons. On exercise, new ordinary shares are allotted on the same terms as existing ordinary shares.

24 Called up share capital continued

At March 31st 1998 outstanding options granted under SESOS and RESOS Schemes were as follows:

	Number of shares	Price	Normal dates of exercise
C&W Senior Employees' Share Option Scheme	323,243	261.70p	1998-1999
	257,346	222.44p	1998-1999
	681,454	397.70p	1998-2000
	545,011	338.04p	1998-2000
	100,000	445.30p	1998-2001
	2,062,208	446.50p	1998-2001
	3,891,919	413.70p	1998-2002
	6,309,524	420.50p	1999-2003
	49,240	467.10p	1999-2003
	226,503	472.40p	2000-2004
	47,499	511.60p	2000-2004
	*7,121,734	553.30p	2000-2004
	*85,000	574.40p	2000-2004
	*141,531	548.50p	2000-2004
	*18,809	478.50p	2000-2004
	*25,000	512.00p	2001-2005
C&W Revenue Approved Share Option Scheme	173,460	185.50p	1998
	649,540	251.50p	1998-1999
	1,057,113	265.00p	1998-2000
	517,775	261.70p	1998-2002
	1,057,041	222.44p	1998-2002
	4,669	275.31p	1998-2002
	864,038	397.70p	1998-2003
	70,202	397.70p	1998-2003
	846,924	338.04p	1998-2003
	1,839,020	446.50p	1998-2004
	165,000	446.50p	1999-2004
	3,341,581	413.70p	1998-2005
	2,392,784	420.50p	1999-2006
	6,422	467.10p	1999-2006
	6,350	472.40p	2000-2007
	5,863	511.60p	2000-2007
	*2,173,688	553.30p	2000-2007
	*5,469	548.50p	2000-2007
	*6,269	478.50p	2000-2000

* Granted during the year ended March 31st 1998.

The Group implemented a Long Term Incentive Plan (LTIP) in 1997 details of which are given in Item 11. The LTIP makes awards of shares in the form of a share option, which is exercisable at any point following the end of the three year performance period to which the grant of options relate within seven years of the date of the grant, while the individual remains employed in the Group. The notional award figures granted during the year, shown in the table in Item 11, are based on the maximum award under the plan.

24 Called up share capital continued

The following share option schemes are fixed option schemes and are not performance related.

Authorisation of share options

SAYE, SESOS and RESOS schemes

The number of shares over which options may be granted, when aggregated with the number of shares subject to options, whether or not the option has been exercised, which were granted during the ten years prior to the date of grant, should not exceed 10 per cent of the issued ordinary share capital.

In addition, the number of shares over which options may be granted, when aggregated with the number of shares subject to options, whether or not the option has been exercised, which were granted during the three years prior to the date of grant, should not exceed 3 per cent of the issued ordinary share capital.

SESOS and RESOS schemes only

The number of shares over which options may be granted, when aggregated with the number of shares subject to options, whether or not the option has been exercised, granted during the ten years prior to the date of grant, excluding share options issued under any profit sharing scheme or savings related share option scheme approved by the Inland Revenue, should not exceed 5 per cent of the issued ordinary share capital.

ESPP scheme only

There is a limit on how many Cable and Wireless plc ordinary shares that can be purchased through the Plan on behalf of all participants. This limit is the number of ADRs that represent up to ten million Cable and Wireless plc ordinary shares. Once this limit is reached, the ESPP will be terminated or amended to increase the limit.

Stock compensation plans

At March 31st 1998 the Company had four stock-based compensation plans (share option schemes) which have been described above. The Company computes the fair value of its share option grants under those plans in accordance with SFAS 123, using the Black Scholes option-pricing model, details of which are included in Note 39.

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for grants in the respective years.

	1998	1997	1996
UK schemes			
Dividend yield	2.8%	2.2%	2.0%
Expected volatility	23.2%	24.7%	23.0%
Risk-free interest rate	7.1%	7.5%	7.8%
Expected lives of the options	5.1 yrs	5.4 yrs	5.8 yrs

	1998	1997	1996
US scheme			
Dividend yield	2.7%	2.6%	2.5%
Expected volatility	23.2%	24.3%	20.9%
Risk-free interest rate	5.5%	5.6%	5.7%
Expected lives of the options	1.0 yrs	1.0 yrs	1.0 yrs

24 Called up share capital continued

A summary of the status of the Company's three fixed stock option plans (UK based) as at March 31st 1998, 1997 and 1996, and changes during the years ended on those dates is presented below:

	1998		1997		1996	
		Weighted average exercise price		Weighted average exercise price		Weighted average exercise price
	Shares	(p)	Shares	(p)	Shares	(p)
UK schemes						
Outstanding at beginning of year	55,318,501	361.69	56,524,155	330.75	62,849,097	301.16
Exercised	(13,326,574)	334.69	(12,562,316)	255.45	(14,392,418)	249.21
Granted	11,676,766	529.70	13,487,959	404.94	11,831,831	363.35
Lapsed	(2,608,223)	358.57	(2,131,297)	336.71	(3,764,355)	341.26
Outstanding at end of year	51,060,470	406.76	55,318,501	361.69	56,524,155	330.75
Options normally exercisable at year end	10,100,055	351.45	13,880,847	292.54	15,793,597	242.53

Certain figures in the above table have been restated to reflect the correct amounts.

	1998		1997	
UK schemes	Weighted average exercise price (p)	Weighted average grant date fair value of options granted during year (p)	Weighted average exercise price (p)	Weighted average grant date fair value of options granted during year (p)
Options granted during year				
Options whose exercise price is less than market value of shares on date of grant	402.78	152.14	355.00	149.16
Options whose exercise price equals market value of shares on date of grant	553.12	127.76	421.96	118.34

The following table summarises information about the UK fixed stock options outstanding at March 31st 1998.

	Options outstanding			Options exercisable	
UK schemes	Number outstanding at March 31st, 1998	Weighted average remaining contractual life (yrs)	Weighted average exercise price (p)	Number exercisable at March 31st 1998	Weighted average exercise price (p)
Range of exercise prices					
150-200	362,862	0.4	182.11	362,862	182.11
201-250	2,575,691	2.6	220.38	1,324,387	222.44
251-300	4,368,913	2.5	270.13	2,630,884	260.86
301-350	6,489,643	3.2	334.19	-	-
351-400	6,801,334	3.7	386.01	1,615,694	397.70
401-450	20,542,650	5.6	423.53	4,166,228	446.47
451-500	313,593	5.8	471.95	-	-
501-550	225,362	6.5	535.71	-	-
551-600	9,380,422	6.9	553.49	-	-
	51,060,470	4.8	406.76	10,100,055	351.45

24 Called up share capital continued

A summary of the status of the Company's US based fixed stock option plan as at March 31st 1998, 1997 and 1996, and changes during the years ended on those dates is presented below:

	1998		1997		1996	
	ADRs	Weighted average exercise price ($)	ADRs	Weighted average exercise price ($)	ADRs	Weighted average exercise price ($)
US scheme						
Fixed options						
Outstanding at beginning of year	74,611	18.06	89,435	16.79	99,079	15.72
Exercised	(89,238)	18.61	(101,969)	17.27	(122,507)	15.80
Granted	77,847	22.53	87,145	18.44	112,863	16.66
Lapsed	(4,471)	18.06	–	–	–	–
Outstanding at end of year	58,749	23.16	74,611	18.06	89,435	16.79
Options normally exercisable at year end	–	n/a	–	n/a	–	n/a

	1998		1997	
	Weighted average exercise price ($)	Weighted average grant date fair value of options granted during year ($)	Weighted average exercise price ($)	Weighted average grant date fair value of options granted during year ($)
US scheme				
Options granted during year				
Options whose exercise price is less than market value of shares on date of grant	22.53	5.12	18.44	4.26

The following table summarises information about the US fixed stock options outstanding at March 31st 1998.

	Options outstanding			Options exercisable	
Exercise price ($)	Number outstanding at March 31st 1998	Weighted average remaining contractual life (yrs)	Weighted average exercise price ($)	Number exercisable at March 31st 1998	Weighted average exercise price ($)
US scheme					
23.16	58,749	0.5	23.16	–	n/a

One ADR represents three ordinary shares.

The Employee Share Ownership Plan Trust (ESOP)

The Cable and Wireless ESOP is a discretionary trust which has been funded by a £10m loan from the Company to acquire shares in Cable and Wireless plc. The ESOP held 1,657,653 shares valued at £12m on March 31st 1998. The cost of running the Trust is included in the profit and loss account. The Trustees of the plan may notionally allocate Ordinary Shares in the Company annually to Executive Directors and other senior executives. Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the C&W Long Term Incentive Plan, details of which are given in Item 11. The shares will be provided from existing Ordinary

24 Called up share capital continued

Shares in issue acquired by the Trustees. The expected cost of all these shares is charged to the profit and loss account over the life of the relevant scheme. Surplus shares may be held to satisfy future awards. The dividends on these shares have not been waived. All shares are held under option.

25 Reserves

	Share premium	Profit and loss account
At March 31st 1995	387	2,403
Net premium on shares allotted	43	–
Adjustments in respect of scrip dividends	(1)	20
Goodwill on acquisition of subsidiary and associated undertakings	–	(654)
Goodwill written back through profit and loss account	–	78
Exchange adjustments	–	43
Profit for the financial year	–	607
Dividends	–	(222)
At March 31st 1996	429	2,275
Net premium on shares allotted	44	–
Adjustments in respect of scrip dividends	(1)	11
Goodwill on acquisition of subsidiary and associated undertakings	–	(461)
Goodwill written back through the profit and loss account	–	600
Exchange adjustments	–	(137)
Profit for the financial year	–	677
Dividends	–	(249)
At March 31st 1997	472	2,716
Net premium on shares allotted	78	–
Adjustments in respect of scrip dividends	(1)	17
Adjustments in respect of options exercised	6	(6)
Goodwill on acquisition of subsidiary and associated undertakings	–	(1,840)
Goodwill written back through the profit and loss account	–	116
Unrealised profit and loss account	–	138
Exchange adjustments	–	(177)
Profit for year retained	–	1,005
At March 31st 1998	555	1,973

Exchange adjustments in the Group are net of exchange losses of £9m (1997 – gains of £11m) on foreign currency borrowings. The cumulative amount of goodwill resulting from acquisitions during the year ended March 31st 1998 and prior years, net of goodwill written back through the profit and loss account amounted to £2,542m (1997 – £818m). Of this amount £502m (1997 – £352m) related to associates and joint ventures.

Cumulative exchange losses on the revaluation of net investments overseas amounted to £431m at March 31st 1998 (1997 – £392m).

26 Financial instruments

The Group uses financial instruments, including forward foreign exchange contracts, interest rate swaps and cross currency swaps, in its management of exchange rate and interest rate exposures. While these instruments are subject to the risk of loss from changes in exchange rates and interest rates, these losses would generally be offset by gains in the related exposures. Financial instruments are only used to hedge underlying commercial exposures. The Group does not speculate in derivative financial instruments.

Realised and unrealised gains and losses on forward contracts which hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest rate swaps is included in interest expense on an accruals basis.

26 Financial instruments continued

The estimated fair value of the Group's financial instruments are summarised below:

	1998		1997	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in £ millions)			
Investments	197	229	211	262
Convertible bonds	(84)	(299)	(124)	(290)
Other long term debt	(4,092)	(4,193)	(1,699)	(1,714)
Interest rate swaps				
– asset	–	9	–	5
– (liabilities)	–	(4)	–	(2)
Cross currency swaps				
– asset	–	7	–	8
– (liabilities)	–	(54)	–	(11)
Forward foreign exchange contracts	–	–	–	–

Investments

The fair value of investments is based on year end quoted prices for listed investments and estimates of likely sales value of other investments.

Cash at bank and in hand, short term deposits, accounts receivable, accounts payable, short term borrowings and other current liabilities

The carrying value approximates to fair value either because of the short maturity of the instruments or because the interest rate on investments is reset after periods not greater than six months.

Convertible bonds and other long term debt

The fair value is based on quoted market prices or, where these are not available, on the quoted market prices of comparable debt issued by other companies.

Interest rate swaps

The fair value of interest rate swaps is the estimated amount which the Group expects to pay or receive on the termination of the agreement, taking into consideration current interest rates and the current creditworthiness of the counterparties. The nominal value of the interest rate and currency swaps at March 31st 1998, was £2,732m (1997 – £709m).

Forward foreign exchange contracts

The value of these contracts is the estimated amount which the Group would expect to pay or receive on the termination of the contracts, taking into consideration current exchange rates. At March 31st 1998, the Group had £307m of such contracts outstanding (1997 – £226m).

Concentrations of Credit risk

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. The counterparties to the Group's financial instruments are major international financial institutions. It is the Group's policy to monitor the financial standing of these counterparties on an ongoing basis. The Group does not have a significant exposure to any individual counterparty.

Potential concentrations of risk also include trade debtors. The Group's trade debtors represent amounts due to the Group's operations around the world from their customers and other local and international telecommunications operators. 36 per cent of the Group's trade debtors are due to operations based in the UK and 33 per cent are due to operations based in Hong Kong. The Group does not have a significant exposure to any individual customer or telecommunications operator.

27 Commitments

	1998	1997
	(in £ millions)	
Commitments in respect of contracts placed	290	113
Undrawn commitments to lend to associated undertakings	178	178
Commitments to acquire additional fixed assets investments	168	175
Share of commitments in respect of contracts placed by associates and joint ventures	398	486

28 Contingent liabilities

Trading guarantees

At March 31st 1998, the Group had issued trading guarantees to the extent of £41m (1997 – £38m). The amounts represent the maximum liability on a consolidated basis that the Company would have been exposed to under these types of agreements in effect as at these dates.

Trading guarantees are performance bonds or contracts issued usually by the Company on behalf of its trading subsidiaries in the normal course of business guaranteeing that the subsidiary will meet its obligations to complete projects in accordance with the contractual terms and conditions. The guarantees also enable the customer to obtain repayment of any advance payment in the event of the relevant subsidiary failing to carry out its contractual obligations in full.

The nature of contracts include construction projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

29 Leases

Operating lease commitments payable in the following year, analysed according to the period in which each lease expires are as follows:

	1998	1997
	(in £ millions)	
Land and buildings:		
Expiring within one year	10	7
Expiring in years two to five	26	23
Expiring thereafter	29	30
	65	60
Other assets:		
Expiring within one year	54	37
Expiring in years two to five	18	20
Expiring thereafter	6	31
	78	88

26 Financial instruments continued

The estimated fair value of the Group's financial instruments are summarised below:

	1998		1997	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in £ millions)			
Investments	197	229	211	262
Convertible bonds	(84)	(299)	(124)	(290)
Other long term debt	(4,092)	(4,193)	(1,699)	(1,714)
Interest rate swaps				
– asset	–	9	–	5
– (liabilities)	–	(4)	–	(2)
Cross currency swaps				
– asset	–	7	–	8
– (liabilities)	–	(54)	–	(11)
Forward foreign exchange contracts	–	–	–	–

Investments

The fair value of investments is based on year end quoted prices for listed investments and estimates of likely sales value of other investments.

Cash at bank and in hand, short term deposits, accounts receivable, accounts payable, short term borrowings and other current liabilities

The carrying value approximates to fair value either because of the short maturity of the instruments or because the interest rate on investments is reset after periods not greater than six months.

Convertible bonds and other long term debt

The fair value is based on quoted market prices or, where these are not available, on the quoted market prices of comparable debt issued by other companies.

Interest rate swaps

The fair value of interest rate swaps is the estimated amount which the Group expects to pay or receive on the termination of the agreement, taking into consideration current interest rates and the current creditworthiness of the counterparties. The nominal value of the interest rate and currency swaps at March 31st 1998, was £2,732m (1997 – £709m).

Forward foreign exchange contracts

The value of these contracts is the estimated amount which the Group would expect to pay or receive on the termination of the contracts, taking into consideration current exchange rates. At March 31st 1998, the Group had £307m of such contracts outstanding (1997 – £226m).

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Potential concentrations of risk also include trade debtors. The Group's trade debtors represent amounts due to the Group's operations around the world from their customers and other local and international telecommunications operators. 36 per cent of the Group's trade debtors are due to operations based in the UK and 33 per cent are due to operations based in Hong Kong. The Group does not have a significant exposure to any individual customer or telecommunications operator.

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	(in £ millions)	
Commitments in respect of contracts placed	290	113
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Share of commitments in respect of contracts placed by associates and joint ventures	398	486

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At March 31st 1998, the Group had issued trading guarantees to the extent of £41m (1997 – £38m). The amounts represent the maximum liability on a consolidated basis that the Company would have been exposed to under these types of agreements in effect as at these dates.

Trading guarantees are performance bonds or contracts issued usually by the Company on behalf of its trading subsidiaries in the normal course of business guaranteeing that the subsidiary will meet its obligations to complete projects in accordance with the contractual terms and conditions. The guarantees also enable the customer to obtain repayment of any advance payment in the event of the relevant subsidiary failing to carry out its contractual obligations in full.

The nature of contracts include construction projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

29 Leases

Operating lease commitments payable in the following year, analysed according to the period in which each lease expires are as follows:

	1998	1997
	(in £ millions)	
Land and buildings:		
Expiring within one year	10	7
Expiring in years two to five	26	23
Expiring thereafter	29	30
	65	60
Other assets:		
Expiring within one year	54	37
Expiring in years two to five	18	20
Expiring thereafter	6	31
	78	88

29 Leases continued

Lease obligations as lessee

At March 31st 1998, future minimum lease payments under operating leases that have initial lease terms in excess of one year were as follows:

	(in £ millions)
1999	143
2000	76
2001	55
2002	50
After 2002	323
Minimum lease payments	647

30 Reconciliation of operating profit to net cash inflow from operating activities

	1998	1997	1996
		(in £ millions)	
Operating profit	1,401	1,538	1,311
Add back non-cash items:			
Exceptional non cash items	185	–	–
Depreciation	898	650	579
(Increase)/decrease in stocks	(64)	2	41
Decrease/(increase) in debtors	194	(116)	(196)
Increase in creditors	215	177	185
Net cash outflow in respect of re-structuring costs	(101)	(4)	(42)
Other non-cash items including foreign exchange	(27)	(20)	(11)
Net cash inflow from operating activities	2,701	2,227	1,867

31 Reconciliation of net cash flow to movement in net debt

	1998	1997	1996
		(in £ millions)	
Increase in cash in the period	256	58	28
Cash inflow resulting from increase in debt and lease financing	(168)	(270)	(453)
Cash (inflow)/ outflow resulting from (decrease)/increase in liquid resources	(299)	732	23
Changes in net debt resulting from cash flows	(211)	520	(402)
Changes in net debt resulting from acquisitions	(2,216)	–	–
Amortisation of bond issue costs	(1)	(1)	–
Conversion of Unsecured Loan Stock	40	14	12
Inception of finance lease contracts	(30)	(1)	(1)
Translation and other difference	(13)	6	(6)
Movement in net debt in the period	(2,431)	538	(397)
Net debt at April 1st	(529)	(1,067)	(670)
Net debt at March 31st	(2,960)	(529)	(1,067)

35 Acquisitions

The following major acquisitions were made by the Group during the year:

Between April 25th and 28th 1997, Cable & Wireless Communications plc ("CWC") acquired 100 per cent of the issued share capital of the NYNEX CableComms Group plc and NYNEX CableComms Group, Inc. (together "NYNEX"), 100 per cent of the issued share capital of Bell Cablemedia plc ("Bell Cablemedia") and 100 per cent of the issued share capital of Mercury Communications Limited in exchange for shares in CWC. The Group transferred its 85.17 per cent interest in Mercury Communications Limited and 32.5 per cent interest in Bell Cablemedia in exchange for 52.9 per cent of CWC. This transaction resulted in an unrealised profit of £138m;

On May 29th 1997, the Group acquired 49 per cent of the issued share capital and control of the Board of Directors of Instituto National de Telecomunicaciones S.A., INTEL, now renamed Cable & Wireless Panama S.A. ("Panama"), the telecommunications company of Panama;

On August 18th 1997, the Group acquired a further 24.5 per cent of the issued share capital of Optus Communications Pty Limited ("Optus") in Australia, taking the Group's holding to 49 per cent;

On January 8th 1998 Hongkong Telecom acquired 100 per cent of the issued share capital of Pacific Link Communications Limited ("PacLink").

These have been accounted for using acquisition accounting principles and goodwill arising has been written off to reserves. Details of the book value and the fair value of the assets and liabilities at the dates of acquisition, after making the necessary adjustments, are summarised in the tables below:

NYNEX and Bell Cablemedia	Book Values		Adjustments		Fair Values
	NYNEX £m	Bell Cablemedia £m	Revaluations £m	Aligning accounting policies £m	£m
Goodwill	-	517	-	(517)	-
Tangible fixed assets	1,158	1,214	(193)	-	2,179
Debtors	66	78	(36)	-	108
Cash	5	132	-	-	137
Borrowings	(615)	(1,385)	(197)	-	(2,197)
Other creditors	(28)	(111)	(26)	-	(165)
Provisions	-	-	(49)	-	(49)
Minority interests	-	(13)	-	-	(13)
Net assets	586	432	(501)	(517)	-
Share already held	-	(140)	125	168	153
	586	292	(376)	(349)	153

Goodwill

Bell Cablemedia held £517m of goodwill in its balance sheet arising principally on its acquisition of Videotron Holdings plc. This amount has been written off directly to reserves in accordance with Group policy.

Fixed assets

A provision of £129m has been made to reduce the value of analogue set-top boxes and head-end equipment included in fixed assets in Bell Cablemedia. The provision was made because the analogue set-top boxes and head-end equipment had no value in use over their expected life. The balance relates to the write down of £31m of property and information technology systems and £33m for other fixed assets.

Borrowings

The borrowings in Bell Cablemedia and NYNEX were revalued increasing the book value of these borrowings by £164m. The revaluation was made to restate the high yield debt obligations of Bell Cablemedia at their fair value

35 Acquisitions continued

to reflect the difference between a market rate at the date of acquisition, adjusted to take account of the credit rating of the Cable Companies as subsidiaries of CWC, and the fixed rates applicable to the debt. An adjustment to write off deferred financing costs and arrangement fees of £58m, £25m of which was classified in debtors and £33m in borrowings.

Provisions

An adjustment has been made to provide for onerous contracts of £49m, principally relating to programming costs and commitments to purchase analogue set top boxes.

Panama	**Book Values £m**	**Revaluations £m**	**Fair Values £m**
Tangible fixed assets	**167**	**(25)**	**142**
Investments	**1**	**-**	**1**
Stocks	**8**	**(2)**	**6**
Debtors	**55**	**(7)**	**48**
Cash	**39**	**-**	**39**
Borrowings	**(19)**	**-**	**(19)**
Other creditors	**(53)**	**(35)**	**(88)**
Separable net assets acquired	**198**	**(69)**	**129**

Fixed assets

Adjustments have been made principally to reduce the value of fixed assets to fair value following a fixed asset verification and reconciliation exercise.

Other creditors

A provision of £44m was made against the cost of the mobile licence to reflect its expected recoverable value.

PacLink	**Book Values £m**	**Revaluations £m**	**Fair Values £m**
Tangible fixed assets	**118**	**(20)**	**98**
Stocks	**7**	**(5)**	**2**
Debtors	**16**	**-**	**16**
Cash	**8**	**-**	**8**
Other creditors	**(38)**	**-**	**(38)**
Separable net assets acquired	**111**	**(25)**	**86**

Tangible fixed assets

The fixed assets have been written down by £20m to reflect the estimated recoverable amount of the network.

35 Acquisitions continued

to reflect the difference between a market rate at the date of acquisition, adjusted to take account of the credit rating of the Cable Companies as subsidiaries of CWC, and the fixed rates applicable to the debt. An adjustment to write off deferred financing costs and arrangement fees of £58m, £25m of which was classified in debtors and £33m in borrowings.

Provisions

An adjustment has been made to provide for onerous contracts of £49m, principally relating to programming costs and commitments to purchase analogue set top boxes.

Panama	**Book Values £m**	**Revaluations £m**	**Fair Values £m**
Tangible fixed assets	**167**	**(25)**	**142**
Investments	**1**	**-**	**1**
Stocks	**8**	**(2)**	**6**
Debtors	**55**	**(7)**	**48**
Cash	**39**	**-**	**39**
Borrowings	**(19)**	**-**	**(19)**
Other creditors	**(53)**	**(35)**	**(88)**
Separable net assets acquired	**198**	**(69)**	**129**

Fixed assets

Adjustments have been made principally to reduce the value of fixed assets to fair value following a fixed asset verification and reconciliation exercise.

Other creditors

- **A provision of £44m was made against the cost of the mobile licence to reflect its expected recoverable value.**

PacLink	**Book Values £m**	**Revaluations £m**	**Fair Values £m**
Tangible fixed assets	**118**	**(20)**	**98**
Stocks	**7**	**(5)**	**2**
Debtors	**16**	**-**	**16**
Cash	**8**	**-**	**8**
Other creditors	**(38)**	**-**	**(38)**
Separable net assets acquired	**111**	**(25)**	**86**

Tangible fixed assets

The fixed assets have been written down by £20m to reflect the estimated recoverable amount of the network.

35 Acquisitions continued

Fair value of consideration

The fair value of the consideration given for the Group's major acquisitions during the year and the goodwill arising on those acquisitions is summarised in the table below:

	Other £m	NYNEX & Bell Cablemedia £m	Panama £m	PacLink £m	Total subsidiaries £m	Optus £m
Consideration given:						
Cash	67	–	399	381	847	456
Acquisition costs	–	50	17	3	70	5
Deferred consideration	–	–	–	–	–	40
Non cash consideration	76	1,734	–	–	1,810	–
	143	1,784	416	384	2,727	501
Cash acquired	4	(137)	(39)	(8)	(180)	–
Other net assets acquired	(13)	137	(90)	(78)	(44)	(144)
Net assets previously held	–	(153)	–	–	(153)	–
Minority interest	(33)	(966)	6[illegible]	(136)	(1,069)	–
Goodwill arising	101	665	353	162	1,281	357

In addition to the goodwill arising on the above acquisitions, a further £125m of goodwill has been eliminated against reserves in respect of the Group's pre-existing 32.5 per cent interest in Bell Cablemedia at March 31st 1997. No fair value adjustments were made to the assets and liabilities of Bell Cablemedia as at March 31st 1997, as the formation of CWC had not been completed. The further goodwill arises as a result of the fair value adjustments made to the assets and liabilities of Bell Cablemedia during the current financial year (described above).

	1998 £m
Goodwill on acquisition	
Goodwill from subsidiaries (see fair value table)	1,281
Goodwill on Bell Cablemedia stake already held	125
Goodwill on acquisition of Optus Communications (see fair value table)	357
Goodwill on other associate and joint venture acquisitions	32
Group share on acquisition by joint ventures	45
	1,840

35 Acquisitions continued

Results of acquired businesses

The summarised results of the Group's material acquisitions from the end of the acquired company's previous financial year to the date of acquisition by the Group were as follows:

	Bell Cablemedia Jan. 1st 1997 to April 28th 1997 £m	NYNEX Jan. 1st 1997 to April 28th 1997 £m	Panama Jan 1st 1997 to May 29th 1997 £m
Turnover	35	63	106
Operating profit/(loss)	(27)	–	50
Profit/(loss) before tax	(56)	(28)	48
Taxation	–	7	(19)
Profit/(loss) after tax attributable to shareholders	(56)	(21)	29

There were no recognized gains and losses in the period other than the losses attributable to shareholders.

PacLink was acquired on January 8th 1998. The results of the business from January 1st 1998 to that date are not material.

The table below gives summarised financial information for the Group's material acquisitions for their last full financial year prior to acquisition.

	Bell Cablemedia Year ended Dec. 31st 1996 £m	NYNEX Year ended Dec. 31st 1996 £m	Panama Year ended Dec. 31st 1996 BSm	PacLink Year ended Dec. 31st 1997 HK$m
Profit/(loss) after tax	(96)	(74)	106	–
Minority interests	–	11	–	–

Contribution to the cash flow from acquisitions in 1998 are as follows: net cash inflows from operating activities £180m, returns on investments and servicing of finance £90m, taxation £nil and capital expenditure £692m.

36 Related party transactions

Transactions with associates and joint ventures

All transactions with associated undertakings arise in the normal course of business for the year ended March 31st 1998.

	1998	1997
	(in £ millions)	
Turnover	105	54
Outpayments	76	61
Other operating expenses payable	8	11
Management fees received and receivable	10	13
Interest received and receivable	25	21
Interest paid and payable	–	6
Dividends received	23	21
Purchase of stock held for resale	52	–
Sales of fixed assets	–	5

36 Related party transactions continued

	1998	1997
	(in £ millions)	
At March 31st 1998		
Loans to associated undertakings (Note 17)	332	205
Amounts owed by associated undertakings (Note 19)	18	52
Amounts owed to associated undertakings (Note 21)	43	18

The Group has guaranteed bank loans of £2m (1997–£4m) held by associated undertakings. Guarantee fees charged by the Group are included as part of the management fees receivable from associated undertakings. Management fees also include the provision of technical support services, which includes the cost of employee secondments to associated undertakings.

Transactions with Directors

There were no material transactions with Directors, except for those relating to remuneration and shareholdings disclosed in Item 10.

37 Post balance sheet events

The law suit arising from a dispute between Cable & Wireless USA and MCI was settled on May 29th 1998.

At March 31st 1998 BCITH owned, indirectly through two of its subsidiaries, Bell Canada International Holdings Limited and BCM Holdco Limited, approximately 14.2 per cent of the shares of C&W Comms on a fully diluted basis. On June 18th 1998 BCITH sold all of its 212,383,545 shares and, accordingly, ceased to be entitled to the benefits of, and is no longer bound by, most provisions of the C&W Comms Shareholders' Agreements, and BCITH's appointees to the C&W Comms' board of Directors were required to resign.

On July 13th 1998 Cable & Wireless announced that it had sent an offer for sale of its 20 per cent interest in Bouygues Telecom to all of the shareholders of that company.

On July 16th 1998 Cable & Wireless placed 112 million shares at 800p with its brokers, Cazenove & Co and Hoare Govett. This raised £887 million (US$1,449 million) which will partly fund the MCI internet acquisition (see below).

On July 31st 1998, the Group increased its holding in Bezeq to 13 per cent.

On August 14th 1998 Cable & Wireless completed the sale of its interest in PLD Telekom Inc. ("PLD") and PeterStar Company Limited for £48 million in cash. As part of the same transaction, Cable & Wireless will transfer its interest in BELCEL to PLD. On August 20th 1998, the Company announced that it had agreed to sell its 25 per cent interest in MTN for approximately £257 million. Completion is conditional on obtaining certain regulatory approvals.

On September 14th 1998 Cable & Wireless acquired MCI's US internet communications business for $1.75 billion in cash (approximately £1,070 million). The Group acquired 3,300 dedicated access corporate customers, a web hosting and managed firewall service business with more than 100 corporate accounts and a dial-up access business providing internet access for more than 250,000 consumers and 60,000 business users.

On September 18th 1998, the Company sold its interest in Lattelekom SIA and TILTS Communications A/S (the Danish holding company).

38 Debtor and stock provisions

	1998	1997	1996
		(in £ millions)	
Balance at beginning of period			
Doubtful debts	82	74	70
Stock	11	9	8
Total	93	83	78
Charged to costs and expenses			
Doubtful debts	79	31	33
Stock	8	5	2
Total	87	36	35
Charged to other accounts			
Doubtful debts	–	–	2
Stock	–	2	–
Total	–	2	2
Deductions			
Doubtful debts	(29)	(23)	(31)
Stock	(2)	(5)	(1)
Total	(31)	(28)	(32)
Balance at end of period			
Doubtful debts	132	82	74
Stock	17	11	9
Total	149	93	83

39 Summary of differences between United Kingdom and United States generally accepted accounting principles

The Company prepares its consolidated accounts in accordance with generally accepted accounting principles (GAAP) in the United Kingdom, which differ in certain material respects from US GAAP. The significant differences relate principally to the following items and the adjustments necessary to restate net income and shareholders' equity in accordance with US GAAP are shown below.

a) Goodwill

Under UK GAAP goodwill arising on acquisition is eliminated directly against reserves. Amounts are transferred from reserves and charged through the profit and loss account when the related investments are sold or written down as a result of permanent diminutions in value. Under US GAAP goodwill is capitalised and amortised by charges against income over the period, not exceeding 40 years, over which the benefit arises. For US GAAP, goodwill has been amortised by the Company over periods varying between 5 and 40 years.

Under UK GAAP the profit or loss on the disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any goodwill previously eliminated directly against reserves and not already charged to profit. Under US GAAP an adjustment to profit or loss on disposal is required in respect of the unamortised portion of goodwill.

b) Capitalisation of interest

Under UK GAAP the capitalisation of interest is not required, but the Group does capitalise interest, net of tax, incurred in relation to separately identifiable major capital projects. US GAAP requires that gross interest cost should be capitalised on all qualifying assets during the time required to prepare them for their intended use.

c) Deferred tax

Under UK GAAP provision is made for deferred taxation only when there is a reasonable probability that the liability will arise in the foreseeable future. US GAAP requires full provision for deferred income taxes under the

39 Summary of differences between United Kingdom and United States generally accepted accounting principles continued

liability method on all temporary differences and, if required, a valuation allowance is established to reduce gross deferred tax assets to the amount which is likely to be realised.

d) Marketable securities

Under UK GAAP investments in marketable securities are recorded at historic cost less provision for permanent diminutions in value. Under US GAAP investments classified as available for sale are reported at fair value, with unrealised gains or losses reported as a separate component of shareholders' equity.

e) Pension costs

Under UK GAAP the expected cost of pensions is charged to the profit and loss account so as to spread the cost of pensions over the expected service lives of employees. Surpluses arising from actuarial valuations are similarly spread. Under US GAAP costs and surpluses are similarly spread but based on prescribed actuarial assumptions, which differ in certain respects from those used for UK GAAP.

f) Restructuring costs

Under UK GAAP restructuring costs charged to the profit and loss account in full irrespective of whether they have been agreed or incurred. Under US GAAP certain of these costs are only charged to the profit and loss account when certain specific criteria have been met.

g) Cumulative exchange loss on sale of foreign associated undertakings

Under UK GAAP the gain or loss arising on the sale or liquidation of a foreign subsidiary or associated company does not include the related cumulative exchange gain or loss, previously recorded as a separate component of shareholders' equity for that investment. Under US GAAP, the gain or loss on sale or liquidation includes the related cumulative exchange gain or loss.

h) Gain on sale of subsidiary shares

Under UK GAAP gains on the sale of subsidiary undertakings are generally treated as unrealised where non-cash consideration is recorded. These gains are taken to reserves. Under US GAAP the gain is recognised through the profit and loss account where there is no intent to reacquire additional shares of the subsidiary.

i) Ordinary dividends

Under UK GAAP dividends proposed after the end of an accounting period in respect of that accounting period are deducted in arriving at retained earnings for that period. Under US GAAP such dividends are not deducted until formally approved.

j) Earnings per ordinary share

Under UK GAAP earnings per share is based on profit for the financial year and computed using the weighted average number of Ordinary Shares in issue during the year. Under US GAAP basic earnings per share is based on net income and computed using the weighted average number of Ordinary Shares in issue during the year. US GAAP also requires the presentation of diluted earnings per share which is based upon net income, as adjusted, computed using the weighted average shares and the effect of other dilutive instruments.

k) Cash flows

The Cash Flow Statement is prepared in accordance with the UK Financial Reporting Standard No 1 Revised, Cash Flow Statements (FRS 1 Revised) for UK GAAP reporting. Its objective and principles are similar to those set out in Statement of Financial Accounting Standard (SFAS) 95 "Statement of Cash Flows". The principal difference between the standards is in respect of classification. Under FRS 1 Revised, the Group presents its cash flows for: operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investment; acquisitions and disposals; equity dividends paid; management of liquid resources; and financing. SFAS 95 requires only three categories of cash flow activity: operating; investing; and financing.

39 Summary of differences between United Kingdom and United States generally accepted accounting principles continued
Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 Revised would, with the exception of dividends paid, be included as operating activities under SFAS 95; dividend payments would be included as a financing activity under SFAS 95. Under FRS 1 Revised, cash is defined as cash in hand and deposits repayable on demand, short term deposits which are readily convertible into known amounts of cash at or close to their carrying value are classified as liquid resources. SFAS 95 defines cash and cash equivalents as cash in hand and short term highly liquid investments with original maturities of three months or less. Cash flows in respect of short term deposits with original maturities exceeding three months are included in investing activities under SFAS 95 and are included in Capital expenditure and financial investment under FRS 1 Revised.

The effect of these different accounting principles are as follows:

	1998	1997	1996
		(in £ millions)	
Net income as reported under UK GAAP	1,288	677	607
US GAAP adjustments:			
Amortisation of goodwill	(92)	(30)	(20)
Goodwill written off in respect of sale of subsidiary undertakings	10	116	3
Capitalisation of interest	(16)	11	2
Deferred tax – full provision	(31)	14	(31)
– tax effect of other US GAAP reconciling items	9	5	7
Pension costs	(4)	11	(7)
Restructuring costs	(20)	15	(21)
Cumulative exchange loss on sale of foreign associated undertaking	–	(129)	–
Gain on sale of subsidiary undertaking	138	–	–
Other	(5)	(4)	3
Minority interests	11	(10)	3
Net income under US GAAP	1,288	676	546
Earnings per share under US GAAP			
– Basic	57.0p	30.3p	24.8p
– Diluted	55.7p	29.5p	24.2p
Earnings per ADR* under US GAAP			
– Basic	171.0p	90.9p	74.4p
– Diluted	167.1p	88.5p	72.6p

39 Summary of differences between United Kingdom and United States generally accepted accounting principles continued

Had the compensation cost for the Company's four stock-based compensation plans been determined consistent with SFAS 123, the Company's US GAAP net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1998	1997	1996
			(in £ millions except per share data)	
Net income	– as reported	1,288	676	546
	– pro forma	1,271	666	542
Basic earnings per share	– as reported	57.0p	30.3p	24.8p
	– pro forma	56.2p	29.8p	24.6p
Basic earnings per ADR*	– as reported	171.0p	90.9p	74.4p
	– pro forma	168.6p	89.4p	73.8p
Diluted earnings per share	– as reported	55.7p	29.5p	24.2p
	– pro forma	54.9p	29.1p	24.0p
Diluted earnings per ADR*	– as reported	167.1p	88.5p	72.6p
	– pro forma	164.7p	87.3p	72.0p

The effects of applying SFAS 123 for disclosing compensation cost under such pronouncement may not be representative of the effects on reported net income for future years.

* Computed on the basis that one American Depository Receipt (ADR) represents three ordinary shares.

Diluted Earnings per share under US GAAP

	1998	1997	1996
		(in £ millions)	
US GAAP Net Income	1,288	676	547
Interest saved on loan stock conversion	4	6	6
	1,292	682	553
Average number of shares outstanding:			
Applicable for basic net income eps	2,261,511,426	2,232,619,261	2,206,524,316
Loan stock conversion	40,818,447	60,123,301	66,875,728
Share options	19,698,045	15,328,968	16,780,958
	2,322,027,918	2,308,071,530	2,290,181,002
Diluted Earnings per share	55.7p	29.5p	24.2p

39 Summary of differences between United Kingdom and United States generally accepted accounting principles continued
The effect on shareholders' equity of the differences between UK GAAP and US GAAP is as follows:

	1998	1997
	(in £ millions)	
Shareholders' equity as reported under UK GAAP	3,098	3,749
US GAAP adjustments:		
Goodwill	2,360	792
Capitalisation of interest	197	213
Deferred tax – full provision	(830)	(775)
– tax effect of other US GAAP reconciling items	(87)	(96)
Proposed final dividend	194	173
Pension costs	(15)	(10)
Restructuring costs	–	20
Unrealised gains on equity securities	32	34
Other	(27)	(22)
Minority interest	229	113
Shareholders' equity under US GAAP	5,151	4,191

The shareholder's equity for the year ended March 31st 1997 under US GAAP has been restated to take account of cumulative exchange losses totalling £93m attributable to the goodwill associated with VEBACOM GmbH, which was disposed of in the year ended March 31st 1997. These losses were previously included within reserves. Net income for the year ended March 31st 1997 under US GAAP is not affected.

Goodwill and capitalised interest are analysed as follows:

	Goodwill		Capitalised Interest	
	1998	1997	1998	1997
	(in £ millions)			
Gross	2,531	884	497	416
Accumulated amortisation/depreciation	(171)	(92)	(205)	(146)
Included in UK GAAP consolidated financial statements	–	–	(95)	(57)
	2,360	792	197	213

Under UK GAAP, Cable & Wireless Communications is a subsidiary undertaking and is therefore consolidated in the Group's results. Under US GAAP, the rights of the minority shareholders in Cable & Wireless Communications are such that the equity method of accounting is required. Although this has no overall impact on the Group's net income or shareholders' equity as reported under US GAAP, the classification and display within the Group's income statement and balance sheet would differ under US GAAP compared with UK GAAP.

39 *Summary of differences between United Kingdom and United States generally accepted accounting principles continued*
The Group's pro forma summarised income statement and balance sheet with this adjustment and those analysed above under US GAAP are shown below.

	1998
	(in £ millions)
Fixed Assets:	
Intangible assets	2,360
Tangible assets	4,110
Investments	1,856
Stock	120
Debtors	1,271
Cash and deposits	1,525
Creditors: amounts falling due within one year	(1,872)
Creditors: amounts falling due after more than one year	(1,605)
Provisions for liabilities and charges	(1,042)
Minority interests	(1,572)
Net assets	5,151
Called up share capital	570
Share premium account	555
Profit and loss account	4,026
Equity shareholders' funds	5,151
Net revenue	4,747
Profit before tax	2,209
Net income	1,288

Impact of new accounting standards:

SFAS 121 – Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of
SFAS 121 was issued in March 1995. It establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, and for long-lived assets and certain intangibles to be disposed of. Effective from 1st April 1996 the Company adopted SFAS 121, for the purpose of presenting the Group's results for the period and shareholders' interest as adjusted to accord with US GAAP. The adoption of SFAS 121 had no material impact on the Group's results of operations or financial position as adjusted to accord with US GAAP.

SFAS 123 – Accounting for Stock-Based Compensation
SFAS 123 "Accounting for stock-based compensation" which establishes financial accounting and reporting standards for stock-based employee compensation plans, was effective for accounting periods beginning after 15th December 1995. The statement provides the option to continue under the accounting provisions of Accounting Principles Board Opinion 25 "Accounting for stock issued to employees" (APB 25), providing that proforma footnote disclosures of the effects on net income and earnings per share, calculated as if the new method had been implemented, are included. The Company has elected to continue under APB 25, and the proforma and other disclosures required by SFAS 123 are disclosed above and in Note 24.

Derivative Financial Instruments
In January 1997, the Securities and Exchange Commission issued rules which, inter alia, expand the disclosure requirements regarding accounting policies for derivatives. The new accounting policy disclosures are effective for accounting periods ending after 15th June 1997, including interim periods and additional disclosures have been included in these accounts.

SFAS 125 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities
SFAS 125 was issued in June 1996 and establishes, among other things, new criteria for determining whether a transfer of financial assets in exchange for cash or other consideration should be accounted for as a sale or as a pledge of collateral. As issued Statement 125 is effective for all transfers and servicing of financial assets and

39 Summary of differences between United Kingdom and United States generally accepted accounting principles continued
extinguishment of liabilities occurring after December 31st 1996. In December 1996, SFAS 127, "Deferral of the effective date of certain provisions of SFAS 125", was issued. Statement 127 defers for one year the effective date of certain requirements of Statement 125. The adoption of SFAS 125 had no material impact on the Group's results of operations or financial position as adjusted to accord with US GAAP.

SFAS 128 – Earnings Per Share
SFAS 128 was issued in February 1997 and is effective for financial periods ending after December 15th 1997. This statement simplifies the standards for computing earnings per share previously found in APB Opinion 15, Earnings per share, and makes them more comparative to international EPS standards. Statement 128 replaces the presentation of primary EPS with a presentation of basic EPS. In addition, the statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation which has been disclosed above.

Statement of Position (SOP) 96-1 – Environmental Remediation Liabilities
SOP 96-1 was issued in October 1996. This statement provides authoritative guidance on specific accounting issues that are present in the recognition, measurement, display and disclosure of environmental remediation liabilities. The provisions of this Statement are effective for fiscal years beginning after December 15th 1996. SOP 96-1 had no material impact on the financial position or results of operations of the Group.

Other US Accounting Standards issued but not adopted:

SFAS 130 - Reporting Comprehensive Income
SFAS 130 was issued in June 1997 and is effective for fiscal years beginning after December 15th 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. It requires that all items that are required to be recognised under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. It requires that an enterprise to (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The group has not yet evaluated the likely impact on its financial statements.

SFAS 131 - Disclosure about Segments of an Enterprise and Related Information
SFAS 131 was issued in June 1997 and is effective for fiscal years beginning after December 15th 1997. In the initial year of application, comparative information for earlier years is to be restated. It requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The Company has not yet evaluated the likely impact on the level of disclosure provided.

SFAS 132 - Employers' Disclosures about Pensions and other Post-retirement Benefits
In February 1998, the Securities and Exchange Commission issued SFAS 132 effective for fiscal years beginning after December 15th 1997. SFAS 132 significantly changes current financial statement disclosures requirements from those that were required under SFAS 87, "Employers' Accounting for Pensions", SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", and SFAS 106, "Employers' Accounting for Post-retirement Benefits Other than Pensions". SFAS 132 does not change the existing measurement or recognition provisions of FASB Statement Nos. 87, 88 or 106. It requires that additional information be disclosed regarding changes in benefit obligation and fair values of plan assets, standardises the disclosure requirements for pensions and other post-retirement benefits and presents them in one footnote and

40 Concentrations of turnover

In the year ended March 31st 1998 approximately 19 per cent of the Group's turnover was derived from the provision of international telephone services under an exclusive licence which expires in 2006, granted to a subsidiary of Hongkong Telecom by the Hong Kong Government. On January 20th 1998, the Group reached agreement with the Government for the surrender of the exclusive license in exchange for a package of cash compensation described in Note 10.

In the year ended March 31st 1998 approximately 10 per cent of the Group's revenue was earned from international telecommunications traffic carried to or from the United Kingdom. Until December 1996 the Group was part of a duopoly for the provision of international facilities. Since December 1996 a further 45 IFLs have been issued. These new licences are expected to result in further price reductions for international wholesale traffic carriage both to and from the United Kingdom and result in the replacement of existing product revenue with revenue from new products offered to the IFL holders.

41 Companies Act 1985

These Consolidated Financial Statements do not constitute statutory accounts' within the meaning of the Companies Act 1985 of Great Britain for any of the three years ended March 31st 1998. Statutory accounts for 1997 and 1996 have been filed with the United Kingdom's Registrar of Companies; the statutory accounts for 1998 will be filed following the Company's Annual General Meeting. The auditors have reported on these accounts. Their reports were unqualified and did not contain statements under Section 237(2) or (3) of that Act.

41 Companies Act 1985 continued
Principal subsidiary and associated undertakings and trade investments
At March 31st 1998

Subsidiaries wholly owned by the Company unless otherwise stated		Issued share capital (millions)	Country of incorporation	Area of operation
a) Cable and Wireless (Cayman Islands) Limited	Cay $	1	Cayman Islands	Cayman Islands
a) Cable and Wireless Europe SA	BFr	3,874	Belgium	Europe
a) Cable and Wireless (Marine) Limited	£	69	Great Britain	World-wide
a) Cable and Wireless (West Indies) Limited (100 per cent OWNED BY A SUBSIDIARY UNDERTAKING)	£	5	Great Britain	West Indies
a) Cable & Wireless Communications plc (53 per cent owned)+	£	745	Great Britain	United Kingdom
a) MPC 92 Limited (partner in One 2 One)	£	198	Great Britain	United Kingdom
a) Cable and Wireless (Investments) Limited	£	38	Great Britain	United Kingdom
a) The Barbados External Telecommunications Limited (85 per cent owned by a subsidiary undertaking)	Barb$	36	Barbados	Barbados
a) Barbados Telephone Company Limited ([illegible] per cent owned by a subsidiary undertaking)	Barb$	36	Barbados	Barbados
b) Tilts Communications AS (63 per cent owned)***	Dkr	764	Denmark	Latvia
a) Cable & Wireless Grenada Limited (70 per cent owned by a subsidiary undertaking)	EC$	40	Grenada	Grenada
b) Cable and Wireless (Far East) Limited	HK$	1,512	Hong Kong	Far East
b) Hong Kong Telecommunications Limited (HKT) (54 per cent owned including 27 per cent by subsidiary undertakings)	HK$	5,955	Hong Kong	Hong Kong
a) Hong Kong Telecom International Limited (100 per cent owned by HKT)	HK$	900	Hong Kong	Hong Kong
a) Hong Kong Telecom CSL Limited (100 per cent owned by HKT)	HK$	80	Hong Kong	Hong Kong
a) Hong Kong Telephone Company Limited (100 per cent owned by HKT)	HK$	2,164	Hong Kong	Hong Kong
a) Hong Kong Telecom IMS Limited (100 per cent owned by HKT)	HK$		Hong Kong	Hong Kong
a) Cable & Wireless Jamaica Limited (TOJ) (79 per cent owned by subsidiary undertaking)	J$	7,725	Jamaica	Jamaica
a) Companhia de Telecomunicacoes de Macau S.A.R.L. (51 per cent owned)***	Patacas	150	Macau	Macau
a) Dhivehi Raajjeyge Gulhun Private Limited*** (45 per cent owned)**	Rufiya	190	Maldives	Maldives
a) Paktel Limited (80 per cent owned)+	P.Rupee	295	Pakistan	Pakistan
a) Cable & Wireless St Kitts & Nevis Limited (65 per cent owned by a subsidiary undertaking)	EC$	28	St Kitts and Nevis	St Kitts and Nevis
a) Cable and Wireless (Seychelles) Limited	S.Rupee	110	Seychelles	Seychelles
b) Cable & Wireless Holdings, Inc	US$	1	USA	USA
a) Cable & Wireless, Inc. (100 per cent owned by a subsidiary undertaking)	US$	4	USA	USA
a) Yemen International Telecommunications Company (51 per cent owned)***	Rial	192	Yemen	Yemen
a) Cable and Wireless Japan CSL (89 per cent owned)	Yen	4,532	Japan	Japan
a) Cable & Wireless Dominica Limited (80 per cent owned by a subsidiary undertaking)	EC$	105	Dominica	Dominica
b) Cable and Wireless European Investments Limited	£	79	Great Britain	Europe
a) Cable & Wireless Panama SA (49 per cent owned by a subsidiary undertaking)****	Balboa	315	Panama	Panama
a) Cable & Wireless Mitratel Limited (38 per cent owned by subsidiary undertakings) ****	Rupiah	104,173	Indonesia	Indonesia
a) Pacific Link Communications Limited (100 per cent owned by HKT)	HK$	–	Hong Kong	Hong Kong

41 Companies Act 1985 continued

		Issued share capital (millions)	Percentage holding and class	Country of incorporation	Area of operation
Associated undertakings held by the Company					
a) Bahrain Telecommunications Company B.S.C.***‡	Dinar	80	20 Ordinary	Bahrain	Bahrain
a) Fiji International Telecommunications Limited•†	Fiji$	7	49 Ordinary	Fiji	Fiji
a) International Digital Communications Inc.*•†	Yen	31,200	18 Ordinary	Japan	Japan
a) Hunying Nanhai Oil Telecommunication Service Company Limited***•†	Renminbi	59	49 Ordinary	People's Republic of China	People's Republic of China
a) Eastern Telecommunications Philippines, Inc***•‡	P.Peso	[illegible]	40 Ordinary	Philippines	Philippines
a) Solomon Telekom Company Limited‡	SI$	30	42 Ordinary	Solomon Islands	Solomon Islands
a) Telecom Vanuatu Limited•‡	Vatu	757	33 Ordinary	Vanuatu	Vanuatu
a) Gemini Submarine Cable Systems Limited‡	US$	–	50 Ordinary	Great Britian	Worldwide
Trade investments held by the Company					
a) International Telecommunications Satellite Organisation	US$		1.49 Quota	USA	Worldwide
Associated undertakings held by subsidiary undertakings					
a) PLD Telekom Inc ***‡	US$	190	32 Ordinary	Canada	Russia
a) Asia Satellite Telecommunications Company Limited•***‡	HK$	39	29 Ordinary	Hong Kong	Asia
a) Bouygues Telecom SA***	Fr Francs	2,700	20 Ordinary	France	France
a) Telecommunication Services of Trinidad and Tobago Limited•‡	TT$	283	49 Ordinary	Trinidad and Tobago	Trinidad and Tobago
a) Optus Communications Pty Limited***•‡	Aus$	2,131	49 Ordinary	Australia	Australia
a) Mercury Personal Communications Limited (partner in One 2 One)•†	£	5	50 Ordinary	Great Britain	United Kingdom
a) Lattelekom SIA***•‡	Lats	196	31 Ordinary	Latvia	Latvia
a) Mobile Telephone Networks (Pty) Ltd†	Rand	5	25 Ordinary	South Africa	South Africa
a) MobileOne (Asia) Pte Ltd†	Singapore $	140	30 Ordinary	Singapore	Singapore
Trade investments held by subsidiary undertakings					
a) International Telecommunications Satellite Organisation	US$		1.86 Quota	USA	Worldwide
a) Bezeq-The Israel Telecoms Corp.	Shekel		10 Ordinary	Israel	Israel

a) Public/private telecommunications
b) Holding company
* The Group regards International Digital Communications Inc. as an associated undertaking because it exercises significant influence.
** The Group regards Dhiraagu Raajjeyge Gulhun Private Limited as a subsidiary undertaking because it exercises dominant influence through a management agreement.
*** These companies had a financial year end of December 31st 1996 due to the requirements of the shareholders' agreements.
**** The Group regards these companies as subsidiaries because it controls the majority of the Board of Directors through shareholders' agreements.
• These companies are audited by firms other than KPMG International member firms.
† Associates
‡ Joint ventures

GLOSSARY

"ACCC"	Australian Competitions and Consumer Commission.
"ACT"	Advance Corporation Tax.
"ADC"	Access Deficit Contribution.
"ADRs"	The American Depositary Receipts evidencing ADSs.
"ADSs"	The American Depositary Shares, each of which represents three Ordinary Shares.
"Agreement in Principle"	The Agreement announced on June 3rd 1992 between the Hong Kong Government and the Hongkong Telecom Group regarding a replacement for the Scheme of Control and the future regulation of Hong Kong Telephone and HKTI.
"AMPS"	Advanced Mobile Phone System.
"AsiaSat"	Asia Satellite Telecommunications Company Limited.
"ATM"	Asynchronous Transfer Mode.
"Basic Law"	The Basic Law of the Hong Kong Special Administrative Region of the PRC, which was adopted by the National People's Congress of the PRC on April 4th 1990.
"BCI"	BCI Telecom Holding Inc. (formerly Bell Canada International Inc.)
"BCM"	Bell Cablemedia plc.
"BCM Securities"	BCM ordinary shares together with the American Depositary Shares of BCM.
"BDB"	British Digital Broadcasting.
"Bell Atlantic"	Bell Atlantic Corporation.
"Bell South"	Bell South Corporation Inc.
"BIB"	British Interactive Broadcasting.
"BNS"	Business Network Services.
"Broadcasting Act"	The Broadcasting Act 1990 of the United Kingdom.
"BSkyB"	British Sky Broadcasting Group plc.
"BT"	British Telecommunications plc.
"Cable and Broadcasting Act"	The Cable and Broadcasting Act 1984 of the United Kingdom.
"Cable Co(s)"	BCM, NYNEX CableComms and Videotron or any of them.
"Cable TV"	Cable Television.
"Callback"	A service which involves a customer calling a local access number for the callback operator (in the case of the FTNS Licensees, their short dial codes). The call-back operator then typically signals an overseas switch generating an incoming call to its local switch which then "cross connect" the local and international circuits providing a dial tone to call any number in that particular country or elsewhere.
"CAS"	Cordless Access Services.
"CBD"	Central Business District.
"CCI"	Continental CableVision Inc.
"Chief Executive in Council"	The Chief Executive of the Hong Kong SAR acting after consultation with the Executive Council.
"Company"	Cable and Wireless plc.
"CTM"	Companhia de Telecomunicacoes de Macau.
"CWBN"	Cable and Wireless Business Networks, a division of the Company.

"CWC Franchises"	The cable television franchises operated by the CWC group of companies.
"CWCMS"	Cable & Wireless Communications Mobile Services Limited.
"C&W Comms"	Cable & Wireless Communications plc.
"C&W Comms Articles"	The Articles of Association of C & W Comms.
"C&W Comms Shareholders' Agreement"	The shareholders' agreement dated March 21st 1997 between C&W, BCI, BCM Holdco Limited, BCIH, Bell Atlantic and C & W Comms.
"CWE"	Cable and Wireless Europe S.A.
"CWFE"	Cable and Wireless (Far East) Limited, a wholly-owned subsidiary of the Company.
"CWGCS"	Cable and Wireless Global Card Services.
"CWGM"	Cable & Wireless Global Markets.
"CWGMa"	Cable and Wireless Global Marine.
"CWGMo"	Cable and Wireless Global Mobile.
"CWGN"	Cable and Wireless Global Network.
"CWML"	Cable and Wireless Marine Limited, a wholly-owned subsidiary of the Company.
"CWUSA"	Cable & Wireless USA, Inc., a wholly-owned subsidiary of the Company.
"CWWI"	Cable and Wireless (West Indies) Limited, a wholly-owned subsidiary of the Company.
"DASS2"	Digital Access Signalling, System 2.
"Director General"	The Director General of Telecommunications of the UK, head of Oftel.
"DPNSS"	Digital Private Network Signalling System.
"DTH"	Direct to home, a satellite television delivery system.
"DTI"	Department of Trade and Industry.
"DTT"	Digital Terrestial Television.
"Equity Homes"	The number of homes in a CWC Franchise multiplied by CWC's percentage ownership of the franchise.
"EUTELSAT"	European Telecommunications Satellite Organisation.
"FCC"	The United States Federal Communications Commission.
"Fibre optic"	The use of special glass fibres to transmit laser light pulses, giving the "on" and "off" signals of digital information.
"FID"	Foreign Income Dividend, under the provisions of the UK Finance Act 1994.
"Fixed Telecommunications Review"	The 1998 Review of Fixed Telecommunications which is currently being conducted by the Hong Kong Government and is expected to be completed by the end of 1998.
"FLAG"	Fibre Optic Link Around the Globe.
"FSI"	The Financial Secretary Incorporated, a corporation sole incorporated in Hong Kong being the person for the time being performing the duties of the office of Financial Secretary of Hong Kong Government.
"FTNS"	Fixed Telecommunications Network Services provided under the standard licence issued to operators of fixed line telecommunications networks in Hong Kong by the Telecommunications Authority under powers granted by the Telecommunications Ordinance.

"FTNS Licensees"	Companies granted FTNS Licences other than Hong Kong Telephone.
"GET"	Great Eastern Telecommunications Limited.
"Global Offering"	An Offering of the whole of BCITH's equity interest in C&W Comms.
"GSM"	Global System for Mobile Communications.
"HFC"	Hybrid Fibre Coaxial.
"HKTCAS"	Hong Kong Telecom CAS Limited, a wholly-owned subsidiary of Hongkong Telecom.
"HKTI"	Hong Kong Telecom International Limited, a wholly-owned subsidiary of Hongkong Telecom.
"HKTI Licence"	The licence dated October 1st 1981, as amended, granted by the Governor in Council to HKTI pursuant to the terms of the Telecommunication Ordinance.
"HKTIMS"	Hongkong Telecom IMS Limited, a wholly owned subsidiary of Hongkong Telecom.
"HKTI Regulatory Agreement"	An agreement dated December 3rd 1987 among CWFE, the Company, FSI, the Hong Kong Government, HKTI and Hongkong Telecom relating to HKTI shareholders' rights and obligations and the management of HKTI's business.
"HM Government" or "Government"	Her Majesty's Government, the government of the United Kingdom.
"Hong Kong" or "Hong Kong SAR"	The Hong Kong Special Administrative Region of the PRC, established on July 1st 1997.
"Hong Kong Government"	The Government of the Hong Kong SAR.
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited.
"Hongkong Telecom"	Hong Kong Telecommunications Limited, a subsidiary of the Company and, unless the context requires otherwise, its subsidiaries and affiliates.
"Hongkong Telecom Group"	Hongkong Telecom and its subsidiary and associated companies, including Hong Kong Telephone, HKTI and the Non-Franchised Companies.
"Hong Kong Telephone"	Hong Kong Telephone Company Limited, a wholly-owned subsidiary of Hongkong Telecom.
"Hong Kong Telephone Franchise"	The rights granted to Hong Kong Telephone by the Telephone Ordinance to supply and operate public telephone communications within Hong Kong, which rights came to an end on June 30th 1995.
"Hong Kong Telephone Licence"	The FTNS Licence dated June 29th 1995 granted by the Telecommunications Authority to Hong Kong Telephone.
"I&PS"	International and Partner Services.
"IDC"	International Digital Communications Inc.
"IDD"	International Direct Dialing, which allows a caller to key in a number in another country and be connected automatically.
"IFL"	International Facilities Licence.
"IIAC"	Information Infrastructure Advisory Committee.
"INTEL"	Instituto Nacional de Telecommunicaciones, S.A.
"INTELSAT"	International Telecommunications Satellite Organisation.
"IP"	Internet Protocol

"IPLC"	International Private Leased Circuit.
"IRU"	Indefeasible Rights of Use.
"ISDN"	Integrated Services Digital Network.
"ISP"	Internet Service Providers.
"ISR"	International Simple Resale.
"IT"	Information Technology.
"ITC"	Independent Television Commission.
"ITU"	The International Telecommunications Union.
"ITV"	On-line Interactive Television.
"IVANS"	International Value Added Network Services.
"IVANS Scope"	The scope of liberalised IVANS that may be competitively provided in Hong Kong.
"IVPN"	Integrated Virtual Private Networks.
"Joint Declaration"	The Joint Declaration of HM Government and the Government of the PRC on the Question of Hong Kong, as ratified by those Governments in May 1985, including its annexes.
"KDD"	Kokusai Denshin Denwa Co., Limited.
"LDSL"	Local Delivery Service Licence.
"London Stock Exchange"	The stock exchange in London on which the Company's shares are listed.
"LPSL"	Licensable Programme Services Licence.
"MCI"	MCI Telecommunications Corporation.
"MCMS"	Mercury Communications Mobile Services Limited.
"MCR"	Minimum Carriage Requirement.
"MDNS"	Managed Data Network Services.
"Mercury"	Mercury Communications Limited.
"MMC"	The Monopolies and Mergers Commission of the United Kingdom.
"MNP"	Mobile Number Portability.
"MSS"	Mobile Satellite Telephony Services.
"MTN"	Mobile Telephone Networks (PTY) Limited.
"New Broadcasting Act"	The Broadcasting Act 1996 of the United Kingdom.
"Noon Buying Rate"	The noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on the date specified.
"NTT"	Nippon Telephone and Telegraph Corporation.
"NVOD"	Near Video on demand.
"NYNEX"	NYNEX Corporation.
"NYNEX CableComms UK"	NYNEX CableComms Group PLC.
"NYNEX CableComms Unit"	One NYNEX CableComms UK Ordinary Share and one NYNEX CableComms US Share of Common Stock traded as a unit.
"NYNEX CableComms US"	NYNEX CableComms Group Inc.
"NYNEX CableComms"	NYNEX CableComms UK together with NYNEX CableComms Group Inc.

"PTAT"	Private TransAtlantic Telecommunications Cable.
"PTO"	Public Telecommunications Operator.
"RPI"	UK Retail Prices Index.
"Refile"	An arrangement to transit traffic through an intermediate country so that the settlement arrangements for termination are those applying between a carrier in the intermediate country and the terminating country rather than between carriers in the originating and terminating countries.
"SAR"	A special administrative region within the PRC.
"SBC"	South West Bell Corp.
"SBSS"	Sino-British Submarine Systems Company Limited.
"SDH"	Synchronous Digital Hierarchy.
"SDN"	SDN Limited.
"Secretary of State"	The Secretary of State for Trade and Industry of the UK.
"SEPON"	SEPON Limited, a subsidiary of the London Stock Exchange, which acts as a nominee for market makers and other persons trading in the market and whose transactions are in the course of registration through the exchange's TALISMAN settlement system.
"SMATV"	Satellite Master Antenna television.
"SME"	Small to medium sized enterprises.
"SNL"	Seven Network Limited.
"Special Share"	The one Special Rights Preference Share of £1 in the capital of the Company held by HM Government.
"SPETS Licence"	Self Provided External Telecommunications Licence granted by the Telecommunications Authority to companies and organisations to authorise them to provide their own international circuits for traffic restricted to intra-corporate and intra-organisation origination at the Hong Kong end with a PSTN connection at the far end.
"Telecom CSL"	Hong Kong Telecom CSL Limited, a wholly-owned subsidiary of Hongkong Telecom.
"Telecom Italia"	Telecom Italia S.p.A.
"Telecommunication Amendment Ordinance"	The Telecommunication (Amendment) Ordinance 1993 of Hong Kong, the provisions of which came into effect on June 4th 1993.
"Telecommunication Ordinance"	The Telecommunication Ordinance (Chapter 106 of the Laws of Hong Kong) as amended, inter alia, by the Telecommunication (Amendment) Ordinance.
"Telecommunications Act"	The Telecommunications Act 1984 of the United Kingdom.
"Telecommunications Authority"	The public officer appointed by the Hong Kong Government under the Telecommunications Ordinance for the purposes of that Ordinance.
"Telecommunications Policy Statement"	The policy statement issued by the Hong Kong Government immediately following the signing of the Framework Agreement on January 20th 1998.
"Telephone Amendment Ordinance"	The Telephone (Amendment) Ordinance 1993 of Hong Kong, the provisions of which came into effect on June 4th 1993.
"Telephone Ordinance"	The Telephone Ordinance (Chapter 269 of the Laws of Hong Kong) as amended.
"Television Policy Review"	The 1998 Review of Television Policy which is currently being conducted by the Hong Kong Government and is expected to be completed by the end of 1998.
"TeleWest"	TeleWest Communications plc.
"Transaction Agreement"	The agreement entered into on October 22nd 1996 by the Company, NYNEX and BCI as amended and restated on January 17th 1997.

"TSL"	Telecommunications Service Licence, a class licence granted under the Telecommunications Act.
"UK" and "United Kingdom"	United Kingdom of Great Britain and Northern Ireland.
"UK GAAP"	Generally Accepted Accounting Principles in the UK.
"UNITACS"	UK Total Access Communication System, an analogue mobile phone system.
"US" and "USA"	United States of America.
"US GAAP"	Generally Accepted Accounting Principles in the United States.
"USC"	Universal Service Contribution which is the sum calculated to ensure that an operator of a fixed line telecommunication network which is subject to a USO receives a fair contribution from other operators towards the cost, net of attributable revenues, of providing basic telephone service to customers where such provision would otherwise be uneconomic.
"USO"	Universal Service Obligation which is the obligation contained in the Hong Kong Telephone Licence to provide, maintain and operate a fixed line telecommunication network in such a way so as to ensure that a good, efficient and continuous basic telephone service is reasonably available to all residents of Hong Kong.
"VEBA"	VEBA AG.
"Vebacom"	Vebacom GmbH.
"Videotron"	Videotron Holdings Plc.
"Videotron Acquisition Agreement"	An agreement dated October 21st 1996 between BCM and Cable Road Investments Limited, a wholly-owned subsidiary of Le Group Videotron Ltee for the increase by BCM of its shareholding in Videotron.
"VOD"	Video on Demand, broadband video entertainment services that are digitally compressed and transmitted along telephone lines to decoding equipment in subscribers' premises as and when requested by the subscriber.
"VPN"	Virtual Private Network, a corporate network provided to a customer by a telecommunications operator using elements of the PSTN. To the customer it offers all the features of a private network, such as direct dialing between offices in different countries.
"VSAT"	Very small aperture terminals used to provide communications services via satellite.
"Winston Entities"	Winston Investors L.L.C., NYNEX Winston Holdings Inc., Chartwell Investors L.P., NYNEX Chartwell Holdings, Inc., NYNEX Chartwell Holdings 2 Inc., North CableComms Holdings Inc., North CableComms Management Inc., South CableComms Holdings Inc. and South CableComms Management Inc.
"Wireless Telegraphy Act"	The Wireless Telegraphy Act 1949 of the United Kingdom.
"WTO"	World Trade Organisation.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorised.

CABLE AND WIRELESS PUBLIC LIMITED COMPANY
(Registrant)

By /s/ R. E. LERWILL

Name: R E Lerwill
Title: Executive Director, Finance

Date : September 29 1998

[illegible]

05419

KELLEY DRYE & WARREN LLP
1200 19TH STREET, N.W.
WASHINGTON, DC [illegible]

April 16, 1999

PAY TO THE ORDER OF South Dakota Public Utilities Commission $ 250.00

Two-Hundred and Fifty------------------------------00/100------------------------ DOLLARS

MEMO Filing fee 009525.003

[illegible] K. Lambert

⑈005419⑈ ⑆054001220⑆ 2000034690853⑈

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of April 15, 1999 through April 22, 1999

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.
Phone: 605-773-3705 Fax: 605-773-3809

ELECTRIC

EL99-004 **In the Matter of the Filing by MidAmerican Energy Company for Approval of a New Street Lighting Service.**

MidAmerican Energy Company is filing to revise the South Dakota Electric Tariff No. 1 to include a price code for a 100-watt High Pressure Sodium Victorian style fiberglass pole street light.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer
Date Filed: 04/21/99
Intervention Deadline: 05/07/99

TELECOMMUNICATIONS

TC99-030 **In the Matter of the FCC Order Establishing New Deadlines for Implementation of IntraLATA Dialing Parity by Local Exchange Carriers.**

The following local exchange carriers have filed IntraLATA Dialing Parity Implementation Plans: Heartland Telecommunications Company of Iowa on April 20, 1999; Accent Communications, Inc. on April 20, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Splitrock Properties, Inc. on April 21, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Jefferson Telephone Company on April 21, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by May 10, 1999; Venture Communications, Inc. on April 21, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Hanson County Telephone Company on April 21, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Hanson Communications, Inc. d/b/a McCook Telecom on April 21, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Vivian Telephone Company d/b/a Golden West Communications, Inc. on April 21, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Stockholm Strandburg Telephone Co. on April 22, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; AT&T Communications of the Midwest, Inc. on April 22, 1999; Midco Communications on April 22, 1999; Heartland Communications, Inc. on April 22, 1999; Mobridge Telecommunications on April 22, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; West River Telecommunications Cooperative on April 22, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; Dakota Telecommunications Group, Inc., DTG Community Telephone, Inc. and Dakota Telecom, Inc. on April 22, 1999; Stateline Telecommunications, Inc. on April 22, 1999, is requesting Commission approval to send out carrier notification letters in advance of final Commission action on the proposed plan, carrier notifications completed by June 1, 1999; and U S WEST Communications, Inc. on April 22, 1999, "U S WEST will file a waiver with the FCC requesting an extension of time to implement toll dialing parity in the following three exchanges: McIntosh (605-273), Timber Lake (605-865), and Morristown (605-524). These exchanges were the subject of sale of exchanges with the Cheyenne River Tribe, and will be converted at a later date. Customers in these exchanges will be notified separately to inform them of the extension of time and the implementation date."

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Comments Due: 05/07/99
Reply Comments Due: 05/17/99

The following local exchange carriers have completed conversion to intraLATA dialing parity: Fort Randall Telephone Company on April 21, 1999; Mt. Rushmore Telephone Company on April 21, 1999; and CommChoice, LLC on April 22, 1999.

TC99-037 **In the Matter of the Application of Long Distance America, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.**

Application by Long Distance America, Inc. for a certificate to provide 1+ and 101XXXX direct outbound dialing, 800/888 toll free inbound dialing and travel card interexchange service on a resold basis.

Staff Analyst: Dave Jacobson
Staff Attorney: Camron Hoseck
Date Filed: 04/15/99
Intervention Deadline: 05/07/99

TC99-038 **In the Matter of the Application of FON Digital Network, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.**

On April 15, 1999, the Commission received an application by FON Digital Network, Inc. for a Certificate of Authority to provide telecommunications services in South Dakota. FON Digital Network, Inc. is a reseller which intends to offer 1+ and 101XXXX direct outbound dialing, 800/888 toll-free inbound dialing, travel card and prepaid calling card service.

Staff Analyst: Bob Knadle
Staff Attorney: Karen Cremer
Date Filed: 04/15/99
Intervention Deadline: 05/07/99

TC99-039 **In the Matter of the Application of Concert Communications Sales LLC for a Certificate of Authority to Provide Local Exchange Services in South Dakota.**

Concert Communications Sales LLC has filed a request for a Certificate of Authority to provide local telecommunications services on a resale basis throughout South Dakota. They plan to provide local telephone service, access service, private line, internet access service and data transmission services.

Staff Analyst: Michele Farris
Staff Attorney: Camron Hoseck

Date Filed: 04/19/99
Intervention deadline: 05/07/99

[redacted] In the Matter of the Application of Cable & Wireless Global Markets, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Cable & Wireless Global Markets, Inc. is a reseller who intends to offer interexchange interLATA and intraLATA telecommunication services on a statewide basis.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer
Date Filed: 04/19/99
Intervention Date: 05/07/99

TC99-041 In the Matter of the Filing by Dickey Rural Telephone Cooperative and its Wholly Owned Subsidiary, Dickey Rural Communications, Inc. for Approval of Petition for Suspension and Modification of Dialing Parity.

Dickey Rural Telephone Cooperative and Dickey Rural Communications, Inc. each have fewer than 2% of the Nation's subscriber lines installed in the aggregate. Pursuant to 47 U.S.C. 251(f)(2), Dickey Rural Telephone Cooperative and Dickey Rural Communications, Inc. petitions the Commission for a suspension and modification of the requirement for implementation of intraLATA dialing parity in its service areas until June 30, 2000. The grounds for the petition are that suspension and modification are: a) necessary to avoid imposing requirements that are unduly economically burdensome and infeasible, and b) consistent with the public interest, convenience and necessity. The compressed schedule mandated by CC Docket No. 96-98, Order adopted March 19 and released March 23, 1999, FCC 99-54 is burdensome and infeasible for small LECs to develop and administer plans for timely notification of their subscribers and interexchange carriers regarding subscribers' selection of intraLATA toll providers, and for small LECs to develop fully compensatory local exchange access rates to replace the current arrangement.

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Date Filed: 04/19/99
Comments Due: 05/07/99
Reply Comments Due 05/17/99

TC99-042 In the Matter of the Filing by Consolidated Telephone Cooperative and its Wholly Owned Subsidiary, Consolidated Telcom, Inc. formerly known as CTC Communications, Inc. for Approval of Petition for Suspension and Modification of Dialing Parity.

Consolidated Telephone Cooperative and Consolidated Telcom, Inc. formerly known as CTC Communications, Inc. each have fewer than 2% of the Nation's subscriber lines installed in the aggregate. Pursuant to 47 U.S.C. 251(f)(2), Consolidated Telephone Cooperative and Consolidated Telcom, Inc. formerly known as CTC Communications, Inc. petitions the Commission for a suspension and modification of the requirement for implementation of intraLATA dialing parity in its service areas until June 30, 2000. The grounds for the petition are that suspension and modification are: a) necessary to avoid imposing requirements that are unduly economically burdensome and infeasible, and b) consistent with the public interest, convenience and necessity. The compressed schedule mandated by CC Docket No. 96-98, Order adopted March 19 and released March 23, 1999, FCC 99-54 is burdensome and infeasible for small LECs to develop and administer plans for timely notification of their subscribers and interexchange carriers regarding subscribers' selection of intraLATA toll providers, and for small LECs to develop fully compensatory local exchange access rates to replace the current arrangement.

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Date Filed: 04/20/99
Comments Due: 05/07/99
Reply Comments Due: 05/17/99

TC99-043 In the Matter of the Filing by Kennebec Telephone Company for Approval of Dialing Parity Implementation Plan and Petition for Suspension and Modification of Dialing Parity.

Kennebec Telephone Company filed its intraLATA toll dialing parity implementation plan and, pursuant to ARSD 20:10:32:39 and 47 U.S.C. 251(f)(2), a petition for suspension and modification of the requirement for implementing intraLATA dialing parity until September 19, 1999. Kennebec Telephone Company has fewer than 2% of the Nation's subscriber lines installed in the aggregate. Kennebec Telephone Company's implementation of intraLATA dialing parity in Kennebec and Presho are part and parcel of its implementation of interLATA equal access for the Kennebec and Presho exchanges at the South Dakota Network switch in Sioux Falls. The implementation of Kennebec Telephone Company's dialing parity plan began before the FCC released its order in CC Docket No. 96-98, Order adopted March 19 and released March 23, 1999, FCC 99-54.

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Date Filed: 04/21/99
Comments Due: 05/07/99
Reply Comments Due: 05/17/99

TC99-044 In the Matter of the Application of RDST, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.

Application by RDST, Inc. for a Certificate of Authority to provide Intrastate Telecommunications Services in South Dakota. RDST, Inc. proposes to offer intrastate, interexchange 1+ and 101XXXX outbound, 800/888 inbound, travel card and prepaid card service in South Dakota.

Staff Analyst: Dave Jacobson
Staff Attorney: Camron Hoseck
Date Filed: 04/21/99
Intervention Deadline: 05/07/99

TC99-045 In the Matter of the Application of DSLnet Communications, LLC for a Certificate of Authority to Provide Telecommunications Services, Including Local Exchange Services, in South Dakota.

On April 21, 1999, the Commission received an application by DSLnet Communications, LLC for a Certificate of Authority to provide resold and facilities-based local exchange and interexchange services to subscribers throughout the state of South Dakota. Initially, DSLnet intends to provide data transmission services only.

Staff Analyst: Bob Knadle
Staff Attorney: Karen Cremer
Date Filed: 04/21/99
Intervention Deadline: 05/07/99

TC99-046 In the Matter of the Filing by Western Telephone Company for Approval of Dialing Parity Implementation Plan and Petition for Suspension and Modification of Dialing Parity.

Western Telephone Company filed its intraLATA toll dialing parity implementation plan and, pursuant to ARSD 20:10:32:39 and 47 U.S.C. 251(f)(2), a petition for suspension and modification of the requirement for implementing intraLATA dialing parity until September 15, 1999. Western Telephone Company has fewer than 2% of the Nation's subscriber lines installed in the aggregate. "Western Telephone Company seeks the suspension and modification because at this time negotiations are ongoing and no decision has yet been reached regarding whether or not intraLATA equal access will be provided by South Dakota Network as centralized equal access, or, if Western Telephone Company will make the requisite changes to provide intraLATA dialing parity from its end offices. It is technically infeasible and, hence, inconsistent with the public interest, to reach this decision and implement either alternative by July 22, 1999, the deadline according to [the FCC order in CC Docket No. 96-98, Order adopted March 19 and released March 23, 1999,] FCC 99-54." Western Telephone Company submitted a centralized intraLATA equal access plan.

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Date Filed: 04/21/99
Comments Due: 05/07/99
Reply Comments Due: 05/17/99

TC99-047 **In the Matter of the Filing by Beresford Municipal Telephone Company for Approval of Dialing Parity Implementation Plan and Petition for Suspension and Modification of Dialing Parity.**

Beresford Municipal Telephone Company filed its intraLATA toll dialing parity implementation plan and, pursuant to ARSD 20:10:32:39 and 47 U.S.C. 251(f)(2), a petition for suspension and modification of the requirement for implementing intraLATA dialing parity until September 15, 1999. Beresford Municipal Telephone Company has fewer than 2% of the Nation's subscriber lines installed in the aggregate. "Beresford Municipal Telephone Company seeks the suspension and modification because at this time negotiations are ongoing and no decision has yet been reached regarding whether or not intraLATA equal access will be provided by South Dakota Network as centralized equal access, or, if Beresford Municipal Telephone Company will make the requisite changes to provide intraLATA dialing parity from its end offices. It is technically infeasible and, hence, inconsistent with the public interest, to reach this decision and implement either alternative by July 22, 1999, the deadline according to [the FCC order in CC Docket No. 96-98, Order adopted March 19 and released March 23, 1999,] FCC 99-54." Beresford Municipal Telephone Company submitted a centralized intraLATA equal access plan.

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Date Filed: 04/21/99
Comments Due: 05/07/99
Reply Comments Due: 05/17/99

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF CABLE & WIRELESS GLOBAL MARKETS, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA	)))))	ORDER GRANTING CERTIFICATE OF AUTHORITY TC99-040

On April 19, 1999, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Cable & Wireless Global Markets, Inc. (CWGM).

CWGM proposes to offer intrastate interexchange telecommunications services on a resale basis. A proposed tariff was filed by CWGM. The Commission has classified long distance service as fully competitive.

On April 23, 1999, the Commission electronically transmitted notice of the filing and the intervention deadline of May 7, 1999, to interested individuals and entities. No petitions to intervene or comments were filed and at its July 29, 1999, meeting, the Commission considered CWGM's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to the condition that CWGM not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. Commission Staff further recommended a waiver of ARSD 20:10:24:02(8).

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that CWGM has met the legal requirements established for the granting of a certificate of authority. CWGM has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive ARSD 20:10:24:02(8). The Commission approves CWGM's application for a certificate of authority, subject to the condition that CWGM not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. As the Commission's final decision in this matter, it is therefore

ORDERED, that CWGM's application for a certificate of authority is hereby granted, subject to the condition that CWGM not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. It is

FURTHER ORDERED, that the Commission finds good cause to waive ARSD 20:10:24:02(8). It is

FURTHER ORDERED, that CWGM shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 6th day of August, 1999.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 8/6/99

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Laska Schoenfelder

LASKA SCHOENFELDER, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted July 29, 1999
Docket No. TC99-040

This is to certify that

CABLE & WIRELESS GLOBAL MARKETS, INC.

is authorized to provide telecommunications services in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 6th day of August, 1999.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

JAMES A. BURG, Chairman

PAM NELSON, Commissioner

LASKA SCHOENFELDER, Commissioner