

OFFERING CIRCULAR



CABLE & WIRELESS

Cable and Wireless Public Limited Company

*(Incorporated in England with limited liability.
Registered in England under No. 238525)*

£200,000,000

8.75 per cent. Bonds due 2012

Issue Price 101.01 per cent.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the £200,000,000 8.75 per cent. Bonds due 2012 (the "Bonds") of Cable and Wireless Public Limited Company (the "Issuer") to be admitted to the Official List. Copies of this document, which comprises the listing particulars approved by the London Stock Exchange as required by the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales. Application has also been made to The Stock Exchange of Hong Kong Limited (the "HKSE") for listing of and permission to deal in the Bonds.

The Bonds will initially be represented by a temporary global Bond, without interest coupons, to be deposited with a depositary common to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System, and Cedel Bank, société anonyme on or about 26th January, 1996. The temporary global Bond will be exchangeable for definitive Bonds, with interest coupons attached, not earlier than 7th March, 1996, upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations.

NatWest Markets

Cazenove & Co.

Goldman Sachs International

19th January, 1996

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the HKSE for the purpose of giving information with regard to the Issuer.

The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The HKSE takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever to any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

No person has been authorised to give any information or to make any representations other than those contained in this Offering Circular in connection with the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or any Manager (as defined under "Subscription and Sale"). The delivery of this Offering Circular shall not under any circumstances create any implication that there has been no change in the affairs of the Issuer and its subsidiaries (the "Group") since the date hereof.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and are Bonds in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

This Offering Circular does not constitute, and may not be used for purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation (see "Subscription and Sale").

In this Offering Circular, references to "p", "pounds", "sterling" and "£" are to the lawful currency of the United Kingdom and references to "cents", "dollars", "US \$" and "\$" are to the lawful currency of the United States of America.

In connection with this issue, NatWest Capital Markets Limited (as agent for National Westminster Bank Plc) may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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Incorporation by Reference

The consolidated audited accounts of the Issuer for the financial years ended 31st March, 1994 and 31st March, 1995 and the auditors' reports thereon (which were made on 24th May, 1994 and 25th May, 1995 respectively and were not made specifically for incorporation in this Offering Circular) are incorporated by reference into this Offering Circular for the purposes of the Hong Kong Stock Exchange's requirements but do not form part of the listing particulars for the purposes of the Financial Services Act 1986. KPMG has given and not withdrawn its written consent to the incorporation by reference in this Offering Circular of their audit reports.

CONDITIONS OF THE BONDS

The following is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form:

The £200,000,000 8.75 per cent. Bonds due 2012 (the "Bonds", which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 16 and forming a single series therewith) of Cable and Wireless Public Limited Company (the "Issuer") are constituted by a Trust Deed dated 26th January, 1996 (the "Trust Deed") made between the Issuer and Royal Exchange Trust Company Limited (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 9th January, 1996. The Bonds are, on issue, listed on the London Stock Exchange Limited (the "London Stock Exchange") and The Stock Exchange of Hong Kong Limited (the "HKSE"). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 26th January, 1996 (the "Agency Agreement") made between the Issuer, the initial paying agents referred to therein (the "Paying Agents", which expression shall include any additional or other paying agents appointed pursuant thereto) and the Trustee are available for inspection during normal business hours by the Bondholders and the holders (the "Couponholders") of the interest coupons appertaining to the Bonds (the "Coupons") at the principal office for the time being of the Trustee, being at the date of issue of the Bonds at 155 Bishopsgate, London EC2M 3TG, England, and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Form, Denomination and Title

(1) The Bonds are in bearer form, serially numbered, in the denominations of £10,000 and £100,000 each with 17 Coupons attached on issue. Bonds of one denomination cannot be exchanged for Bonds of the other denomination.

(2) Title to the Bonds and to the Coupons will pass by delivery.

(3) The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond and the holder of any Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon).

2. Status

The Bonds and the Coupons are direct, unconditional and (subject to the provisions of Condition 9) unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. Interest

(1) The Bonds bear interest from (and including) 26th January, 1996 at the rate of 8.75 per cent. per annum, payable annually in arrear on 6th August (each an "Interest Payment Date"), the first payment, in respect of the period from (and including) 26th January, 1996 to (but excluding) 6th August, 1996, being made on 6th August, 1996 and amounting to £461.81 per £10,000 principal amount of Bonds.

Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment in which events interest shall continue to accrue as provided in the Trust Deed.

(2) When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each.

4. Payments

(1) Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons, in each case at the specified office outside the United States of any of the Paying Agents.

(2) Payments will be made, at the option of the holder, by a sterling cheque drawn on a branch of, or by transfer to a sterling account maintained by the payee with, a bank in the City of London, subject in all

cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6.

(3) Each Bond should be presented for payment together with all relative unmatured Coupons appertaining thereto. Upon the due date for redemption of any Bond, unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. If the due date for redemption of any Bond is not an Interest Payment Date, the interest accrued from the preceding Interest Payment Date or 26th January, 1996, as the case may be, shall be payable only against presentation of the relevant Bond.

(4) A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 3, be entitled to any further interest or other payment if a Presentation Date is after the due date.

“Presentation Date” means a day which (subject to Condition 7):

- (i) is or falls after the relevant due date but, if the due date is not or was not a Business Day in the City of London, is or falls after the next following such Business Day; and
- (ii) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment and (unless the second following paragraph applies, in the case of payment by transfer to a sterling account in the City of London as referred to above) in the City of London.

“Business Day” means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place.

If a Bond or Coupon is presented for payment at a time when, as a result of differences in time zones, it is not practicable to transfer the relevant amount to an account as referred to above for value on the relevant Presentation Date, the Issuer shall not be obliged so to do but shall be obliged to transfer the relevant amount to the account for value on the first practicable date after the Presentation Date.

(5) The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain at least two Paying Agents having specified offices in separate European cities approved by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange, shall be the City of London or such other place as the London Stock Exchange may approve, and, so long as the Bonds are listed on the HKSE, one Paying Agent having a specified office in Hong Kong. Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 13.

5. Redemption and Purchase

(1) Unless previously redeemed or purchased and cancelled as otherwise provided in these Conditions, the Issuer will redeem the Bonds at their nominal amount on 6th August, 2012.

(2) If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 19th January, 1996, on the occasion of the next payment due in respect of the Bonds the Issuer would be required to pay additional amounts as provided or referred to in Condition 6 the Issuer may at its option (without prejudice to the provisions of paragraph (4) below), having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds at their nominal amount together with interest accrued to but excluding the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the requirement referred to above will apply on the occasion of the next payment due in respect of the Bonds and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

(3) The Issuer or any of its Subsidiaries (as defined in Condition 8) may at any time purchase Bonds (provided that all unmatured Coupons appertaining to the Bonds are purchased with the Bonds) in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.

(4) Without prejudice to the rights of the Issuer and its Subsidiaries under paragraph (3) above, each Bond falling due for redemption pursuant to paragraph (2) above, Condition 8 or sub-paragraph (1) (i) or paragraph (2) of Condition 9 may instead, at the option of the Issuer, be purchased by the Issuer or any of its Subsidiaries without prior notice at a price equal to the principal and accrued interest which would otherwise be payable in respect of such Bond pursuant to paragraph (6) below, *mutatis mutandis* in accordance with Condition 4.

(5) All Bonds which are redeemed will forthwith be cancelled, together with all relative unmatured Coupons surrendered with the Bonds, and accordingly may not be reissued or resold. Bonds which are purchased by or on behalf of the Issuer or any of its Subsidiaries pursuant to paragraph (3) above may be held, reissued, resold or surrendered for cancellation, together in each case with all relative unmatured Coupons. Bonds which are purchased by the Issuer or any of its Subsidiaries pursuant to paragraph (4) above and Coupons surrendered therewith may each be held, reissued or resold to another member of the Cable and Wireless Group (as defined in Condition 8) or surrendered for cancellation, but may not be reissued or resold to any person which is not a member of the Cable and Wireless Group.

(6) Upon the expiry of any notice as is referred to in paragraph (2) above, or sub-paragraph (1)(i) or paragraph (2) of Condition 9, the Issuer shall, subject as provided in paragraph (4) above, be bound to redeem the Bonds to which the notice refers at their nominal amount together with interest accrued to but excluding the date of redemption, subject to Condition 3(1).

6. Taxation

(1) All payments in respect of the Bonds by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (i) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (ii) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (iii) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days; or
- (iv) where the Bond or Coupon is presented for payment in the United Kingdom.

(2) In these Conditions, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in the City of London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 13.

(3) Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

7. Prescription

Bonds and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 4.

8. Events of Default

The Issuer shall be under a duty not to cause or permit the occurrence of any of the events set out below ("Events of Default"). The Bonds, subject always to the provisos below, shall (without prejudice to the provisions of Condition 5(4)) become immediately due and repayable at their nominal amount together with accrued interest (as provided in the Trust Deed) forthwith upon notice from the Trustee to the Issuer if any of the following events shall occur, thereby breaching such duty, (but only if the Trustee so determines at its discretion or is requested in writing by Bondholders holding at least one-quarter in nominal amount of the Bonds then outstanding or is directed by an Extraordinary Resolution of the Bondholders and in every case is indemnified to its satisfaction), that is to say:

- (i) the Issuer fails to pay all or any part of the interest due in respect of the Bonds within 10 business days in the City of London of the due date; or
- (ii) the Issuer defaults in performance or observance of or compliance with any of its other undertakings set out in the Bonds or the Trust Deed (other than its undertakings under Conditions 9(2) and 9(5)) which default is in the opinion of the Trustee incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 60 days (or such longer period as the Trustee may permit) after written notice requiring remedy of such default shall have been given to the Issuer by the Trustee; or
- (iii) (a) any other present or future indebtedness in respect of moneys borrowed or raised of any one or more of the Issuer and the Principal Subsidiaries becomes due and payable prematurely by reason of an event of default (however described); or
- (b) any such indebtedness is not paid when due or (as the case may be) within any originally applicable grace period therefor; or
- (c) any one or more of the Issuer and the Principal Subsidiaries fails to pay when due or (as the case may be) within any originally applicable grace period therefor any amount payable by it under any present or future guarantee or indemnity for any indebtedness in respect of moneys borrowed or raised; or
- (d) any mortgage, charge, pledge, lien or other encumbrance (each a "Security Interest") present or future created or assumed by any one or more of the Issuer and the Principal Subsidiaries becomes enforceable,

save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness or amount claimed under any such guarantee or indemnity is due and payable and Provided that no such event shall constitute an Event of Default unless the indebtedness, guarantee, indemnity or amount secured by the Security Interest either alone or when aggregated with other indebtedness, guarantees, indemnities or amounts secured by Security Interests falling within sub-paragraph (a), (b), (c) or (d) above (other than any guarantees, indemnities and Security Interests relating to indebtedness falling within sub-paragraph (a) or (b) above, any Security Interests relating to guarantees or indemnities falling within sub-paragraph (c) above and any indebtedness falling within sub-paragraph (b) above which also falls within sub-paragraph (a) above) shall comprise or be in respect of an aggregate amount equal to the higher of £25,000,000 (or its equivalent in any other currency) and an amount equal to 1 per cent. of Tangible Net Worth (as defined in the Trust Deed) (or its equivalent in any other currency) and for the purpose of this paragraph (iii) "indebtedness" shall exclude Project Finance Indebtedness and "Security Interest" shall exclude any mortgage, charge, pledge, lien or other encumbrance given or assumed solely in relation to Project Finance Indebtedness; or

- (iv) a distress or execution or other similar proceeding is levied or enforced or sued out upon or against the whole or a substantial part of the undertaking or assets of the Issuer or any Principal Subsidiary and is not discharged or stayed within 75 days (or such longer period as the Trustee may approve) of having been so levied, enforced or sued out; or
- (v) the Issuer or any Principal Subsidiary is unable to pay its debts as they fall due or an administrative or other receiver or administrator or similar officer is appointed over the whole or a substantial part of its undertaking or assets or it makes or enters into an assignment or arrangement or composition with or for the benefit of its creditors generally (or any class of its creditors) or (except, in any case, for the purposes of a reorganisation, reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the Trustee, or, in the case of a Principal Subsidiary, in connection with the transfer of all or substantially all of its business, undertaking and assets to the Issuer or a Subsidiary) ceases to carry on the whole or substantially the whole of its business Provided that a disposal for full value by the Issuer or any Principal Subsidiary of the whole or any part of the share capital of a Subsidiary shall be deemed not to be a cessation for the purposes of this paragraph (v); or

- (vi) an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or any Principal Subsidiary (except, in any case, for the purposes of a reorganisation, reconstruction, union, transfer, merger or amalgamation effected with the prior written consent of the Trustee, or in the case of a voluntary solvent winding up of a Principal Subsidiary in connection with the transfer of all or substantially all of its business, undertaking and assets to the Issuer or a Subsidiary); or
- (vii) the Issuer fails to comply with its obligations under Conditions 9(2) and 9(5);

PROVIDED that no such event as is mentioned in paragraphs (ii) to (v) (inclusive) and (in relation to the Issuer or any Principal Subsidiary) (vi) above shall be an Event of Default unless the Trustee shall have certified that, in its opinion, such event is materially prejudicial to the interests of the Bondholders and PROVIDED FURTHER that no such event as is mentioned in paragraphs (iii) to (vi) (inclusive) in relation to a Principal Subsidiary shall be an Event of Default or shall be taken into account in determining whether an Event of Default has occurred under paragraph (iii) if such event also constitutes a Security Event (as defined in Condition 9) or at any time after a Security Event in relation to such Principal Subsidiary has occurred.

“Principal Subsidiary” means at any time any Subsidiary of the Issuer (not being an Excluded Subsidiary) (i) whose profits on ordinary activities before tax and before extraordinary items and any tax relating thereto or whose net assets (in each case (a) attributable to the Issuer and (b) consolidated in respect of a Subsidiary which itself has Subsidiaries) all as shown (in the case of any Subsidiary which itself has no Subsidiaries) in its latest audited accounts and (in the case of a Subsidiary which itself has Subsidiaries) in the latest unaudited consolidated accounts comprising the audited results of the Subsidiary and its Subsidiaries represents 10 per cent. or more of the consolidated profits on ordinary activities before tax and before extraordinary items and any tax relating thereto or, as the case may be, consolidated net assets (in each case attributable to the shareholders of the Issuer) of the Cable and Wireless Group all as shown in the latest audited consolidated accounts of the Issuer; or (ii) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary, all as more particularly defined in the Trust Deed. A report by the Auditors for the time being of the Issuer that in their opinion, on the basis set out in (i) above, a Subsidiary was or was not as at the date to which or as at which (as the case may be) any audited consolidated accounts of the Issuer were made up a Principal Subsidiary pursuant to (i) above shall, in the absence of manifest error, be conclusive and binding on the Trustee and all other parties. A certificate of two Authorised Signatories (as defined in the Trust Deed) of the Issuer stating, in relation to (ii) above, the date of any transfer falling within (ii) above and the identities of the transferor and transferee shall, in the absence of manifest error, be conclusive and binding on the Trustee and all other parties.

“Cable and Wireless Group” or the “Group” means the Issuer and its Subsidiaries.

“Subsidiary” means a subsidiary within the meaning of Section 736 of the Companies Act 1985.

“Excluded Subsidiary” means any Subsidiary of the Issuer:

- (i) which is a single purpose company whose principal business is constituted by the ownership, acquisition, development and/or operation of assets or installations;
- (ii) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of assets or installations is subject to any recourse whatsoever to any other member of the Cable and Wireless Group (other than another Excluded Subsidiary) in respect of the repayment thereof; and
- (iii) which has been designated as such by the Issuer by written notice to the Trustee accompanied by a certificate of two Authorised Signatories of the Issuer that at the time of such designation such Subsidiary satisfies the requirements of paragraphs (i) and (ii) above (upon which certificate the Trustee shall be entitled to rely, and if so relied upon such certificate shall be conclusive and binding upon the Bondholders and the Couponholders), Provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

“Project Finance Indebtedness” means any indebtedness for borrowed money to finance the ownership, acquisition, development and/or operation of assets or installations in respect of which the person or persons to whom any such indebtedness for borrowed money is or may be owed by the relevant borrower (whether or not a member of the Cable and Wireless Group) has or have no recourse whatsoever to any member of the Cable and Wireless Group (other than an Excluded Subsidiary) for the repayment thereof other than:

- (1) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from such assets or installations; and/or
- (2) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over such assets or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, Provided that (i) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (ii) such person or persons are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding-up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
- (3) recourse to such borrower generally, or directly or indirectly to a member of the Cable and Wireless Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available.

9. Grant of Security or Redemption to avoid Events of Default

(1) If the Issuer certifies to the Trustee that an event or act which constitutes a Security Event but does not also constitute a Condition 8 Event (a "Non-default Security Event") has occurred in relation to a Principal Subsidiary:

- (i) the Issuer may (without prejudice to the provisions of Condition 5(4)), if an Independent Financial Adviser certifies that the Non-default Security Event is, in its opinion, materially prejudicial to the interests of the Bondholders, redeem all, but not some only, of the Bonds at their nominal amount together with interest accrued to but excluding the date of redemption, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable); or
- (ii) the Issuer or any of its Subsidiaries may grant in respect of all, but not some only, of the Bonds and Coupons then outstanding Cash Collateral and/or Non-cash Collateral in accordance with paragraph (3) below.

(2) If either:

- (i) at a time when no previous Security Event in relation to the relevant Principal Subsidiary has occurred, an event or act occurs in relation to a Principal Subsidiary which constitutes a Security Event and also constitutes a Condition 8 Event (a "Default Security Event"); or
- (ii) at a time when a previous Security Event in relation to the relevant Principal Subsidiary has occurred, an event or act occurs in relation to a Principal Subsidiary which constitutes a Condition 8 Event (a "Subsequent Event");

and:

- (iii) either no Cash Collateral and/or Non-cash Collateral has been granted in respect of all of the Bonds and Coupons pursuant to sub-paragraph (1)(ii) above or this paragraph (2), in each case in accordance with paragraph (3) below, or such Cash Collateral and/or Non-cash Collateral, having been so granted, has been withdrawn pursuant to paragraph (6) below; and
- (iv) the Trustee certifies that the Default Security Event or the Subsequent Event (as the case may be) is materially prejudicial to the interests of the Bondholders,

the Issuer may (without prejudice to the provisions of Condition 5(4)) redeem all, but not some only, of the Bonds at their nominal amount together with interest accrued to but excluding the date of redemption, having given not less than 20 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), and, unless the Issuer shall have given such a notice to expire not later than 50 days after the date of such certificate, the Issuer or any of its Subsidiaries shall grant in respect of all, but not some only, of the Bonds and Coupons then outstanding Cash Collateral and/or Non-cash Collateral in accordance with paragraph (3) below not later than 50 days after the date of such certificate.

(3) The aggregate Relevant Value on the Collateral Date of the Cash Collateral and/or Non-cash Collateral granted pursuant to sub-paragraph (1)(ii) above or paragraph (2) above shall be determined by an Independent Financial Adviser and shall be not less than 100 per cent., in the case of Cash Collateral, or 110 per cent., in the case of Non-cash Collateral, of the aggregate nominal amount of the Bonds then outstanding plus a full year's gross interest on such Bonds, and so in proportion if both Cash Collateral and Non-cash Collateral are granted.

(4) The fact that Cash Collateral and/or Non-cash Collateral has been granted pursuant to sub-paragraph (1)(ii) above or paragraph (2) above or that certification has been made by an Independent Financial Adviser pursuant to sub-paragraph (1)(i) above shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 13.

(5) (i) So long as any Bond or Coupon remains outstanding in respect of which Non-cash Collateral has been granted and has not been withdrawn pursuant to paragraph (6) below the Issuer shall procure that the aggregate Relevant Value of the Non-cash Collateral shall be determined every six months after the Collateral Date by an Independent Financial Adviser, the determination of such Independent Financial Adviser being final and binding; and

(a) if the aggregate Relevant Value of the Non-cash Collateral as shown by such determination shall be less than 110 per cent. of the aggregate nominal amount of the Bonds then outstanding plus a full year's gross interest or the relevant proportion thereof, the Issuer or any of its Subsidiaries shall make good such deficiency within 14 business days in the City of London thereafter by granting further Cash Collateral and/or Non-cash Collateral, the aggregate Relevant Value of which at the date of the determination (or such later date as the Issuer and the Trustee may agree) is not less than the amount of such deficiency or the relevant proportion thereof; or

(b) if the aggregate Relevant Value of the Non-cash Collateral as shown by such determination shall be more than 110 per cent. of the aggregate nominal amount of the Bonds then outstanding plus a full year's gross interest or the relevant proportion thereof, the Issuer or any of its Subsidiaries may withdraw any part of the Cash Collateral and/or Non-cash Collateral, the aggregate Relevant Value of which at the date of such determination (or such later date as the Issuer and the Trustee may agree) is not more than the amount of such excess or the relevant proportion thereof.

(ii) If at any time the Trustee is of the opinion that the Trustee's interest or priority in respect of any Cash Collateral or Non-cash Collateral ("Relevant Collateral") is in jeopardy or is likely to be challenged or defeated by any person or prove incapable of being enforced, the Trustee may by not less than 7 days' written notice to the Issuer require such Relevant Collateral to be replaced with new Cash Collateral and/or Non-cash Collateral acceptable to the Trustee with a Relevant Value not less than the aggregate Relevant Value of the Relevant Collateral as at the last date on which the Relevant Value was calculated pursuant to paragraph (i) above.

(6) The Issuer or any of its Subsidiaries may at any time (except after the occurrence of a Subsequent Event) withdraw all, but not some only, of the Cash Collateral and/or Non-cash Collateral granted pursuant to sub-paragraph (1)(ii) above. The Issuer or any of its Subsidiaries may also at any time after the occurrence of a Subsequent Event (in the case of Cash Collateral and/or Non-cash Collateral granted pursuant to sub-paragraph (1)(ii) above) or at any time (in the case of Cash Collateral and/or Non-cash Collateral granted pursuant to paragraph (2) above) withdraw all, but not some only, of the Cash Collateral and/or Non-cash Collateral granted pursuant to sub-paragraph (1)(ii) or paragraph (2) above upon the Trustee being satisfied, having received the advice of an Independent Financial Adviser, that either (i) the relevant Default Security Event or Subsequent Event is not or is no longer (as the case may be) materially prejudicial to the interests of the Bondholders or (ii) the relevant Default Security Event or Subsequent Event no longer exists and the financial position of the Issuer is no worse than that existing immediately prior to the occurrence of the relevant Default Security Event or Subsequent Event. Any such withdrawal pursuant to this paragraph (6) shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 13. In this paragraph (6), any reference to Cash Collateral and/or Non-cash Collateral granted pursuant to sub-paragraph (1)(ii) or paragraph (2) above respectively includes any additional or substituted Cash Collateral and/or Non-cash Collateral granted pursuant to paragraph (5) above or (7) below.

(7) The Issuer or any of its Subsidiaries (without prejudice to their rights under paragraph (6) above) may at any time withdraw all or any part of the Cash Collateral and/or Non-cash Collateral granted pursuant to sub-paragraph (1)(ii) above or paragraph (2) or (5) above or this paragraph (7) upon (i) the Issuer or any of its Subsidiaries granting further Cash Collateral and/or Non-cash Collateral and (ii) an Independent Financial Adviser certifying that the aggregate Relevant Value of the Cash Collateral and/or Non-cash Collateral in respect of the Bonds and Coupons after such withdrawal and further grant will be not less than 100 per cent., in the case of Cash Collateral, or 110 per cent., in the case of Non-cash Collateral, of

the aggregate nominal amount of the Bonds then outstanding plus a full year's gross interest on such Bonds, and so in proportion if both Cash Collateral and Non-cash Collateral have been granted.

(8) All rights of withdrawal under paragraphs (6) and (7) above shall cease upon the Bonds becoming immediately due and repayable pursuant to Condition 8.

(9) For the purposes of these Conditions:

"Cash Collateral" means any one or more of:

- (a) security or another similar right, in a form acceptable to the Trustee, over sterling cash;
- (b) a sterling guarantee of the Bonds and the Coupons by a leading bank of international repute acceptable to the Trustee, such guarantee being on terms acceptable to the Trustee; and
- (c) a sterling letter of credit issued by a leading bank of international repute acceptable to the Trustee, such letter of credit being on terms acceptable to the Trustee.

"Collateral Date" means the date on which the Issuer or the relevant Subsidiary of the Issuer grants the relevant Cash Collateral and/or Non-cash Collateral pursuant to sub-paragraph (1) (ii) above or paragraph (2) above.

"Condition 8 Event" means an event or act falling within any of paragraphs (iii) to (vi) (inclusive) of Condition 8 and, in relation to paragraph (iii) of Condition 8, satisfying (when aggregated in accordance with the provisions of the final paragraph thereof, if appropriate) the requirement as to minimum amount in the final paragraph thereof (save that, in relation to paragraph (2) above, solely the indebtedness, guarantees, indemnities and Security Interests of or granted by the relevant Principal Subsidiary shall be taken into account for the purpose of aggregation (if appropriate) and determining whether such requirement as to minimum amount is satisfied).

"Independent Financial Adviser" means an independent financial adviser of international repute appointed by the Issuer for the relevant purpose and approved by the Trustee.

"Investment Grade" means a rating of at least BBB – (or the equivalent thereof), in the case of a rating by Standard & Poor's Ratings Group, and a rating of at least Baa3 (or the equivalent thereof), in the case of a rating by Moody's Investors Service, Inc.

"Non-cash Collateral" means security or another similar right, in a form acceptable to the Trustee, over any one or more of:

- (a) debt securities issued by the Government of the United Kingdom which have a maturity date which is not later than the final maturity date of the Bonds;
- (b) other Investment Grade debt securities which have a maturity date which is not later than the final maturity date of the Bonds;
- (c) freehold land in the United Kingdom;
- (d) leasehold land in the United Kingdom with a minimum term expiring not earlier than 21 years from (and including) the final maturity date of the Bonds;
- (e) shares of any United Kingdom company listed on the London Stock Exchange and forming part of the FTSE100 Index;
- (f) shares of any Subsidiary of the Issuer listed on a Recognised Stock Exchange; and
- (g) any other asset of the Issuer acceptable to the Trustee having regard to the advice of an Independent Financial Adviser.

If at any time when Non-cash Collateral comprises (i) such shares as are mentioned in sub-paragraphs (e) and (f) and such shares cease to be listed on the London Stock Exchange or to form part of the FTSE 100 Index or to be listed on a Recognised Stock Exchange, as the case may be, or (ii) such debt securities as are mentioned in sub-paragraph (b) and Standard & Poor's Ratings Group or Moody's Investors Service, Inc. lowers the rating of such debt securities to below Investment Grade or ceases to rate such debt securities, the Issuer or any of its Subsidiaries will substitute within 30 days Cash Collateral and/or other Non-cash Collateral for such shares or debt securities, as the case may be, in accordance with paragraph (7) above.

"Recognised Stock Exchange" means a stock exchange which has been designated by the Board of the Inland Revenue as a recognised stock exchange for the purposes of section 841 of the Income and Corporation Taxes Act 1988.

“Relevant Value” means:

- (a) in the case of cash, the nominal amount thereof;
- (b) in the case of guarantees or letters of credit, the amount specified to be payable thereunder;
- (c) in the case of freehold or leasehold land, the market value thereof as determined by the relevant Independent Financial Adviser and expressed in sterling;
- (d) in the case of debt securities issued by the Government of the United Kingdom, other Investment Grade debt securities, shares of a United Kingdom company or shares of any Subsidiary of the Issuer, the market value thereof as determined by the relevant Independent Financial Adviser and expressed in sterling; and
- (e) in the case of any other asset, such value (expressed in sterling) as may be agreed with the Trustee, having regard to the advice of the relevant Independent Financial Adviser.

“Security Event” means:

- (a) any event or act outside the control of the Issuer as a result of which the authority or ability of any Principal Subsidiary to conduct the whole or substantially the whole of its business is curtailed, including without limitation any seizure, expropriation or other intervention by or on behalf of any government or authority having such result; or
- (b) any event or act outside the control of the Issuer as a result of which the ability of the Issuer directly or indirectly to exercise its rights of ownership or control of, or directly or indirectly to receive the benefits of its ownership of shares in, a Principal Subsidiary in any respect which is material (in the opinion of the Issuer) is curtailed or restricted, including without limitation any action by or on behalf of any government or authority having such result; or
- (c) any event or act as a result of which the Issuer ceases to have direct or indirect effective control over the business or assets of, or the appointment or removal of the board of directors of, a Principal Subsidiary; or
- (d) any event or act as a result of which any franchise or licence of a Principal Subsidiary material (in the opinion of the Issuer) to its business is withdrawn, is terminated or otherwise ceases or is modified and such modification is materially prejudicial (in the opinion of the Issuer) to the business or assets of the Principal Subsidiary.

For the avoidance of doubt, any event or act falling within any of sub-paragraphs (a) to (c) above shall constitute a Security Event even if by reason of such event or act the relevant Principal Subsidiary ceases to be a Subsidiary of the Issuer.

10. Enforcement

(1) At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Bonds then outstanding, and (ii) it shall have been indemnified to its satisfaction.

(2) No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

11. Substitution

The Trustee may, without the consent of the Bondholders or the Couponholders, agree with the Issuer (such agreement not to be unreasonably withheld) to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of another company being a Subsidiary of the Issuer, subject to (i) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (ii) certain other conditions set out in the Trust Deed being complied with.

12. Replacement of Bonds and Coupons

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

13. Notices

All notices to the Bondholders will be valid if published in (i) a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve, and (ii) so long as the Bonds are listed on the HKSE, a leading newspaper of general circulation in Hong Kong approved by the Trustee. Any notice shall be deemed to have been given on the date of first publication in either such newspaper. It is expected that publication will normally be made in the *Financial Times* and the *South China Morning Post* respectively. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

14. Meetings of Bondholders, Modification, Waiver and Authorisation

(1) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing a clear majority in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons present whatever the nominal amount of the Bonds held or represented by them, except that at any meeting, the business of which includes the modification of certain of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-quarter, of the nominal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

(2) The Trustee may agree, without the consent of the Bondholders or the Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error. The Trustee may, without any such consent as aforesaid, determine that any Event of Default or potential Event of Default shall not be treated as such provided that the Trustee is of the opinion that to do so will not be materially prejudicial to the interests of the Bondholders.

(3) Any modification, waiver, authorisation or determination shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 13.

(4) In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 6 and/or any undertaking given in addition to, or in substitution for, Condition 6 pursuant to the Trust Deed.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

16. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds or notes (whether in bearer or registered form) either (i) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (ii) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or notes may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series in certain circumstances where the Trustee so decides.

17. Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds of the issue are estimated to amount to £197,020,000 and will be applied for the general corporate purposes of the Cable and Wireless Group.

THE CABLE AND WIRELESS GROUP

1. Formation of the Issuer

The Issuer was formed in 1929 through the merger of United Kingdom companies that had been among the pioneers of international telecommunications in the nineteenth century by submarine cable and, in the twentieth century, by radio or "wireless".

In 1947 HM Government acquired all the shares in the Issuer. Around that time certain Commonwealth countries acquired their external telecommunication services from the Issuer and the external services operated by the Issuer from the United Kingdom were transferred to the Post Office.

In 1981 the Issuer obtained a listing on the London Stock Exchange when HM Government sold just under half of its shares. HM Government further reduced its shareholding in 1983 and 1985 and at present does not own any ordinary shares in the Issuer, although it does retain a special rights preference share of £1 (the "Special Share") carrying rights summarised in paragraph 4 below.

2. Financial information on the Group

The financial information included in the tables headed "Business Activities" and "Business Regions" and the paragraph headed "Five Year Summary of the Group" is extracted from the statutory accounts for the three or five years ended 31st March, 1995, as indicated, except where restated to comply with Financial Reporting Standard 3 "Reporting financial performance" ("FRS 3") as noted below, or otherwise restated as noted in footnotes to the tables. The financial information included in the paragraph headed "1995 Interim Results of the Group" is extracted from the preliminary announcement of interim results for the six months ended 30th September, 1995 released on 16th November, 1995. The statutory accounts, which were audited by KPMG for each of the five years ended 31st March, 1995, and in respect of which the auditors have given unqualified reports, without any statement under Section 237(2) to (4) of the Companies Act 1985, have been delivered to the Registrar of Companies.

FRS 3 was adopted for the year ended 31st March, 1993. The figures for the year ended 31st March, 1992 have been extracted from the comparative figures included in the 1993 financial statements, where they had been restated in the manner required for comparatives. The Group was not required to prepare its financial statements for the year ended 31st March, 1991 in accordance with FRS 3 and the figures for that year have been restated in accordance with its provisions.

The principal changes in presentation are:

- (i) items that previously would have been reported as extraordinary have been classified as exceptional;
- (ii) the format of the Consolidated Profit and Loss Account has been amended to show separately from operating profit, significant profits or losses from the partial sale of subsidiaries; and
- (iii) the profit and loss on disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any material goodwill previously dealt with as a movement in Group reserves.

Financial Reporting Standard 5 "Reporting the substance of transactions" ("FRS 5") was adopted for the year ended 31st March, 1995. Assets and liabilities for each of the four years ended 31st March, 1994 have been extracted from the table included in the 1995 annual report and accounts, where they have been restated in accordance with FRS 5.

3. The business of the Group

The Cable and Wireless Group is a leading international provider of telecommunications services. The Group operates in Hong Kong, the United Kingdom, the United States and provides services to over 50 other countries, and has interests in telecommunications companies operating in a number of additional countries, including Japan. The Group's operating revenue derives principally from public telecommunications including international and domestic telephone services, facsimile and data transmission, other telecommunications services such as leased circuits and telex services and the sale and rental of telecommunications equipment manufactured by others.

The Group provides external telecommunications for over 30 countries and internal telecommunications for over 20 countries. It also provides and manages communications facilities and services for public and private customers and provides telecommunications consultancy both outside and within the United Kingdom.

In the United Kingdom, the Issuer's 80 per cent. owned subsidiary, Mercury Communications Limited ("Mercury") operates as a public telecommunications operator under a licence granted by HM Government in 1984. Mercury has invested over £3.1 billion in creating the only all-digital national network in Europe. Mercury's optical fibre network links all the major population centres throughout

Great Britain and some 2.5 million telephone lines are now directly or indirectly connected to the Mercury network.

In September 1993, *Mercury one2one*, a 50 per cent./50 per cent. joint venture between the Issuer and US West, was launched, providing digital cellular mobile services, initially within a 30 kilometre radius of central London. The coverage area now extends to the city centres of Manchester, Southampton, Bristol, Nottingham, Sheffield, Liverpool and Leeds and the service is currently available to 40 per cent. of the United Kingdom population. 90 per cent. population coverage is planned by the end of 1997.

The Group has a 58.0 per cent. shareholding in Hongkong Telecommunications Limited ("HKT"), Hong Kong's major telecommunications undertaking. HKT has exclusive rights to provide Hong Kong's international public telephone and telex facilities and services and international facsimile and data transmission facilities. The domestic exclusive franchise expired on 30th June, 1995 and was replaced by a non-exclusive licence for a term of 15 years from 1st July, 1995, which includes a clause which provides for renewal for a further 15 years, and the international exclusive franchise expires on 30th September, 2006. HKT has over 3.1 million telephone lines in operation serving Hong Kong's population of more than 6.0 million and digitalisation of the network was completed in 1993. HKT has undertaken extensive video-on-demand trials and intends to launch such services in mid 1996.

In January 1995, the Group announced a European alliance with VEBA AG of Germany. Two joint venture companies will implement the alliance. Vebacom GmbH, owned 55 per cent. by VEBA and 45 per cent. by the Issuer will be responsible for the development of telecommunications services in Germany. Cable & Wireless Europe S.A. is owned 50 per cent./50 per cent. and manages and will develop the partners' telecommunications interests in the European Union (excluding Germany and the United Kingdom) and Switzerland.

The Group is directing its operations into three main strategic regions: Asia, Europe and the Caribbean (including the Caribbean Rim). The principal operations of the Group and its associated companies in the Caribbean are in Jamaica, Barbados, the Cayman Islands, Bermuda and Trinidad and Tobago.

Business Activities

The turnover of the Group analysed according to business activity is as follows:

	Year ended 31st March,		
	1995	1994	1993
	£m	£m	£m
Public telecommunications	4,606.2	4,165.2	3,356.3
Cables and contracts	178.6	182.2	159.7
Equipment sales and rental	348.0	351.8	309.8
	<u>5,132.8</u>	<u>4,699.2</u>	<u>3,825.8</u>

Public telecommunications

The bulk of the Group's profits are earned from the provision of internal and external telecommunications services in many different countries. Those services are provided principally by subsidiary companies and branches but in some territories services are provided by associated companies, such as in Japan, Australia, Trinidad, Bahrain and Sweden.

The Group provides to its customers worldwide telecommunications services using facilities that incorporate increasingly advanced technology, such as digital electronics and fibre optic cables. The Group is expanding its network, including participating in new transatlantic and transpacific digital fibre optic cables and other transmission facilities, developing alliances with other telecommunications companies and providing services to new markets. The Group supplies leased circuits to users for their exclusive use. It also provides large international users such as airlines and banks with international managed networks offering high-speed, economic and reliable facilities from and to specific origins and destinations.

Outside the United States, United Kingdom, Japan, Australia, Hong Kong and Sweden, the telecommunications services of the Group are generally operated under long-term licences issued by national governments, under which the Group has the exclusive right to own, install and operate its own systems and equipment.

The Group is the largest owner or manager of satellite earth stations with over 90 around the world providing enhanced range and resilience to its infrastructure.

Cables

The Group operates, through its wholly-owned subsidiary Cable and Wireless (Marine) Limited ("CWML"), the world's largest commercial fleet of cables (13), submersible vehicles and sea ploughs used for the installation and maintenance of submarine cables.

Equipment sales and rental

The Group also sells, leases and maintains telecommunications systems, including telephones, keylines, facsimile machines and private automatic branch exchange (PABX) equipment primarily in Hong Kong. It also operates retail outlets in Hong Kong, offering a wide choice of telecommunications products including telephones, mobile telephones, business telephone systems, facsimile machines, personal computers and answering machines.

Business Regions

The geographical spread of the Group's operations is illustrated by the following regional analysis of the Group's turnover and operating profits and net operating assets for the three years ended 31st March, 1995:

	Turnover			Operating Profit			Net Operating Assets		
	1995	1994	1993	1995	1994	1993	1995	1994	1993
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Hong Kong ..	2,244.1	2,080.7	1,649.8	827.9	761.7	565.1	1,421.3	1,299.6	1,181.4
Other Asia ..	86.4	78.0	55.9	24.7	22.9	16.4	84.9	70.3	75.4
UK	1,651.5	1,474.3	1,225.1	143.1	247.1	202.7	1,785.4	1,590.2	1,357.0
Other Europe ..	45.2	34.3	37.1	(22.0)	(23.9)	(10.8)	27.2	7.2	19.9
Caribbean ..	498.2	477.1	369.9	170.7	153.7	105.7	569.7	545.2	571.1
North America ..	422.3	383.4	332.2	38.5	26.0	17.3	146.7	137.4	138.7
Rest of the World ..	234.1	227.4	206.1	17.7	(5.3)	(64.8)	192.0	154.6	212.4
Inter-regional turnover ..	(49.0)	(56.0)	(50.3)	n/a	n/a	n/a	n/a	n/a	n/a
Corporate costs	n/a	n/a	n/a	(32.0)	(42.0)	(40.7)	n/a	n/a	n/a
Business development costs	n/a	n/a	n/a	(34.9)	(27.7)	(19.9)	n/a	n/a	n/a
Provision for re-structuring ..	n/a	n/a	n/a	—	(21.3)	n/a	n/a	n/a	n/a
Other Assets ..	n/a	n/a	n/a	n/a	n/a	n/a	310.2	606.4	464.7
	<u>5,132.8</u>	<u>4,699.2</u>	<u>3,825.8</u>	<u>1,133.7</u>	<u>1,091.2</u>	<u>771.0</u>	<u>4,537.4</u>	<u>4,410.9</u>	<u>4,020.6</u>

Notes:

1. In 1994, the segmental information was amended to align reported operating performance with the Group's geographic strategy and the comparative figures for 1993 have been restated accordingly.

2. Other Assets include tangible fixed assets not yet in service, fixed asset investments, short term deposits and cash less loans and overdrafts.

4. Summary of rights and restrictions attaching to the Special Share and Limitation on Shareholdings in the Issuer.

The issued share capital of the Issuer as at 30th September, 1995 was approximately £552.4 million and comprised 2,209,426,659 Ordinary shares of 25p each and the Special Share.

Rights and Restrictions attaching to the Special Share

The Special Share was issued to HM Government on 23rd November, 1983. In summary, the rights and restrictions attaching to it are as follows:

- the Special Share may only be held by one of Her Majesty's Secretaries of State or another Minister of the Crown, by the Solicitor for the Affairs of HM Treasury or by some other person acting on behalf of the Crown;
- each of the following matters is deemed a variation of the rights attaching to the Special Share and is effective only with the written consent of the holder of the Special Share (i) any amendment or removal of certain provisions of the Articles of Association, including the limitation on shareholdings and the requirement that any person holding the office of executive chairman or, if there is no such

executive chairman, the office of chief executive or joint chief executive of the Issuer be a British citizen; (ii) a proposal for the voluntary winding up or dissolution of the Issuer (iii) a disposal of the whole or a material part of the assets of the Group, and (iv) the creation or issue of any shares carrying voting rights which are different from the voting rights of the Ordinary shares;

- (c) the holder of the Special Share is entitled to receive notice of general meetings of the Issuer, and to attend and speak, but not vote, at such meetings; and
- (d) the Special Share carries no right to participate in profits or assets of the Issuer beyond a right to repayment of £1 in priority to any payment to other members in the event of a winding up.

The Special Share may be redeemed for £1 at any time by agreement between the Directors of the Issuer and the holder of the Special Share.

With the consent of the holder of the Special Share, a special resolution was passed at an Extraordinary General Meeting of the Issuer held on 15th January, 1996 which amended certain provisions of the Articles of Association. The requirement that any person holding the office of executive chairman or, if there is no such executive chairman, the office of chief executive or joint chief executive of the Issuer be a British citizen has been amended to the effect that at least one of the directors holding the offices of chairman or chief executive of the Issuer be a British citizen.

Limitations on Shareholdings in the Issuer

Article 36 of the Issuer's Articles of Association provides that (with certain limited exceptions) no person may (i) hold more than 15 per cent. of the shares at any time in issue which ordinarily carry the right to vote on a poll at general meetings, or (ii) exercise (or control the exercise of) more than 15 per cent. of the votes ordinarily exercisable on a poll at general meetings. For the purpose of each such prohibition, the interests of any person are aggregated with those of his "Associates" as defined in the Articles of Association.

The Directors are given various powers under the Articles of Association to enforce these provisions including the power to refuse to register shares in the name of any person in relation to whom they believe the limitation may be exceeded, the power to serve notice on any person requiring him to make a declaration that he is not in breach of the limitations (and to disenfranchise any shares held by him pending receipt of such declaration), and the power to require the transfer of "excess shares" held by any person and, if necessary, to effect a sale of such shares.

5. Management of the Issuer

The Directors of the Issuer, each of whose business address is at 124 Theobalds Road, London WC1X 8RX, their functions and their principal activities outside the Group, where these are significant, are as follows:

Dr. N. Brian Smith	<i>Non-executive Chairman</i> Chairman of BAA plc, Hydron Limited and the Heatherwood and Wexham Park Hospital Trust and non-executive Director of Berisford International plc.
Edward M. Astle	<i>Executive Director</i>
Linus W.L. Cheung	<i>Executive Director</i>
Rodney J. Olsen	<i>Executive Director</i> Non-executive Director of Astec (BSR) plc and Standard Chartered PLC.
Stephen R. Pettit	<i>Executive Director</i>
Jonathan H.M. Solomon	<i>Executive Director</i>
Winfried F.W. Bischoff	<i>Non-executive Director and Deputy Chairman</i> Chairman of Schroders plc.
Ulrich Hartmann	<i>Non-executive Director</i> Chief Executive Officer and Chairman of the Board of Management of VEBA AG, a member of the supervisory boards of Münchener Rückversicherungs-Gesellschaft AG, Hapag-Lloyd AG and IKB Deutsche Industriebank AG and a Consul General of the Kingdom of Norway.
Dr. Janet P. Morgan	<i>Non-executive Director</i> Non-executive Director of Midlands Electricity plc, the Scottish American Investment Company plc and the Scottish Oriental Smaller Companies Trust plc.

David P. Nash	<i>Non-executive Director</i> Non-executive Director of the Investment Management Regulatory Organisation Limited.
Sir Ralph Robins	<i>Non-executive Director</i> Chairman of Rolls Royce plc and Chairman of the Defence Industries Council.
The Hon. Raymond Seitz	<i>Non-executive Director</i> Senior Managing Director at Lehman Brothers.

Note:

On 21st November, 1995 Dr. N. Brian Smith was appointed non-executive Chairman and Rodney J. Olsen was appointed Acting Chief Executive subject to the passing of the special resolution at the Extraordinary General Meeting of the Company referred to in paragraph 4 above. The Rt. Hon. Lord Young of Graffam PC and James H. Ross resigned from the posts of Executive Chairman and Chief Executive, respectively, on 21st November, 1995.

6. Five Year Summary of the Group

	Year ended 31st March,				
	1995	1994	1993	1992	1991
	£m	£m	£m	£m	£m
Turnover	5,132.8	4,699.2	3,825.8	3,124.4	2,592.9
Operating profit before exceptional items	1,194.2	1,091.2	854.5	726.9	572.1
Exceptional items: charged to operating profit	(60.5)	—	(83.5)	(70.3)	(9.1)
Operating profit	1,133.7	1,091.2	771.0	656.6	563.0
Other exceptional items:	(239.4)	—	177.8	—	—
Profit before taxation	844.1	1,088.3	918.0	643.5	608.5
Profit after taxation	600.2	857.6	743.7	509.4	463.4
Minority interests	348.1	343.4	229.6	185.7	158.6
Profit after minority interests	252.1	514.2	514.1	323.7	304.8
Assets	7,875.2	7,455.9	6,524.4	4,910.3	4,414.2
Liabilities	3,337.8	3,045.0	2,503.8	2,037.9	1,694.8
Shareholders' funds	3,338.6	3,274.7	3,018.0	2,363.4	2,236.2
Earnings per share in pence	11.5p	23.6p	23.7p	15.1p	14.3p
Earnings per share excluding exceptional items	23.6p	23.6p	19.4p	18.3p	16.1p
Dividends per share in pence	9.05p	8.25p	7.425p	6.625p	5.90p

Note:

The earnings per share and dividends per share figures for the years 1991 to 1993 have been adjusted to reflect the sub-division of each of the Ordinary shares effected on 28th October, 1993. Assets and liabilities for the years 1991 to 1994 have been restated in accordance with FRS 5.

7. Factors affecting the Group

The Group, like other telecommunication companies, is subject to governmental and regulatory controls in the country in which it does business and like other major international groups, it can be affected by economic and political events and other developments in any part of the world in which it operates. As a major part of its business is conducted overseas, the Group's results expressed in sterling will continue to be sensitive to changes in exchange rates.

8. 1995 Interim Results of the Group

The following is the text of the Issuer's preliminary announcement of the Group's interim results (excluding information for North American Shareholders and posting and enquiries details) for the six months to 30th September, 1995 released on 16th November, 1995:

"INTERIM REPORT ON FINANCIAL RESULTS TO 30th SEPTEMBER, 1995

FINANCIAL HIGHLIGHTS FOR SIX MONTHS TO 30th SEPTEMBER, 1995

	1994	1995	Change
	£m	£m	%
Turnover	2,535	2,711	7
Operating Profit	592	636	7
Pre-tax Profit	567	815	44
Pre-tax Profit excluding exceptional item	567	616	9
Earnings per share	11.9p	19.6p	65
Earnings per share excluding exceptional item	11.9p	13.0p	9
Interim dividend	2.83p	3.08p	9
Average rate of exchange US\$ = £1	1.52	1.59	

Cable & Wireless Executive Chairman, Lord Young said: "Progress continues to be made on all fronts with financial performance reflecting our management focus on delivering consistent and superior earnings growth. I remain confident about the outlook for the year as a whole.

Turnover was ahead by 7 per cent. with a faster rate of growth in earnings per share of 9 per cent. Including the profit on disposal of our investment in Mannesmann Mobilfunk eps growth was 65 per cent. We increased the interim dividend by 9 per cent. to 3.08 pence.

Growth in demand for fixed wire services has been slower than in the recent past, reflecting a slowdown in the rate of economic activity generally in some of our markets combined with increased levels of competition. However, the overall rate of earnings growth has exceeded that of turnover growth as we continue to vigorously pursue cost reductions and as our policy of rapidly expanding into new markets over the past few years begins to bear fruit with a reduction in the start-up losses for a number of these ventures while others begin to move into profit."

"I have agreed with the Board that I shall stand down from my position as Executive Chairman on my 65th birthday on 27th February, 1997. I am announcing this now in order to end the recent ill-informed and destabilising comment, and to put the record straight."

Results

Turnover at £2,711 million was 7 per cent. higher than the comparable period of the previous year reflecting underlying growth across all business regions.

Operating profit at £636 million was 7 per cent. higher than the comparable period of the previous year. The Group is exposed to movements in exchange rates. It is estimated that had the comparable period's average rates of exchange applied to this year's reported currency results, the operating profit would have been some £30 million higher than that now reported. This translation difference arises principally from the movement in the rates of exchange between sterling and the Hong Kong dollar and sterling and the Jamaican dollar.

Pre-tax profit increased by 44 per cent. to £815 million. Pre-tax profit includes an exceptional profit of £199 million for the sale of the Company's 5.03 per cent. interest in Mannesmann Mobilfunk GmbH. Pre-tax profit excluding exceptional item increased by 9 per cent. to £616 million.

The profit attributable to Ordinary Shareholders increased by 66 per cent. to £431 million after an estimated tax charge of 23.2 per cent. The profit attributable to Ordinary Shareholders before exceptional item was £286 million after an estimated tax charge of 22.0 per cent. (1994—22.5 per cent.).

Earnings per share increased by 65 per cent. to 19.6 pence compared with the same period last year. Earnings per share, excluding the exceptional item, increased by 9 per cent. to 13 pence compared with the same period last year.

Net gearing at 30th September, 1995 was 21.7 per cent. compared with 20.1 per cent. at 31st March, 1995.

Cash outflow before financing for the half year was £191 million (1994—£73 million) after purchase of tangible fixed assets and investments of £682 million (1994—£648 million).

Net interest cover was 26 times (1994—35 times).

Dividend

The Directors have declared an interim dividend of 3.08 pence (1994—2.83 pence) per Ordinary Share, an increase of 9 per cent. The dividend will be paid on 28th February, 1996 to shareholders on the Register at 12th December, 1995. The cost of the interim dividend is £68 million (1994—£62 million). Shareholders (other than those with registered addresses in the United States) will again be offered a scrip dividend as an alternative to cash.

Regional Performance

Hong Kong

Turnover in Hongkong Telecom (57.5 per cent. owned) improved by 5 per cent. to £1,186 million, and operating profit by 8 per cent. to £439 million reflecting continuing growth in demand especially for cellular mobile services, combined with tighter cost control. International outgoing minutes increased by 8 per cent. and customer lines increased by 5 per cent. Call volumes to and from China grew by 8 per cent. and continue to be depressed by the tightening of economic policies within China to contain growth and inflation. The number of cellular customers grew by 57 per cent. bringing the total to more than 200,000.

Other Asia

The largest business in the region, Macau (51 per cent. owned) showed an increase in turnover of 7 per cent. with a decrease in operating profit of 2 per cent., reflecting increased international and mobile phone revenues offset by increased employee costs and depreciation, reflecting the growth of the network.

United Kingdom

The main operating unit within this region is Mercury (80 per cent. owned). Mercury turnover increased by 5 per cent. to £833 million and operating profit increased by 7 per cent. to £103 million. Mercury revenues reflect a 12 per cent. increase in switched minutes and customer line growth of 38 per cent. partially offset by tariff reductions. The increase in operating profit reflects the impact of the reorganisation of the business announced in November 1994.

Other Europe

Turnover has increased by 33 per cent. to £24 million due to the growth of new international services. Operating losses have increased to £20 million due to increased expenditure on product development, marketing and network development.

The Caribbean

Turnover has increased by 7 per cent. to £266 million and operating profit by 15 per cent. to £90 million, reflecting the continued strong local growth offset by adverse currency translation effects. International outgoing minutes increased by 10 per cent. and customer lines increased by 11 per cent.

North America

The main operating unit within the region is Cable & Wireless Inc. Cable & Wireless Inc turnover remained flat at £221 million reflecting adverse currency translation effects. Operating profit increased by 13 per cent. due to continued cost reductions. Minutes on the network grew by 11 per cent. The region's results show a decrease in operating profit of £1 million to £19 million due to the inclusion of the new subsidiary, Vitacom, in the current period.

Rest of the world

Turnover has increased by 58 per cent. to £158 million principally due to the acquisition of BT Marine. Operating profit for the region decreased to £4 million as the increased profits of Marine operations were offset by the reduced profits of Yemen and Pakistan and increased losses of C&W Business Networks.

Corporate Costs

Corporate costs at £12 million show a reduction of £3 million over the same period last year reflecting the impact of the restructuring and the rationalisation of the London based Corporate and Regional headquarters.

Business Development

Business development costs have decreased to £7 million, reflecting a slower pace of development activity.

Associated Undertakings

The Group share of the losses less profits of associated undertakings is £3 million (1994—£19 million). This reflects a general improvement in results: share of losses at *Mercury One-2-One* £27 million (1994—£30 million), Optus (Australia) £1 million (1994—£4 million) and Tele2 (Sweden) £1 million (1994—£3 million).

Net Interest and Other Similar Income

Net interest and other similar income shows a net charge of £17 million compared with a net charge of £6 million last year.

Exceptional Item

The exceptional item of £199 million relates to the profit on sale of the Company's 5.03 per cent. interest in Mannesmann Mobilfunk GmbH. The tax charge attributable to the disposal is £54 million.

Post Balance Sheet Event

On 5th October, 1995, the agreement with VEBA to establish the VEBACOM joint venture (45 per cent. owned by Cable & Wireless, 55 per cent. by VEBA) was completed. The gross consideration payable by Cable & Wireless amounts to DM 1,860 million; DM 1,100 million payable on completion with the balance due over three years.

The Group's interest in the joint venture on completion after taking into account differences between UK and German accounting, amounted to approximately DM 630 million, which will give rise to goodwill in the annual Group accounts of approximately DM 1,230 million (£550 million).

**GROUP PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS
ENDED 30th SEPTEMBER, 1995**

Year to 31st March, 1995 <i>Audited</i>	Six months to 30th September, 1994 <i>Unaudited</i>		Note*	Six months to 30th September, 1995 <i>Unaudited</i>	Growth %
£m	£m			£m	
5,133	2,535	Turnover		2,711	7
(3,939)	(1,943)	Operating costs before exceptional items	3	(2,075)	(7)
(60)	—	Exceptional items: charged to operating costs		—	
1,134	592	Operating profit		636	7
(240)	—	Other exceptional items	4	199	
894	592	Profit on ordinary activities before associated undertakings and minorities		835	41
(38)	(19)	Associated undertakings		(3)	84
(12)	(6)	Net interest and other similar income ..	5	(17)	(100)+
844	567	Profit on ordinary activities before taxation		815	44
(244)	(127)	Taxation	6	(190)	(50)
600	440	Profit on ordinary activities after taxation		625	42
(348)	(180)	Minority interests.. .. .		(194)	(8)
252	260	Profit attributable to shareholders ..		431	66
1.55	1.52	Average rate of exchange US\$=£1		1.59	
11.5p	11.9p	Earnings per share	7	19.6p	65
23.6p	11.9p	Earnings per share excluding exceptional items		13.0p	9
9.05p	2.83p	Dividends per share		3.08p	9

* The Notes are set out on pages 25 and 26 of this Offering Circular.

REGIONAL ANALYSIS OF TURNOVER

Year to 31st March, 1995 Audited	Six months to 30th September, 1994 Unaudited		Note	Six months to 30th September, 1995 Unaudited
£m	£m			£m
2,244	1,132	Hong Kong		1,186
87	42	Other Asia		45
1,652	801	United Kingdom	2	839
45	18	Other Europe		24
498	249	Caribbean		266
422	219	North America		222
234	100	Rest of the world		158
(49)	(26)	Inter regional turnover		(29)
<u>5,133</u>	<u>2,535</u>			<u>2,711</u>

REGIONAL ANALYSIS OF OPERATING PROFIT

Year to 31st March, 1995 After Exceptional items Audited	Year to 31st March, 1995 Exceptional items therein Audited	Six months to 30th September, 1994 Unaudited		Note	Six months to 30th September, 1995 Unaudited
£m	£m	£m			£m
828		417	Hong Kong		448
25		12	Other Asia		11
143	(60)	97	United Kingdom	2	103
(22)		(12)	Other Europe		(20)
171		78	Caribbean		90
38		20	North America		19
18		9	Rest of the world		4
<u>1,201</u>	<u>(60)</u>	<u>621</u>			<u>655</u>
			Regional operating profit		
(32)		(15)	Corporate costs		(12)
(35)		(14)	Business development costs		(7)
<u>1,134</u>	<u>(60)</u>	<u>592</u>	Operating profit		<u>636</u>

SUMMARISED GROUP BALANCE SHEET AT 30th SEPTEMBER, 1995

At 31st March, 1995 Audited	At 30th September, 1994 Restated Unaudited		Note	At 30th September, 1995 Unaudited
£m	£m			£m
		Fixed assets		
4,941	4,719	Tangible assets	9	5,085
697	703	Investments		882
5,638	5,422			5,967
		Net current assets		
117	97	Stocks		117
882	850	Debtors—due within one year		1,266
211	202	—due after more than one year		241
36	—	Current asset investment		—
991	1,305	Deposits and cash		1,065
2,237	2,454			2,689
(321)	(405)	Creditors falling due within one year		
(1,424)	(1,383)	Loans and obligations under finance leases		(552)
		Other creditors		(1,512)
492	666			625
6,130	6,088	Total assets less current liabilities		6,592
(1,340)	(1,347)	Creditors falling due after more than one year		
(33)	(37)	Loans and obligations under finance leases		(1,330)
(220)	(134)	Other creditors		(32)
		Provisions for liabilities and charges		(190)
4,537	4,570	Net assets		5,040
		Equity capital and reserves		
549	548	Called up share capital		552
387	378	Share premium account		419
(67)	(39)	Associated undertakings		(87)
2,470	2,536	Profit and loss account		2,875
3,339	3,423	Equity shareholders' funds		3,759
1,198	1,147	Minority interests		1,281
4,537	4,570			5,040
1.59	1.58	Closing rate of exchange US\$ = £1		1.58

REGIONAL ANALYSIS OF NET OPERATING ASSETS

At 31st March, 1995 Audited	At 30th September, 1994 Restated Unaudited		At 30th September, 1995 Unaudited
£m	£m		£m
		Operating assets:	
1,421	1,235	Hong Kong	1,458
85	67	Other Asia	91
1,785	1,633	United Kingdom	1,841
27	18	Other Europe	21
570	533	Caribbean	593
147	139	North America	148
192	138	Rest of the world	211
<u>4,227</u>	<u>3,763</u>		<u>4,363</u>
310	807	Other assets	677
<u>4,537</u>	<u>4,570</u>		<u>5,040</u>

Other assets include tangible fixed assets not yet in service, fixed asset investments, short term deposits and cash, less loans and overdrafts.

ASSOCIATED UNDERTAKINGS SHARE OF PROFITS LESS LOSSES

Year to 31st March, 1995 Audited	Six months to 30th September, 1994 Unaudited		Six months to 30th September, 1995 Unaudited
£m	£m		£m
4	2	Hong Kong	2
4	2	Other Asia	4
(62)	(31)	United Kingdom	(27)
(2)	(3)	Other Europe	1
15	9	Caribbean	9
—	—	North America	—
3	2	Rest of the world	8
<u>(38)</u>	<u>(19)</u>		<u>(3)</u>

ASSOCIATED UNDERTAKINGS SHARE OF NET ASSETS

At 31st March, 1995 Audited	At 30th September, 1994 Unaudited		At 30th September, 1995 Unaudited
£m	£m		£m
3	1	Hong Kong	5
25	23	Other Asia	38
93	96	United Kingdom	98
78	83	Other Europe	110
54	51	Caribbean	54
17	—	North America	20
291	269	Rest of the world	312
<u>561</u>	<u>523</u>		<u>637</u>

GROUP CASH FLOW STATEMENT

Year to 31st March, 1995 Audited	Six months to 30th September, 1994 Restated Unaudited		Six months to 30th September, 1995 Unaudited
£m	£m		£m
1,604	857	Net cash inflow from operating activities	796
		Returns on investments and servicing of finance	
(51)	(7)	Net interest received/(paid)	(24)
(175)	(117)	Dividends paid to shareholders	(127)
(236)	(124)	Dividends paid to minorities.. .. .	(138)
17	12	Dividends received from investments	11
1,159	621		518
		Taxation	
(213)	(57)	UK and overseas tax paid	(53)
		Investing activities	
(1,242)	(648)	Purchase of tangible fixed assets and investments	(682)
(45)	—	Purchase of subsidiary undertakings.. .. .	—
64	8	Sale of tangible fixed assets and investments	23
7	3	Capital element of finance lease rentals received.. .. .	3
(1,216)	(637)	Net cash outflow from investing activities	(656)
(270)	(73)	Net cash outflow before financing	(191)
		Financing	
		Issue of ordinary share capital	
(13)	(5)	—parent	(15)
—	—	—subsidiaries	(11)
(329)	(306)	Long term debt issued	(61)
180	43	Long term debt repaid	127
89	(115)	Increase/ (decrease) in short term deposits (more than three months to maturity when acquired)	(198)
8	—	Capital element of finance lease rental repayments	5
(65)	(383)	Net cash inflow from financing	(153)
(205)	310	Increase/(decrease) in cash and cash equivalents	(38)
(270)	(73)		(191)

Notes:

1. The interim financial statements have been prepared in accordance with applicable accounting standards. The accounting policies applied are those set out in the Annual Report and Accounts for the year ended 31st March, 1995. The interim financial statements are unaudited and do not constitute statutory accounts but have been reviewed by the auditors and their report to the Directors is set out on page 13 (which is page 26 of this Offering Circular).

2. The results of Mercury are included within United Kingdom. The operating profit of Mercury was £103 million (1994—£96 million) after depreciation charges of £131 million (1994—£117 million) and turnover was £833 million (1994—£797 million). The operating profit for the year ended 31st March, 1995 included an exceptional charge of £60 million in respect of the Mercury reorganisation.

3. Operating costs include £844 million (1994—£817 million) in respect of outpayments to other telecommunications administrations and carriers.

4. The exceptional item of £199 million relates to the profit on sale of the Company's 5.03 per cent. interest in Mannesmann Mobilfunk GmbH. The tax charge attributable to the disposal is £54 million.

5. Net interest and other similar income includes interest payable of £72 million (1994—£63 million) after deducting interest capitalised of £4 million (1994—£4 million).

6. The estimated taxation liability has been calculated by applying the estimated effective tax rate for the year and comprises UK tax £92 million (1994—£40 million), overseas tax £93 million (1994—£82 million) and associated undertakings tax £5 million (1994—£5 million).

7. The calculation of earnings per share is based on a weighted average number of shares in issue during the period of 2,199.3 million (1994—2,186.7 million).

8. Net gearing, i.e. borrowings plus bills payable less cash and deposits expressed as a percentage of shareholders' funds was 21.7 per cent. at 30th September, 1995. At 31st March, 1995 the gearing was 20.1 per cent.

9. Capital expenditure on the purchase of tangible assets during the period was £448 million (1994—£575 million) and £243 million (1994—£88 million) on investments. The depreciation charge for the period was £280 million (1994—£252 million).

10. The interim statement for the six months ended 30th September, 1995 was approved by the Directors on 15th November, 1995.

11. The abridged profit and loss account and balance sheet for the year to 31st March, 1995 is an extract from the statutory accounts for that year which have been delivered to the Registrar of Companies; the report of the auditors on those accounts was unqualified.

Review Report by KPMG to Cable and Wireless plc

We have reviewed the interim financial information for the six months ended 30th September, 1995 set out on pages 6 to 13*, which is the responsibility of, and has been approved by, the Directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin "Review of Interim Financial Information", issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of Group management responsible for financial and accounting matters. The review was substantially less in scope than an audit performed in accordance with Auditing Standards and accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- In our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Cable and Wireless plc in its financial statements for the year ended 31st March, 1995; and
- We are not aware of any material modifications that should be made to the interim financial information as presented.

15th November, 1995

KPMG
Chartered Accountants
Registered Auditors
London"

* The page reference in the review report by KPMG is to pages in the preliminary announcement of the Group's interim results for the six months ended 30th September, 1995. The interim financial information to which the review report refers is set out on pages 21 to 26 of this Offering Circular.

CAPITALISATION OF THE GROUP

The following table sets out the unaudited consolidated capital and reserves and indebtedness of the Group as at 30th September, 1995:

Capital and reserves

	<i>30th September, 1995 (unaudited)</i>
	<i>£m</i>
Share capital	
Authorised:	
Ordinary shares of 25p each: 2,734,520,636	
Special Rights Preference Share of £1	
Allotted, called up and fully paid:	
Ordinary shares of 25p each: 2,209,426,659	552
Special Rights Preference Share of £1	—
Share premium account	419
Associated undertakings	(87)
Profit and loss account	2,875
Shareholders' funds	3,759
Minority interests	1,281
	<u>5,040</u>

Indebtedness

	<i>30th September, 1995 (unaudited)</i>
	<i>£m</i>
Amounts falling due within one year:	
Loans and obligations under finance leases	551.8
	<u>551.8</u>
Amounts falling due after more than one year:	
Convertible unsecured loan stock repayable 2008	137.8
Other loans including bank loans and bonds:	
Sterling repayable at various dates up to 2019	340.5
US dollars repayable at various dates up to 2038	752.9
Other currencies repayable at various dates up to 2007	47.6
Obligations under finance leases	51.1
	<u>1,329.9</u>

Notes:

- The table above does not include indebtedness in respect of the Bonds now being issued.
- Save as disclosed above and in these notes (and excluding any intra-group indebtedness), as at 30th September, 1995 no member of the Group had any loan capital outstanding, or loan capital available but undrawn, term loans or other borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase agreements or finance lease commitments, mortgages, charges or any material guarantees or other material contingent liabilities.
- 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.
- The indebtedness of the Group has changed since 30th September, 1995, as a result of the repayment of £241.6 million of loans falling due within one year on 5th and 6th October, 1995, following the receipt in respect of the sale of the Issuer's 5.03 per cent. interest in Mannesman Mobilfunk GmbH.
- Save as disclosed above, there has been no material change in the consolidated capital and reserves and indebtedness of the Group since 30th September, 1995.

TAXATION

The following is a summary of the Issuer's understanding of current and prospective United Kingdom law and practice relating to the taxation of the Bonds. Some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Bondholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

1. The Bonds will constitute "quoted Eurobonds" within the meaning of Section 124 of the Income and Corporation Taxes Act 1988 (the "Act") as long as they continue to be quoted on a "recognised stock exchange" within the meaning of Section 841 of the Act. The London Stock Exchange is currently so designated. Accordingly, payments of interest on the Bonds should be made without withholding on account of tax:

- (a) where the Bonds and relative Coupons are held in a "recognised clearing system" within the meaning of section 124 of the Act (Euroclear, Cedel Bank, société anonyme and First Chicago Clearing System are currently so designated); or
- (b) where payment is made through an overseas Paying Agent; or
- (c) where payment is made by or through a person in the United Kingdom and it is proved to the Inland Revenue that the beneficial owner of the Bonds and relative Coupons (or the person whose income the interest is for United Kingdom tax purposes deemed to be) is not resident in the United Kingdom.

In all other cases an amount must be withheld on account of income tax at the basic rate (currently 25 per cent.), subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of an applicable double taxation convention. The current draft of the Finance Bill contains provisions which, if enacted, would reduce the rate of withholding tax to the lower rate of income tax (currently 20 per cent.) in relation to payments made on or after 6th April, 1996.

Where a United Kingdom collecting agent receives or obtains payment of interest on behalf of a Bondholder, the collecting agent will be required to withhold on account of income tax at the basic rate (or at the lower rate (currently 20 per cent.) if the provisions of the Finance Bill referred to above are enacted):

- (a) if the relative Bonds are held in a "recognised clearing system"; or
- (b) if payment of the interest was not made by or entrusted to a United Kingdom Paying Agent.

No such withholding will be required, however, if it is proved to the Inland Revenue that the beneficial owner of the Bonds and relative Coupons is not resident in the United Kingdom and that the interest is not deemed for United Kingdom tax purposes to be the income of any other person.

The current draft of the Finance Bill contains provisions which, if enacted, would make changes to the legislation relating to paying and collecting agents with effect from Royal Assent to the Finance Act 1996. The effect of these changes, if enacted, will be, *inter alia*, to reduce the circumstances in which a United Kingdom collecting agent obtaining payment of interest on behalf of a Bondholder will be required to withhold tax.

2. Interest on the Bonds received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder who is not resident for tax purposes in the United Kingdom, unless the Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable. There are certain exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

If the Bondholder is chargeable to tax under the above rules, exemption from or reduction in the tax payable on the interest might be available in appropriate circumstances under the provisions of an applicable double taxation convention.

3. If the current Finance Bill is enacted in its present form, existing rules will apply to individuals and corporates until 1st April, 1996. Accordingly:

- (a) the provisions of the accrued income scheme may apply to persons transferring Bonds which bear interest or to persons to whom such Bonds are transferred. Generally, persons who are neither resident nor ordinarily resident in the United Kingdom and dealers in securities will not be subject to the provisions of the scheme. On a transfer of securities with accrued interest the scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to deem the transferee to obtain an equivalent credit to set against the deemed or actual interest he subsequently receives; and

- (b) the Bonds will constitute “qualifying corporate bonds” within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder will not give rise to a chargeable gain or an allowable loss for the purposes of the taxation of capital gains.

From 1st April, 1996 the position of individual Bondholders will be unchanged. The Bonds will not be discounted securities for the purposes of the new rules relating to securities held by non-corporate bondholders. In contrast most Bondholders subject to United Kingdom corporation tax will bring all returns and profits, whether of an income or capital nature, on the Bonds into charge as income for UK corporation tax purposes on an accruals or mark-to-market basis. Accordingly, the accrued income scheme will cease to apply to such Bondholders in respect of transfers of bonds on or after 1st April, 1996.

- 4. No stamp duty or stamp duty reserve tax is payable on a transfer of the Bonds by delivery.

SUBSCRIPTION AND SALE

Under a Subscription Agreement dated 19th January, 1996 (the "Subscription Agreement"), NatWest Capital Markets Limited (as agent for National Westminster Bank Plc), Cazenove & Co. and Goldman Sachs International (the "Managers") have jointly and severally agreed to subscribe for the Bonds at the issue price of 101.01 per cent. of their principal amount, for a selling commission of 1.875 per cent. of such principal amount of the Bonds. The Issuer will pay to the Managers a combined management and underwriting commission of 0.625 per cent. of the principal amount of the Bonds. The Issuer has agreed to pay the Managers a sum of £45,000 in or towards reimbursement of their expenses. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment of the subscription moneys to the Issuer.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sale of the Bonds *within the United States or to, or for the account or benefit of, U.S. persons.*

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented and agreed that (a) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA; (b) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom such document may otherwise lawfully be issued or passed on.

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and
- (b) unless it is a person permitted to do so under the securities laws of Hong Kong, it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Bonds other than with respect to Bonds intended to be disposed of to persons outside Hong Kong, or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

GENERAL INFORMATION

Listing

The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount. Transactions will be effected for settlement in sterling and, under current practice, for delivery on the third business day in London after the date of the transaction. It is expected that listing of the Bonds will be granted on 24th January, 1996, subject only to the issue of the temporary global Bond. Prior to official listing, however, dealings in the Bonds will be permitted by the London Stock Exchange in accordance with its rules.

The listing of the Bonds on the HKSE will be expressed in sterling as a percentage of their principal amount (excluding accrued interest). Transactions will normally be effected for settlement in sterling and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of, the Bonds on the HKSE, commence on or about 29th January, 1996.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Cedel Bank, société anonyme under the common code 6323367. The ISIN for the Bonds is XS0063233679.

Approvals

All consents necessary for the issue of the Bonds have been obtained.

Authorisation

The issue of the Bonds was authorised by a resolution dated 9th January, 1996 of the Board of Directors of the Issuer.

Accounts

For each of the three financial periods to 31st March, 1995, full accounts have been made up and unqualified reports thereon made by the auditors of the Issuer and copies thereof delivered to the Registrar of Companies. The Issuer publishes an unaudited interim financial report as at 30th September of each year.

KPMG has no shareholding in the Issuer or any of its subsidiaries, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Issuer or any of its subsidiaries.

KPMG has given and not withdrawn its written consent to the inclusion in this Offering Circular of its review report on the preliminary announcement of the Group's results for the six months ended 30th September, 1995 in the form and context in which it appears and has authorised the contents of that part of the listing particulars (being its review report) for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

Financial and Trading Position

There has been no significant change in the financial or trading position or prospects of the Group since 30th September, 1995 and no material adverse change in the financial position or prospects of the Group since 31st March, 1995.

Litigation

Neither the Issuer nor any of its subsidiaries is engaged in legal or arbitration proceedings which may have, or have had during the previous twelve months, a significant effect on the financial position of the Issuer and its subsidiaries taken as a whole, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

Legend

The Bonds and Coupons will contain the following legend "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

Documents available for inspection

Copies of the following documents may be inspected during usual business hours on any business day at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB, and at the offices of Slaughter and May, 27th Floor, Two Exchange Square, Hong Kong during the period of fourteen days from the date of this Offering Circular:—

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the annual report and published consolidated audited accounts of the Issuer for each of the years ended 31st March, 1993, 1994 and 1995;

- (iii) the Group's interim results for the six months to 30th September, 1995;
- (iv) the Subscription Agreement referred to under "Subscription and Sale";
- (v) drafts (subject to modification) of the Trust Deed (incorporating the forms of the temporary global Bond, the Bonds and the Coupons) and of the Agency Agreement; and
- (vi) the Review Report dated 15th November, 1995 by KPMG to the Issuer in respect of the financial information for the six months ended 30th September, 1995.

Miscellaneous

As at 30th September, 1995, none of the current Directors of the Issuer was interested in the share capital of the Issuer nor did they have any options in respect of such share capital except as set out below:—

<i>Director</i>	<i>Shares</i>	<i>Share options</i>
Edward M. Astle	8,457	121,348
Linus W. L. Cheung	—	239,000
Rodney J. Olsen	63,851	381,881
Stephen R. Pettit	224	159,192
Jonathan H. M. Solomon	39,889	364,062
Dr. Janet P. Morgan	1,263	—

Note:

Dr. N. Brian Smith held an interest in 4,970 shares on his appointment as non-executive Chairman on 21st November, 1995.

So long as any of the Bonds are listed on the HKSE, the Issuer will make available for inspection without charge its audited annual financial statements and its unaudited interim figures, issued and made available in accordance with the requirements of England at the specified office of each of the Paying Agents. In addition, copies of the constitutional documents of the Issuer, the resolutions of the Issuer, the Trust Deed (which includes the form of the Bonds) and the Agency Agreement will be available for inspection at such offices during usual business hours. The Issuer has agreed to maintain a Paying Agent having a specified office in Hong Kong so long as the Bonds are listed on the HKSE.

REGISTERED AND HEAD OFFICE OF THE ISSUER

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London WC1X 8RX

TRUSTEE

Royal Exchange Trust Company Limited

155 Bishopsgate
London EC2M 3TG

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York

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London EC4Y 0JP

OTHER PAYING AGENTS

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Company of New York**

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**The Hong Kong & Shanghai
Banking Corporation Ltd**

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Central, Hong Kong

Banque Paribas Luxembourg

10A Boulevard Royal
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