CABLE & WIRELESS

# Cable and Wireless plc

(incorporated as a public limited company in England and Wales under the Companies Act 1985 with registered number 238525)

## £257,714,000

## 4.00 per cent. Convertible Bonds due 2010

Convertible into Ordinary Shares of

# Cable and Wireless plc

Cable and Wireless plc (the **Issuer** or the **Company**) will issue £257,714,000 principal amount of 4.00 per cent. Convertible Bonds due 2010 (the **Bonds**). The Bonds will be issued in the denomination of £1,000 each. The issue price of the Bonds is 100 per cent. of their principal amount.

Each Bond which has not previously been redeemed or purchased and cancelled will, at the option of its holder and subject as provided herein, be convertible from 26th August, 2003 to the close of business (at the place where the relevant Bond is deposited for conversion) on the date falling six days prior to 16th July, 2010 into ordinary shares in the Issuer, credited as fully paid (the **Ordinary Shares**). The initial conversion price, which is subject to adjustment in certain events as provided herein, is £1.45 per Ordinary Share. On 13th June, 2003 (the date by reference to which the initial conversion price was fixed), the closing price of the Ordinary Shares on the London Stock Exchange plc was 104.5 pence.

The Bonds bear interest at the rate of 4.00 per cent. per annum payable semi-annually in arrear on 16th January and 16th July in each year. Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 16th July, 2010.

**See "Investment Considerations" for a discussion of certain factors that should be carefully considered by potential purchasers.**

Application has been made to the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bonds to be admitted to the Official List of the UK Listing Authority and application has been made to the London Stock Exchange plc (the **London Stock Exchange**) for the Bonds to be admitted to trading on the London Stock Exchange's market for listed securities.

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on the Issue Date (as defined below) with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear system, (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), without interest coupons, on or after 26th August, 2003 (the **Exchange Date**), upon certification as to non-US beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds, with interest coupons attached, only in certain limited circumstances as described herein.

**JPMorgan**

**Cazenove**

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| **ABN AMRO Rothschild** | **Barclays Capital** |
| **Deutsche Bank** | **HSBC** |
| **Lehman Brothers** | **Morgan Stanley** |

This Offering Circular (including the Financial Statements set out on pages F1 to F46 below) comprises listing particulars given in compliance with listing rules made under Section 74 of the Financial Services and Markets Act 2000 (the **Act**) by the UK Listing Authority for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries taken as a whole (the **Group**), the Bonds and the Ordinary Shares. 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.

A copy of these listing particulars has been delivered to the Registrar of Companies in England and Wales as required by section 83 of the Act.

No representation or warranty, express or implied, is made by the Managers as defined in "Subscription and Sale" as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers. This Offering Circular is not intended to provide the basis of any credit or other evaluation and nor should it be considered as a recommendation by either the Issuer or the Managers that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Bonds should be based upon such investigation as it deems necessary.

Neither the Issuer nor the Managers make any representation to any potential purchaser of the Bonds regarding the legality of investment therein by such potential purchaser under applicable legal, investment or similar laws or regulations. Prospective investors or purchasers should consult their own advisers as to legal, tax, business, financial and related aspects of an investment in the Bonds.

No person is authorised in connection with this offering to give any information or to make any representation not contained or incorporated in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers. The delivery of this Offering Circular at any time does not imply that there has been no change in the affairs of the Issuer or the Group since the date hereof or that the information contained in it is correct as at any time subsequent to its date.

The Bonds are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters. This Offering Circular has been prepared on the basis that any purchaser of Bonds is a person or entity having sufficient knowledge and experience of financial matters as to be capable of evaluating the merits and risks of the purchase. Before making any investment decision with respect to the Bonds, prospective investors should consult their own counsel, accountants or other advisers and carefully review and consider their investment decision in the light of the foregoing. An investment in the Bonds is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may result therefrom.

**Prior to making an investment decision, all prospective purchasers of the Bonds should carefully consider the investment considerations set out under "Investment Considerations" in addition to the other information contained in this Offering Circular.**

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or by or on behalf of the Managers to subscribe for or purchase, any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions and neither the Issuer nor the Managers shall have any responsibility for any of the foregoing legal requirements.

The Bonds and the Ordinary Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States except pursuant to an exemption from the registration requirements of the Securities Act.

For a further description of certain restrictions on the offering, sale and resale of the Bonds and on the distribution of this Offering Circular, see "Subscription and Sale". Neither the delivery of this Offering Circular nor any sale made hereby shall under any circumstances imply that there has been no change in the affairs of the Issuer or the Group or that the information contained herein with respect to them is correct as at any date subsequent to the date hereof.

Ordinary Shares to be issued on conversion of the Bonds will be issued in uncertificated form through the dematerialised securities trading system operated by CRESTCo Limited, known as CREST, unless the holder of such Bonds elects to hold the Ordinary Shares in certificated registered form or, at the time of issuance, the Ordinary Shares are not a participating security in CREST. The Issuer's Ordinary Shares are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange's market for listed securities under the symbol "CW.L".

Unless otherwise specified or the context requires, references herein to "**GBP**", "**£**", "**pounds sterling**" and "**sterling**" are to the currency of the United Kingdom. References in this document to "**Cable & Wireless**" and the "**Cable & Wireless Group**" are to the Issuer and its subsidiaries, associated companies and joint ventures taken as a whole unless the context otherwise requires.

## FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements with respect to the financial condition, results of operations and business of Cable & Wireless.

Statements that are not historical facts, including statements about Cable & Wireless' beliefs and expectations, are forward-looking statements. Words such as 'believes', 'anticipates', 'expects', 'intends' and 'plans' and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and potential investors should not assume that they have been revised or updated in the light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. Cable & Wireless cautions investors that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These factors include: (i) failure to improve the performance and financial position of the Group successfully or to adapt as needed to changing market conditions could adversely affect the Group's business, results of operations and potential for growth; (ii) withdrawal from the US market may require the expenditure of additional resources, including management time and capital resources; (iii) transformation initiatives can lead to execution risk; (iv) Cable & Wireless' business may be materially adversely affected by changes in regulation and government policy in the countries in which it operates; (v) regulation of internet service providers could adversely affect Cable & Wireless' operations; (vi) the Group's business may be affected by a business downturn; (vii) generally unfavourable telecommunications market conditions may adversely affect the Group's financial condition and results of operations; (viii) fluctuations in currency exchange rates may adversely affect the Group's reported results; (ix) the Group may not have or be unable to obtain sufficient insurance to cover all foreseeable risks; (x) the activities of the Group's insurance subsidiary may result in material claims; (xi) future cashflow fluctuations may affect the Group's ability to fund working capital requirements; (xii) cash generated overseas may not all be available for use by the Group; (xiii) changes in credit ratings may impact the Group's future access to cash funding; (xiv) volatility in the financial markets may require the Group to provide further cash funding to its pension funds; (xv) dependency on a small number of personnel; (xvi) class actions may adversely impact the Group's financial condition; (xvii) failure to pay a dividend in the future may adversely affect the Group's share price; (xviii) the Group's operations could suffer from adverse effects of competition and price pressures on the demand for products and services; (xix) competitors of Cable & Wireless may gain competitive advantage by successfully completing a restructuring or bankruptcy reorganisation process; (xx) continued overcapacity and other factors could lead to lower prices for the Group's products and services; (xxi) Cable & Wireless depends on the ability to achieve cost-savings to respond to industry and market conditions; (xxii) the Group may not be able to adapt adequately to technological changes in communication and information technology; (xxiii) the Group's results depend on the introduction of appropriate new products and services as the industry undergoes rapid changes; (xxiv) exposure to other telecommunications operators and the behaviour of other market participants may have a detrimental effect on the Group's operations; (xxv) catastrophic network failure may expose the Group to potential liability; (xxvi) the Group may lose revenue if unlicensed operators are able to gain access to the Group's network undetected; (xxvii) the Group is reliant on third parties for certain activities under outsourcing contracts and failure of those third parties to provide the contracted services may expose the Group to additional cost and liability; (xxviii) the Group is dependent on a number of critical IT systems to be able to conduct its business and process financial information; and (xxix) mobile communications devices may pose health risks.

Trends and factors that are expected to particularly affect Cable & Wireless' results are discussed in more detail elsewhere in this Offering Circular, including, without limitation, in "Description of Cable & Wireless" and "Operating and Financial Review".

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**IN CONNECTION WITH THIS ISSUE, J.P. MORGAN SECURITIES LTD. OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AND/OR THE ORDINARY SHARES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON J.P. MORGAN SECURITIES LTD. OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

## THE OFFERING

*The following is a summary of the principal features of the Bonds and is qualified in its entirety by the more detailed information appearing in "Terms and Conditions of the Bonds" (such terms and conditions, the* ***Conditions of the Bonds****) and "Summary of Provisions relating to the Bonds in Global Form". Potential purchasers of the Bonds are urged to read this Offering Circular in its entirety. All defined terms used herein shall have the meanings given to them in the Conditions of the Bonds and elsewhere in this document.*

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| Issuer | Cable and Wireless plc, a company incorporated in England and Wales with limited liability. |
| The Bonds | £257,714,000 principal amount of 4.00 per cent. Convertible Bonds due 2010. The Bonds are convertible into ordinary shares in the Issuer, credited as fully paid. |
| The Offering | The Bonds are being offered and sold by the Managers outside the United States in reliance on Regulation S. |
| Issue Price | The Bonds will be issued at 100 per cent. of their principal amount. |
| Issue Date | 16th July, 2003. |
| Final Redemption | Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 16th July, 2010. |
| Redemption at the Option of the Issuer | The Issuer may redeem all, but not some only, of the Bonds for the time being outstanding at their principal amount at any time on or after 16th July, 2007 if the middle market price of the Ordinary Shares has been at least 130 per cent. of the Conversion Price then in effect for a specified period of days. See Condition 6(b).<br><br>The Issuer may redeem all, but not some only, of the Bonds for the time being outstanding at their principal amount, together with interest accrued (if any) to the date fixed for redemption at any time if 85 per cent. or more of the aggregate principal amount of the Bonds originally issued shall have been previously purchased and cancelled or converted. See Condition 6(b). |
| Redemption at the Option of the Bondholders | None. |
| Interest | The Bonds will bear interest at the rate of 4.00 per cent. per annum, payable semi-annually in equal instalments in arrear on 16th January and 16th July in each year. |
| Status of the Bonds | The Bonds will constitute direct, unconditional and (subject to the provisions of Condition 10) unsecured obligations of the Issuer and (subject as aforesaid) 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. |
| Conversion | Subject to the right of the Issuer to make a Cash Alternative Election, each Bond shall entitle the holder (such right a **Conversion Right**): (i) to convert the Conversion Amount of such Bond into Ordinary Shares; and (ii) to have redeemed the Cash Settled Amount of such Bond at the arithmetic average of the Volume Weighted Average Prices of the Reference Shares for the five dealing day period commencing on the date falling two business days in London following the relevant Conversion Date.<br><br>**Cash Settled Amount** means, in respect of each £1,000 principal amount of Bonds in respect of which Conversion Rights are exercised, £336 (representing 231.724 Ordinary Shares at the initial |

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| | Conversion Price), or such lesser amount pursuant to any notice given by the Issuer as provided in Condition 5(a) provided that the aggregate of the Cash Settled Amount and the Conversion Amount in respect of each £1,000 principal amount of Bonds shall equal £1,000. |
| | **Conversion Amount** means, in respect of each £1,000 principal amount of Bonds in respect of which Conversion Rights are exercised, £664 (representing 457.930 Ordinary Shares at the initial Conversion Price), or such greater amount pursuant to any notice given by the Issuer as provided in Condition 5(a) provided that the aggregate of the Cash Settled Amount and the Conversion Amount in respect of each £1,000 principal amount of Bonds shall equal £1,000. |
| | Conversion Rights may be exercised at any time from 26th August, 2003 to the close of business (at the place where the relevant Bond is deposited for conversion) on (i) the date falling six days prior to the Final Maturity Date (both dates inclusive) or (ii) if the Bonds are called for redemption prior to the Final Maturity Date, the sixth day prior to the relevant date fixed for redemption. The number of Ordinary Shares to be issued on conversion will be determined by dividing the Conversion Amount of the relevant Bond by the Conversion Price in effect on conversion, and rounded down (if necessary) to the nearest whole number of Ordinary Shares. The initial Conversion Price is £1.45 per Ordinary Share. The Conversion Price is subject to adjustment as provided in Condition 5(b), including in the case of a Capital Distribution and, in the event of a change of control constituting a Relevant Event, the Conversion Price will be adjusted for a specified period as described in Condition 5(b)(x). |
| Cash Alternative Election | The Issuer is entitled to specify, upon prior notice to Bondholders and the Trustee, that it will, on exercise of Conversion Rights, deliver a cash amount to the relevant Bondholder or, as the case may be, the Trustee determined by reference to the market value of the Ordinary Shares. See Condition 5(i). |
| Shares | Ordinary Shares allotted on conversion of the Bonds will be issued credited as fully paid having, on the date hereof, a nominal value of 25p each and will rank *pari passu* in all respects with all fully paid Ordinary Shares in issue on the relevant Conversion Date, save as provided in Condition 5(l). |
| | Such Ordinary Shares will be issued in uncertificated form through the dematerialised securities trading system operated by CRESTCo Limited, known as CREST, unless the relevant Bondholder or, as the case may be, the Trustee elects to hold such Ordinary Shares in certificated registered form or, at the time of issue, the Ordinary Shares are not a participating security in CREST. |
| Taxes; No Additional Amounts | All payments by or on behalf of the Issuer in respect of the Bonds and the Coupons shall be made without withholding or deduction for any taxation unless such withholding or deduction is required by law. The Bonds will not be redeemed for tax reasons and there will be no additional amounts paid in the event of the imposition of any withholding tax. |
| Trust Deed and Trustee | The Bonds will be constituted by a Trust Deed to be dated the Issue Date between the Issuer and Capita IRG Trustees Limited as Trustee (the **Trust Deed**). |

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| Form and Denomination of the Bonds | The Bonds will be issued in bearer form in the denomination of £1,000 and will initially be represented by the Temporary Global Bond. Interests in the Temporary Global Bond will be exchangeable for interests in the Permanent Global Bond on or after the Exchange Date, upon certification as to non-US beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds in bearer form, each with Coupons, only in certain limited circumstances as described herein. See "Summary of Provisions relating to the Bonds in Global Form". |
| Sales Restrictions | The Bonds will not be registered under the Securities Act. There are restrictions on the offer, sale and transfer of the Bonds, *inter alia*, in the United States and the United Kingdom. See "Subscription and Sale". |
| Paying and Conversion Agents | The Issuer has appointed JPMorgan Chase Bank as principal paying and conversion agent. The Issuer may at any time vary or terminate the appointment of any paying and conversion agent. |
| Events of Default | For a description of certain events that will permit acceleration of the Bonds, see Condition 9. Upon acceleration for any such event, the Bonds will become immediately due and payable at their principal amount together with accrued interest. |
| Grant of Security or Redemption to avoid Events of Default | Upon the occurrence of a Security Event in relation to a Principal Subsidiary (being, amongst other things, any event or act outside the control of the Issuer as a result of which the ability of any Principal Subsidiary to conduct the whole or substantially the whole of its business is curtailed or as a result of which the ability of the Issuer directly or indirectly to exercise its rights of ownership or control of, or 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), the Issuer may, subject as further provided herein, either redeem the Bonds at their principal amount or the Issuer or any of the Issuer's Subsidiaries may grant in respect of all, but not some only, of the Bonds then outstanding Cash Collateral and/or Non-cash Collateral, all as more fully described in Condition 10. |
| Governing Law | The Bonds, the Trust Deed and the Agency Agreement will be governed by, and will be construed in accordance with, English Law. |
| Listing and Trading | Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List of the UK Listing Authority and application has been made to the London Stock Exchange for the Bonds to be admitted to trading on the London Stock Exchange's market for listed securities. |
| Clearing Systems | The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 017103989. The ISIN for the Bonds is XS0171039893. |
| Use of Proceeds | The estimated net cash proceeds to be raised in connection with the issue of the Bonds, after the expenses of the issue, will amount to approximately £250,000,000. The net cash proceeds will be used by the Issuer to further strengthen its balance sheet and increase its financial flexibility. |

## INVESTMENT CONSIDERATIONS

*Prior to making an investment decision, prospective purchasers of the Bonds should carefully consider the investment considerations set out below in addition to the other information contained in this Offering Circular.*

### CONSIDERATIONS RELATING TO THE GROUP'S OPERATIONS

The Group's financial condition or results of operations could be materially adversely affected should any of these risks arise. The risks described below are not the only risks facing the Group. Additional risks not currently known to the Group or risks that the Group currently regards as immaterial could also have a material adverse effect on the Group's financial condition or results of operations.

*Failure to improve the performance and financial position of the Group successfully or to adapt as needed to changing market conditions could adversely affect the Group's business, results of operations and potential for growth.*

In June 2003, Cable & Wireless announced that it would withdraw from the United States, take steps radically to improve the unsatisfactory operating results in the United Kingdom and build upon its strong positions in national telecommunications companies around the world. Cable & Wireless cannot assure investors in the Bonds that it will be successful in implementing the strategy as currently planned, that the planned strategy will prove to be successful in an otherwise difficult market or that the Group will achieve all of its strategic goals. Failure in any of these regards could adversely affect the Group's profitability and its strategic and competitive positions.

In addition, as part of this strategy, Cable & Wireless is undertaking a reorganisation of its businesses to improve its position in a rapidly changing market place. Cable & Wireless' plans for the implementation of this reorganisation are incomplete in many respects, and the success of the reorganisation will depend in part on factors that are beyond the Group's control. Delay in implementation of the reorganisation may lead to the management not being able to concentrate on developing their businesses with certainty, or to pursue opportunities in their respective marketplaces. It may lead to staff retention problems, or staff resistance, such as industrial action or non-compliance with Group policies. Furthermore, as Cable & Wireless refines the plans for its reorganisation, the Group may encounter significant obstacles that it has not yet anticipated and that prevent it from fully implementing the reorganisation or fully achieving its strategic goals. As a result, the Group cannot assure investors in the Bonds that the goals of its strategy or reorganisation plan will be fully achieved. Cable & Wireless also cannot assure investors in the Bonds that completion of the reorganisation plan will result in the success of its strategy.

*Withdrawal from the US market may require the expenditure of additional resources, including management time and capital resources.*

In June 2003, Cable & Wireless announced its intention to withdraw from the US market. Cable & Wireless is currently considering the options it will pursue in exiting this market, but has yet to identify a specific approach that it intends to take. It is possible that these options may be subject to regulatory or other approval. Among the approaches Cable & Wireless is currently considering is a sale of its businesses in the United States. Cable & Wireless, however, may not be able to identify potential purchasers for all of the US businesses or complete any sale of the US businesses in a timely manner, on a cost effective basis, at the optimum price, or at all. In addition, Cable & Wireless is also considering a number of alternative options and, if Cable & Wireless cannot find a suitable purchaser for its US businesses or if it determines that an alternative will be preferable, the Group may choose to wind-down its US operations or exit this market through some other means. Any approach Cable & Wireless takes is likely to require a considerable amount of management's attention, may not ultimately be cash generative and may in fact require that it incurs additional costs. It may also lead to customer rentention issues, which in turn may affect the expected financial performance of the business detrimentally. As a result, the steps Cable & Wireless may take to exit the US market could in the shorter term impact on operating profit and liquidity while it incurs any necessary costs associated with exiting this market.

*Transformation initiatives can lead to execution risk.*

The Group has been in rapid transition in the past few years, acquiring, and disposing of, a number of businesses, as well as implementing a number of reorganisation initiatives. In June 2003 Cable & Wireless announced its intention, over time, to expand its investment in national telecommunications operations. This may include acquiring further entities and businesses.

The Group has in the past and expects in the future to dedicate significant resources to integrate any businesses that it has or will acquire and to effect any rationalisation of its operations.

Implementation is complex, time-consuming and expensive and, without proper planning and execution, could significantly disrupt the Group's business. The challenges involved include:

- combining service and product offerings and preventing customers and distributors from deferring purchasing decisions or switching to other suppliers due to uncertainty about the direction of our product offerings and our willingness to support and service existing products, which could result in incurring additional obligations in order to address customer uncertainty;
- demonstrating to customers and distributors that the transaction or organisational changes will not result in adverse changes in service standards or business focus and helping customers conduct business easily;
- consolidating and rationalising corporate and subsidiary IT infrastructure, including implementing information management and system processes that enable increased customer satisfaction, improved productivity, lower costs, more direct sales and improved inventory management;
- consolidating administrative infrastructure, including IT systems, and maintaining adequate controls throughout the integration;
- coordinating sales and marketing efforts to communicate the Group's strategy effectively;
- preserving distribution, marketing or other important relationships and resolving potential conflicts that may arise;
- minimising the diversion of management attention from ongoing business concerns;
- coordinating and combining operations, subsidiaries, relationships and facilities, which may be subject to additional constraints imposed by local laws and regulations and also may result in contract terminations or renegotiations and labour and tax law implications; and
- managing integration issues shortly after or pending the completion of other independent reorganisations.

**Regulatory risk**

*Cable & Wireless' business may be materially adversely affected by changes in regulation and government policy in the countries in which it operates.*

The Group operates in some highly regulated markets in which its flexibility to manage its business is limited. Regulatory decisions and changes in the regulatory environment or in government policy may materially adversely affect its business, particularly in those markets in which it is classified as a dominant carrier. In some jurisdictions, the Group is currently required to offer competitors access to its networks, supply subscribers with various telecommunications services at regulated rates or on regulated terms and/or contribute to universal services funds. In other jurisdictions, the Group is itself dependent upon customer access, interconnection services and leased lines supplied under regulated terms and conditions by local or national incumbent telecommunications operators. Future regulation may impact the terms of interconnection agreements with other network operators and other similar agreements; impose market-access barriers; set price caps or regulate prices directly; impose limitations or investment obligations on construction of new facilities and impose other restrictions on the scope of the Group's operations. The number of regulatory measures may also significantly increase, or become significantly more onerous as the jurisdictions in which the Group operates reform their telecommunications and related laws. Complying with new or more onerous regulations and restrictions may be costly for the Group, and may adversely impact the results of the Group's operations and business condition.

The Group's ability to provide telecommunications services depends in most countries on receiving and maintaining government licences and authorisations. Failure to acquire and retain necessary regulatory approvals could impair its results of operations. Furthermore, regulatory regimes in some countries in which the Group operates are often less well established than in other countries where competition in the telecommunications sector has been established for longer. As a result, its business in these countries, especially where it maintains a large, dominant or exclusive market share, could be subject to unexpected political, economic or legal developments that impact telecommunications regulations and lead to the Group being unable to acquire or retain the regulatory approvals necessary to its business. Any such development could have a material adverse effect on its results of operations either in that jurisdiction or in aggregate.

*Regulation of ISPs could adversely affect Cable & Wireless' operations.*

Governmental and regulatory agencies have yet to promulgate comprehensive regulations specific to Internet Protocol (**IP**) networks. Therefore, the Group accepts that risks could exist arising from future changes to the legal framework that could impose greater burdens on it (for example, increased costs or restrictions on the ability to provide services). In addition, the Group's ability to adapt to multiple national regulatory regimes may be limited, and uncertainty regarding the regulations applicable to some services may prevent or delay its expansion in certain markets.

If a jurisdiction in which the Group operates adopts measures which affect the regulation of the internet and/or other aspects of the industry, it could experience both decreased demand for its products and increased costs of selling such products. Changes in laws or regulations governing the internet, internet commerce and/or other aspects of the industry could have a material adverse effect on the Group's business.

**Economic risks**

*The Group's business may be affected by a business downturn.*

A significant percentage of the Group's revenue is generated by providing business customers with telecommunications, IP, voice, data, managed hosting services and content delivery.

A continued slowdown in capital spending by service providers and other customers may affect revenues more than currently expected. Moreover, the existing economic and geopolitical uncertainties and their potential impact on customer demand, has created uncertainty as to market demand. As a result, revenues and operating results for a particular period can be difficult to predict. In addition, there can be no certainty as to the severity or duration of the current industry adjustment and the downturn in the business environment. The Group's revenues and operating results have been and may continue to be materially and adversely affected by the continued reductions in demand from its customers.

In addition, a business downturn, fear of terrorist attacks or the impact of SARS may reduce the number of international tourists. This may depress local economies in some areas where the Group has businesses (for example in the Caribbean and Macau) and consequently adversely impact the financial results of the Group's operations.

*Generally unfavourable telecommunications market conditions may adversely affect the Group's financial condition and results of operations.*

The telecommunications industry is currently facing unfavourable market conditions, including amongst other factors, the decline in investment in the industry, decline in demand for certain telecommunications products and services, pricing pressures and over-capacity. These conditions, amongst other factors have led to a general decline in share prices for telecommunications companies, including Cable & Wireless. These market conditions have precipitated bankruptcy and insolvency filings by several telecommunications companies. In some cases the Group has outstanding debts with these companies and may not be able to collect all the debts due.

Some telecommunications markets in which the Group operates are in very early stages of development. If unfavourable market conditions prevent some or all of these markets from developing, or if they develop more slowly than Cable & Wireless anticipates, then the Group's results of operations could be materially adversely affected.

*Fluctuations in currency exchange rates may adversely affect the Group's reported results.*

A significant percentage of Cable & Wireless' 2002 and 2003 revenues were generated outside the United Kingdom. Accordingly, the value of those investments and associated revenues will be affected by fluctuation of the pound sterling against the currency in which the investments, financing and revenue is denominated, as reflected in the Group's pound sterling denominated financial statements. The Group carries out foreign exchange hedging operations to manage its exposure in respect of material transactions. To the extent that this hedging activity does not cover the exposure then the Group's results of operations and financial condition may be negatively impacted by currency exchange rate movements.

*The Group may not have or may be unable to obtain sufficient insurance to cover all foreseeable risks.*

As a result of restrictions in global insurance capacity following the events of 11th September, 2001, insurers have imposed certain limitations on the availability of insurance. These limitations affect the ability of the Group to insure adequately against certain catastrophic risks in the manner previously undertaken. Whilst the Group continues to purchase such insurance coverage as is prudent and is commercially available to it, in certain circumstances a particularly severe loss may exceed the limits of available insurance. For example, it cannot fully insure against the risk of a catastrophic hurricane destroying Group assets concentrated in multiple locations in the Caribbean. If a severe loss were to be incurred, it could have a material adverse impact on the Group's business, results of operations and financial condition.

*The activities of the Group's insurance subsidiary may result in material claims.*

Pender Insurance Limited (**Pender**) is the Cable & Wireless Group's wholly owned insurance subsidiary. It was established in the Isle of Man in 1990 to provide insurance to the Cable & Wireless Group and is regulated by the Isle of Man Insurance and Pensions Authority. It provided cover for various types of potential claims against or losses incurred by the Cable & Wireless Group. The cover included, for example, catastrophe cover, property damage, business interruption, professional indemnity and directors' and officers' liability.

Pender is managed by an independent entity which carries on business providing management services to insurers and directed by an independent board. It is also advised by other insurance and reinsurance brokers and service providers in the placing of its cover. Some of its operations were carried out by Cable & Wireless Group personnel under contract to Pender.

During calendar year 1997, Pender began to write policies for other companies connected with the telecommunications industry on a shared limits basis. Pender off-laid some of its exposure under these policies to the insurance market by way of reinsurance. However, Pender retained some exposure itself. Notwithstanding the reinsurance, Pender remains legally liable for all its policies.

As at 31st March, 2003, Pender had 43 policyholders, including Cable & Wireless. Cable & Wireless and certain of the other policyholders established a mutual insurance company for new business from 1st April, 2003. On the basis of advice from its insurance brokers, the Cable & Wireless Group decided itself to purchase insurance from the mutual insurance company for the period commencing 1st April, 2003.

From 1st April, 2003, Pender began running off its old insurance claims and has not taken on any new business for non-Cable & Wireless Group companies since then. Certain of Pender's pre-existing policies with third parties are still current.

The mutual insurance company provides some reinsurance for a number of these policies.

The adverse factors affecting the telecommunications industry, particularly as a result of US securities class actions, have led recently to a significant increase in the seriousness of insurance claims against Pender, testing policy terms and limits. Pender is resisting such insurance claims vigorously, in conjunction where appropriate with its reinsurers, but, as certain of the insurance claims have not yet been fully quantified or substantiated by the claimants, it is not currently practicable to estimate their financial effects.

In the event that Pender is unable to resist these insurance claims successfully and, in those cases where reinsurance exists, its reinsurance cover were to prove inadequate, Pender may be subject to significant liabilities which its assets may not be sufficient to meet. Moreover, there can be no assurance that these arrangements will not have a material adverse effect on the Cable & Wireless Group.

*Future cashflow fluctuations may affect the Group's ability to fund working capital requirements.*

The Group's cashflows are expected to continue to be subject to fluctuations, depending on such factors as timing and size of capital expenditure, cost of property disposals, levels of sales, timing of collection of receivables and supplier terms and conditions. Cable & Wireless continues to have ongoing discussions with its banks and other financial institutions to explore additional financing opportunities and credit and support arrangements.

*Cash generated overseas may not all be available for use by the Group.*

Cable & Wireless currently is able to repatriate most of its surplus cash generated overseas but there is a risk that governments could apply severe restrictions and this could result in the Group seeking further financing.

*Changes in Credit Ratings may impact the Group's future access to cash funding.*

Cable & Wireless currently has a range of financing arrangements in place. Any change in Cable & Wireless' credit ratings could impact Cable & Wireless' interest rates, ability to raise debt, access to the commercial paper market and ability to engage in alternative financing arrangements. Any inability to access adequate financing at an acceptable cost could adversely impact the Group's ability to implement its strategy.

*Volatility in the financial markets may require the Group to provide further cash funding to its pension funds.*

Cable & Wireless currently maintains various defined benefit plans which cover various categories of employees and retirees. The Group's obligations to make contributions to fund benefit obligations under these plans are based on actuarial valuations, which themselves are based on certain assumptions about the long-term operation of the plans, including employee turnover and retirement rates, the performance of the financial markets and interest rates. If the actual operation of the plans differs from the assumptions, additional contributions may be required. The equity markets can be, and recently have been, volatile, and therefore the estimate of future contribution requirements can change significantly in a short period of time. Similarly, changes in interest rates may also impact funding requirements. In a low interest rate environment, the likelihood of required contributions in the future increases. If the Group is required to make significant contributions to fund the defined benefit plans, the reported results could be materially and adversely affected and the cashflow available for other uses may be significantly reduced.

*Dependency on a small number of personnel.*

A small number of key executive officers manage the businesses. In addition, the Group's future success will depend in a large part on its continued ability to attract and retain highly skilled and qualified personnel. The loss of key personnel or an inability to attract personnel of suitable calibre could have a material adverse effect on the business of Cable & Wireless.

*Class Actions may adversely impact the Group's financial condition.*

A number of class actions have been filed against the Group in the United States alleging violations of certain sections of the US Securities and Exchange Act of 1934. In March 2003, the Court consolidated these cases into one action. Cable & Wireless believes it has meritorious defences to these claims and intends to defend itself vigorously but, if the action is upheld by the US courts, it could adversely impact on the Group's financial condition.

In addition, Cable & Wireless is from time to time involved in other litigation, which if decided adversely to the Group could, individually or in the aggregate, adversely impact its financial condition or reputation. Further details of the class action litigation in the United States and other material legal proceedings are set out under "Description of Cable & Wireless – Legal Proceedings".

*Failure to pay a dividend in the future may adversely affect the Group's share price.*

Cable & Wireless has announced that there will be no final dividend for 2003 and no interim dividend declared for 2004. Failure to pay a dividend in the future may adversely affect the Group's share price.

**Competitive position risks – external competitive pressures**

*The Group's operations could suffer from adverse effects of competition and price pressures on the demand for products and services.*

The Group faces competition and downward pressure on prices in many areas and markets of its business. The Group's competitors may be able to expand their network infrastructures and service offerings more quickly than the Group. In addition, some competitors have entered and will likely continue to enter into joint ventures or alliances to provide additional services against which the Group may be unable to compete. The Group also believes the sector may experience consolidation in the near future, which could result, amongst other things, in further competition that would make it more difficult for Cable & Wireless to compete effectively.

As the markets for some of the Group's services expand in certain locations, additional competition may emerge and existing competitors may commit more resources to the markets in which it participates. For example, governments in various countries in which the Group provides telecommunications services, in some cases on an exclusive basis and in others where it until recently provided services on an exclusive basis, have begun liberalising the telecommunications industry by introducing regulated competitive markets for some products and services in place of exclusive licences. The Group may lose market share to some of the competitors entering the market as a result of this transformation and its operating results and revenues may be adversely affected.

*Competitors of Cable & Wireless may gain competitive advantage by successfully completing a restructuring or bankruptcy reorganisation process.*

Certain of the Group's competitors in the United States have filed for bankruptcy or Chapter 11 protection. There is a possibility that such competitors will emerge from their restructuring with a significantly lower cost base than Cable & Wireless and be able to compete more effectively than the Group. This could result in the Group losing market share which could in turn negatively impact the Group's financial condition and results of operations.

In addition, given its own recent losses, the Group may lose customers to competitors if the customers have significant concerns over the future financial strengths and strategy of the Group.

*Continued overcapacity and other factors could lead to lower prices for the Group's products and services.*

The transatlantic, pan-European and US markets are all currently experiencing considerable levels of overcapacity.

Overcapacity coupled with lower than expected levels of demand growth contributed to a severe price decline in these markets. This in turn resulted in many network operators becoming financially distressed and filing for bankruptcy or Chapter 11 protection. This could compel the Group to lower prices to prevent erosion of its market share or to continue attracting new customers. If the Group is forced to lower its prices the financial condition and results of operations may be adversely affected. In addition, if the Group is unable to sufficiently reduce its costs, for example because it is obliged to honour existing contracts containing commercial terms which are onerous in the context of current market conditions, this too may materially adversely affect the Group's business, financial condition and results of operations.

In addition, the Group may lose business to its competitors if they offer contract terms to customers which the Group is unable to match.

If the current overcapacity situation is not resolved or worsens, prices may continue to decline in the affected regions and such price decline could have a material adverse effect on the Group's operations.

**Competitive position risks – internal competitive pressures**

*Cable & Wireless depends on the ability to achieve cost-savings to respond to industry and market conditions.*

The Group continues to restructure its business to realign resources and achieve desired cost savings. The Group has based its restructuring efforts on certain assumptions regarding the cost structure of its business and the nature, severity and duration of the industry downturn which may or may not be correct. The Group must be able to successfully implement its work plan and refine, expand or extend it if necessary, if it is to reduce its cost structure appropriately to respond to changing market conditions. The restructuring efforts may not be sufficient to achieve profitability and meet the changes in industry and market conditions.

While restructuring, the Group has made, and will continue to make, judgements as to whether it should further reduce its workforce or exit, or dispose of, certain businesses. These workforce reductions may impair its ability to achieve its current or future business objectives.

Costs incurred in connection with restructuring efforts may be higher than estimated. Any decision by management to further limit investment or exit, or dispose of, businesses may result in the recording of additional charges or adversely impact the Group's ability to meet its current or future business objectives. As a result, the costs actually incurred in connection with the restructuring efforts may be higher than originally planned and may not lead to the anticipated cost savings and a return to profitability.

**Changes in future technology**

*The Group may not be able to adapt adequately to technological changes in communication and information technology.*

The telecommunications industry is subject to rapid and significant changes in technology. The development of new technologies could render its current services obsolete and non-competitive and require the Group to write-down the book values of investments it has made in existing technologies. The Group's business plan contemplates the introduction of services using new technologies and it may have to make substantial additional investments in new technologies in order to remain competitive. New technologies that it chooses to acquire may not prove to be successful, and the cost of implementation for emerging and future technologies could be significant and constitute a negative return on the investment. In addition, Cable & Wireless may not receive the necessary licences to provide services based on new technologies in jurisdictions in which it operates. It may also be forced to change its product and service offerings or pay higher costs if the third-party technology that it employs changes or if the price of such technology increases. As a result, the Group could lose customers, fail to attract new customers or incur substantial costs to maintain its customer base. Any such occurrence could have a material adverse effect on the Group's financial results.

*The Group's results depend on the introduction of appropriate new products and services as the industry undergoes rapid changes.*

All sectors in which Cable & Wireless operates are characterised by changing customer demand for new products and services as new technologies become available.

If the new products and services that the Group develops and implements do not meet the demands of its existing and target customers, then the Group may not be able to recover its costs in developing such new products and services and it may lose market share. This could result in a material adverse effect on the Group's financial results.

**Service delivery**

*Exposure to other telecommunications operators and the behaviour of other market participants may have a detrimental effect on the Group's operations.*

The Group's operations in some countries are dependent upon access to networks that it does not own or entirely control, including networks controlled by current or former government-owned public telecommunications operators. Cable & Wireless' operations depend on these network operators to provide interconnection services for the origination and/or termination of some of its telecommunications services.

The Group has experienced interconnection capacity shortages in the past, and it may do so again if it is unable to obtain and maintain the necessary interconnection and other transmission services in a timely fashion and on acceptable commercial terms in each country in which it intends to introduce or continue to offer its telecommunications services. The Group may also be subject to the constraints, including financial constraints, of the relevant network operator, which may be unable to provide any or all of the capacity that the Group requests. If it cannot obtain the capacity it requires to adequately serve all of its existing customers or to connect all of its potential new customers, the Group may lose them to its competitors. All of this could adversely affect the Group's business, financial condition and results of operations.

As part of the development of the Cable & Wireless network, some Group companies have acquired Indefeasible Rights of Use (**IRU's**) from a number of carriers including Global Crossing, Level 3, Qwest, WorldCom and Flag Financial Corporation. An IRU gives the purchaser a guaranteed right to use the network asset (cable, fibre or wavelength) over a contractual period. A number of the IRU providers have filed for Chapter 11 (or similar bankruptcy protection) or are in financial difficulty. The risk to the Group is that such a company may not be obliged or may be unable to continue to honour its agreement to grant the exclusive right of use to the Group (even if that grant is already effected) or to maintain the asset in which the IRU resides. If this occurs then there can be no assurance that Cable & Wireless will be able to find alternative providers and that the provision of network will be on the same terms as before. As a result, the business, financial condition or results of operations of the Group may be adversely affected.

*Catastrophic network failure may expose the Group to potential liability.*

The Group's network uses a collection of communications equipment, software, operating protocols and proprietary applications for the high-speed transportation of large quantities of data between multiple locations. The Group also operates national and international voice networks. Catastrophic network failure or a major network interruption may occur as a result of natural disasters, a loss of a major element of the network, security breaches, terrorist action or computer viruses. These failures or interruptions could cause delays or service interruptions and could expose the Group to claims from customers or could require expensive repairs or modifications, any of which could have a material adverse effect on the Group's business.

*The Group may lose revenue if unlicensed operators are able to gain access to the Group's network undetected.*

In certain markets where the Group operates it suffers from revenue leakage where operators gain illegal access to its network. The Group takes considerable action to identify and prevent such occurrences, but the level of actions available to it may be limited by local regulation. To the extent that the Group's efforts are not wholly successful, it may lose revenue and the Group's financial performance be adversely impacted.

**Other risks**

*The Group is reliant on third parties for certain activities under outsourcing contracts. Failure of those third parties to provide the contracted services may expose the Group to additional cost and liability.*

The Group has outsourced a number of support activities to third parties, including the provision of certain IT services in the United Kingdom and United States. In the event that the outsourcing company fails to deliver the contracted services, the Group may incur additional costs as it attempts to find an alternate supplier and its financial results might be adversely impacted. On 6th June, 2003, the Group gave notice of termination under its outsourcing contract with IBM (see "Description of Cable & Wireless – Legal Proceedings"). In the event that transferring the activities outsourced to IBM to an alternative supplier (or to the Group itself) is more difficult than the Group anticipates it may incur additional costs and its financial results and operations might be adversely impacted.

*The Group is dependent on a number of critical IT systems to be able to conduct its business and process financial information.*

In carrying out its business, the Group is dependent on the availability and reliability of a number of IT systems. In the event that any of these systems fail and disaster recovery and business continuity plans are ineffective, the Group may be exposed to additional costs and liabilities. In addition, many of these IT systems, such as billing, are legacy systems that operate on different platforms. The Group may be exposed to additional costs and liabilities in endeavouring to upgrade or integrate systems and may sustain costs or liabilities as a result of the inefficiencies posed by having multiple systems that in some instances cannot be readily reconciled.

*Mobile communications devices may pose health risks.*

Media reports have suggested that radio frequency emissions from mobile telephone handsets and transmission facilities may pose various health risks, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies into the health risks posed by mobile telephone handsets and transmission facilities are ongoing. Cable & Wireless provides mobile services principally in the Caribbean, Panama and Macau and also provides national and international network capacity to mobile operators. Cable & Wireless continues to monitor scientific and medical research and studies, media, legal, regulatory and other developments, as well as the public perception of risk arising from the use of mobile telephone handsets. Scientific research on mobile telephone handsets and health has been reviewed by a number of independent expert scientific panels. None of these panels has concluded that the use of mobile telephone handsets is harmful to health.

Nonetheless, increased speculation regarding health risks associated with mobile telephone handsets and transmission facilities or any subsequent substantiation of such risks could have a material adverse effect on the Group's business including through:

- a reduction in the number of actual and potential customers;
- reduced usage per customer;
- exposure to potential litigation or other liability;
- regulatory intervention and new legislation; or
- exposure to adverse publicity and damage to reputation.

## CONSIDERATIONS RELATING TO THE BONDS

**Bondholders have no shareholder rights before conversion**

An investor in a Bond will not be a shareholder in the Issuer. No Bondholder will have any voting rights, any right to receive dividends or other distributions or any other rights with respect to any Ordinary Shares until such time, if any, as he or she converts his or her Bond and becomes registered as the holder thereof.

**The Bonds may not have an active trading market**

The Bonds have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although it is expected that the Bonds will be admitted to the Official List of the UK Listing Authority and traded on the London Stock Exchange on or after the Issue Date, there may be little or no secondary market for the Bonds. Even if a secondary market for the Bond develops, it may not provide significant liquidity and it is expected that transaction costs in any secondary market may be high. As a result, the difference between bid and ask prices for the Bonds in any secondary market could be substantial.

### Volatility of the market for the Bonds and the Ordinary Shares

The market prices of the Ordinary Shares have been subject to volatility and fluctuations in the market price of the Ordinary Shares may affect the market price of the Bonds. The market price of the Bonds and the Ordinary Shares could be subject to wide fluctuations in response to numerous factors, many of which are beyond the control of the Issuer. These factors include, among other things, actual or anticipated variations in operating results, earnings releases by the Group and its competitors, changes in financial estimates by securities analysts, market conditions in the industry and the general state of the securities markets, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as recessions.

### No tax gross-up

The Issuer is not obliged to make any additional payments to Bondholders in the event that any amount is required to be withheld or deducted for or on account of any present or future taxes or duties of whatever nature from any payment made in respect of the Bonds. Neither the Issuer nor the Bondholders has any right to require redemption of the Bonds in the event of such a withholding or deduction. See Condition 8.

## TERMS AND CONDITIONS OF THE BONDS

*The following, subject to amendment and save for the italicised text, are the Terms and Conditions of the Bonds, substantially as they will appear in the trust deed constituting the Bonds.*

The issue of the £257,714,000 4.00 per cent. Convertible Bonds due 2010 (the **Bonds**, which expression shall include any further bonds issued pursuant to Condition 18 and consolidated and forming a single series therewith) was authorised by a resolution of the Board of Directors of Cable and Wireless plc (the **Issuer**) passed on 13th June, 2003 and by a resolution of a committee of the Board of Directors of the Issuer passed on 15th June, 2003. The Bonds are constituted by a trust deed dated 16th July, 2003 (the **Trust Deed**) between the Issuer and Capita IRG Trustees Limited (the **Trustee**, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds.

The statements set out in these Terms and Conditions (the **Conditions**) are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Bonds in both global and definitive form. The Bondholders and Couponholders (each as defined below) are entitled to the benefit of, and are bound by, and deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying and Conversion Agency Agreement dated 16th July, 2003 (the **Agency Agreement**) relating to the Bonds between the Issuer, the Trustee, JPMorgan Chase Bank (the **Principal Paying and Conversion Agent**, which expression shall include any successor as Principal Paying and Conversion Agent under the Agency Agreement), the paying and conversion agents for the time being (such persons, together with the Principal Paying and Conversion Agent, being referred to below as the **Paying and Conversion Agents**, which expression shall include their successors as Paying and Conversion Agents under the Agency Agreement) and any other paying agent (each a **Paying Agent**) appointed under these Conditions. Copies of each of the Trust Deed and the Agency Agreement are available for inspection at the principal office for the time being of the Trustee (being at the date of issue hereof at Guildhall House, 81/87 Gresham Street, London EC2V 7QE), and at the specified offices of the Paying and Conversion Agents.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

### 1. Form, Denomination and Title

(a) *Form*

The Bonds are in bearer form in the denomination of £1,000 with interest coupons (**Coupons**) attached. Each Bond will entitle the holder to convert such Bond into ordinary registered shares in the share capital of the Issuer (**Ordinary Shares**) as described in Condition 5.

(b) *Title*

Title to the Bonds and the Coupons will pass by delivery. The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss).

### 2. Status

The Bonds and Coupons constitute direct, unconditional and (subject to the provisions of Condition 10) unsecured obligations of the Issuer and (subject as aforesaid) shall at all times rank *pari passu* and 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. Definitions

In these Conditions:

**Auditors** means the auditors for the time being of the Issuer or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to the Trust Deed or these Conditions, such other firm of auditors or financial advisers as the Issuer may select and the Trustee may in writing approve (such approval not to be unreasonably withheld or delayed) for the purpose or, failing selection by the Issuer, as the Trustee may select for the purpose.

**Bondholder** and **holder** mean the holder of any Bond.

**business day** has the meaning provided in Condition 5(a).

**Capital Distribution** has the meaning provided in Condition 5(b)(iii).

**Cash Alternative Amount** means an amount calculated in accordance with the following formula and which shall be payable to a Bondholder or, as the case may be, the Trustee pursuant to Condition 5(k) upon an exercise of a Conversion Right, if a Cash Alternative Election has been made and not revoked and is applicable to such exercise:

$$CAA = \sum_{n=1}^{N} \frac{1}{8} \text{ x } S \text{ x } P_n$$

where:

| | | |
|---|---|---|
| CAA | = | the Cash Alternative Amount; |
| S | = | the number of Ordinary Shares (including, for this purpose, any fraction of an Ordinary Share) to which the relevant Bondholder, or as the case may be, the Trustee, would have been entitled upon exercise of the Conversion Right had a Cash Alternative Election not been in effect on the relevant Conversion Date; |
| $P_n$ | = | the Volume Weighted Average Price of an Ordinary Share on the nth dealing day of the Cash Alternative Calculation Period; and |
| N | = | the number of dealing days in the Cash Alternative Calculation Period. |

**Cash Alternative Calculation Period** means the period of eight consecutive dealing days commencing on the relevant Conversion Date (or the next dealing day if such date is not a dealing day).

**Cash Alternative Election** has the meaning provided in Condition 5(i).

**Cash Alternative Election Notice** has the meaning provided in Condition 5(i).

**Cash Averaging Date** means the fifth dealing day after the date falling two business days in London following the relevant Conversion Date (as defined in Condition 5(j)).

**Cash Collateral** means any one or more of:

(i) security or another similar right, in a form acceptable to the Trustee, over pounds sterling cash;

(ii) a pounds sterling guarantee of the Bonds by a bank of Investment Grade, such guarantee being on terms acceptable to the Trustee; and

(iii) a pounds sterling letter of credit issued by a bank of Investment Grade, such letter of credit being on terms acceptable to the Trustee.

**Cash Election Date** has the meaning provided in Condition 5(i).

**Cash Payment Date** means the date falling five dealing days after the relevant Cash Averaging Date.

**Cash Settled Amount** means, in respect of each £1,000 principal amount of Bonds in respect of which Conversion Rights are exercised, £336 (representing 231.724 Ordinary Shares at the initial Conversion Price), or such lesser amount pursuant to any notice given by the Issuer as provided in Condition 5(a) provided that the aggregate of the Cash Settled Amount and the Conversion Amount in respect of each £1,000 principal amount of Bonds shall equal £1,000.

**Closing Date** has the meaning provided in Condition 4(a).

**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 Condition 10(a)(ii) or Condition 10(b).

**Condition 9 Event** means an event or act falling within any of paragraphs (c) to (f) (inclusive) of Condition 9 and, in relation to Condition 9(c), satisfying (when aggregated in accordance with the provisions of the final paragraph thereof, if appropriate) the requirement as to minimum amount of the final paragraph thereof (save that, in relation to Condition 10(b), solely the indebtedness, guarantees, indemnities and Security Interests (as defined in Condition 9) 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).

**Conversion Amount** means, in respect of each £1,000 principal amount of Bonds in respect of which Conversion Rights are exercised, £664 (representing 457.930 Ordinary Shares at the initial Conversion Price), or such greater amount pursuant to any notice given by the Issuer as provided in Condition 5(a) provided that the aggregate of the Cash Settled Amount and the Conversion Amount in respect of each £1,000 principal amount of Bonds shall equal £1,000.

**Conversion Date** has the meaning provided in Condition 5(j).

**Conversion Notice** has the meaning provided in Condition 5(j).

**Conversion Period** has the meaning provided in Condition 5(a).

**Conversion Price** has the meaning provided in Condition 5(a).

**Conversion Right** has the meaning provided in Condition 5(a).

**Couponholder** means the holder of any Coupon.

**Coupons** has the meaning provided in Condition 1(a).

**Current Market Price** has the meaning provided in Condition 5(b).

**dealing day** has the meaning provided in Condition 5(b).

**Dividend** has the meaning provided in Condition 5(b).

**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 member of the 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 (as defined in the Trust Deed) 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 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.

**Fair Market Value** has the meaning provided in Condition 5(b).

**Final Maturity Date** means 16th July, 2010.

**Group** means the Issuer and its Subsidiaries and affiliates taken as a whole.

**Independent Financial Adviser** means an investment bank or bank of international repute appointed by the Issuer for the relevant purpose and approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed) and acting as an expert.

**Interest Payment Date** has the meaning provided in Condition 4(a).

**Interest Period** has the meaning provided in Condition 4(a).

**Investment Grade** means a rating of at least BBB- (or the equivalent thereof), in the case of a rating by Standard & Poors Ratings Services, a Division of the McGraw-Hill Companies Inc. (**Standard & Poor's**), and a rating of at least Baa3 (or the equivalent thereof), in the case of a rating by Moody's Investors Service Limited (**Moody's**).

**Newco Scheme** has the meaning provided in Condition 5(b)(x).

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

(i) debt securities issued by the Government of the United Kingdom which have a maturity date which is not later than the Final Maturity Date;

(ii) other Investment Grade debt securities which have a maturity date which is not later than the Final Maturity Date;

(iii) freehold land in the United Kingdom;

(iv) leasehold land in the United Kingdom with a minimum term expiring not earlier than 21 years from (and including) the Final Maturity Date;

(v) shares of any United Kingdom company traded on the London Stock Exchange plc and forming part of the FTSE 100 Index;

(vi) shares of any Subsidiary of the Issuer listed or traded on a Recognised Stock Exchange; and

(vii) any other asset of the Issuer acceptable to the Trustee having regard to the advice of an Independent Financial Adviser;

*provided that*, if at any time when Non-cash Collateral comprises such shares as are mentioned in sub-paragraphs (v) and (vi) and such shares cease to be traded on the London Stock Exchange plc or to form part of the FTSE 100 Index or to be listed or traded on a Recognised Stock Exchange, as the case may be, or such debt securities as are mentioned in sub-paragraph (ii) and Standard & Poor's or Moody's lowers the rating of such debt securities to below Investment Grade or ceases to rate such debt securities, the Issuer or any of the Issuer's 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 Condition 10(g).

**Notice of Revocation** has the meaning provided in Condition 5(i).

**Optional Redemption Date** has the meaning provided in Condition 6(b).

**Optional Redemption Notice** has the meaning provided in Condition 6(b).

**Ordinary Shares** has the meaning provided in Condition 1(a).

**Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

**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 (as adjusted for the purposes of consolidation in the latest audited consolidated accounts of the Issuer) comprising the audited results of the Subsidiary and its Subsidiaries (without the Auditors or the auditors for the time being of the relevant Subsidiary being under any obligation to audit such consolidated accounts) 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 Issuer and its subsidiary undertakings 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 certificate of two Authorised Signatories (as defined in the Trust Deed) 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 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.

**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 Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:

(i) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from such assets for installations; and/or

(ii) 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 (A) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (B) 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

(iii) recourse to such borrower generally, or directly or indirectly to a member of the 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.

**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 United Kingdom Income and Corporation Taxes Act 1988.

**Redemption Price** has the meaning provided in Condition 5(a).

**Reference Shares** means the number of Ordinary Shares (including any fraction of an Ordinary Share) determined by dividing the Cash Settled Amount by the Conversion Price on the relevant Conversion Date.

**Relevant Date** means the date on which payment first becomes due but, if the full amount of the money has not been received by the Principal Paying and Conversion 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 17.

**Relevant Event** has the meaning provided in Condition 5(b)(x).

**Relevant Value** means:

(i) in the case of cash, the principal amount thereof (if in pounds sterling or, if not, its pounds sterling equivalent);

(ii) in the case of guarantees or letters of credit, the amount (if in pounds sterling or, if not, its pounds sterling equivalent), specified to be payable thereunder;

(iii) in the case of freehold or leasehold land, the market value thereof as determined by the relevant Independent Financial Adviser (if in pounds sterling or, if not, its pounds sterling equivalent);

(iv) in the case of debt securities issued by the Government of the United Kingdom, other Investment Grade debt securities, shares in a United Kingdom company or shares in any Subsidiary of the Issuer, the market value thereof as determined by the relevant Independent Financial Adviser (if in pounds sterling or, if not, its pounds sterling equivalent); and

(v) in the case of any other asset, such value in pounds sterling as may be agreed with the Trustee, having regard to the advice of the relevant Independent Financial Adviser.

**Revocation Date** has the meaning provided in Condition 5(i).

**Security Event** means:

(i) 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

(ii) 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

(iii) 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

(iv) 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 (i) to (iii) 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.

**securities** includes, without limitation, shares in the capital of the Issuer or options, warrants or other rights to subscribe for or purchase shares in the capital of the Issuer.

**Shareholders** has the meaning provided in Condition 5(b)(ii).

**Subsidiary** means a subsidiary within the meaning of Section 736 of the Companies Act 1985, as amended by the Companies Act 1989.

**Unexercised Bonds** has the meaning given in Condition 5(k).

**Volume Weighted Average Price** means, in respect of an Ordinary Share on any dealing day, the order book volume-weighted average price of an Ordinary Share appearing on or derived from Reuters page CW.L (or such other source as shall be determined to be appropriate by an independent investment bank selected by the Issuer and approved in writing by the Trustee) on such dealing day, provided that:

(i) if, on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined; and

(ii) if any dividend or other entitlement in respect of the Ordinary Shares is announced on or prior to the relevant Conversion Date in circumstances where the Record Date or other due date for the establishment of entitlement in respect of such dividend or other entitlement shall be on or after the relevant Conversion Date and if on such dealing day the price determined as provided above is based on a price ex-dividend or ex-any other entitlement, then such price shall be increased by an amount equal to the amount of any such dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) as at the date of announcement of such entitlement or dividend per Ordinary Share (excluding, in the case of a dividend in cash, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom).

References to any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References in these Conditions to the principal amount of any Bond shall be to the face value (being £1,000) of that Bond.

For the purposes of Conditions 5 and 11 only, (a) references to the "issue" of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares by the Issuer or any of its Subsidiaries, whether newly issued and allotted or previously existing, and (b) Ordinary Shares held by the Issuer or any of its Subsidiaries shall not be considered as or treated as "in issue".

## 4. Interest

(a) *Interest Rate*

The Bonds bear interest from and including 16th July, 2003 (the **Closing Date**) at the rate of 4.00 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in equal instalments in arrear on 16th January and 16th July in each year (each an **Interest Payment Date**), commencing on 16th January, 2004. The amount of interest payable in respect of any period which is not an Interest Period shall be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Closing Date) to (but excluding) the next Interest Payment Date. **Interest Period** means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

(b) *Accrual of Interest*

Each Bond will cease to bear interest: (i) where the Conversion Right shall have been exercised by a Bondholder, or by the Trustee pursuant to Condition 5(k), from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Closing Date (subject in any such case as provided in Condition 5(m)); or (ii) from the due date for redemption thereof unless, upon due presentation of the relevant Bond, payment of principal is improperly withheld or refused and in such event such Bond shall continue to bear interest (both before and after judgment) as provided in the Trust Deed.

## 5. Conversion of Bonds into Ordinary Shares

(a) *Conversion Period and Conversion Price*

Subject to the right of the Issuer to make a Cash Alternative Election under Condition 5(i), each Bond shall entitle the holder (such right a **Conversion Right**): (i) to convert the Conversion Amount (as at the relevant Conversion Date) of such Bond into Ordinary Shares, credited as fully paid; and (ii) to have redeemed the Cash Settled Amount (as at the relevant Conversion Date) of such Bond at the arithmetic average of the Volume Weighted Average Prices of the Reference Shares for the five dealing day period commencing on the date falling two business days in London following the relevant Conversion Date (the **Redemption Price**). A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond to the specified office of any Paying and Conversion Agent in accordance with Condition 5(j), subject to any Cash Alternative Election being in effect, whereupon the Issuer shall issue to the Bondholder Ordinary Shares credited as paid up in full as provided in this Condition 5 and shall pay the Redemption Price. Subject to, and upon compliance with, the provisions of these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from 26th August, 2003 to the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling six days prior to the Final Maturity Date (both days inclusive) or, if the Bonds shall have been called for redemption pursuant to Condition 6(b) prior to the Final Maturity Date, then up to the close of business (at the place aforesaid) on the sixth day before the date fixed for redemption thereof, unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right shall extend (unless already exercised by the Trustee pursuant to Condition 5(k)) up to the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 17 or, if earlier, the Final Maturity Date; provided that in each case if the final such date for the exercise of Conversion Rights is not a business day at the place aforesaid then the period for exercise of the Conversion Right by Bondholders shall end on the immediately preceding business day at the place aforesaid. The period during which Conversion Rights may be exercised by a Bondholder is referred to as the **Conversion Period**. As used in these Conditions with respect to any place, **business day** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business in such place.

A Conversion Right may not be exercised following the giving of notice by the Trustee pursuant to Condition 9.

The Issuer may at any time and from time to time by notice to the Bondholders and the Trustee in accordance with Condition 17, on and with effect from the date specified in such notice, not being earlier than the date seven days after the date on which such notice is given, increase the Conversion Amount by an amount specified in such notice and reduce the Cash Settled Amount by an equal amount.

The Redemption Price shall be paid not later than the Cash Payment Date by a pounds sterling cheque drawn on, or by transfer to, a pounds sterling account maintained with a bank in London in accordance with instructions contained in the relevant Conversion Notice or, in the case of the exercise of Conversion Rights by the Trustee, in accordance with instructions given by the Trustee.

Conversion Rights may be exercised by the Trustee subject to, and during the period described in, Condition 5(k).

The number of Ordinary Shares to be issued on exercise of a Conversion Right shall be determined by dividing the Conversion Amount of the relevant Bond by the conversion price (the **Conversion Price**) in effect on the relevant Conversion Date. Notwithstanding the above, if Conversion Rights are exercised in respect of the Bonds in circumstances where the Conversion Price is determined as provided in Condition 5(b)(x), then the relevant holder (or, as the case may be, the Trustee) will not be entitled to receive that number of Ordinary Shares (the **Excess Ordinary Shares**) in excess of the number of Ordinary Shares it would be entitled to receive if the Conversion Price had not been adjusted as provided in Condition 5(b)(x) and in lieu thereof shall be entitled to receive the Cash Alternative Amount determined (i) as if a Cash Alternative Election had been made and not revoked and was applicable to such exercise of Conversion Rights and (ii) as if "S" in the formula set out in the definition of Cash Alternative Amount referred to the Excess Ordinary Shares (including, for this purpose, any fraction of an Ordinary Share to which the relevant holder or, as the case may be, the Trustee would otherwise have been entitled to receive). Such Cash Alternative Amount shall be payable as provided in Condition 5(i). The initial Conversion Price is £1.45 per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in Condition 5(b).

Fractions of Ordinary Shares will not be issued on conversion and no cash payment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be issued on conversion are to be registered in the same name, the number of such Ordinary Shares to be issued in respect thereof shall be calculated on the basis of the Conversion Amount of the aggregate principal amount of such Bonds being so converted. Where the Trustee shall have exercised Conversion Rights pursuant to Condition 5(k), all relevant Bonds in respect of which Conversion Rights are exercised shall, for the purpose of this paragraph, be deemed to be held by one person.

The Issuer will procure that Ordinary Shares to be issued on conversion will be issued to the holder of the Bonds completing the relevant Conversion Notice or his nominee or, where Conversion Rights have been exercised by the Trustee pursuant to Condition 5(k), the Trustee on behalf of the relevant Bondholders or any person nominated by it. Such Ordinary Shares will be deemed to be issued as of the relevant Conversion Date.

(b) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

(i) If and whenever there shall be an alteration to the nominal value of the Ordinary Shares as a result of consolidation or subdivision, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Ordinary Share immediately after such alteration; and

B is the nominal amount of one Ordinary Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the holders of Ordinary Shares (the **Shareholders**) by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than any such Ordinary Shares issued instead of the whole or part of a cash dividend which the Shareholders concerned would or could otherwise have received, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Ordinary Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Ordinary Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(iii) If and whenever the Issuer shall pay or make any Capital Distribution (as defined below) to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Capital Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price (as defined below) of one Ordinary Share on the dealing day immediately preceding the date on which the Ordinary Shares are traded on the London Stock Exchange ex- the relevant Capital Distribution; and

B is the portion of the Fair Market Value (as defined below) (as determined as at the date of announcement of the relevant Dividend) of the Capital Distribution attributable to one Ordinary Share.

Such adjustment shall become effective on the date on which such Capital Distribution is made.

As used in this Condition 5(b):

**Capital Distribution** means:

(a) any Dividend which is expressed by the Issuer or declared by the Board of Directors of the Issuer to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to shareholders of the Issuer or any analogous or similar term, in which case the Capital Distribution shall be the Fair Market Value of such Dividend; or

(b) any Dividend which, when taken together with all other Dividends (other than any Dividend or portion thereof deemed to be a Capital Distribution) made in respect of the same fiscal year as such Dividend, exceeds 5 per cent. of the Fair Market Value of an Ordinary Share on the date immediately preceding the announcement of such Dividend multiplied by the number of Ordinary Shares in issue on such date. In such case, the Capital Distribution shall be the amount by which such Dividend, when taken together with all other Dividends as aforesaid, exceeds 5 per cent. of the Fair Market Value of an Ordinary Share multiplied by the number of Ordinary Shares in issue as aforesaid.

In making any such calculation, such adjustments (if any) shall be made as an Independent Financial Adviser may consider appropriate to reflect any consolidation or subdivision of any Ordinary Shares or the issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

**Dividend** means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation an issue of shares or other securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

(a) where a cash Dividend is announced which is to be, or may at the election of a holder or holders of Ordinary Shares be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, then, for the purposes of the above definition, the Dividend in question shall be treated as a Dividend of (i) the cash Dividend so announced or (ii) the Fair Market Value, on the date of announcement of such Dividend, of the Ordinary Shares or other property or assets to be issued or delivered in satisfaction of such Dividend (or which would be issued if all holders of Ordinary Shares elected therefor, regardless of whether any such election is made) if the Fair Market Value of such Ordinary Shares or other property or assets is greater than the Fair Market Value of the cash Dividend so announced;

(b) any issue of Ordinary Shares falling within Condition 5(b)(ii) shall be disregarded; and

(c) a purchase or redemption of share capital by the Issuer shall not constitute a Dividend unless in the case of purchases of Ordinary Shares by or on behalf of the Issuer, the Volume Weighted Average Price per Ordinary Share (before expenses) on any one day in respect of such purchases exceeds by more than 5 per cent. the closing price of the Ordinary Shares on the London Stock Exchange on the immediately preceding dealing day as derived from the Daily Official List of the London Stock Exchange at the opening of business either: (1) on that day, or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of Shareholders of the Issuer or any notice convening such a meeting of Shareholders) has been made of the intention to purchase Ordinary Shares at some future date at a specified price, on the dealing day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a dealing day, the immediately preceding dealing day, in which case such purchase shall be deemed to constitute a Dividend to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased by the Issuer exceeds the product of: (i) 105 per cent. of the closing price of the Ordinary Shares determined as aforesaid; and (ii) the number of Ordinary Shares so purchased.

**Fair Market Value** means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that: (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded, or such shorter period as such options, warrants or other rights are publicly traded; and (iv) in the case of (i) converted into sterling (if declared or paid in a currency other than sterling) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid the cash Dividend in sterling; and in the case of (ii) and (iii) converted into sterling (if expressed in a currency other than sterling) at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).

(iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of the issue or grant of such Ordinary Shares, options, warrants or other rights, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before such announcement;

B is the number of Ordinary Shares which the aggregate amount (if any) payable for the Ordinary Shares issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares comprised therein would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the London Stock Exchange.

(v) If and whenever the Issuer shall issue any securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the first date on which the terms of such issue or grant are publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the London Stock Exchange.

(vi) If and whenever the Issuer shall issue (otherwise than as mentioned in sub-paragraph (iv) above) wholly for cash any Ordinary Shares (other than Ordinary Shares issued on the exercise of Conversion Rights or on the exercise of any rights of conversion into, or exchange or subscription for, Ordinary Shares), or grant (otherwise than as mentioned in paragraph (iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall include any further bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day immediately preceding the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such additional Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such additional Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued pursuant to such issue of such additional Ordinary Shares or upon exercise of such options, warrants or rights.

Such adjustment shall become effective on the date of issue of such additional Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity (otherwise than as mentioned in paragraphs (iv), (v) or (vi) above) shall issue wholly for cash or for no consideration any securities (other than the Bonds, which term for this purpose excludes any further bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares issued or to be issued by the Issuer (or shall grant any such rights in respect of existing securities so issued) or securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day last preceding the date of the first public announcement of the terms of issue of such securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue (or grant) by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued by the Issuer for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such securities or, as the case may be, for the

Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares to be issued or to arise from any such redesignation,

provided that if at the time of issue of the relevant securities or date of grant of such rights (the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such securities are redesignated or at such other time as may be provided) then for the purposes of this paragraph (vii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue or grant of such securities.

(viii) if and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities (other than the Bonds and any further bonds issued pursuant to Condition 18 and consolidated and forming a single series therewith) as are mentioned in paragraph (vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such securities) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the dealing day last preceding the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued by the Issuer for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an investment bank or Independent Financial Adviser shall consider appropriate for any previous adjustment under this paragraph or paragraph (vii) above,

provided that if at the time of such modification (the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such securities are converted or exchanged or rights of subscription are exercised or at such other time as may be provided) then for the purposes of this paragraph (viii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange or subscription had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

(ix) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall offer any securities in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraph (iv) above (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under paragraph (v) above) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the dealing day immediately preceding the date on which the terms of such offer are publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights on the London Stock Exchange.

(x) If an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associate of the offeror (as defined in Section 430E(4) of the Companies Act 1985)), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme (as defined below)) and (such offer or scheme having become or been declared unconditional in all respects) the Issuer becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in the offeror and/or such associate as aforesaid (a **Relevant Event**), the Conversion Price shall be adjusted as set out below (but in each case adjusted, if appropriate, proportionately on each adjustment to the Conversion Price under the foregoing provisions of this Condition 5(b) and Condition 5(b)(xi) below), provided that any adjustment to the Conversion Price pursuant to this Condition 5(b)(x) shall only apply to Bonds in respect of which Conversion Rights are duly exercised and the Conversion Date falls within 60 calendar days following the occurrence of the Relevant Event giving rise to the adjustment, or, if later, 60 calendar days following the date on which notice of such Relevant Event is given to Bondholders by or on behalf of the Issuer:

| **Conversion Date** | **Conversion Price** |
|---|---|
| | **(pence)** |
| On or before 16th July, 2004 | £1.09 |
| Thereafter, but on or before 16th July, 2005 | £1.16 |
| Thereafter, but on or before 16th July, 2006 | £1.23 |
| Thereafter, but on or before 16th July, 2007 | £1.31 |
| Thereafter | £1.38 |

As used in these Conditions, **Newco Scheme** means a scheme of arrangement which effects the interposition of a limited liability company (**Newco**) between the Shareholders of the Issuer immediately prior to the scheme of arrangement (the **Existing Shareholders**) and the Issuer; provided that immediately after completion of the scheme of arrangement the Existing Shareholders are the only shareholders of Newco and that all Subsidiaries of the Issuer immediately prior to the scheme of arrangement (other than Newco if Newco is then a Subsidiary of the Issuer) of the Issuer are Subsidiaries of the Issuer (or of Newco) immediately after the scheme of arrangement and immediately after completion of the scheme of arrangement Newco is substituted under the Bonds and the Trust Deed in place of the Issuer in accordance with the Trust Deed and such other adjustments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into shares in Newco.

(xi) If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to above in this Condition 5(b) (even if the relevant event or circumstance is specifically excluded from the operation of sub-paragraphs (i) to (x) above), the Issuer shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the

Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 5(b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant event or circumstance arises.

(xii) For the purpose of any calculation of the consideration receivable pursuant to Condition 5(b)(vi), (vii) and (viii), the following provisions shall apply:

(a) the aggregate consideration receivable for Ordinary Shares issued for cash shall be the amount of such cash provided that in no case shall any deduction be made for any commission, fees or any expenses paid or incurred by the Issuer for any underwriting of the issue or otherwise in connection therewith;

(b) (x) the aggregate consideration receivable for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any securities shall be deemed to be the consideration received or receivable for any such securities, and (y) the aggregate consideration receivable for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration received or receivable for such securities or, as the case may be, for such options, warrants or rights which is attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration is so attributed or the Trustee so requires by notice in writing to the Issuer, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the date of the first public announcement of the terms of issue of such securities or, as the case may be, such options, warrants or rights, plus in the case of each of (x) and (y) above, the additional minimum consideration (if any) upon the conversion or exchange of such securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights (the consideration in all such cases to be determined subject to the proviso in (a) above) and (z) the consideration per Ordinary Share receivable upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration referred to in (x) or (y) above (as the case may be) converted into pounds sterling if such consideration is expressed in a currency other than pounds sterling at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on the date of the first public announcement of the terms of issue of such securities, divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate.

**Current Market Price** means, in respect of an Ordinary Share at a particular date, the average of the bid and offer quotations published in the London Stock Exchange's Daily Official List for one Ordinary Share for the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five day period the Ordinary Shares shall have been quoted ex-dividend (or ex- any other entitlement) and during some other part of that period the Ordinary Shares shall have been quoted cum-dividend (or cum- any other entitlement) then:

(a) if the Ordinary Shares to be issued do not rank for the dividend (or entitlement) in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend (or cum- such other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) per Ordinary Share as at the date of announcement of such dividend or entitlement (excluding any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom); or

(b) if the Ordinary Shares to be issued do rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount, and provided further that if the Ordinary Shares on each of the said five dealing days have been quoted cum-dividend (or cum- such other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued do not rank for that dividend (or other entitlement) the quotations on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend or other cash entitlement or, as the case may be, the Fair Market Value of any entitlement or dividend (where that is other than cash) per Ordinary Share as at the date of announcement of such dividend or entitlement (excluding any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom),

provided that if such bid and offer quotations are not available on each of the said five dealing days, then the average of such bid and offer quotations which are available in that five dealing day period shall be used (subject to a minimum of two such bid and offer quotations) and if only one or no such bid and offer quotation is available in the relevant period the average bid and offer quotations shall be determined in good faith by an Independent Financial Adviser.

**dealing day** means a day on which the London Stock Exchange or any other stock exchange on which the Ordinary Shares are listed or traded is open for business.

**securities** includes, without limitation, shares in the share capital of the Issuer and options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer.

References to any issue or offer to Shareholders "as a class" or "by way of rights" shall be taken to be references to an issue or offer to all or substantially all Shareholders other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer.

Notwithstanding the foregoing provisions, where the circumstances giving rise to any adjustment pursuant to this Condition 5(b) have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of any other circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result and provided further that, for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Conversion Price.

(c) *Retroactive Adjustments*

If the Conversion Date in relation to any Bond shall be after the record date for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 5(b)(ii) to (v) and (ix), or any such issue as is mentioned in Condition 5(b)(vi) and (vii) which is made to the Shareholders or any of them, but before the relevant adjustment becomes effective under Condition 5(b), the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued to the converting Bondholder, in accordance with the instructions contained in the Conversion Notice or, as the case may be, to the Trustee or as directed by the Trustee (in each case subject to any applicable exchange control or other laws or other regulations), such additional number of Ordinary Shares (if any) as, together with the Ordinary Shares issued or to be issued on conversion of the relevant Bond, is equal to the number of Ordinary Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment (more particularly referred to in the said provisions of Condition 5(b)) to the Conversion Price had in fact been made and become effective immediately after the relevant record date. Such additional Ordinary Shares will be allotted within one month after the relevant Conversion Date or, if later, within one month after the date of issue of Ordinary Shares or other securities if the adjustment results from the issue of Ordinary Shares, and certificates for such Ordinary Shares (if the Ordinary Shares are in certificated form) will be dispatched by mail free of charge (but uninsured and at the risk of the person entitled thereto) within such period of one month.

(d) *Decision of Independent Financial Adviser*

If any doubt shall arise as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price shall be conclusive and binding on all concerned, save in the case of manifest or proven error.

(e) *Ordinary Shares may not be Issued at a Discount*

The Conversion Price may not be reduced so that on conversion of the Bonds, Ordinary Shares would fall to be issued at a discount to their nominal or par value.

(f) *Employees' Share Schemes*

No adjustment will be made to the Conversion Price where Ordinary Shares or other securities (including rights, warrants and options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service company of any such person) of the Issuer or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to any employees' share scheme (as defined in Section 743 of the Companies Act 1985 or any modification or re-enactment thereof).

(g) *Rounding Down*

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.01, shall be rounded down to the nearest whole multiple of £0.01. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time.

(h) *Selection of Independent Financial Adviser*

If the Issuer fails to select an Independent Financial Adviser when required for the purposes of this Condition and such failure continues for a reasonable period (as determined by the Trustee), the Trustee shall be entitled to select such Independent Financial Adviser.

(i) *Cash Alternative Election*

The Issuer may make an election from time to time (a **Cash Alternative Election**) by giving prior notice (a **Cash Alternative Election Notice**) to the Trustee and the Bondholders to satisfy the Conversion Rights attaching to any Bonds in respect of which the Conversion Date falls on or after the Cash Election Date specified in such Cash Alternative Election Notice and prior to the Revocation Date specified in any subsequent notice of revocation (a **Notice of Revocation**) of such Cash Alternative Election (as provided below) by making payment, or procuring that payment be made on its behalf, to the relevant Bondholder or, as the case may be, the Trustee of a sum in cash equal to the Cash Alternative Amount in respect of the Ordinary Shares (including, for this purpose, any fractions of Ordinary Shares) which, in the absence of any such Cash Alternative Election, would have fallen to be delivered to the relevant Bondholder or, as the case may be, the Trustee, together with any other amount payable by the Issuer to such Bondholder or the Trustee in respect of or relating to the relevant exercise of Conversion Rights.

The Issuer shall pay the Cash Alternative Amount, or procure that the Cash Alternative Amount is paid, by not later than the fifth dealing day following the end of the Cash Alternative Calculation Period or, if that is not a business day in London, the next following such day by a pounds sterling cheque drawn on, or by transfer to a pounds sterling account with, a bank in London in accordance with instructions contained in the relevant Conversion Notice or, as the case may be, as instructed by the Trustee.

The Issuer may at any time and from time to time revoke a Cash Alternative Election by giving a Notice of Revocation to the Trustee and the Bondholders specifying the Revocation Date. The Issuer may exercise its rights as provided above, both to make and to revoke a Cash Alternative Election, as often as it thinks fit.

**Cash Election Date** means the date specified as such in a Cash Alternative Exercise Notice and which shall be not earlier than 10 nor later than 15 days after the date such notice is given.

**Revocation Date** means the date specified as such in a Notice of Revocation and which shall be not earlier than 10 nor later than 15 days after the date such notice is given.

(j) *Procedure for Conversion*

A Conversion Right may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a **Conversion Notice**) in the form (for the time being current) obtainable from any Paying and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

A Conversion Right may be exercised only in respect of the whole of the principal amount of a Bond.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the **Conversion Date**) shall be: (i) in the case of an exercise of Conversion Rights by a Bondholder, the London business day immediately following the date of such delivery and, if applicable, any payment to be made as provided below; or (ii) in the case of exercise of Conversion Rights by the Trustee pursuant to Condition 5(k), the relevant redemption date, save that for the purposes of calculating the amount of interest (if any) payable on such conversion in the case of an exercise of Conversion Rights by the Trustee, the Conversion Date shall be the date which would have been the Conversion Date had Conversion Rights been exercised by holders of the relevant Unexercised Bonds on the last day of the Conversion Period.

Each Bond should be delivered upon exercise of Conversion Rights together with all unmatured Coupons relating to it, failing which the relevant holder will be required to pay the full amount of any such missing unmatured Coupon. Each amount so paid will be repaid in the manner specified in Condition 7 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time after the relevant Conversion Date and before the expiry of 10 years after the Relevant Date in respect of the relevant Bond (whether or not a Coupon would otherwise have become void pursuant to Condition 12), but not thereafter.

A Bondholder or the Trustee exercising a Conversion Right must pay (in the case of the Trustee by means of deduction from the net proceeds of sale referred to in Condition 5(k) or from amounts otherwise available to the Trustee in respect of such exercise) any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital duties or stamp duties payable in the United Kingdom in respect of the allotment and issue of any Ordinary Shares on such conversion, which shall be paid by the Issuer) and such Bondholder or the Trustee (as the case may be) must pay (in the case of the Trustee, by way of deduction from the net proceeds of sale as provided in Condition 5(k) or from amounts otherwise available to the Trustee in respect of such exercise) all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with such conversion.

The Ordinary Shares will not be available for issue: (i) to, or to a nominee or agent for, Euroclear, Clearstream, Luxembourg, First Chicago Clearing Center or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom; or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the "abolition day" as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

Ordinary Shares to be issued on conversion of the Bonds will be issued in uncertificated form through the dematerialised securities trading system generated by CRESTCo Limited, known as CREST, unless the relevant Bondholder or, as the case may be, the Trustee elects to receive the Ordinary Shares in certificated registered form or, at the time of issue, the Ordinary Shares are not a participating security in CREST. Where Ordinary Shares are to be issued through CREST, they will be delivered to the account specified by the relevant Bondholder in the relevant Conversion Notice or, as the case may be, as specified by the Trustee by a date which is generally expected to be not later than seven London business days following the relevant Conversion Date. Where Ordinary Shares are to be issued in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the person entitled thereto) to the relevant Bondholder or as it may direct in the relevant Conversion Notice, or, in the case of the exercise of Conversion Rights by the Trustee, as directed by the Trustee within 28 days following the relevant Conversion Date.

(k) *Conversion by the Trustee*

The Trustee may, in its absolute discretion (and without any responsibility for any loss occasioned thereby), within the period commencing on the date five days immediately prior to, and ending at the close of business on the London business day immediately prior to, the date fixed for redemption from time to time of any of the Bonds under Condition 6(a) or (b), elect (on behalf of the relevant Bondholders) by notice in writing to the Issuer to exercise the Conversion Rights in respect of the Bonds due for redemption on such date and in respect of which Conversion Rights have not previously been exercised by Bondholders (**Unexercised Bonds**) at the Conversion Price applicable on the Conversion Date, provided that all (if any) necessary consents have been obtained and the

Trustee is satisfied or is advised by an independent investment bank of international repute appointed by the Trustee (the expense of such appointment to form part of the Trustee's Expenses (as defined below)) at the expense of the Issuer that the net proceeds of an immediate sale of the Ordinary Shares arising from such conversion (assuming for this purpose that a Cash Alternative Election is not in effect on the relevant Conversion Date and assuming that the Conversion Amount in respect of each £1,000 principal amount of Bonds is £1,000), disregarding any liability (other than a liability of the Trustee) to taxation or the payment of any capital, stamp, transfer, issue or registration duties consequent thereon, together in each case with any other amount payable by the Issuer in respect of such exercise, would be likely to exceed by 5 per cent. or more the amount of the redemption moneys and interest which would otherwise be payable in respect of such Unexercised Bonds.

Save as provided in Condition 5(m), no interest shall accrue from the Interest Payment Date immediately preceding the Conversion Date (or, if such date falls before the first Interest Payment Date, since the Closing Date) in respect of such Unexercised Bonds in respect of which the Trustee's election as aforesaid shall have been made.

If a Cash Alternative Election is not in effect on the relevant Conversion Date, all of the Ordinary Shares delivered on such conversion shall be sold by, or on behalf of, the Trustee as soon as practicable and (subject to any necessary consents being obtained, and to the deduction by the Trustee of any amount which it determines to be payable in respect of its liability to taxation and the payment of any capital, stamp, transfer, issue or registration duties (if any) and any costs incurred by the Trustee in connection with the transfer, delivery and sale thereof (**Trustee's Expenses**)) the net proceeds of sale together with the Redemption Price in respect of the redemption of the Cash Settled Amount in respect of such Unexercised Bonds and accrued interest (if any) payable under Condition 5(m) and any other amount payable by the Issuer in respect of the relevant exercise in respect of the Unexercised Bonds shall be held by the Trustee and distributed rateably to the holders of such Unexercised Bonds in accordance with Condition 7.

If a Cash Alternative Election is in effect on the relevant Conversion Date, the Cash Alternative Amount paid to the Trustee together with accrued interest (if any) payable under Condition 5(m) in respect of the Unexercised Bonds and any other amount payable by the Issuer in respect of the relevant exercise shall, subject to the deduction by the Trustee of the Trustee's Expenses, be held by the Trustee and distributed rateably to the holders of the Unexercised Bonds in accordance with Condition 7.

For the purposes of any distribution to holders of Unexercised Bonds and subject to Condition 5(m), any Coupon relating to an Interest Payment Date falling on or after what would have been the Conversion Date in respect of such Unexercised Bonds if Conversion Rights had been exercised by the holder(s) thereof on the last day of the Conversion Period shall be treated as an unmatured Coupon.

Save as provided in Condition 5(m), if the date fixed for redemption in respect of such Unexercised Bonds falls during a period commencing on an Interest Payment Date and ending on the sixth calendar day after such Interest Payment Date (both dates inclusive) a sum equal to the amount of the interest due on such Interest Payment Date will be deducted from the net proceeds of sale payable to the relevant holders and shall be paid to the Issuer. The amount of such net proceeds of sale payable to a holder of Unexercised Bonds pursuant to this Condition 5(k) shall be treated for all purposes as the full amount due from the Issuer in respect of such Unexercised Bonds.

The Trustee shall have no liability in respect of the exercise or non-exercise of its discretion pursuant to this Condition 5(k) or the timing of such exercise or in respect of any such sale of Ordinary Shares whether for the timing of any such sale or the price at which any such Ordinary Shares are sold, or the inability to sell any such Ordinary Shares or otherwise.

(l) *Ordinary Shares*

(i) The Ordinary Shares issued upon conversion of the Bonds will be fully paid and non-assessable and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date (except for any right excluded by mandatory provisions of applicable law), except that the Ordinary Shares so issued will not rank for any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date.

(ii) Save as provided in Condition 5(m), no payment or adjustment shall be made on conversion for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

(m) *Interest on Conversion*

If any notice requiring the redemption of any Bonds is given pursuant to Condition 6(b) on or after the fifteenth business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) (whether such notice is given before, on or after such record date) in respect of any dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue on Bonds in respect of which Conversion Rights shall have been exercised or in respect of which the Trustee shall have exercised its rights pursuant to Condition 5(k) and in any such case in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Closing Date) to but excluding such Conversion Date. The Issuer shall pay any such interest or procure that any such interest is paid by not later than 14 days after the relevant Conversion Date by pounds sterling cheque drawn on, or by transfer to a sterling account maintained with, a bank in London in accordance with instructions given by the relevant Bondholder or, in the case of the exercise of Conversion Rights by the Trustee, the Trustee.

(n) *Purchase or Redemption by the Issuer of its Own Shares*

The Issuer may exercise such rights as it may from time to time enjoy to purchase its own shares (including Ordinary Shares) without the consent of the Bondholders or Couponholders.

(o) *Issuer to notify Bondholders of adjustments to Conversion Price*

Notice of any adjustments to the Conversion Price shall be given to Bondholders in accordance with Condition 17 as soon as practicable after the determination thereof.

## 6. Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 6(b).

(b) *Redemption at the Option of the Issuer*

On giving not less than 30 nor more than 90 days' notice (an **Optional Redemption Notice**) to the Trustee and the Bondholders in accordance with Condition 17, the Issuer may: (i) at any time on or after 16th July, 2007 redeem all, but not some only, of the Bonds at their principal amount, together with accrued interest, provided that no such redemption may be made unless the middle market price (derived from the Official List) of the Ordinary Shares for at least 20 dealing days during the period of 30 dealing days ending not earlier than the fifth dealing day before the date of the Optional Redemption Notice shall be at least 130 per cent. of the Conversion Price in effect on each such dealing day; or (ii) redeem all, but not some only, of the Bonds on the date (the **Optional Redemption Date**) specified in the Optional Redemption Notice at their principal amount as at the Optional Redemption Date together with accrued interest up to but excluding the Optional Redemption Date if prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued. The principal amount of the Bonds originally issued shall be the aggregate of the principal amount of the Bonds and the principal amount of any further bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds but shall not take account of any Conversion Rights exercised or purchases and corresponding cancellations.

(c) *Optional Redemption Notice*

Any Optional Redemption Notice shall be irrevocable. Any such notice shall specify: (i) the Optional Redemption Date; (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding (as defined in the Trust Deed) and the closing price of the Ordinary Shares as derived from the Daily Official List of the London Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice; and (iii) the last day on which Conversion Rights may be exercised by Bondholders.

(d) *Purchase*

Subject to the requirements (if any) of the UK Listing Authority or the London Stock Exchange or any other stock exchange on which the Bonds may be listed at the relevant time, the Issuer or any Subsidiary of the Issuer may at any time purchase Bonds in the open market or otherwise at any price. Such Bonds may be held, resold or reissued, or, at the option of the Issuer, surrendered to any Paying and Conversion Agent for cancellation.

(e) *Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries may be surrendered for cancellation or may be held, reissued or resold.

## 7. Payments

(a) *Method of Payment*

Payment of the principal of the Bonds or the net proceeds of sale of Ordinary Shares (together with the Redemption Price (if applicable) or the Cash Alternative Amount (if applicable)) pursuant to Condition 5(k) will be made against presentation and surrender (or, in the case of partial payment, endorsement) of Bonds and payment of any interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of partial payment, endorsement) of Coupons, in each case at the specified office of any Paying and Conversion Agent (subject to Condition 7(b) below) by pounds sterling cheque drawn on a bank in London or, at the option of the relevant holder, by transfer to a pounds sterling account maintained with a bank in London. Payments of interest due in respect of Bonds other than on an Interest Payment Date shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.

Payments of all other amounts will be made as provided in these Conditions.

(b) *Payments subject to fiscal laws*

All payments are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(c) *Surrender of unmatured Coupons*

Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the principal amount so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date for the relevant payment of the principal amount.

For the purposes hereof and save as otherwise provided herein, **unmatured Coupons** means Coupons maturing after the due date for redemption of the Bonds to which they appertain (or, as the case may be, maturing on or after the Conversion Date in respect of an exercise of Conversion Rights in respect of the Bonds to which they appertain).

(d) *Non-business days*

If the due date for payment of the principal or interest in respect of any Bond or Coupon (or any later date on which a Bond or Coupon is presented for payment) is not at any place of presentation a business day and, in the case of payment by transfer to a pounds sterling account as referred to above, a business day in London then the holder will not be entitled to payment at such place of the amount due until the next day which is a business day at such place and, in the case of payment by transfer to a pounds sterling account, a business day in London, and the holder will not be entitled to any further interest or other payment in respect of any such delay.

(e) *Paying and Conversion Agents, etc.*

The initial Paying and Conversion Agents and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee (which approval shall not be unreasonably withheld), to vary or terminate the appointment of any Paying and Conversion Agent and appoint additional or other Paying and Conversion Agents, provided that it will maintain: (i) a Principal Paying and Conversion Agent; and (ii) so long as the Bonds are admitted to the Official List of the UK Listing Authority and admitted to trading by the London Stock Exchange and the rules of the UK Listing Authority or the London Stock Exchange so require, a Paying and Conversion Agent having a specified office in London. Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 17.

(f) *Fractions*

When making payments to Bondholders, fractions of £0.01 will be rounded down to the nearest whole multiple of £0.01.

## 8. Taxation

All payments by or on behalf of the Issuer in respect of the Bonds and the Coupons shall be made without withholding or deduction for any taxation unless such withholding or deduction is required by law. In that event the relevant payment will be made subject to such withholding or deduction and the Issuer will not be required to pay any additional or further amounts in respect of such withholding or deduction.

## 9. Events of Default

If any of the following events occurs, the Trustee may at its absolute discretion, and shall, if so requested in writing by the holders of not less than one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders, subject in each case to being indemnified to its satisfaction, give written notice to the Issuer that the Bonds are due and payable immediately, at their principal amount as of the date such notice is given together with accrued interest:

(a) the Issuer fails to pay all or any part of the principal or interest due in respect of the Bonds within 10 business days in London of the due date; or

(b) 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 10(b) and 10(e)) (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

(c) (i) 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

(ii) any such indebtedness is not paid when due or (as the case may be) within any originally applicable grace period therefor; or

(iii) 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

(iv) 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-paragraphs (i), (ii), (iii) or (iv) above (other than any guarantees, indemnities and Security Interests relating to indebtedness falling within sub-paragraphs (i) or (ii) above, any Security Interests relating to guarantees or indemnities falling within sub-paragraph (iii) above and any indebtedness falling within sub-paragraph (ii) above which also falls within sub-paragraph (i) 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 one 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 (c) **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

(d) 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

(e) 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 an 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 another Subsidiary of the Issuer) 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 of the Issuer shall be deemed not to be a cessation for the purposes of this paragraph (e); or

(f) 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 another Subsidiary of the Issuer); or

(g) the Issuer fails to comply with its obligations under Conditions 10(b) and 10(e);

Provided that, no such event as is mentioned in paragraphs (b) to (e) (inclusive) 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 (c) to (f) (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 (c) if such event also constitutes a Security Event or at any time after a Security Event in relation to such Principal Subsidiary has occurred.

**10. Grant of Security or Redemption to avoid Events of Default**

(a) If the Issuer certifies to the Trustee that an event or act which constitues a Security Event but does not also constitute a Condition 9 Event (a **Non-default Security Event**) has occurred in relation to a Principal Subsidiary:

(i) the Issuer may, 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 principal 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 17 (which notice shall be irrevocable); or

(ii) the Issuer or any of the Issuer's 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 (c) below.

(b) 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 Prinicpal Subsidiary which constitutes a Security Event and also constitutes a Condition 9 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 9 Event (a **Subsequent Event**); and

(iii) either no Cash Collateral and/or Non-cash Collateral has been granted in respect of all the Bonds and Coupons pursuant to Condition 10(a)(ii) above or this Condition 10(b), in each case in accordance with Condition 10(c) below, or such Cash Collateral and/or Non-cash Collateral, having been so granted, has been withdrawn pursuant to Condition 10(f) 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 redeem all, but not some only, of the Bonds at their principal 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 17 (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 the Issuer's 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 Condition 10(c) below not later than 50 days after the date of such certificate.

(c) The aggregate Relevant Value on the Collateral Date of the Cash Collateral and/or Non-cash Collateral granted pursuant to Condition 10(a)(ii) above or Condition 10(b) above shall be detemined by an Independent Financial Adviser and shall not be less than 100 per cent., in the case of Cash Collateral, or 110 per cent., in the case of Non-cash Collateral, of the principal 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.

(d) The fact that Cash Collateral and/or Non-cash Collateral has been granted pursuant to Condition 10(a)(ii) above or Condition 10(b) above or that certification has been made by an Independent Financial Adviser pursuant to Condition 10(a)(i) above shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 17.

(e) 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 Condition 10(f) 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:

  (i) 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 principal amount of the Bonds (at the date of such relevant determination) then outstanding plus a full year's gross interest, or the relevant proportion thereof, accrued to the date of such determination, the Issuer or any of the Issuer's Subsidiaries shall make good such deficiency within 14 business days in 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

  (ii) 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 principal amount of the Bonds then outstanding plus a full year's gross interest, or the relevant proportion thereof, the Issuer or any of the Issuer's 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.

(f) The Issuer or any of the Issuer's 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 Condition 10(a)(ii) above. The Issuer or any of the Issuer's 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 Condition 10(a)(ii) above) or at any time (in the case of Cash Collateral and/or Non-cash Collateral granted pursuant to Condition 10(b) above) withdraw all, but not some only, of the Cash Collateral and/or Non-cash Collateral granted pursuant to Condition 10(a)(ii) or Condition 10(b) 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 Condition 10(f) shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 17. In this Condition 10(f), any reference to Cash Collateral and/or Non-cash Collateral granted pursuant to Condition 10(a)(ii) or Condition 10(b) above respectively includes any additional or substituted Cash Collateral and/or Non-cash Collateral granted pursuant to Condition 10(e) above or (g) below.

(g) The Issuer or any of the Issuer's Subsidiaries (without prejudice to their rights under Condition 10(f) above) may at any time withdraw all or any part of the Cash Collateral and/or Non-cash Collateral granted pursuant to Condition 10(a)(ii) above or Condition 10(b) or Condition 10(e) above or this Condition 10(g) upon: (i) the Issuer or any of the Issuer's 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 not be less than 100 per cent., in the case of Cash Collateral, or 110 per cent., in the case of Non-cash Collateral, of the principal amount of the Bonds then outstanding, and so in proportion if both Cash Collateral and Non-cash Collateral have been granted.

(h) All rights of withdrawal under Condition 10(f) and Condition 10(g) above shall cease upon the Bonds becoming immediately due and repayable pursuant to Condition 9.

(i) The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Security Event, Non-default Security Event, Default Security Event, Subsequent Event or a Condition 9 Event has occurred and, until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such event has occurred.

**11. Undertakings**

(a) The Issuer shall:

(i) procure that a resolution to disapply pre-emption rights of Shareholders under Section 89 of the Companies Act 1985 in respect of a sufficient amount of equity securities for the Issuer to be able to satisfy Conversion Rights in full by the delivery of Ordinary Shares is put to Shareholders at the first annual general meeting of the Issuer held after 16th July, 2003 and at each successive annual general meeting thereafter until such a resolution is passed; and

(ii) give notice to Bondholders and the Trustee as soon as is practicable following the passing of such a resolution to increase the Conversion Amount and reduce the Cash Settled Amount to the extent permissible by such resolution and applicable laws.

(b) Whilst any Conversion Right remains exercisable, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

(i) issue, allot and deliver Ordinary Shares on exercise of Conversion Rights in accordance with these Conditions and at all times keep available for issue free from pre-emptive or other similar rights out of its authorised but unissued share capital such number of Ordinary Shares as would enable the Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares to be satisfied in full;

(ii) not issue or pay up any securities, in either case by way of capitalisation of profits or reserves, other than:

(A) by the issue of fully paid Ordinary Shares or other securities to the Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other securities on a capitalisation of profits or reserves; or

(B) by the issue of Ordinary Shares paid up in full out of profits or reserves (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or

(C) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares) on a capitalisation of profits or reserves;

unless, in any such case, the same gives rise (or would, but for the provisions of Condition 5(g) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price;

(iii) not in any way modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than such rights but so that nothing in this Condition 11(iii) shall prevent:

(A) the issue of any equity share capital to employees (including directors holding or formerly holding executive office or the personal service company of any such person) whether of the Issuer or any of the Issuer's Subsidiaries or associated companies by virtue of their office or employment pursuant to any scheme or plan approved by the Issuer in general meeting or which is established pursuant to such a scheme or plan which is or has been so approved; or

(B) any consolidation or subdivision of the Ordinary Shares or the conversion of any Ordinary Shares into stock or vice versa; or

(C) any modification of such rights which is not, in the opinion of an Independent Financial Adviser, materially prejudicial to the interests of Bondholders; or

(D) any alteration to the Articles of Association of the Issuer made in connection with the matters described in this Condition 11 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of securities, including Ordinary Shares, dealt with under such procedures); or

(E) any issue of equity share capital where the issue of such equity share capital results or would, but for the provisions of any other Condition, otherwise result in an adjustment of the Conversion Price; or

(F) any issue of equity share capital or modification of rights attaching to the Ordinary Shares where prior thereto the Issuer shall have instructed an Independent Financial Adviser to determine what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such investment bank or bank shall have determined either that no adjustment is required or that an adjustment to the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);

(iv) procure that no securities (whether issued by the Issuer or any Subsidiary of the Issuer or procured by the Issuer or any Subsidiary of the Issuer to be issued) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 5(g) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;

(v) not make any issue, grant or distribution or take any other action if the effect thereof would be that, on the conversion of Bonds, Ordinary Shares would (but for the provisions of Condition 5(e)) have to be issued at a discount or otherwise could not, under any applicable law then in effect, be legally issued as fully paid;

(vi) not reduce its issued share capital, share premium account or capital redemption reserve or any uncalled liability in respect thereof except: (i) pursuant to the terms of issue of the relevant share capital; or (ii) by means of a purchase or redemption of share capital of the Issuer; or (iii) as permitted by Section 130(2) of the Companies Act 1985; or (iv) where the reduction does not involve any distribution of assets; or (v) where the reduction results in (or would, but for the provisions of Condition 5(g) relating to the carry forward of adjustments, result in) an adjustment to the Conversion Price; or (vi) solely in relation to a change in the normal currency in which the nominal value of the Ordinary Shares is expressed; or (vii) pursuant to a Newco Scheme;

(vii) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror (as defined in Section 430E(4) of the Companies Act 1985 or any modification or re-enactment thereof)) to acquire all or a majority of the issued ordinary share capital of the Issuer, or if a scheme (other than a Newco Scheme) is proposed with regard to such acquisition, give notice of such offer or scheme to the Trustee and the Bondholders at the same time as any notice thereof is sent to its Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the Board of Directors of the Issuer, or where such an offer has become or been declared unconditional in all respects, use its reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights and/or to the holders of the Bonds; and

(viii) use its reasonable endeavours to ensure that the Ordinary Shares issued upon conversion of the Bonds or upon redemption of the Bonds will be admitted to the Official List of the UK Listing Authority and admitted to trading by the London Stock Exchange in accordance with their respective rules and will be listed, quoted or dealt in on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in.

As used in these Conditions, **ordinary share capital** has the meaning given to it in Section 832 of the Income and Corporation Taxes Act 1988 and **equity share capital** has the meaning given to it in Section 744 of the Companies Act 1985.

## 12. Prescription

Claims in respect of principal and interest on Bonds will become void unless presentation for payment is made as required by Condition 7 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## 13. Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Paying and Conversion Agent in London for the time being subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

## 14. Meetings of Bondholders, Modification and Waiver

(a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons present being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*: (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds; (ii) to reduce or cancel the principal amount of, or interest on, the Bonds or to vary the method of calculating the rate of interest on, the Bonds; (iii) to change the currency of payment of the Bonds; (iv) to modify or vary the Conversion Rights in respect of the Bonds; or (v) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than one quarter, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

(b) *Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders or Couponholders, to: (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or the Coupons which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest or proven error; and (ii) any other modification to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or the Coupons, and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or Coupons which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without any such consent as aforesaid, determine that any 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.

Any such modification, authorisation, waiver or determination shall be binding on the Bondholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Bondholders and the Couponholders as soon as practicable in accordance with Condition 17.

(c) *Substitution*

The Trust Deed contains provisions which permit the Trustee, without the consent of the Bondholders or the Couponholders to 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 and the Trust Deed of another company, subject to: (i) the Bonds being unconditionally and irrevocably guaranteed by the Issuer; (ii) the Trustee being satisfied that so to do would not be materially prejudicial to the interests of the Bondholders, and (iii) certain other conditions set out in the Trust Deed being complied with.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Trustee shall not be entitled to require from the Issuer, nor shall any Bondholder or Couponholder be entitled to claim, from the Trustee or the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

**15. Enforcement**

At any time after the Bonds become due and repayable, the Trustee may, at its discretion and without 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 principal amount of the Bonds then outstanding; and (ii) it shall have been indemnified to its satisfaction.

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.

**16. The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee shall be entitled to rely on a certificate or report from the Auditors whether or not called for by or addressed to the Trustee and whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any limit on the liability of the Auditors.

**17. Notices**

Notices to the Bondholders shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

**18. Further Issues**

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures 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 notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

**19. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

**20. Governing Law**

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

# SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Bonds will contain provisions which apply to the Bonds while they are in global form, some of which will modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain of those provisions.*

## 1. Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Permanent Global Bond on or after a date which is expected to be 26th August, 2003 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Permanent Global Bond is exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds (i) if the Permanent Global Bond is held by or on behalf of one or more clearing systems and all such clearing systems are closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no alternative or successor clearing system acceptable to the Trustee is available or (ii) if principal in respect of all the outstanding Bonds is not paid when due and payable or (iii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Directors of the Issuer is delivered to the Trustee for display to Bondholders. Thereupon (in the case of (i) and (ii) above) the holder may give notice to the Trustee, and (in the case of (iii) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below) specified in the relevant notice.

On or after the Exchange Date the holder of the Permanent Global Bond may surrender the Permanent Global Bond to or to the order of the Principal Paying and Conversion Agent. In exchange for the Permanent Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and returned to the holder together with any relevant definitive Bonds.

**Exchange Date** means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying and Conversion Agent is located and, except in the case of exchange pursuant to (i) above, in the city or cities in which the relevant clearing systems are located.

## 2. Payments

Payments of principal and interest in respect of Bonds represented by the Permanent Global Bond will be made against presentation and endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Permanent Global Bond to or to the order of the Principal Paying and Conversion Agent or such other Paying and Conversion Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed on the appropriate schedule to the Permanent Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of principal and interest on the Bonds represented by the Permanent Global Bond will be made by crediting the accounts of Accountholders (as defined below) with the relevant clearing systems. Payments by Accountholders with the relevant clearing systems to the holder of a beneficial interest in the Bonds will be the responsibility of the Accountholders. Neither the Trustee nor any Agent will have any responsibility or liability for any aspect of the records of the relevant clearing system relating to payments made by the relevant clearing system in respect of beneficial interests in the Bonds or for maintaining, supervising or reviewing any records of the relevant clearing system relating to such Accountholders.

**Accountholder** means a person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear, and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) as the holder of a particular principal amount of Bonds and in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of Bonds standing to the account of any person shall be conclusive and binding for all purposes.

## 3. Notices

So long as the Bonds are represented by the Permanent Global Bond and the Permanent Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for publication as required by the Conditions.

## 4. Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Permanent Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

## 5. Trustee's Powers

In considering the interests of Bondholders while the Permanent Global Bond is held on behalf of a clearing system the Trustee may have regard to any information provided to it by such clearing system or its operator or a participant in such system as to the identity (either individually or by category) of its Accountholders with entitlements to the Permanent Global Bond (or an interest in respect thereof) and may consider such interests as if such Accountholders were the holder of the Permanent Global Bond.

## 6. Conversion Rights

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, an Accountholder wishing to exercise Conversion Rights in respect of any such Bond(s) shall not be required to deposit the relevant Bond(s) with the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered and references in Condition 5 to the person delivering a Bond for conversion shall be deemed to be references to the person delivering a Conversion Notice. On the Conversion Date in respect of such Bond(s) the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered shall, on behalf of the relevant Accountholder, obtain confirmation from Euroclear and/or, as the case may be, Clearstream, Luxembourg that the Accountholder is shown in its records as the holder of at least the principal amount of Bonds in respect of which the Conversion Notice has been delivered. Whilst the Bonds are represented by one or both of the Global Bonds and the Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, Conversion Notices shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (which may include notice being given on the instruction of the relevant Accountholder by Euroclear and/or, as the case may be, Clearstream, Luxembourg or any common depositary therefor to the Principal Paying and Conversion Agent by electronic means) in a form acceptable to Euroclear and/or, as the case may be, Clearstream, Luxembourg.

# USE OF PROCEEDS

The estimated net cash proceeds to be raised in connection with the issue of the Bonds, after the expenses of the issue, will amount to approximately £250,000,000. The net cash proceeds will be used by the Issuer to further strengthen its balance sheet and increase its financial flexibility.

## CAPITALISATION AND INDEBTEDNESS OF CABLE & WIRELESS

The following table sets out the consolidated capitalisation and indebtedness of Cable & Wireless extracted from the audited annual consolidated financial statements of Cable & Wireless prepared in accordance with UK GAAP as at 31st March, 2003.

| | As at 31st March, 2003 (£ million) |
|---|---|
| **Capital and reserves** | |
| Called up share capital[1] | 596 |
| Share premium account | 1,745 |
| Capital redemption reserve | 105 |
| Profit and loss account | (297) |
| Equity shareholders' funds | 2,149 |
| Equity minority interests | 371 |
| Total capitalisation | 2,520 |
| Long-term debt (net of current portion)[(2)] | 721 |
| Total capitalisation and indebtedness (excluding short-term debt) | 3,241 |
| Short-term debt (including current portion of long-term debt)[(2)] | 825 |
| **Total capitalisation and indebtedness** | 4,066 |

Notes

(1) The authorised share capital of the Issuer as at 31st March, 2003 was £875 million divided into 3,500,000,000 ordinary shares of £0.25 par value each, of which 2,383,124,694 ordinary shares are issued. The ordinary shares of the Issuer have been admitted to the Official List of the UK Listing Authority and are traded on the London Stock Exchange plc.

(2) As at 31st March, 2003, the Group's long term indebtedness comprised the following types of indebtedness:

| | Amounts falling due within 1 year £m | Amounts falling due after more than 1 year £m | Total £m |
|---|---|---|---|
| GBP Bonds* | – | 400 | 400 |
| US Dollar Bonds** | 237 | – | 237 |
| PCCW Bond*** | 449 | – | 449 |
| Other loans and overdrafts | 126 | 316 | 442 |
| Finance leases | 13 | 5 | 18 |
| | 825 | 721 | 1,546 |

* These bonds comprise Cable and Wireless plc's £200,000,000 8.75 per cent. Bonds due 2012 and Cable and Wireless International Finance B.V.'s £200,000,000 8⅝ per cent. Guaranteed Bonds due 2019 (guaranteed by the Issuer).

** US$400,000,000 6½ per cent. Bonds due 2003 issued by Cable and Wireless plc.

*** US$1,504,331,000 Zero Coupon Exchangeable Bonds due 2003 exchangeable into Ordinary Shares of Pacific Century CyberWorks Limited issued by Cable and Wireless plc. These Bonds were redeemed in accordance with their terms in June 2003.

(3) As at 31st March, 2003, £185,000,000 of the Group's other loans (referred to in note (2) above) was guaranteed by third parties. No other indebtedness was so guaranteed.

(4) As at 31st March, 2003, the Group's total trading guarantees amounted to £181 million. For information on the Group's other contingent liabilities as at 30th March, 2003, please refer to Note 27 to the Financial Statements set out on page F-39 below.

(5) As at 31st March, 2003, £26 million of the Group's other loans (referred to in note (2) above) was secured on assets of the Group. No other indebtedness was so secured.

(6) The capitalisation and indebtedness table set out above takes no account of any liabilities or guarantees between undertakings within the Group.

(7) Except as disclosed in the notes above, there has been no material change since 31st March, 2003 in the consolidated capitalisation, indebtedness and contingent liabilities and guarantees of the Group.

## DESCRIPTION OF CABLE & WIRELESS

### CORPORATE OVERVIEW

The telecommunications industry is currently facing unfavourable market conditions, including, amongst others, a decline in investment in the industry, a decline in demand for certain telecommunications products and services, pricing pressures and over-capacity. These conditions have contributed to a general, and often significant, decline in share prices for telecommunications companies, including Cable & Wireless, which has seen its share price decline by 154p from 223p at 31st March, 2002 to 69p at 31st March, 2003. These market conditions have also precipitated restructurings and bankruptcy and insolvency filings by several telecommunications companies.

The last year was a turbulent one for Cable & Wireless. The Company started the year optimistic that its diversification into data highways, hosting and internet services (collectively called Global) would position it well for a prosperous future. A deterioration in Cable & Wireless Global's business performance has, however, resulted in fixed asset and goodwill impairment as forecast performance has been revised downwards. In September 2002, fixed assets were impaired by £787 million and goodwill of £2,713 million was written off, principally in the United Kingdom. In November 2002, Cable & Wireless announced the need to restructure its US operations to reduce the running losses and cashflow drain to which it realised it was exposed. In January 2003, as a consequence of a downgrade by Moody's of the Company's long term debt from Baa2 to Ba1, the Company had to place in escrow £1.5 billion pursuant to a tax indemnity granted to Deutsche Telekom in connection with the sale of Cable & Wireless' stake in One2One. After agreement was reached with the Inland Revenue to settle the Group's outstanding UK Corporation Tax Affairs for the ten years to 31st March, 2001, which included the year in which the One2One transaction took place, these funds were released from escrow at the year end.

On 10th January, 2003, Richard Lapthorne was appointed Chairman of the Company following the retirement as Chairman of Sir Ralph Robins on the same date. On 21st January, 2003 it was announced that Graham Wallace, Chief Executive, would be leaving the Company and that Rob Rowley, a Non-executive Director and Chairman of the Audit Committee would become Executive Deputy Chairman with responsibility for the finance and legal functions. On 2nd April, 2003, it was announced that Francesco Caio would be appointed Chief Executive Officer of the Company with effect from 4th April, 2003 in place of Graham Wallace. Also on 2nd April, 2003, Kevin Loosemore was appointed Chief Operating Officer. New Non-executive Directors have been appointed in the last six months, notably Bernard Gray, Tony Rice, Graham Howe and Kasper Rorsted, bringing a range of highly relevant skills from their backgrounds in finance and restructuring, telecommunications and IT, government and public sector affairs. On 30th June, 2003, it was announced that Lord Robertson of Port Ellen, Secretary General of NATO, has been appointed as Executive Deputy Chairman with effect from 1st February, 2004.

The aim of the Company is to deliver sustainable and acceptable returns over time with manageable residual risk. With this in mind the Company's management has announced a number of initiatives:

#### Develop national businesses

The aim of the Group is to create a group of profitable national telecommunications companies with strong positions in their primary markets where they offer both domestic and international services. The Group already has the building blocks, and is making strategic changes and restructuring plans which represent the next steps along the road to achieving this ambition. Consistent with the new national approach, Cable & Wireless will no longer be divided into the Global and Regional business divisions, instead it will be organised on a geographic basis.

#### Restructure the UK business

Cable & Wireless is second only to BT in the United Kingdom, which is one of world's largest telecommunications markets. However, performance has declined and, as a result, the business is being restructured to drive efficiency, improve network services and focus the Company on building market share with target customers. The plans include a reduction in headcount of 1,500. As a consequence of eliminating Cable & Wireless Global, and focusing clearly on the national businesses, Royston Hoggarth has been appointed as Chief Executive of Cable & Wireless UK.

**Withdraw from US operations**

The US subsidiaries make losses, consume cash and require significant management attention. Furthermore their services have limited interaction with the rest of the Group. These businesses may have value to the right owner but they are not sustainable with the current cost structure. A wide-ranging cost control programme has been initiated. The Company intends to withdraw from the US businesses altogether; all options are being explored. In connection with the consideration of a variety of options, Cable & Wireless' US subsidiaries have taken some initial steps.

**Rationalise continental Europe and, in due course, improve results in Japan**

In continental Europe, the Group provides services to other licensed telecommunications operators and to multinational corporate customers, some of which are headquartered in the United Kingdom. However, it also operates a number of businesses, which provide services to smaller corporate customers and act as internet service providers. Cable & Wireless has either completed or is in advanced discussion on the sale of non-core businesses across continental Europe in order to reduce exit costs. Cable & Wireless IDC provides international voice and data services to companies in Japan and South East Asia. Although it operates in a market dominated by Nippon Telegraph and Telephone Corporation (**NTT**), it delivers acceptable results and has good prospects.

**Focus on profit before tax and cash**

Across the Group the focus will now be on profit before tax and cash. More rigorous cost control and capital management disciplines have been introduced to ensure that the restructuring plans can be accommodated within the Group's existing financial resources.

To support these initiatives, Cable & Wireless has adopted a simpler organisational structure, eliminating the Global and Regional divisions. Going forward the Group will have a country-based structure, with country CEO's responsible for profit and loss, cash flow and balance sheet and reporting directly to the Chief Operating Officer. This new organisational structure will, the Company expects, result in lower overheads, clear accountability and more effective transfer of knowledge and skills.

The Group faces a number of challenges in implementing its new strategic initiatives, including those linked to turmoil in the industry, global economic challenges, as well as the markets in which the Group operates. The Group, however, remains committed to capitalising on its core skills and key customers, to return it to profitability. See "Investment Considerations – Considerations Relating to the Group's Operations" for a further discussion of certain of the challenges facing the Group.

## SUMMARY

Cable & Wireless is an international telecommunications business with annual revenue of £4.4 billion in the year to 31st March, 2003 and customers in 80 countries. Headquartered in London, Cable & Wireless' principal operations are in the United Kingdom; the Caribbean; the United States; Japan; continental Europe; Panama and Macau. Cable & Wireless provides voice, data and IP services to business and residential customers and wholesale services to carriers, mobile operators and content, application and internet providers.

**History**

For over 120 years, Cable & Wireless has provided telecommunications services, networks and equipment to business and residential customers around the world. Except for some 30 years as a state-owned company after the Second World War, Cable & Wireless has been a publicly owned limited company since its earliest days.

In the United Kingdom, Cable & Wireless, through Mercury Communications, was an early competitor in the liberalised telecommunications market. In April 1997, Cable & Wireless Communications plc (**CWC**) was formed by the merger of Mercury Communications with Nynex CableComms, Bell Cablemedia and Videotron.

In September 1998, Cable & Wireless acquired MCI Telecommunication Corporation's internet business in the United States and world wide. In the Asia-Pacific region, Cable & Wireless acquired International Digital Communications Inc. (now re-named Cable & Wireless IDC), one of Japan's international telecommunications carriers, in June 1999.

In October 1999, Cable & Wireless completed the sale of its interest in One2One, its UK mobile phone business, to Deutsche Telekom. One2One was a joint venture with MediaOne Group Inc and the joint venture partners received £6.9 billion in cash.

In May 2000, Cable & Wireless took full ownership of the corporate, business, IP and wholesale operations of CWC (**CWC DataCo**), while the consumer telephone, internet and cable TV operations (**CWC ConsumerCo**) were acquired by ntl Incorporated. CWC DataCo was integrated with Cable & Wireless' other similar operations to form Cable & Wireless Global, which brought together the Group's operations in the United Kingdom, continental Europe, the United States and Japan.

At the same time, the Group's other operations were brought together under Cable & Wireless Regional.

In August 2000, Cable & Wireless disposed of its interest in Cable & Wireless HKT Limited (based in Hong Kong) to a subsidiary of PCCW Limited. Cable & Wireless received cash and shares in PCCW equivalent to an interest of approximately 20 per cent. in the enlarged company. PCCW shares were sold in September 2000 for consideration of approximately £930 million reducing the holding to approximately 14 per cent. In June 2003, the Company sold the remaining holding in PCCW as part of a market placement for a consideration of approximately £233 million.

In September 2001, Cable & Wireless disposed of its interest in Cable & Wireless Optus Limited (based in Australia) to a subsidiary of Singapore Telecommunications Limited (**SingTel**). Cable & Wireless received cash and SingTel shares and bonds which were subsequently sold for a total consideration of £2,402 million.

The web services and hosting businesses, Digital Island, Inc. (**DI**) and selected assets and the majority of business activities of EXDS, Inc (formerly Exodus Communications, Inc) (**Exodus**) were acquired in 2002.

***Recent acquisitions and disposals***

In May 2002, Cable & Wireless purchased Guernsey Telecoms Limited from the States of Guernsey for consideration of £22.5 million. The Group paid a further £1.3 million for the assignment of the rights that the States of Guernsey had in a fibre optic cable project which when completed will run from Guernsey to Jersey and France. On 30th September, 2002, the company was renamed Cable and Wireless Guernsey Ltd. The company is a full service provider serving the Bailiwick of Guernsey.

In September 2002, the Company sold its US retail voice customer base for an aggregate consideration of £11 million in cash, payable over approximately two years. This disposal was part of the restructuring of the Company's US business, announced in May 2002. The Company also announced the disposal of certain US retail data customers as part of the same restructuring.

In November 2002, the Company announced that Cable & Wireless would withdraw from domestic business markets in the United States and in continental Europe except for multinational and wholesale customers. It was also announced that Cable & Wireless' established businesses in the United Kingdom and Japan would be reshaped to reduce costs and produce greater focus on profitability and cash flow.

In December 2002, as part of the Initial Public Offering of shares in the Singapore mobile operator MobileOne Ltd, Cable & Wireless sold 60 per cent. of its stake in that company, realising a profit of £54 million before minority interests.

**Organisational structure**

From mid-2000 Cable & Wireless was organised into two business divisions: Cable & Wireless Global and Cable & Wireless Regional. Cable & Wireless Global comprised operations in the United Kingdom, the United States, Japan and continental Europe and concentrated on the provision of services to large and multinational corporates and other service providers. Cable & Wireless Regional's operations were in the Caribbean, Panama, Macau and Rest of World. Rest of World comprises Cable & Wireless Regional's operations in Yemen, Bahrain and the Maldives, together with smaller operations in Seychelles, Diego Garcia, Falkland Islands, Ascension, St. Helena, Guernsey, and Sakhalin in Russia.

From June 2003, the Company is organised with a geographical and customer focus and the Global and Regional distinction has been eliminated.

Current geographical financial data for Cable & Wireless Global included in this business description are based on management's estimates of the allocation of turnover and operating profit or loss attributable to a given geographical region that was included within the business of Cable & Wireless Global. However, as announced, Cable & Wireless intends to focus its business around the key geographical regions in which it operates and will track and report results on that basis. Consequently, in the future, the geographical breakdown of the Group's results for those portions of its business that used to be part of Cable & Wireless Global may not be entirely comparable to the results by geography disclosed when Cable & Wireless reported results by Cable & Wireless

Global (and within Cable & Wireless Global, Wholesale, Enterprise and Business Markets) and Cable & Wireless Regional.

### *Capital Expenditure*

Capital expenditure on plant, equipment and property totalled £0.8 billion in 2003 compared with £1.9 billion in 2002 and £3.4 billion in 2001. This capital expenditure was funded from the Group's general cash resources. Of the capital expenditure spent in 2001, 30 per cent. related to the United Kingdom and 70 per cent. related to the rest of the world; of the capital expenditure spent in 2002, 35 per cent. related to the United Kingdom and 65 per cent. related to the rest of the world; and of the capital expenditure spent in 2003, 42 per cent. related to the United Kingdom and 58 per cent. related to the rest of the world.

Cable & Wireless' capital expenditure in 2003 included the following third party investments:

- network build, totalling £310 million, mainly relating to international and pan-regional capacity as well as the UK network;
- the rollout out of a GSM mobile network in the Caribbean and Panama, together with further expansion of the TDMA mobile network in the Caribbean, totalling £113 million;
- Information Technology (IT), totalling £134 million, including expenditure on billing systems and IT support for capital projects; and
- network terminating equipment and customer premises equipment totalling £134 million.

The above numbers include working capital allocations.

At 1st April, 2003, Cable & Wireless was committed to £135 million of capital expenditure as set out in Note 27 to the Financial Statements included elsewhere in this document (the **Financial Statements**). This capital expenditure will be funded using the Group's general cash resources and includes expenditure on building and rolling-out network, IT provision and the provision of customer contract infrastructure. It is expected that 41 per cent. of this expenditure will relate to the United Kingdom and 59 per cent. to the rest of the world. The Group is currently reviewing all capital expenditure projects with a view to reducing capital expenditure in 2004 compared with 2003.

## BUSINESS OVERVIEW

### Products and services

Cable & Wireless provides a variety of services including voice, data, IP, mobile and hosting services to its customers in its various national operations.

### *Voice*

Cable & Wireless offers domestic and international connectivity via switched and dedicated services to residential, business, corporate and multinational customers. Cable & Wireless also offers leased circuit and facsimile telecommunications services.

Cable & Wireless is a supplier of wholesale voice services and interconnect to mobile operators and carriers with customers including incumbent former monopolies, mobile operators and regional telecommunications companies and service providers.

Cable & Wireless offers mobile voice and messaging services, principally using GPRS/GSM technology and TDMA technology. As at 31st March, 2003, Cable & Wireless subsidiaries and branches provided mobile telecommunications services to 1.6 million customers around the world.

Where Cable & Wireless is the local incumbent operator (the Caribbean, Panama, Macau and Rest of World), business customers are typically served through Cable & Wireless' own fixed line and mobile network facilities. In other regions, business customers are primarily connected to the Cable & Wireless network via third party local loops and leased line facilities or directly via fibre or microwave links.

### *Data*

Cable & Wireless has a portfolio of data services including traditional data transport services (frame relay) and national and international switched and dedicated services based on ATM (Asynchronous Transfer Mode, a high speed digital transmission technology).

In addition, Cable & Wireless operates a GPRS Roaming Exchange service, GRX, which enables mobile operators to offer users secure, high-speed wireless access to data services, such as email or corporate intranet access, wherever they are in the world. As at 31st March, 2003, Cable & Wireless has connected 31 mobile operators direct to the GRX and links more than 90 mobile operators world wide through interconnect agreements.

***IP***

Cable & Wireless focuses on three IP product sets:

IP communications that enable customers to migrate from traditional telecommunications services to IP services with improved functionality; access solutions; and transit to IP networks and the internet. Access solutions include value-added security services such as managed firewalls, intrusion detection and response, scanning and analysis (for example, email virus protection) and authentication and encryption services.

In the Caribbean, Panama, Macau and Rest of World, Cable & Wireless also provides residential and business customers with dial-up IP and other internet services, including broad band ADSL (asymmetrical digital subscriber line) solutions.

***Hosting***

Cable & Wireless offers a range of integrated managed hosting, intelligent network services, content delivery and other value-added services to business customers. Cable & Wireless' US operations generate some 75 per cent. of these revenues.

## Geographic Markets

Cable & Wireless operates in the United Kingdom, the Caribbean, the United States, Japan, continental Europe, Panama, Macau and Rest of World.

Cable & Wireless provides voice, data and IP services to large corporates (**Enterprise**), SME (**Business**) and residential customers. In addition, in the United Kingdom, the Caribbean, the United States, Japan and continental Europe, Cable & Wireless provides specialist wholesale services to carriers, mobile operators and content, application and internet providers (**Wholesale**).

For a discussion of Cable & Wireless' revenue by geographic market for the past 3 years, see "Operating and Financial Review – Turnover".

***United Kingdom***

*Overview*

The UK telecommunications market is mature with a considerable number of competitors, significant network capacity and competitive pricing.

In the United Kingdom, Cable & Wireless is the largest fixed line telecommunications services provider after British Telecommunications (BT), the former state-owned monopoly telecommunications provider. UK operations provide a full range of services from international and domestic voice and data and IP services to complex web hosting solutions.

At 31st March, 2003, Cable & Wireless UK provided services to approximately one third of the UK wholesale market and one sixth of the UK retail telecommunications market.

*Enterprise (Revenue £449 million)*

Enterprise customers consist of large international and national corporate customers to which Cable & Wireless provides a range of direct services and outsourced or customised solutions. In the United Kingdom, Cable & Wireless provides international services to some customers, principally those in the Financial Markets and Media sectors.

*Wholesale (Revenue £725 million)*

Wholesale operations generate some 40 per cent. of Cable & Wireless UK's revenue. The market is highly competitive. Demand from other carriers has fallen as they migrate to their own networks or face lower customer demand and financial difficulties.

In the United Kingdom, the primary customers are mobile operators and the companies which developed after de-regulation (other licensed operators), and Cable & Wireless provides interconnect capacity to enable them to offer national and international coverage to their customers.

Wholesale launched Carrier pre-select (CPS) in July 2002 – a method of indirect voice access, which enables UK residential consumers to select an alternative operator to BT for their voice calls in advance, without having to dial additional codes or programming on-site equipment.

*Business (Revenue £554 million)*

Services to Business customers generated approximately one third of 2003 revenue in the United Kingdom.

Business provides direct and telesales services to smaller corporate customers with less complex requirements. At 31st March, 2003, it had approximately 1,000 such customers. Business also handles central government agencies and institutions.

In addition, approximately 54,000 SME businesses are served by selling the whole range of products and services with and through partners, alliances and third parties.

Cable & Wireless formed the ALLnet group during the year from the integration of six smaller entities. ALLnet provides a single source for hardware installation and maintenance of voice, data and cabling systems, together with systems development and integration for the information and communications technologies industry in the United Kingdom and Ireland.

***Caribbean***

Cable & Wireless operates in 15 Caribbean territories. The principal territories are Jamaica, Barbados, Cayman Islands and Trinidad and Tobago.

In nearly all of the Caribbean territories in which it operates, Cable & Wireless is the incumbent, fixed and mobile operator providing some or all of the domestic and international telecommunications.

In the Caribbean territories where Cable & Wireless subsidiaries and branches provide domestic telephone services, the total number of telephone lines in service totalled approximately 860,000 at 31st March, 2003, an overall decrease of approximately 20,000 in the year. During the same period, the mobile subscribers of these subsidiaries and branches increased by approximately 370,000 to 940,000.

Cable & Wireless has mobile licences in all of its Caribbean territories with the exception of the British Virgin Islands and Bermuda. The Caribbean operations provide a range of mobile services, including pre- and post-paid subscriptions, short messaging service (SMS) and international inbound and outbound roaming.

Cable & Wireless is investing in a new GSM/GPRS (General Packet Radio Services) network in the Caribbean which is expected to be rolled out during 2004, commencing with Jamaica, Barbados and the Cayman Islands. GSM/GPRS technology provides higher transmission speeds enabling Cable & Wireless to offer new mobile services including internet access, multimedia messaging and E-banking.

The Caribbean operations also provide a full range of internet services to customers, including dial-up, direct connect, web hosting, web-site design and its ADSL services which provide broadband access.

Many of the Caribbean markets in which Cable & Wireless operates are in transition from long-standing monopoly environments to competitive markets. With the global trend towards liberalisation of telecommunication markets, Cable & Wireless is actively engaged with host governments, where they desire to reach agreement to end exclusive licences and provide for an orderly transition to a competitive environment. These discussions involve negotiating regulatory arrangements to provide for the orderly introduction of fair, sustainable competition.

The implementation of the liberalisation process is well advanced in many Cable & Wireless host territories. The table below shows the dates of market liberalisation for the principal Caribbean subsidiaries.

| Territory | National | International | Mobile | Data & Internet |
|---|---|---|---|---|
| Jamaica | Sep-01 | Mar-03 | Mar-00 | Mar-00 |
| Barbados | 2011* | 2011* | 2011* | Long standing |
| Cayman | 2011* | 2011* | 2011* | 2011* |

* Indicates discussions about the future of the market are underway. Dates given are relevant to the current licence arrangements.

Subsequent to the commencement of the phased liberalisation process in Jamaica, several other Caribbean governments, notably Barbados and some members of the Organisation of Eastern Caribbean States (**OECS**) have endorsed a broadly similar approach.

On 20th May, 2002, the leaders of certain OECS Countries (Grenada, St Lucia, St Vincent & the Grenadines, St Kitts & Nevis and Dominica) and Cable & Wireless signed an agreement which paves the way for fully competitive markets in these territories. Under this agreement, these markets were fully liberalised with retrospective effect from 1st April, 2002.

*Jamaica*

Jamaica is the largest of the Caribbean operations generating over 40 per cent. of the Caribbean's revenue in 2003. Cable & Wireless holds an 82 per cent. interest in Cable & Wireless Jamaica Limited, the largest provider of telecommunications services in Jamaica.

Cable & Wireless Jamaica provides domestic and international fixed line and mobile telecommunication services to consumers and business customers. In addition to Cable & Wireless Jamaica, there are currently three competitors in the mobile and domestic fixed line sectors, as well as a number of resellers.

The Jamaican telecommunications market is dominated by the mobile sector. Cable & Wireless estimates that there are approximately 2.5 times more mobile subscribers in the market than fixed line.

*Barbados*

Cable & Wireless (Barbados) Limited is 81 per cent. owned and provides domestic and international fixed line and mobile telecommunications services to consumers and business customers.

There are currently no competitors for mobile services but, on 7th March, 2003 the government announced its intention to issue three new mobile licences. There are four other ISPs who offer internet services to end customers over Cable & Wireless' network.

*Cayman Islands*

Cable and Wireless (Cayman Islands) Limited provides domestic, international and mobile services in the Cayman Islands under an exclusive licence, signed in 1991, which expires in 2011. Negotiations are under way with the government to address the future of this licence.

*Trinidad and Tobago*

Cable & Wireless owns 49 per cent. of Telecommunications Services of Trinidad and Tobago Limited (**TSTT**). The controlling 51 per cent. shareholding is owned by National Enterprises Limited, a state-owned company. TSTT provides domestic and international fixed line and mobile telecommunications services to consumers and business customers.

In March 2003, TSTT launched its Mobile GSM/GPRS service, being one of the first islands in the Caribbean to launch a full GSM service.

***United States***

*Overview*

The US business, which includes a number of legal entities, including Cable & Wireless USA, Inc. and Cable & Wireless Internet Services, operates under the brand name Cable & Wireless America, and was formed during 2002. Cable & Wireless America serves the Wholesale, Enterprise and Business customer segments with hosting and IP services generating nearly three quarters of revenue.

The US telecommunications market is a mature market with a considerable number of participants and over capacity in many areas leading to intense competition. In addition, certain competitors in the United States have filed for Chapter 11 protection and may emerge with a significantly lower cost base than the Group and so be able to compete more effectively.

In May 2002, Cable & Wireless announced a restructuring of its existing US business and, in line with this strategy, announced the disposal of the retail voice and data customer bases in September 2002. In response to a further deterioration in trading conditions between March and September 2002, Cable & Wireless conducted a further business review.

In November 2002, a further restructuring of the US business was announced. As part of this restructuring, Cable & Wireless America terminated its international voice and domestic e-messaging businesses in the second half of 2002. During the same period, Cable & Wireless America initiated the migration of customers from data centres to be closed, network rationalisation and consolidation, and headcount reductions.

The restructuring anticipated the closure of 11 data centres, and a reduction in headcount of 2,400. Since making the announcement 5 of the data centres have been closed, and a headcount reduction of 1,900 has been achieved.

The US business continues to be loss making. In 2003, Cable & Wireless America generated revenue of £512 million and incurred a total operating loss of £1,681 million. As discussed under "Description of Cable & Wireless – Corporate Overview", Cable & Wireless has announced its intention to withdraw from its US operations. In connection with consideration of a variety of options, Cable & Wireless' US subsidiaries have taken some initial steps.

***Japan***

*Overview*

In Japan, Nippon Telegraph and Telephone Corporation (**NTT**), the former national incumbent, has approximately 75 per cent. of the overall market. Cable & Wireless IDC Inc has about 3 per cent. of the remaining market, as the fifth largest provider.

Cable & Wireless' operations in Japan serve a full range of customers including residential, local and international businesses. They also provide wholesale services to other operators.

*Business and Residential (Revenue £208 million)*

In Japan, Cable & Wireless IDC sells mostly voice and data products into the small and medium sized business market both directly through its own sales force and also through a variety of agents and partners to access target customers. Over the last year, this particular customer base has been segmented further with larger corporations being accessed exclusively through a direct sales force and with smaller business customers and residential customers now being served exclusively through indirect channels and resellers. Cable & Wireless IDC has 80,000 residential and 20,000 business customers.

*Wholesale (Revenue £75 million)*

Cable & Wireless IDC sells mostly voice products to other operators. This market is in transition as many carriers shift from leased facilities to their own networks.

*Enterprise (Revenue £40 million)*

Cable & Wireless IDC, together with operations across the rest of Asia, also provides a full range of services to large nationals and multinationals from voice and data and IP services to complex web hosting solutions.

***Continental Europe***

The principal operations in Continental Europe are in France, Italy, Germany and Spain, together with smaller operations in Belgium, the Netherlands, Sweden, Switzerland and Russia.

The continental European operations are currently being refocused on Enterprise customers and the existing wholesale business. Operations providing services to the small and medium sized customer market are being sold or shut down.

It is anticipated that the reorganisation will result in a reduction in the European network coverage from 33 to 19 nodes and a reduction in customer numbers from 15,000 to fewer than 1,000.

Wholesale revenues of £223 million represent some three quarters of revenue in continental Europe. The main wholesale customers are mobile operators and telecommunications operators.

Cable & Wireless Europe intends to substantially withdraw from the business customer sector, which accounted for £62 million in 2003, as it is not a financially attractive segment.

Cable & Wireless has completed disposals of certain non-core businesses and assets that had focused on supporting small and medium sized customers in continental Europe. These include the sale of a number of operations in Northern Europe (Belgium, Netherlands, Sweden), Switzerland and Germany. In addition, Cable &

Wireless has reached binding agreement subject to completion of certain preconditions on the sale of its non-core business in Russia. Cable & Wireless is in advanced discussions on the sale of its non-core businesses in France and Spain and expects to complete a transaction in France by September or earlier. The impact of these transactions, taken together, has been to reduce substantially the potential costs of exit from these non-core businesses.

***Panama***

Cable & Wireless owns a 49 per cent. interest in, and has management control of, the largest telecommunications company in Panama, Cable & Wireless Panama S.A. The Panamanian government holds 49 per cent. of the shares while the remaining 2 per cent. are held by the company's employees through a trust fund.

During 2002 and 2003, approximately 40 new licences were issued to operators to commence offering basic voice telephony services during 2003. Cable & Wireless Panama is in the process of negotiating interconnection agreements with several of these operators. At 31st March, 2003, competition in fixed line services was largely confined to international and national long-distance services.

There are two licensees in the mobile market in Panama: Cable & Wireless Panama and BSC de Panama SA (Bell South). Cable & Wireless was the second entrant into this market. Cable & Wireless believes that mobile penetration in Panama is relatively low at approximately 15 per cent.

Cable & Wireless Panama provides a full range of internet services to customers, including dial-up, web hosting, web-site design and broadband access. The internet sector has always been competitive and at 31st March, 2003 there were some 70 competitors in the sector.

***Macau***

In Macau, Cable & Wireless' subsidiary is Companhia de Telecomunicações de Macau S.A.R.L. (**CTM**). CTM is managed and 51 per cent. owned by Cable & Wireless. The other shareholders of CTM are Portugal Telecom Group, 28 per cent., CITIC Pacific Limited, 20 per cent., and Direcção dos Serviços de Correios de Macau, 1 per cent.

CTM has exclusive rights to operate fixed local and international telecommunications services within, to and from Macau until the end of 2011.

In the Macau telecommunications market, mobiles outnumber fixed lines. The mobile market was liberalised in 2001 and two competitors launched services in August 2001.

In Macau, CTM offers fixed local and international services and a full range of mobile services including GSM/GPRS and Multi-Media Messaging Services via eight branded retail outlets. CTM also provides a full range of internet services to customers, including dial-up, web hosting, web-site design and broadband access.

In 2002, Cable & Wireless was granted international services-based telecommunications licences in Hong Kong and Singapore and now provides data and internet services to business customers. The facilities in Hong Kong started carrying commercial traffic in January 2002, those in Singapore in April 2002. Macau provides back office and management services to these operations.

***Rest of World***

Rest of World comprises Cable & Wireless' businesses in Yemen, Bahrain and the Maldives, smaller operations in the Seychelles, Diego Garcia, Falkland Islands, Ascension, St Helena, Guernsey and Sakhalin in Russia, together with Cable & Wireless Regional's head office functions. Yemen and the Maldives account for 59 per cent. of the Rest of World revenue.

*Yemen*

Cable & Wireless provides international services to and from the Yemen through the Yemen International Telecommunications Company (L.L.C.) (**TeleYemen**) of which Cable & Wireless owns 51 per cent. TeleYemen holds the exclusive licence to provide international services to and from the Yemen. TeleYemen also has licences to provide an analogue mobile service and is an Internet Service Provider. These licences expire on 31st December, 2003. Cable & Wireless has begun negotiations with the government in respect of these licences.

*Maldives*

Cable & Wireless has a 45 per cent. interest in, and management control of, Dhivehi Raajjeyge Gulhun Private Limited (**Dhiraagu**). The remaining 55 per cent. is held by the government of the Maldives. Dhiraagu provides domestic and international fixed and mobile telecommunication services to consumers and business customers. Internet services were liberalised in January 2003.

*Bahrain*

Cable & Wireless owns 20 per cent. of Bahrain Telecommunications Company (**Batelco**). Batelco provides domestic and international fixed line and mobile telecommunication services to consumer and business customers. The telecommunications market in Bahrain has begun liberalisation and Batelco has begun discussions with the government in respect of future licensing arrangements.

**Infrastructure**

In the Caribbean, Panama and Macau, Cable & Wireless typically operates as the domestic incumbent, owning and operating the domestic fixed line networks and associated international interconnect facilities. Cable & Wireless also has network reach within the domestic markets of the United Kingdom, Japan and the United States. In other countries and territories, including Yemen, Cable & Wireless operates primarily as an international gateway, without extensive domestic networks.

Cable & Wireless is the world's fourth largest international carrier of voice traffic and operates significant international submarine cable and satellite systems which are centrally managed within the United Kingdom. The IP backbone AS3561, provides seamless IP connectivity to the United Kingdom, United States, European and Japan regions.

Many of Cable & Wireless' subsidiaries also own and operate mobile networks, including in the Caribbean (TDMA network in Jamaica, GSM/GPRS in Trinidad and Tobago), Panama (TDMA and GSM/GPRS), Macau (GSM/GPRS), the Maldives (GSM) and Bahrain (GSM). Cable & Wireless companies also operate 45 data centres within the United States, Japan and the United Kingdom offering a wide selection of web-based and hosting services.

**REGULATORY FRAMEWORK**

Cable & Wireless, in common with other international telecommunication providers, faces regulatory and market access constraints in various countries resulting from restrictive laws, policies and licensing requirements. This reflects the perception of telecommunications as a public service, a history of special or exclusive rights to provide services and, often, a structured move towards liberalisation and the introduction of competition. Generally, specialist telecommunications regulation is administered through enforcement of conditions contained in operating and service licences held by the Group and its subsidiaries.

Approximately 60 per cent. of Cable & Wireless' network services revenues are derived from the United Kingdom, the United States and continental Europe, in each of which the telecommunications sector has been largely liberalised and competition introduced in the services Cable & Wireless provides.

Many of the other markets in which Cable & Wireless operates are in transition from long-standing monopoly environments to competitive markets. With the global trend towards liberalisation of telecommunication markets, Cable & Wireless is actively engaged with host governments who desire it to reach agreement to end exclusive licences and provide for an orderly transition into a fully competitive environment. The discussions involve negotiating fair regulatory arrangements to provide for equal treatment and opportunity during the transitional period.

Nevertheless, some restrictive telecommunications laws and regulations are expected to continue in force, giving rise to residual constraints, risks and uncertainties that will affect Cable & Wireless' ability to develop and market its full portfolio of services.

A key regulatory issue in many markets is the need for 'rebalancing', the removal of cross-subsidies between international services and domestic services by increasing domestic charges and reducing international rates. There is further impetus to rebalance in the form of external pressure on international settlement rates.

The Group believes it materially complies with regulatory obligations and where regulatory compliance issues emerge it intends to take action as necessary to ensure compliance.

## Licensing

Cable & Wireless provides international and domestic telecommunications services under exclusive and non-exclusive licences in the jurisdictions in which it operates. These licences are either held by Cable & Wireless itself or by local operating entities owned either wholly or partly, directly or indirectly, by Cable & Wireless.

The Group believes it has all licences material to the running of its business. It is possible that from time to time, as further products and services are deployed or changed, additional licences or authorisations will be required. Where the Group identifies the need for further licences or authorisations, it intends to acquire such licences. The terms of the Group's licences vary, although most remain in effect for a fixed period of between 10 and 25 years, or for an indefinite period subject to notice of termination after a specified minimum period. Licence fees are sometimes required, either as a fixed annual fee or a fee equal to a percentage of the revenue arising from the licence.

Following the implementation of the European Electronic Communications Directives on 25th July, 2003, Member States of the European Union will no longer issue individual telecommunications licences to companies except in exceptional circumstances such as the allocation of spectrum. Therefore, Cable & Wireless expects that substantially all telecommunications licences Cable & Wireless holds in European Union Member States will be revoked. However, Cable & Wireless will continue to offer telecommunications services subject to obligations set forth in general conditions as dictated by the Electronic Communications Directive and individual Member States.

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

Across the world, the trend in telecommunications regulation is for governments and regulators to promote liberalisation and to replace exclusive licences with non-exclusive licences and rules governing competition between operators. Jurisdictions that currently support monopoly provision may also decide to promote competition, and Cable & Wireless expects that some of the remaining exclusive licences will not be renewed on an exclusive basis or that governments will seek to withdraw their exclusivity before the licence expires.

The Group has committed itself to entering discussions regarding the introduction of competition in any territory where the relevant government wishes to do so.

There is no guarantee that an agreement to provide either a monopoly or franchised service will remain in effect for the full term of the agreement.

## Regulation by Jurisdiction

The regulatory institutions and policies of the jurisdictions in which the Group operates are varied. Regulators in markets for the Group include the Office of Telecommunications and Office of Fair Trading in the United Kingdom, the Ministry of Public Management, Home Affairs, Posts and Telecommunications in Japan, and the Federal Communications Commission and Department of Justice in the United States. Cable & Wireless USA is also subject to state regulations when it provides intra-state services. National regulators and competition authorities in continental Europe are also significant. The regulatory framework for member states of the European Union is principally established through Directives of the European Parliament and Council developed at the working level by the European Commission. The Group's operations in the Caribbean are regulated by national or regional regulators, some of which are independent statutory bodies like the Office of Utilities Regulation in Jamaica, the Eastern Caribbean Telecommunications Authority, which is the regional regulator for several member countries of the Organisation of Eastern Caribbean States, and the Fair Trading Commission in Barbados. The national regulator, Ente Regulador de los Servicios Publicos, regulates the Group's operations in Panama.

### *United Kingdom*

The telecommunications market in the United Kingdom is regulated under the Telecommunications Act 1984 (**UK Telecoms Act**). The UK Telecoms Act established the Director General of the Office of Telecommunications (**Oftel**) as the independent industry regulator. As a member of the European Union, the UK government must also ensure that the UK regulatory framework for communications complies with relevant EU directives.

As a network operator, Cable & Wireless UK has the right to request and receive cost-based interconnection for switched voice services and leased line access circuits (**Partial Private Circuits**) from BT on non-discriminatory terms. Such services are subject to network charge controls. Oftel is currently formulating a new proposed framework for regulating dominant providers of network facilities. However, Cable & Wireless expects that the regulation of BT with respect to Partial Private Circuits and switched voice interconnect will be broadly similar to the regulations in place today.

Cable & Wireless has been designated as having 'Market Influence' on a number of International Direct Dial (**IDD**) routes from the United Kingdom. In total there are 37 retail IDD routes and 38 wholesale IDD routes where Cable & Wireless currently is designated with Market Influence status, although these designations are currently under review as part of the process for implementing EU directives. Subject to consultation, it appears that following the implementation of the package of directives, Cable & Wireless will have a designation of 'Significant Market Power' on wholesale IDD services from the United Kingdom to four destinations: Andorra, Ascension Island, Montserrat and Turks & Caicos.

The British government is reforming existing telecommunications and broadcasting legislation and draft legislation was introduced to Parliament in November 2002 in the form of a Draft Communications Bill. It is proposed that the Bill will update broadcasting and telecommunications legislation taking into account the requirements of the EU Telecommunications Directives. It will also lay out the powers held by the Office of Communications (**Ofcom**), the new regulator that was created in 2002. The Chairman, Chief Executive and various Board Members of Ofcom have now been appointed, although they have no power to act until Ofcom formally replaces the existing broadcasting and telecommunications regulators in late 2003 or 2004.

***Europe***

Cable & Wireless operates under separate licences in Austria, Belgium, France, Germany, Greece, Italy, Ireland, the Isle of Man, Luxembourg, the Netherlands, Norway, Portugal, Russia, Spain, Switzerland, and the United Kingdom. The regulatory framework in member states of the European Union is harmonised by EU directives though, in practice, there are divergences in regulatory policy and practice between member states.

The European Union adopted a new package of harmonising directives (Framework, Authorisation, Universal Service, Access and Interconnection and Data Protection directives) in April 2002. Member states must implement the directives by 25th July, 2003. The package uses the concept of significant market power to determine which operators should have prior obligations placed on them, on the grounds that such operators might exploit that market position to the detriment of competition and therefore consumers.

One of the markets being reviewed is the market for call termination on fixed public telephone networks. It is likely that National Regulatory Authorities will decide that all operators of public voice telephony networks have significant market power on calls terminating on their own networks. If this is the case, Cable & Wireless would be designated as having 'Significant Market Power' for calls terminating on each of Cable & Wireless' national voice networks. However, due to this concept being applied to all operators, obligations are likely to be minimal and the Group expects there will be little or no competitive impact.

***Japan***

Cable & Wireless IDC holds a Type I (facility holding and service providing) licence and a General Type II (service providing) licence. Among the services Cable & Wireless IDC provides in Japan are web hosting, international and domestic voice and data services, Internet Protocol access, managed corporate services, and wholesale services to other carriers in the Asian region.

The Japanese legislature is undertaking a reform of Telecommunication Business Law. This reform is likely to abolish the separation of telecommunication business licences between Type I and Type II, and allow a significant degree of tariff deregulation, relieving non-dominant operators of the need to file tariffs. This revision may also introduce a degree of tariff deregulation to Nippon Telegraph and Telephone Corporation (**NTT**), the incumbent telecommunications provider, which could impact Cable & Wireless IDC's pricing competitiveness in certain instances. The legislature is expected to pass the new Telecommunication Business Law in the second half of calendar year 2003, with related implementation ordinances drafted thereafter. The new Telecommunication Business Law is expected to come into force during calendar year 2004.

NTT East and NTT West, which serve the eastern and western areas of Japan respectively, have secured authorisation for regional IP access services within their service areas. These authorisations may increase the degree of competition faced by Cable & Wireless IDC, but also provide some benefits to the company through the availability of cheaper wholesale data services.

Interconnection charges for origination and termination of traffic on the networks of NTT East and NTT West impact the profitability of Cable & Wireless IDC's voice business. The Ministry of Public Management, Home Affairs, Posts and Telecommunications (**MPHPT**) regulates these interconnection charges. Certain interconnection charges used by Cable & Wireless IDC's voice services increased by 12 per cent. on 1st April, 2003 and there is the possibility of further retrospective increases later in this year. Current regulatory proceedings could assist Cable & Wireless IDC by allowing it to set retail prices for calls-to-mobiles, which prices are currently set by the mobile network operators. A MPHPT working group is currently studying these arrangements, particularly in relation to calls originated on the subscriber lines of NTT East and NTT West. The MPHPT working group is due to report during calendar year 2003.

Legislation to establish a Universal Service Fund was passed in 2001, but the Japanese government has not yet announced an intention to impose levies on carriers. There remains, however, a possibility that Cable & Wireless IDC will be liable to make payments in future years. There is also a proposed cap on contributions at 3 per cent. of retail voice revenue, thereby limiting overall liability in any given year.

***United States***

The principal legislation regulating telecommunications services in the United States is the Communications Act of 1934 as amended by the Telecommunications Act of 1996 (**US Communications Act**). Title II of the US Communications Act establishes a comprehensive regulatory regime for common carriers involved in interstate or international communications by wire. Cable & Wireless USA is licensed under the US Communications Act.

Because it offers interstate and international telecommunications services to businesses generally and not just to selected customers, Cable & Wireless USA Inc., for regulated services, is a common carrier subject to Title II regulation.

Title II requires common carriers to provide telecommunications services upon reasonable request, to provide services on rates and terms which are just and reasonable, to obtain the approval of the Federal Communications Commission (**FCC**) for the construction of new or the extension of existing international facilities and for the initiation and discontinuance of service offerings, and to comply with any applicable orders issued by the FCC. The FCC has, by regulation, suspended certain other requirements for non-dominant common carriers providing domestic interstate telecommunications services. Cable & Wireless USA is deemed a non-dominant common carrier in the provision of interstate domestic service. Cable & Wireless USA may thus, under the current FCC regulation, construct new interstate facilities, offer new services and set interstate prices with minimal FCC review, subject only to general FCC reporting requirements. As a common carrier of interstate telecommunications services, Cable & Wireless USA is also required to contribute to the Federal Universal Service Fund.

Cable & Wireless USA offers international telecommunications services principally on a resale basis. On some routes, Cable & Wireless USA is deemed a dominant carrier because it is an affiliate of a foreign carrier that is considered by the FCC to be dominant in that foreign market.

Subsequent to its acquisition of selected assets of Exodus, Cable & Wireless began discussions with the US government regarding the terms on which the company might file and clear review by the Committee on Foreign Investment in the United States (**CFIUS**). Given Cable & Wireless' announcement of its intention to exit the US business market, the discussions have been discontinued.

***Other markets***

During the year, both Panama and Jamaica reached the conclusion of a phased liberalisation process, with the opening of all market sectors to competition in January and March 2003, respectively. Both these processes proceeded as contemplated in agreements struck between Cable & Wireless and the governments of those territories. Subsequent to the commencement of the phased liberalisation process in Jamaica, several other Caribbean governments, notably Barbados, and some members of the Organisation of Eastern Caribbean States, have endorsed a broadly similar approach.

**Regulation relating to Online Content and Internet Protocol Networks**

***Online Content***

Governments around the world are adopting and proposing legislation and regulations, and courts are creating case law, making certain types of online content illegal. A critical issue in the development of those legislative and regulatory arrangements is whether Cable & Wireless, as a web hosting and internet service provider, might be deemed responsible for illegal content or illegal conduct related to legal content (for example, downloading copyrighted material) operated or controlled by customers of Cable & Wireless services. At present, most jurisdictions have taken a position that the content provider, not the web hosting provider or internet service provider, is responsible for the content that it develops or posts, an approach supported by Cable & Wireless. Copyright law in the United States and European Union extends protection to digital works distributed over the internet and clarifies the hierarchy of liability for infringements of copyright. Also, the European Union has adopted a directive that makes it clear that service providers are not liable for hosted content but must take appropriate action when notified that illegal content resides on their network.

In addition, industry self-regulation is actively encouraged in the United States and by the European Commission and the industry supports a number of successful self-regulatory initiatives world wide. For example, many governments have endorsed the Internet Content Rating Association as a model for the self-labelling and rating of websites, which empowers parents to filter internet content viewed by their children. An extensive network of national hotlines for internet users to report criminal content (mainly child pornography) is operating well, co-funded by industry and government.

Between countries there is the possibility for conflict concerning the definition of illegal internet content. Consequently, Cable & Wireless recognises the risks that content legally hosted in one jurisdiction may give rise to a breach of national laws when accessed in another jurisdiction. The industry as a whole faces this situation and it remains one of the key policy issues to be resolved as national governments determine the appropriate legal framework for the internet.

An increasing number of countries have strengthened national anti-terrorism laws and the protection of national communications infrastructure. Measures include modifications to the framework for legal interception, access to retained or preserved data and, in the case of the United Kingdom and some continental European countries, moves to extend retention periods for law enforcement purposes.

***Internet protocol (IP) networks***

At present, regulation of IP networks is minimal. Some national regulators and international organisations (for example, the International Telecommunication Union) have been discussing market concentration in IP backbone services. Also, there is ongoing debate in international regulatory circles about the cost of connectivity from developing countries to the internet and the impact that such costs may have on the 'digital divide'. In the United States and the European Union, regulators appear to be of the view that, at this time, there is an acceptable level of market concentration in IP backbone services and competition law is an adequate safeguard against excessive concentration and the abuse of market power and that, consequently, no special regulation of IP networks is required.

## PROPERTY

The property portfolio of Cable & Wireless and its subsidiaries at 31st March, 2003 amounted to approximately 16 million square feet of freehold and leasehold technical and office space, located primarily in the United Kingdom and United States, although the spread of properties extends across Continental Europe, Asia, and the Caribbean. Numerically, the bulk of properties are technical and house equipment necessary to support Cable & Wireless' operations worldwide.

The vast majority of the existing portfolio is leased. In general, Cable & Wireless' technical properties enjoy the protection of telecommunications legislation, which has the aim of ensuring the continuity of Cable & Wireless' networks.

Over the last few years, most Cable & Wireless companies have initiated major projects with the aim of substantially reducing the size of their property portfolios, to match Cable & Wireless' streamlined headcount and business rationalisation. Project planning is well advanced, generally focusing on reducing office space which is easier to dispose of because there are fewer constraints than apply to technical properties and there is a larger market for office properties.

Whilst disposals are being pursued across the Group as part of these projects, acquisition of both office and technical sites still occurs where required.

## LEGAL PROCEEDINGS

### *Class action litigation against Cable and Wireless plc*

Between December 2002 and February 2003, ten shareholder class action lawsuits were filed in the United States District Court for the Eastern District of Virginia naming Cable and Wireless plc and several of its officers and Directors as defendants.

In March 2003, the court consolidated all of the cases into one action, styled as In re Cable and Wireless plc Securities Litigation, Civil Action No. 02-1860-A. The Court has appointed Ontario Teachers' Pension Plan Board, an institutional investor located in Canada, and Alex Osinski, a U.S. citizen, as co-lead plaintiffs (collectively **lead plaintiffs**) to prosecute on behalf of all plaintiffs.

In May 2003, the lead plaintiffs filed a consolidated complaint that alleges violations of certain sections of the Securities and Exchange Act of 1934 and the rules promulgated thereunder. A central allegation is that the defendants made false and misleading statements about the Company's financial condition by failing to disclose on a timely basis the existence of a tax indemnity and a ratings trigger to place money in escrow until any liability which the Company may have had under the tax indemnity was finally determined. The indemnity and ratings trigger appear in an agreement between the Company and Deutsche Telekom for the sale of the Company's interest in the mobile telephone company that operated under the name One2One.

In addition to the allegations relating to the tax indemnity, the consolidated complaint also alleges that the defendants made false and misleading statements by: (1) failing to disclose certain lease liability commitments and (2) improperly recognising revenue received from sales of capacity to other carriers.

The plaintiffs seek unspecified money damages in their complaints and, accordingly, it is not possible to set out the quantum of these claims.

Cable & Wireless believes that it has meritorious defences to these claims and intends to vigorously defend itself in this litigation.

### *Dispute with IBM UK Limited*

Disputes between (1) Cable and Wireless plc and IBM United Kingdom Limited, (2) Cable & Wireless USA, Inc. and International Business Machines Corporation and (3) IBM Japan Limited and Cable & Wireless IDC Incorporated (collectively **Cable & Wireless** and **IBM** respectively) have arisen out of a Global Framework Agreement (**GFA**) dated 20th December, 2000, and related agreements, pursuant to which IBM agreed to supply to Cable & Wireless information technology services.

In order to monitor the quality of the services provided by IBM, including price and service levels, the GFA contains 'benchmarking' provisions, which set out the processes and procedures by which the services provided by IBM are to be assessed against a pre-determined objective. In February 2002, the parties engaged Compass America Inc (**Compass**) to conduct a benchmark for the 14 month period from 1st January, 2001 to 28th February, 2002, the results of which revealed significant levels of overcharging by IBM.

Disputes arose as to whether the GFA obliged IBM to repay to Cable & Wireless the amounts that the benchmark established it has been overcharged and as to whether the Compass reports were valid both in terms of their substance and conformity with the GFA benchmarking requirements. On 4th July, 2002, the Company issued proceedings for a declaration that it is entitled to compensation from IBM UK for any period of overcharging, including past overcharging, and to compensation in respect of overcharging as identified by Compass.

After an inconclusive Court-ordered mediation that took place in December 2002, the Court ordered an expedited trial of all matters in issue between the parties. Full pleadings were then exchanged. Cable & Wireless seeks a declaration as to the meaning of certain overcharging related provisions of the GFA and compensation for overcharging by IBM. From January 2001 to the date Cable & Wireless' proceedings were issued, its claim in respect of overcharging by IBM amounts to approximately £115 million in respect of the United Kingdom and approximately US$22 million in respect of the United States. For each month that IBM refuses to reduce its charges a further substantial overcharge arises. IBM UK and IBM US seek the declaration in respect of the Compass reports referred to above and IBM UK has brought counterclaims in respect of work it alleges Cable & Wireless should have given to it under the GFA and claims damages to be assessed. IBM Japan Limited seeks payment of certain charges allegedly due and payable to it by Cable & Wireless IDC Inc. Subsequently, on 21st February, 2003, the Court directed that Cable & Wireless' claim as to the meaning of certain overcharging related provisions of the GFA should be heard separately from the other claims and counterclaims as a preliminary issue. The preliminary issue has been set for trial in September 2003.

Cable & Wireless believes that it has meritorious defences to the counter claims asserted by IBM and intends to vigorously defend itself in this litigation.

***Claim by APCC Services, Inc. and others***

On 30th March, 2001, a complaint was filed in the US District Court for the District of Columbia against Cable & Wireless USA, Inc. and was served on Cable & Wireless USA, Inc. on 25th June 2001. The complaint was filed by a group of billing and collection agents on behalf of hundreds of entities that own and operate public payphones throughout the United States. The complaint alleges that Cable & Wireless USA, Inc. violated the US Communications Act and the rules, regulations, and orders of the Federal Communications Commission by not adequately compensating the independent payphone operators for toll free and access code calls that were made from the independent payphone operators' payphones and carried over Cable & Wireless USA, Inc.'s network.

The complaint seeks approximately US$5 million in monetary damages. In August 2001, Cable & Wireless USA, Inc. and the plaintiff entered into a tolling agreement whereby the obligations of the parties in litigation would be suspended until 1st November, 2001, while the parties attempted to resolve the dispute informally. Plaintiffs refiled their complaint which is now pending in the US District Court for the District of Columbia. The parties agreed to a confidential, non-binding, third-party neutral evaluation for settlement purposes which is currently ongoing.

Cable & Wireless USA, Inc. believes that it has meritorious defences to the claims. If the dispute is not resolved through the neutral evaluation process, Cable & Wireless USA, Inc. intends to vigorously defend the action.

***Litigation against Digital Island, Inc./Cable & Wireless Internet Services, Inc.***

As described in "Description of Cable & Wireless – History", in 2002 Cable & Wireless acquired 100 per cent. of Digital Island, which is now known as Cable & Wireless Internet Services, Inc.

Akamai Technologies, Inc. (**Akamai**) and the Massachusetts Institute of Technology (**MIT**) filed a patent infringement suit against Digital Island on 13th September, 2000 in the US District Court for the District of Massachusetts, alleging that a version of Digital Island's content delivery service infringes a patent owned by MIT and licensed exclusively to Akamai. On 20th September, 2000, Akamai and MIT filed a further claim alleging infringement by Digital Island of a second Akamai patent.

On 21st December, 2001, a jury invalidated three of the claims related to one of the Akamai patents. The jury also found that Digital Island infringed one independent claim and three dependent claims of this patent. Digital Island was found not to have infringed the other patent. On 23rd August, 2002, the Court entered a permanent injunction prohibiting further infringement of certain of the surviving claims. Cable & Wireless has revised its content delivery service (at little cost to and with no other effect on its customers) in such a way that Cable & Wireless believes that the infringement no longer exists and that the injunction is of no effect. Nevertheless, on 17th September, 2002, Akamai filed a contempt motion with the Court asserting that Cable & Wireless Internet Services, Inc. is violating the injunction by continuing to infringe the surviving Akamai claims. The Court denied Akamai's motion on 1st November, 2002. A damages trial has not yet been scheduled on the infringed claims. In the meantime, Cable & Wireless has appealed the permanent injunction against it to the United States Appeals Court for the Federal Circuit. Oral argument was heard on 6th June, 2003, and a decision is pending.

On 22nd January, 2003, Akamai filed a patent infringement suit against Cable & Wireless Internet Services, Inc. in the US District Court for the Eastern District of Virginia, alleging that the Cable & Wireless content delivery service infringes a recently-issued patent owned by Akamai. Upon motion by Cable & Wireless Internet Services, Inc. the case was transferred to the District Court for the District of Massachusetts.

On 22nd April, 2003, Akamai filed a patent infringement suit against Cable & Wireless Internet Services, Inc. in the US District Court for the District of Massachusetts, alleging that the Cable & Wireless content delivery service infringes a patent issued to Akamai that same day. Akamai has not yet effected service of the complaint in this case.

On 29th August, 2002, Teknowledge Corporation (**Teknowledge**) filed a patent infringement suit against Cable & Wireless Internet Services, Inc., Akamai, and Inktomi Corporation in the US District Court for the District of Delaware, alleging that the content delivery service of each defendant infringes a patent owned by Teknowledge. Upon motion by Cable & Wireless Internet Services, Inc. the case was transferred to the District Court for the Northern District of California.

Cable & Wireless Internet Services, Inc. believes that it has meritorious defences to the outstanding claims asserted in these cases and intends to vigorously defend itself in these cases. The plaintiffs have elected not to specify damages in their claims and, accordingly, it is not possible to set out the quantum of these claims.

***Class actions against Digital Island, Inc. in connection with its initial public offering***

In August 2001, Digital Island became aware that two purported shareholder class action lawsuits were filed in the US District Court for the Southern District of New York naming Digital Island as a defendant along with certain of its present and former officers and Directors and alleging violations of certain sections of the Securities Act 1933 and the Securities Exchange Act 1934.

The actions (which now include a third suit making virtually identical claims and allegations) allege that the Registration Statement and Prospectus through which Digital Island conducted its initial public offering (**IPO**) in June 1999 was false and misleading because it failed to disclose, amongst other things, that:

(i) the underwriters of the IPO allegedly had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the restricted number of Digital Island shares issued in connection with the IPO; and

(ii) the underwriters allegedly had entered into agreements with customers whereby the underwriters agreed to allocate Digital Island shares to those customers in the IPO in exchange for which the customers agreed to purchase additional Digital Island shares in the after market at pre-determined prices.

On 15th July, 2002, Cable & Wireless Internet Services, Inc. moved to dismiss all claims against it. On 19th February, 2003, the Court denied the motion to dismiss.

Cable & Wireless Internet Services, Inc. is now engaged in settlement discussions with the plaintiffs. Notwithstanding this, Cable & Wireless Internet Services, Inc. believes that it has meritorious defences to these claims and, should the settlement discussions prove unsuccessful, intends to vigorously defend itself in any such litigation. The plaintiffs have elected not to specify damages in their claims and, accordingly, it is not possible to set out the quantum of these claims.

***Class action securities litigation against Digital Island, Inc., Cable & Wireless and others***

Digital Island, Cable and Wireless plc, Dali Acquisition Corp. (**Dali**) (a former subsidiary of Cable & Wireless), and certain of the then present and former Directors of Digital Island, have been named as defendants in six separate putative class action lawsuits alleging various claims arising out of Cable & Wireless' acquisition of Digital Island in August 2001. Three of the lawsuits were filed in the US District Court for the District of Delaware and three were filed in the Delaware Court of Chancery. The three federal lawsuits were consolidated into a single case, and, while the plaintiffs' motion to consolidate the three state cases was granted on 24th April, 2002, the plaintiffs have yet to file a consolidated, amended complaint.

The federal suit alleged that the defendants violated federal securities laws by failing to disclose on a timely basis that Digital Island had entered into certain business agreements with Bloomberg, L.P., and Major League Baseball. It further alleged that compensation agreements with certain officers and/or Directors of the company violated the federal securities 'all-holders' rule. One state lawsuit alleged violations of Delaware law based upon similar allegations.

The other two state lawsuits alleged various violations of Delaware law against the same corporate defendants and the present and former Digital Island Directors, including that they failed to disclose all material facts relating to Digital Island's relationship with Microsoft, and that they failed to obtain a fair price for Digital Island shares.

On 10th September, 2002, a federal judge granted the defendants' motion to dismiss the federal lawsuits with prejudice. Plaintiffs have appealed the decision to the US Circuit Court of Appeals for the Third Circuit. Cable & Wireless believes that it and its subsidiaries have meritorious defences to the claims asserted in these lawsuits, and intends to continue to vigorously defend itself in that litigation as well should the plaintiffs pursue those claims. The plaintiffs have elected not to specify damages in their claims and, accordingly, it is not possible to set out the quantum of these claims.

### *Litigation with Cibertec International, S.A. and Inversiones Kamasu, S.A.*

Cibertec International, S.A. and Inversiones Kamasu, S.A. initiated proceedings against Cable & Wireless Panama, S.A. and Cable and Wireless (CALA Management Services) Limited in Panama on 29th October, 1999. The claim is for approximately US$125 million and alleges breach of contract. On 18th November, 2002, the Panamanian Circuit Court handed down a decision against Cable & Wireless Panama, S.A. awarding damages of US$67,255,000, including moral damages and costs. The Court decided that Cable & Wireless Panama, S.A. had failed to maintain in sufficient confidence certain of the proprietary information of the plaintiffs.

Cable & Wireless Panama, S.A. appealed the judgement on 3rd December, 2002 and intends to pursue this appeal vigorously. Pending the resolution of its appeal, Cable & Wireless Panama, S.A. is not obliged to pay, and has not paid, any of the awards against it.

### *Claim against the Minister of Finance and Economy*

On 16th December, 2002, a complaint was filed at the Supreme Court of Justice of Panama against the Minister of Finance and Economy in Panama alleging that the Operating Agreement executed between Cable and Wireless (CALA Management Services) Limited and INTEL, S.A. (now Cable & Wireless Panama, S.A.) as part of the privatisation agreements was null and void *ab initio*, on the grounds that it had not been published in the Official Gazette in Panama.

On 21st March, 2003, the Court admitted the claim against the Minister of Finance and Economy.

Panamanian counsel consider this claim to be without merit and none of Cable and Wireless plc, Cable & Wireless Panama, S.A. or Cable and Wireless (CALA Management Services) Limited are parties to the complaint. However, if the complaint were to be successful and the Operating Agreement declared null and void, then the complainants could file a complaint against Cable and Wireless (CALA Management Services) Limited requiring the return of all management fees collected under the agreement since its execution. This would amount to approximately £60 million. In the event that this complaint is successful, Cable & Wireless and its subsidiaries intend to vigorously pursue any legal recourse available to them.

### *Claim by Caribtel (Caribbean) Limited*

On 9th May, 2003, Caribtel (Caribbean) Limited, a telecommunications operator specialising in calling cards, filed a suit against Cable & Wireless Jamaica Limited in the Supreme Court of Judicature of Jamaica. Caribtel has alleged that Cable & Wireless Jamaica Limited wrongfully disconnected Caribtel's local access telephone services, resulting in a breach of contract and a violation of the Jamaican Fair Competition Act and the Telecommunications Act. Caribtel is claiming US$50 million of lost income to its pre-paid local access calling card business for the period from 25th April, 2003 to 25th April, 2006. Caribtel has also claimed aggravated and/or exemplary damages of Jamaica $300 million (approximately £2.94 million) and is seeking injunctive relief to have Cable & Wireless Jamaica Limited reinstate Caribtel's local access telephone service.

On 22nd May, 2003, Caribtel presented a petition for injunctive relief before the Supreme Court of Jamaica requesting that Cable & Wireless Jamaica Limited be required to reinstate Caribtel's local access telephone service; be restrained from disconnecting any other telecommunications facility currently supplied to Caribtel's business premises until trial; and be prevented from calling on a prior bank guarantee that Caribtel had provided to Cable & Wireless Jamaica Limited in conjunction with a settlement agreement entered into between the parties in February 2003 relating to breaches of contract by Caribtel in December 2002. The injunctions were not granted by the court. However, Cable & Wireless Jamaica Limited gave an undertaking that it would not disconnect the direct internet access facility pending a hearing scheduled for 2nd June, 2003.

Prior to the hearing of 2nd June, 2003, Caribtel approached Cable & Wireless Jamaica Limited with a view to arriving at a settlement. The parties entered into negotiations as a result of which the matter was taken off the court list by consent of both parties. The parties were unable to arrive at a settlement due to the fact that Caribtel has since opted not to execute the proposed settlement agreement. In light of these developments, Cable & Wireless Jamaica Limited has instructed its attorneys to relist the matter for hearing in Court. Management intends to contest the case vigorously and is confident that Cable & Wireless Jamaica Limited will successfully prove that Caribtel had been operating in flagrant breach of contract and that Cable & Wireless Jamaica Limited was therefore entitled to terminate the contract and disconnect the relevant service.

***Arbitration between Tilts Communications A/S/Cable and Wireless plc/Sonera OY and Republic of Latvia/ Lattelekom SIA***

In September 2001, Cable and Wireless plc was joined as a party to an arbitration in connection with its former participation with Sonera OY (**Sonera**) in the joint venture Tilts Communications A/S (**Tilts**). Through Tilts, Cable and Wireless plc and Sonera purchased a 49 per cent. shareholding in a Latvian telecommunications company, Lattelekom SIA (**Lattelekom**) in 1994. Cable and Wireless plc sold its interest in Tilts to Sonera in June 1998.

Tilts commenced arbitration proceedings in August 2000 against the Republic of Latvia alleging a number of breaches of an agreement signed in 1994 by Tilts, Lattelekom and the Republic of Latvia (the **Umbrella Agreement**). Tilts claims a total of approximately LVL87.6 million (approximately £95 million) from the Republic of Latvia as compensation for, amongst other things, losses sustained as a consequence of the shortening of the twenty year exclusivity period granted to Lattelekom as the provider of fixed line telecommunications services.

The Republic of Latvia has asserted nine counterclaims for a total of approximately LVL599.5 million (approximately £656 million) against Tilts, alleging that Tilts has failed to comply with various obligations it assumed under the Umbrella Agreement including (i) to digitalise and otherwise improve Lattelekom's network in accordance with its contractual commitments, (ii) to meet certain quality of service and network performance commitments, and (iii) to procure that Sonera sell its shares in GSM operator Latvijas Mobilais Telefons to Lattelekom. Tilts considers that the counterclaims asserted by the Republic of Latvia are unfounded.

Cable and Wireless plc was joined as a party to the arbitration by the Republic of Latvia because it (and Sonera) guaranteed the performance by Tilts of its obligations under the Umbrella Agreement to the Republic of Latvia by performance and parental guarantees. However, as part of the arrangements relating to Sonera's purchase of Cable and Wireless plc's shares in Tilts, Sonera provided Cable and Wireless plc with an indemnity for any liability incurred by Cable and Wireless plc under these guarantees. Provided Sonera honours its obligations under the indemnity, Cable and Wireless plc will not be exposed to any liability under these guarantees. Cable and Wireless plc has taken legal advice. Based on this advice, Cable and Wireless plc believes that the indemnity is binding. In addition, Sonera provided Cable and Wireless plc with a letter dated 11th December, 2001, confirming that in its view all liabilities, costs and expenses incurred by Cable and Wireless plc in connection with the arbitration fell within the scope of the indemnity. Following the acquisition of Sonera in 2002, the successor entity to Sonera, TeliaSonera, provided Cable and Wireless plc with a further letter dated 23rd February, 2003, acknowledging Sonera's obligations under the indemnity and stating that TeliaSonera's acquisition of Sonera did not alter the validity of the confirmations given by Sonera in its earlier letter of 11th December, 2001.

Other than the above, there are no pending legal or regulatory proceedings against the Company or any of its subsidiaries, which the Company believes will if determined adversely to the Group have a material adverse effect on the Group's liquidity or results of operations.

## OPERATING AND FINANCIAL REVIEW

*The following discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this document (the* ***Financial Statements****). These financial statements have been prepared in accordance with UK GAAP.*

### OVERVIEW

The analysis and commentary included in this Operating and Financial Review is based on the Group's structure and reflects the manner in which the business was organised and managed during the three years ended 31st March, 2003.

In June 2003, the Company announced that the Group will withdraw from the United States, take steps radically to improve the unsatisfactory results in the United Kingdom and build upon its strong positions in national telecommunications companies round the world. To simplify the management of the business, Cable & Wireless now has a country-based structure.

Prior to this reorganisation, Cable & Wireless was organised into two business divisions: Cable & Wireless Global and Cable & Wireless Regional. Cable & Wireless Global's main operations and subsidiaries were in the United Kingdom, Europe, the United States and Japan delivering IP, data and voice solutions to wholesale (**Service Provider**) and business customers. Business customers were divided into two customer segments: **Enterprise**, comprising major corporate customers, and **Business Markets**, comprising SME and retail voice customers. Cable & Wireless Regional comprised operations in the Caribbean, Panama, Macau, the Middle East and the Atlantic, Pacific and Indian Oceans providing a range of telecommunications services to businesses and consumers.

Current geographical financial data for Cable & Wireless Global included in this Operating and Financial Review are based on management's estimates of the allocation of turnover and operating profit or loss attributable to a given geographical region that was included within the business of Cable & Wireless Global. However, as announced, Cable & Wireless intends to focus its business around the key geographical regions in which it operates and will track and report results on that basis. Consequently, in the future, the geographical breakdown of the Group's results for those portions of its business that used to be part of Cable & Wireless Global, may not be entirely comparable to the results by geography disclosed when Cable & Wireless reported results by Cable & Wireless Global (and within Cable & Wireless Global: Wholesale, Enterprise and Business Markets) and Cable & Wireless Regional.

Trading conditions in the telecommunications markets have remained challenging in 2003. In the United Kingdom, continental Europe, the United States and Japan, the trading market remains intensely competitive, with overcapacity in many areas resulting in downward pricing pressure. In the United Kingdom, there has been a significant reduction in the volume of national interconnect business as other carriers migrate to their own networks.

A deterioration in Cable & Wireless Global's business performance has resulted in fixed asset and goodwill impairment charges as forecast performance has been revised downwards. In September 2002, fixed assets were impaired by £787 million and goodwill of £2,713 million was written off. This goodwill write off largely related to the UK corporate, IP and wholesale businesses acquired as part of the Cable & Wireless Communications' restructuring in May 2000. In March 2003, fixed assets were further impaired by an additional £1,479 million and goodwill by an additional £12 million. These impairment charges mean that the Group's depreciation charge will be significantly lower in 2004.

As part of the Group's reorganisation, Cable & Wireless may incur additional costs as the Group implements the new strategy and determines the steps necessary to reorganise the business. Cable & Wireless cannot predetermine what these costs are likely to be. It is possible, however, given the scope of the intended reorganisation, that further significant exceptional charges could be incurred in 2004.

In Cable & Wireless Regional, liberalisation in many of the markets has increased competition, particularly in mobile, international and local data and IP services.

During 2003, the phased liberalisation processes in Panama and Jamaica concluded with the opening of all market sectors to competition in January and March 2003 respectively.

The following sections set out, for each of the three years ended 31st March, 2003, turnover, operating costs and operating profit or loss of the Group and of the divisions Cable & Wireless Global and Cable & Wireless Regional. The analysis of turnover between Cable & Wireless Global and Cable & Wireless Regional is provided as an indication of the sources of growth of the Group's businesses. The Group's operations are all considered to fall into one class of business, namely telecommunications.

**GROUP OPERATING PERFORMANCE**

| | 2003 | 2002[1] | 2001[1] |
|---|---|---|---|
| | £m | £m | £m |
| Turnover | | | |
| Continuing operations | **4,247** | 4,703 | 4,688 |
| Discontinued operations[2] | **144** | 1,045 | 3,163 |
| **Group turnover** | **4,391** | 5,748 | 7,851 |
| Outpayments | **(1,675)** | (2,301) | (2,803) |
| Network costs | **(778)** | (947) | (1,187) |
| Staff costs | **(915)** | (988) | (1,263) |
| Property | **(289)** | (275) | (309) |
| Administration | **(400)** | (502) | (632) |
| **Operating costs before depreciation, amortisation and exceptional items** | **(4,057)** | (5,013) | (6,194) |
| Depreciation (before exceptional items) | **(735)** | (1,072) | (1,126) |
| Amortisation (before exceptional items) | **(126)** | (562) | (469) |
| Share of operating profits in joint ventures and associates | **75** | 115 | 114 |
| **Operating (loss)/profit before exceptionals** | **(452)** | (784) | 176 |
| Exceptional operating costs: | | | |
| – depreciation | **(2,381)** | (1,909) | (444) |
| – amortisation | **(2,725)** | (2,007) | — |
| – other operating costs | **(442)** | (210) | — |
| **Total operating loss** | **(6,000)** | (4,910) | (268) |
| of which: continuing operations | **(5,824)** | (4,444) | (242) |
| discontinued operations | **(176)** | (466) | (26) |
| (Loss)/profit on sale or termination of operations | **(147)** | 1,057 | 4,311 |
| Fundamental reorganisation costs | **—** | — | (530) |
| (Losses) less profits on disposal of fixed assets | **62** | (7) | 46 |
| Exceptional write down of investments | **(390)** | (904) | (43) |
| **(Loss)/profit on ordinary activities before interest** | **(6,475)** | (4,764) | 3,516 |
| Net interest | **102** | 215 | — |
| **(Loss)/profit on ordinary activities before taxation** | **(6,373)** | (4,549) | 3,516 |
| Tax on (loss)/profit on ordinary activities | **(36)** | (311) | (520) |
| **(Loss)/profit on ordinary activities after taxation** | **(6,409)** | (4,860) | 2,996 |
| Equity minority interests | **(124)** | (94) | (258) |
| **(Loss)/profit for the financial year** | **(6,533)** | (4,954) | 2,738 |

1 On 27th March, 2003, the Urgent Issues Task Force of the ASB issued UITF Abstract 36, 'Contracts for sales of capacity'. UITF 36 is applicable for accounting periods ending on or after 30th June, 2003 although early adoption is encouraged. The Company has adopted UITF 36 for the year ended 31st March, 2003 and adjusted 2002 and 2001 comparative figures to reflect the required retrospective application of the UITF to those periods. The impact of adopting UITF 36 is set out in Note 4 to the Financial Statements. Cable & Wireless' revised accounting policy for Capacity Sales is set out in New UK Accounting Standards Adopted.

2 In May 2002, Cable & Wireless announced its intention to restructure its US business and, as part of this restructuring, announced the disposal of the US retail voice and data customer bases in September 2002. Under FRS 3 – 'Reporting Financial Performance', these businesses have been classified as discontinued. Comparatives for the years ended 31st March, 2002 and 31st March, 2001 have been adjusted accordingly. In November 2002, Cable & Wireless announced its withdrawal from the US and continental Europe domestic markets apart from the provision of services to multinational Enterprise and wholesale customers. The results of these operations are included within continuing operations as the restructuring does not meet all of the FRS3 criteria for discontinued operations.

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Cable & Wireless recorded a total operating loss of £6,000 million in 2003, compared with £4,910 million in 2002. Exceptional costs of £5,548 million were charged in 2003 reflecting the difficult trading conditions in the telecommunications sector, particularly the markets in which Cable & Wireless Global operates. Goodwill of £2,713 million was written off at 30th September, 2002 and fixed assets were impaired by a further £787 million. Additional impairment charges of £1,491 million were recognised at 31st March, 2003 as the Group's assessment of future performance was again revised downwards, together with a £115 million writedown of redundant fixed assets.

Operating losses before exceptionals at £452 million in 2003 were £332 million lower than in 2002. There was a £773 million reduction in the charge for depreciation and amortisation before exceptionals reflecting the lower fixed asset base following asset impairments in March and September 2002. Operating profit in continuing operations, before depreciation, amortisation and exceptionals, deteriorated. The UK operating profit before depreciation, amortisation and exceptionals, at £110 million in 2003 was £217 million lower than 2002 reflecting a 23 per cent. decrease in wholesale revenues and a change in mix towards lower margin products, together with reduced revenues from business customers. US operating losses in the continuing business, before depreciation, amortisation and exceptionals, were £56 million higher than in 2002 at £211 million in 2003.

Cable & Wireless Regional's operating profit before exceptional items and including joint ventures and associates at £505 million in 2003 was £15 million lower than 2002. At constant exchange rates operating profit before exceptional items increased by approximately 5 per cent.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Cable & Wireless recorded an operating loss of £4,910 million in 2002 compared with £268 million in 2001. The 2002 operating loss included the write down of certain fixed assets of £1,909 million and goodwill of £2,007 million to their recoverable values, and costs relating mainly to the withdrawal from certain products and businesses of £210 million. The 2001 operating loss included a fixed asset impairment charge of £444 million against certain network assets employed in the Group's switched circuit voice business.

The 2002 loss before tax was £4,549 million compared with a profit of £3,516 million in 2001. The loss before tax in 2002 included a £904 million write down of investments held in ntl, CMGI and PCCW Limited. This write down was offset by a profit on the sale of Optus of £1,057 million. Profit before tax in 2001 included a £4,311 million profit on the disposal of the HKT and ConsumerCo businesses, a charge of £530 million for the fundamental reorganisation of the Group's activities and a charge of £43 million for the write down of certain fixed asset investments.

In 2002, there was an operating loss before exceptional items of £784 million compared with an operating profit before exceptional items of £176 million in 2001. Excluding exceptional items, Cable & Wireless Global recorded operating losses of £1,092 million in 2002 reflecting intense competition in the market and continued investment spend. In addition, the new DI and Exodus businesses recorded an operating loss before exceptional items of £195 million.

Cable & Wireless Regional's operating profit before exceptional items increased by £35 million, or 7 per cent., from £485 million in 2001 to £520 million in 2002.

**Group turnover**

| | **2003** | **2002** | **2001** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Cable & Wireless Global | **2,867** | 3,271 | 3,362 |
| Cable & Wireless Regional | **1,411** | 1,466 | 1,433 |
| Intra-Group turnover | **(31)** | (34) | (107) |
| Continuing operations | **4,247** | 4,703 | 4,688 |
| Discontinued operations | **144** | 1,045 | 3,163 |
| Group turnover | **4,391** | 5,748 | 7,851 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Group turnover at £4,391 million in 2003 was £1,357 million, or 24 per cent., lower than in 2002 primarily due to discontinued operations in Australia and the United States.

Turnover from continuing operations was £456 million, or 10 per cent., lower in 2003 compared with 2002, reflecting excess capacity and downward pricing pressure in Cable & Wireless Global's trading environment.

Turnover in Cable & Wireless Global at £2,867 million was £404 million lower in 2003 compared with 2002. UK revenues were £347 million lower in 2003 compared with 2002. Reductions in wholesale and business revenues, of £215 million and £187 million lower than 2002 respectively, were only partly offset by a £55 million increase in Enterprise.

The reduction in UK wholesale revenues reflected in part the migration of national interconnect business to carriers' own networks and a change in the mix of international voice traffic, from mobile to fixed, which generates lower revenue per minute.

The reduction in UK Business revenues compared with 2002 reflected continued pricing pressure and the impact of a 2002 management decision to focus on high margin services with growth potential.

The increase in Enterprise revenues was partly due to a focus on higher value managed services and away from more commoditised products, together with new contract wins and increased business with existing clients.

Cable & Wireless Regional reported a £55 million, or 4 per cent., decrease in revenues in 2003 compared with 2002. Many of Cable & Wireless Regional's revenues and costs arise in currencies that are linked to the US dollar. As a consequence, the results were affected by an 8 per cent. devaluation in the US dollar against sterling and a 14 per cent. devaluation in the Jamaica dollar. At constant exchange rates, Cable & Wireless Regional's revenue increased by 5 per cent. in 2003 compared with 2002. The increase reflected the inclusion of Cable & Wireless Guernsey for the 10 months since its acquisition, together with underlying revenue growth. Revenue growth was driven by further increases in mobile revenues and continued demand for IP and data services, underpinned by growth in domestic voice business.

*Year ended 31st March, 2002 compared with 31st March, 2001*

Group turnover was £5,748 million in 2002 compared with £7,851 million in 2001. The reduction in Group turnover during these periods primarily relates to the disposal of HKT and the disposal of CWC ConsumerCo.

Turnover of £4,703 million from continuing businesses in 2002 was broadly in line with 2001.

Turnover from Cable & Wireless Global at £3,271 million was £91 million lower in 2002 compared with 2001: decreases in Business Markets, £133 million, and Service Providers, £163 million, were only partly offset by a £38 million increase in Enterprise revenue and £167 million of revenue from the new DI and Exodus businesses. The decreased revenues from Business Markets and Service Providers reflected weak market conditions and a decision by Cable & Wireless to move away from lower margin business.

Cable & Wireless Regional turnover at £1,466 million was £33 million higher in 2002 than 2001. A £62 million decrease due to the disposal of the Mitratel business in Indonesia in 2002, was more than offset by increases in other regions. The underlying growth in 2002 reflected the continuing success of the business in rebalancing away from international towards domestic revenue, growth in the mobile and IP and data markets and the development of new businesses.

**Operating costs before depreciation, amortisation and exceptional items**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Outpayments | **1,675** | 2,301 | 2,803 |
| Network costs[1] | **778** | 947 | 1,187 |
| Staff costs | **915** | 988 | 1,263 |
| Property | **289** | 275 | 309 |
| Administration | **400** | 502 | 632 |
| **Total** | **4,057** | 5,013 | 6,194 |
| of which: | | | |
| Cable & Wireless Global | **2,987** | 3,072 | 3,023 |
| Cable & Wireless Regional | **821** | 837 | 834 |
| Other | **10** | 16 | (126) |
| Discontinued operations | **239** | 1,088 | 2,463 |
| **Total** | **4,057** | 5,013 | 6,194 |

1 Network costs include customer acquisition costs and the cost of goods sold.

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Operating costs before depreciation, amortisation and exceptional items at £4,057 million in 2003 were £956 million or 19 per cent. lower than in 2002.

Excluding discontinued operations, costs before depreciation, amortisation and exceptional items of £3,818 million in 2003 were £107 million lower than in 2002. Lower outpayments and network costs were partly offset by increases in all other categories largely due to the inclusion of a full year's costs for the DI and Exodus businesses. 2002 included the results of DI for nine and a half months and Exodus for two months.

Outpayments and network costs for continuing operations were £2,274 million in 2003, £342 million or 13 per cent. lower than in 2002, principally reflecting a £345 million reduction in such costs for Cable & Wireless Global. This reduction was largely due to lower volumes of voice traffic in the United Kingdom, reduced traffic in the United States and the benefit of network streamlining in the United Kingdom, Japan and the United States.

Cable & Wireless Regional's outpayments and network costs at £443 million in 2003 were in line with 2002. At constant exchange rates, there was an underlying increase in outpayments and network costs of 13 per cent. mainly due to increased volumes and third party terminations, particularly in mobile and in fixed to mobile traffic, network expansion and customer acquisition costs, including mobile handset subsidies.

Staff costs for continuing operations were £47 million, or 6 per cent., higher in 2003 compared with 2002. In Cable & Wireless Global, increased costs in the United States due to the inclusion of a full year's results for DI and Exodus offset the benefit of reductions elsewhere due to lower headcount. Year end headcount in Cable & Wireless Global was 10,749 at 31st March, 2003 compared with 12,543 at 31st March, 2002.

Staff costs in Cable & Wireless Regional were £11 million lower in 2003 compared with 2002, or 3 per cent. higher at constant exchange rates. There was an 11 per cent. reduction in headcount, from 11,465 to 10,193, the full benefit of which will be recognised in future years.

Property costs for continuing operations at £278 million were £65 million higher in 2003 compared with 2002. Property costs in Cable & Wireless Global were £64 million higher, mainly reflecting the inclusion of a full year's costs for the DI and Exodus businesses.

Administration and other costs for continuing operations were £123 million higher in 2003 compared with 2002. This increase reflected the inclusion of a full year's costs for the DI and Exodus businesses together with the effect in 2002 of a release of bad debt provisions raised in prior years.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Operating costs before depreciation, amortisation and exceptional items were £1,181 million, or 19 per cent., lower in 2002 than 2001. Excluding discontinued operations, there was an underlying increase in operating costs before depreciation, amortisation and exceptional items of £194 million, or 5 per cent., during 2002 compared with 2001, of which £241 million was due to the acquisition of DI and Exodus businesses.

Outpayment and network costs in continuing operations were £2,616 million in 2002, £38 million higher than in 2001. In Cable & Wireless Global, a £71 million increase in outpayments and network costs in 2002 compared with 2001 relating to the new DI and Exodus businesses, was more than offset by a 7 per cent. reduction in the rest of Cable & Wireless Global mainly reflecting lower volumes of voice traffic. In Cable & Wireless Regional, outpayments and network costs were £47 million higher in 2002 than in 2001, up 9 per cent. in constant currency terms principally due to rapid growth in the competitive mobile markets in Jamaica and Macau.

Staff costs for continuing operations were £16 million higher in 2002 compared with 2001 and included £110 million in respect of the new DI and Exodus businesses. Staff costs in the rest of Cable & Wireless Global were £75 million lower where a staff reduction programme reduced headcount by over 8,000 from a peak of 18,600 in December 2000. Staff costs in Cable & Wireless Regional were £10 million lower in 2002 compared with 2001, again reflecting headcount reductions and the impact of the disposal of Mitratel Indonesia.

**Depreciation before exceptional items**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Cable & Wireless Global | **547** | 725 | 469 |
| Cable & Wireless Regional | **161** | 185 | 175 |
| Other | **3** | 2 | 5 |
| Discontinued businesses | **24** | 160 | 477 |
| Total | **735** | 1,072 | 1,126 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Depreciation before exceptional items at £735 million in 2003 was £337 million lower than in 2002. The £201 million decrease in depreciation before exceptional items in continuing operations in 2003 compared with 2002 reflected the impact of a lower fixed base following asset impairments in March and September 2002.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Depreciation before exceptional items at £1,072 million in 2002 was £54 million lower than in 2001. The increase in depreciation before exceptional items in continuing businesses of £263 million was primarily due to a £256 million increase in Cable & Wireless Global of which £35 million related to the new DI and Exodus businesses. The underlying increase of £221 million reflected the impact of 2001 capital expenditure, including the roll out of the global IP backbone.

**Goodwill amortisation before exceptional items**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Cable & Wireless Global | **127** | 560 | 267 |
| Cable & Wireless Regional | **(1)** | 1 | 1 |
| Other | **—** | — | 2 |
| Discontinued businesses | **—** | 1 | 199 |
| Total | **126** | 562 | 469 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Goodwill amortisation of £126 million in 2003 was £436 million lower than in 2002. The reduction reflected lower goodwill carried on the balance sheet in 2003 following the impairments booked in March and September 2002. As a result of these impairments, substantially all goodwill of the Group had been fully written off by the year end.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Goodwill amortisation before exceptionals at £562 million was £93 million higher than in 2001. The increase was largely due to the acquisition of the DI and Exodus businesses, £59 million, and a full year's charge for 2001 acquisitions.

**Share of operating profits in joint ventures and associates**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Cable & Wireless Global | **—** | (6) | 11 |
| Cable & Wireless Regional | **75** | 77 | 62 |
| Discontinued businesses | **—** | 44 | 41 |
| Total | **75** | 115 | 114 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Cable & Wireless Regional recorded a £2 million reduction in the share of operating profits in joint ventures and associates. At constant exchange rates, there was underlying growth of 4 per cent. compared with 2002.

In December 2002, as part of the Initial Public Offering of shares in the Group's Singapore associate, Mobile One Limited, Cable & Wireless sold 60 per cent. of its stake in that company, realising a profit of £54 million before minority interests.

The remaining Cable & Wireless shareholding in Mobile One is now classified as a trade investment.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Cable & Wireless' share of operating profits in joint ventures and associates was £115 million in 2002, compared with £114 million in 2001. A reduction due to a number of disposals, including (by virtue of the sale of Cable & Wireless' interest in Optus) Southern Cross (a submarine cable system linking Australia, New Zealand, Fiji, Hawaii and the US Mainland), were offset by increased profits in 2002 from the Group's interests in the Caribbean, Singapore and Bahrain.

**Exceptional operating costs**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Depreciation | **2,381** | 1,909 | 444 |
| Amortisation | **2,725** | 2,007 | — |
| Other | **442** | 210 | — |
| Total | **5,548** | 4,126 | 444 |
| Cable & Wireless Global | **5,454** | 3,629 | 353 |
| Cable & Wireless Regional | **35** | 191 | — |
| Other | **2** | — | — |
| Discontinued businesses | **57** | 306 | 91 |
| Total | **5,548** | 4,126 | 444 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Difficult trading conditions in Cable & Wireless Global's markets led to further fixed asset and goodwill impairment charges in 2003 as forecast revenues were revised downwards and the Group's cost of capital increased.

In September 2002, fixed assets were impaired by £787 million and the remaining goodwill of the Group was substantially written off. These impairments arose as estimates of future revenues were revised downwards. The goodwill write-off largely related to CWC DataCo acquired as part of the Cable & Wireless Communications restructuring in May 2000.

At 31st March, 2003, a further fixed asset impairment charge of £1,594 million arose. Continued problems in the market led to revenue forecasts being further reduced.

Other exceptional operating costs of £442 million mainly related to the costs of exiting and restructuring primarily in the US business.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Fixed assets in Cable & Wireless Global were written down by £1,631 million in 2002, principally relating to redundant cables and network assets. Cable & Wireless Regional wrote down £191 million of fixed assets, mainly relating to TDMA mobile network assets. In 2001, Cable & Wireless Global recorded an impairment charge of £353 million relating to network and assets in its switched circuit voice business.

Exceptional goodwill amortisation in 2002 represents a £2,007 million impairment charge to eliminate unamortised goodwill on the US MCI acquisition, £697 million, and the European IP acquisitions, £190 million, together with the partial writedown of goodwill on the CWC DataCo acquisition, £996 million, and the Cable & Wireless IDC acquisition, £124 million.

The other exceptional operating costs in 2002 mainly related to the costs of exiting certain products and businesses.

**Exceptional (loss)/profit on disposal or termination of operations**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| (Loss)/profit on disposal or termination of operations | **(147)** | 1,057 | 4,311 |

In 2003, a loss on disposal of operations of £231 million which relates to the termination of the US voice retail business was partly offset by a release of accrued costs relating to disposals in previous years.

Profit on disposals of operations in 2002 represented a £1,057 million profit on the sale of the Group's 52.5 per cent. investment in Optus. In 2001, Cable & Wireless recorded a net profit of £4,311 million on the sale of its interests in HKT and CWC ConsumerCo. Early redemption penalties on the sale of CWC ConsumerCo. of £110 million are reported in net interest.

**Fundamental reorganisation provisions**

The fundamental reorganisation charge booked in the year ended 31st March, 2001 of £530 million included provisions of £239 million in respect of the consequences of the announcement made in March 2001 regarding the intention to cut staff numbers by at least 4,000 heads in Cable & Wireless Global and 2,485 heads in Cable & Wireless Regional and reduce operating costs. The provision at 31st March, 2001 included redundancy provisions of £138 million and provisions for exiting surplus properties of £68 million.

**Taxation**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| (Loss)/profit on ordinary activities before taxation | **(6,373)** | (4,549) | 3,516 |
| Tax on (loss)/profit on ordinary activities | **(36)** | (311) | (520) |
| Effective tax rate | **(0.6)%** | (6.8)% | 14.8% |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

A tax charge of £36 million arose in 2003 on the loss before tax of £6,373 million. The Group continued to generate tax losses in 2003 for which no immediate benefit was recognised as realisation of the benefit is not considered probable. These tax losses have been carried forward to future periods. The negative tax rate of 0.6 per cent. in 2003 is lower than the negative tax rate of 6.8 per cent. for 2002, primarily because the tax charge on exceptional items is lower than 2002 due to there being no material disposals of investments in 2003. The tax charge on exceptional items in 2002 could not be reduced by surplus tax losses, as they arose in different jurisdictions. As with 2002, in the United Kingdom, tax relief is denied on certain costs and provisions, including the amortisation and write down of goodwill and fixed asset write-downs.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Cable & Wireless recorded a tax charge of £311 million in 2002 despite incurring pre-tax losses of £4,549 million. The movement in the effective tax rate from 14.8 per cent. in 2001 to negative 6.8 per cent. in 2002 is primarily because, in the United Kingdom, tax relief is denied on certain costs and provisions, including the amortisation and write down of goodwill and fixed asset write-downs which were incurred in 2002. In addition, the Group has carried tax losses forward to future periods, for which no immediate tax benefit was recognised as realisation of the benefit is not considered probable.

**REVIEW BY DIVISION**

This section provides a discussion of Cable & Wireless' results by division.

**Operating (loss)/profit by division**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Cable & Wireless Global | **(6,248)** | (4,721) | (739) |
| Cable & Wireless Regional | **470** | 329 | 485 |
| Other | **(46)** | (52) | 12 |
| Discontinued | **(176)** | (466) | (26) |
| | **(6,000)** | (4,910) | (268) |

**Cable & Wireless Global**

Cable & Wireless Global comprises Cable & Wireless' operations and subsidiaries in the United Kingdom, the United States, Japan/Asia and continental Europe.

| Cable & Wireless Global | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Turnover | **2,867** | 3,271 | 3,362 |
| Costs | | | |
| Outpayments | **(1,380)** | (1,661) | (1,817) |
| Network costs | **(482)** | (546) | (472) |
| Staff costs | **(630)** | (571) | (536) |
| Property | **(229)** | (165) | (152) |
| Administration | **(266)** | (129) | (46) |
| | **(2,987)** | (3,072) | (3,023) |
| Depreciation before exceptionals | **(547)** | (725) | (469) |
| Amortisation before exceptionals | **(127)** | (560) | (267) |
| Joint Ventures and associates | **—** | (6) | 11 |
| Operating loss before exceptionals | **(794)** | (1,092) | (386) |
| Exceptional items: | | | |
| – depreciation | **(2,324)** | (1,631) | (353) |
| – amortisation | **(2,723)** | (1,794) | — |
| – other operating costs | **(407)** | (204) | — |
| Operating loss | **(6,248)** | (4,721) | (739) |
| of which: | | | |
| United Kingdom | **(3,935)** | (2,135) | (698) |
| United States | **(1,681)** | (1,880) | 2 |
| Continental Europe | **(367)** | (543) | (164) |
| Japan | **(265)** | (163) | 121 |
| **Operating loss** | **(6,248)** | (4,721) | (739) |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Operating losses were £1,527 million higher in 2003 compared with 2002.

UK operating losses rose by £1,800 million as further fixed asset and goodwill impairment charges were recognised. UK operating losses before exceptional items at £365 million in 2003 were £51 million higher than in 2002. The benefit of reduced charges for depreciation and goodwill amortisation in 2003, following asset impairments in March and September 2002, were offset by a £217 million reduction in the UK business' operating profit before exceptionals, depreciation and amortisation to £110 million in 2003. This reduction was largely due to a poor business performance, particularly in the wholesale markets.

Cable & Wireless America's operating losses at £1,681 million in 2003 were £199 million lower than in 2002. At constant exchange rates there was an underlying decrease of 4 per cent. Decreased charges in 2003 for asset impairments and the benefit of reduced charges for depreciation and amortisation more than offset higher losses in underlying business.

In Continental Europe, operating losses at £367 million in 2003 were £176 million or 32 per cent. lower than in 2002. This decrease was largely due to the non-recurrence of a £190 million goodwill impairment charge in 2002.

In Japan, operating losses at £265 million in 2003 were £102 million or 63 per cent. higher than in 2002 mainly due to increased charges for asset impairment and lower revenues, particularly in wholesale.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Operating losses at £4,721 million in 2002 were £3,982 million higher than in 2001, of which £1,278 million was attributable to increased fixed asset impairment charges and £1,794 million to goodwill write-downs. Fixed asset impairment charges in 2002 mainly related to the write-down of cables and fibres where the Group's ownership is in excess of predicted future traffic levels and a write-down of the global network based upon net recoverable values.

In the United Kingdom, operating losses at £2,135 million in 2002 were £1,437 million higher than in 2001. A £997 million charge for goodwill impairment was recognised in 2002 relating to the CWC DataCo acquisition and fixed asset impairment charges were £311 million higher in 2002 than in 2001.

Cable & Wireless America recorded operating losses in 2002 of £1,880 million compared with an operating profit of £2 million in 2001. The loss in 2002 was primarily attributable to fixed asset and goodwill impairment charges of £1,206 million and losses of £239 million for the newly acquired DI and Exodus businesses.

In Continental Europe, operating losses at £543 million in 2002 were £379 million higher than in 2001, of which £401 million related to fixed asset and goodwill impairment charges in 2002.

Japan recorded operating losses of £163 million in 2002 compared with an operating profit of £121 million in 2001. Operating losses in 2002 included £157 million related to fixed asset and goodwill impairment charges.

**Turnover**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| United Kingdom | **1,728** | 2,075 | 2,158 |
| United States | **512** | 530 | 503 |
| Europe | **304** | 305 | 251 |
| Japan & Asia | **323** | 361 | 450 |
| Total | **2,867** | 3,271 | 3,362 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Turnover was 12 per cent. lower in 2003 compared with 2002 as a result of weak market conditions in the wholesale market and the impact of a deliberate decision by Cable & Wireless in 2002 to withdraw from the provision of lower margin products to Business customers. Revenue in the Enterprise segment grew by 21 per cent. in 2003, including the benefit of new contract wins and expansion of contracts with existing customers.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Turnover at £3,271 million in 2002 was £91 million or 3 per cent. lower than in 2001 with decreases in Service Provider and Business revenues of £163 million and £133 million respectively, only partly offset by a £38 million increase in Enterprise revenues and £167 million of revenues from the new DI and Exodus businesses. The decrease in Service Provider revenues mainly reflected lower voice revenues, due to declining prices, customer bankruptcies and a decision to move away from lower margin business.

*Operating costs before depreciation, amortisation and exceptional items*

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| United Kingdom | **1,618** | 1,748 | 1,974 |
| United States | **723** | 685 | 469 |
| Europe | **345** | 331 | 324 |
| Japan & Asia | **301** | 308 | 256 |
| Total | **2,987** | 3,072 | 3,023 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Operating costs before depreciation, amortisation and exceptional items in Cable & Wireless Global were £85 million lower in 2003 compared with 2002. A £345 million reduction in outpayments and network costs was offset by increases in all other cost categories largely due to the inclusion of a full year's costs for the DI and Exodus businesses. The reduction in outpayments and network costs was mainly attributable to lower volumes of voice traffic in the United Kingdom, reduced traffic in the United States and network streamlining in the United Kingdom, Japan and the United States.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Operating costs before depreciation, amortisation and exceptionals at £3,072 million in 2002 were £49 million or 2 per cent. higher than in 2001. An increase of £241 million due to the newly acquired DI and Exodus businesses was partly offset by lower outpayments and network costs in the rest of Cable & Wireless Global, mainly reflecting lower volumes of voice traffic, and lower staff costs as headcount was reduced.

**Cable & Wireless Regional**

The largest businesses within Cable & Wireless Regional are in the Caribbean, Panama and Macau. Cable & Wireless Regional also operates in the Middle East, South East Asia and in the Pacific, Indian and Atlantic Oceans, which together with head office functions are referred to as **Rest of World**.

| Cable & Wireless Regional | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Turnover | **1,411** | 1,466 | 1,433 |
| Costs | | | |
| Outpayments | **(203)** | (208) | (259) |
| Network costs[1] | **(240)** | (235) | (137) |
| Staff costs | **(206)** | (217) | (227) |
| Property | **(49)** | (48) | (51) |
| Administration | **(123)** | (129) | (160) |
| | **(821)** | (837) | (834) |
| Depreciation before exceptionals | **(161)** | (185) | (175) |
| Amortisation before exceptionals | **1** | (1) | (1) |
| Joint Ventures and associates | **75** | 77 | 62 |
| Operating profit before exceptionals | **505** | 520 | 485 |
| Exceptional items: | | | |
| – depreciation | **—** | (191) | — |
| – other operating costs | **(35)** | — | — |
| Operating profit | **470** | 329 | 485 |
| of which | | | |
| Caribbean | **234** | 118 | 275 |
| Panama | **77** | 62 | 83 |
| Macau | **42** | 38 | 33 |
| Rest of World | **117** | 111 | 94 |
| Total | **470** | 329 | 485 |

1 Network costs include customer acquisition costs and the cost of goods sold.

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Cable & Wireless Regional's operating profit at £470 million in 2003 was £141 million or 43 per cent. higher than in 2002 largely due to exceptional asset impairment charges in 2002. Many of the territories in which Cable & Wireless Regional operates have currencies that are linked directly or indirectly to the US dollar. As a consequence, an 8 per cent. strengthening of sterling against the US dollar and a 14 per cent. strengthening against the Jamaica dollar had a significant effect on Cable & Wireless Regional's reported results. At constant exchange rates operating profit in 2003 was 62 per cent. higher than in 2002.

In the Caribbean, operating profit at £234 million in 2003 was £116 million or 98 per cent. higher than 2002. This increase was largely attributable to the non-recurrence of a £172 million impairment charge to write down network and TDMA mobile assets in 2002, partly offset by £20 million of exceptional costs relating to reorganisation and redundancy incurred in 2003. Operating profit before exceptional items in the Caribbean at £254 million in 2003 was £36 million or 12 per cent. lower than in 2002. At constant exchange rates 2003 operating profit before exceptional items in the Caribbean was 5 per cent. lower. A 7 per cent. increase in costs at constant exchange rates was partly offset by a 1 per cent. increase in revenues and a reduced depreciation charge.

In Panama, operating profit at £77 million in 2003 was £15 million or 24 per cent. higher than in 2002. At constant exchange rates there was a 34 per cent. increase in operating profit in 2003 compared with 2002. This increase was largely attributable to lower outpayments, headcount savings and reduced depreciation and exceptional charges.

Macau's operating profit at £42 million in 2003 was £4 million or 11 per cent. higher than in 2002. At constant exchange rates there was a 16 per cent. increase in operating profit. This increase reflected a good performance in data and IP, driven by growing demand for broadband services and other value added internet services, together with the launch of services in Singapore and Hong Kong.

Rest of World delivered operating profit of £117 million in 2003, £6 million or 5 per cent. higher than in 2002. At constant exchange rates, operating profit in 2003 was 13 per cent. higher than in 2002. A good performance in the Maldives and Bahrain and the inclusion of 10 months' activity for Cable & Wireless Guernsey were offset by mixed performances in Yemen and the smaller territories.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Cable & Wireless Regional's operating profit at £329 million in 2002 was £156 million or 32 per cent. lower than in 2001. This decrease was mainly attributable to a £191 million impairment charge in 2002 to write off network and TDMA mobile assets.

In the Caribbean, operating profit at £118 million in 2002 was £157 million lower than in 2001, primarily due to a £172 million impairment charge in 2002 to write down network and TDMA mobile assets. Before exceptional items, operating profit in 2002 was £15 million higher than in 2001 up 5 per cent. in underlying constant currency terms. The softening of margins in Jamaica reflecting rapid growth in mobile was offset by strong performance in the rest of the Caribbean particularly in Trinidad and Tobago and Barbados.

In Panama, operating profit at £62 million in 2002 was £21 million or 25 per cent. lower than in 2001. This decrease was primarily due to an exceptional impairment charge of £19 million in 2002 to write off TDMA and network assets.

Macau's operating profit at £38 million in 2002 was £5 million or 15 per cent. higher than in 2001 mainly due to good revenue growth, headcount savings and reduced depreciation.

Rest of World delivered operating profit of £111 million in 2002, £17 million or 18 per cent. higher than in 2001. Strong performances in Yemen, the Seychelles, Maldives and Bahrain more than offset the impact of disposals.

## Turnover

| Cable & Wireless Regional | 2003 | 2002 | 2001 |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Caribbean | **783** | 858 | 779 |
| Panama | **279** | 296 | 302 |
| Macau | **150** | 145 | 130 |
| Rest of World | **199** | 167 | 222 |
| Total | **1,411** | 1,466 | 1,433 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Turnover at £1,411 million in 2003 was £55 million or 4 per cent. lower than in 2002. At constant exchange rates, turnover in 2003 was 5 per cent. higher than in 2002 partly due to the inclusion of 10 months' results for Cable & Wireless Guernsey. At constant exchange rates, mobile revenues were 26 per cent. higher in 2003 than 2002 reflecting increased customer bases across all geographies. IP and data services increased, particularly in Macau where the launch of Asia Cities was combined with strong demand for broadband services and other value added IP products.

International voice revenues were 5 per cent. lower at constant exchange rates largely due to declining tariffs and settlement rates. Part of the reduction in tariffs reflected 'tariff rebalancing', the removal of cross subsidies between international services and domestic services. There was a 5 per cent. increase in domestic voice revenues which reflected the impact of rebalancing and market growth, particularly in fixed to mobile traffic. The number of fixed lines increased by 3 per cent.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Turnover at £1,466 million in 2002 was £33 million or 2 per cent. higher than in 2001. Excluding Mitratel Indonesia, which was disposed of in May 2001, Cable & Wireless Regional revenue increased by 8 per cent. in the year ended 31st March, 2002 to £1,459 million from £1,357 million in the prior year. At constant exchange rates, turnover, excluding Mitratel, was 6 per cent. higher in 2003 than 2002. This growth reflects the continuing success of the business in rebalancing away from international and towards domestic revenue, growth in the mobile and IP and data markets, and the development of new businesses.

***Operating costs before depreciation, amortisation and exceptional items***

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Caribbean | **485** | 504 | 448 |
| Panama | **143** | 163 | 172 |
| Macau | **90** | 87 | 76 |
| Rest of World | **103** | 83 | 138 |
| Total | **821** | 837 | 834 |

*Year ended 31st March, 2003 compared with year ended 31st March, 2002*

Operating costs before depreciation, amortisation and exceptional items were £821 million in 2003, £16 million or 2 per cent. lower than in 2002. At constant exchange rates, operating costs were 8 per cent. higher in 2003 than 2002 primarily due to increased outpayments and network costs. The growth in outpayments and network costs was mainly attributable to the revenue growth against a background of liberalisation leading to increased traffic volumes, customer numbers and terminations on third party networks. In addition, customer acquisition costs, including mobile handset subsidies also rose.

*Year ended 31st March, 2002 compared with year ended 31st March, 2001*

Operating costs before depreciation and amortisation at £837 million in 2002 were broadly in line with 2001. Excluding Mitratel Indonesia, there was a 4 per cent. increase at constant exchange rates primarily due to increased customer acquisition and network costs reflecting growth in the mobile, IP and data businesses. At constant exchange rates, staff costs in 2002 were 2 per cent. lower than in 2001 as the restructuring programme to reduce headcount by 2,500 was largely completed.

***Joint ventures and associates***

Cable & Wireless Regional has equity holdings giving it significant influence in the operations and management of a number of telecommunication operators world wide. These are accounted for as Joint Ventures and Associates.

| **Share of operating profit of Joint Ventures and Associates** | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| TSTT (Trinidad and Tobago) | **34** | 34 | 28 |
| Batelco (Bahrain) | **23** | 21 | 19 |
| MobileOne (Singapore) | **12** | 16 | 9 |
| Other | **6** | 6 | 6 |
| Total | **75** | 77 | 62 |

In December 2002, as part of the Initial Public Offering of shares in the Group's Singapore associate, Mobile One Limited, Cable & Wireless sold 60 per cent. of its stake in that company, realising a profit of £54 million before minority interests.

The remaining Cable & Wireless shareholding in Mobile One is now classified as a trade investment.

## LIQUIDITY AND CAPITAL RESOURCES

### Treasury policy

The Group's treasury operations are managed on the basis of objectives, policies and authorities approved by Cable and Wireless plc's Board of Directors.

The key responsibilities of the treasury function include funding, investment of surplus cash and the management of interest rate and foreign currency risk.

To the extent that subsidiary operating companies undertake treasury transactions, these are governed by policies adopted by the local Board of Directors, which are substantially consistent with Group policy.

Cable & Wireless uses derivatives and financial instruments including forward foreign exchange contracts, interest rate swaps, cross currency swaps and options in the management of financial exposures. Derivatives are not used for trading or speculative purposes. All derivative transactions and positions are monitored and reported to the Board.

### Investment of Surplus Cash

At 31st March, 2003, Cable & Wireless had gross cash (including treasury instruments held as current asset investments) of £3,165 million (2002: £4,888 million and 2001: £5,809 million).

This surplus cash is a significant component of the Group's overall liquidity and capital resources. Approximately 90 per cent. of the Group's cash is held centrally and is predominantly invested in short-term bank deposits up to 1 year and AAA-rated money market funds.

In certain circumstances, it has been efficient to use surplus funds to repurchase bonds. A total of US$800 million of the US$1,504 million zero coupon exchangeable bonds was bought back at an average of 97 per cent. of face value. In addition, a total of US$19 million of the US$400 million bond has also been bought back.

The Group also purchased £75 million of Credit Linked Notes issued by an AA-rated bank and referenced to the Company's £200 million bond which matures in 2012. This transaction has a similar economic effect to repurchasing the bonds for the period of the investment. Further information on these transactions is given in Note 26 to the Financial Statements.

Approximately 10 per cent. of the Group's cash is held in foreign subsidiaries some of whom operate in jurisdictions which may, and do, restrict the ability to repatriate cash to the parent company. In addition, some of the Group's cash is required as cash collateral.

| | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Restricted Jurisdictions | **49** | 45 |
| Cash Collateral | **30** | 3 |
| Total Restricted Cash | **79** | 48 |

### Funding

At 31st March, 2003, Cable & Wireless had gross debt of £1,546 million (2002: £2,259 million and 2001: £2,931 million).

The Group's debt comprises both bank debt and publicly quoted bonds of which £825 million matures during the financial year to 31st March, 2004. Cable & Wireless' debt has an average maturity of 4.7 years. Excluding the £825 million maturing in the next year, the average maturity increases to 9.0 years.

Approximately 70 per cent. of the Group's debt is represented by public bonds denominated in Sterling and US Dollars. Two Sterling denominated bonds of £200 million each mature in 2012 and 2019 respectively. With respect to the US dollar denominated bonds, a US$1,504 million bond matured in June 2003 and a US$400 million bond will mature in December 2003. During the year ended 31st March, 2003, Cable & Wireless purchased US$600 million of the principal amount of the US$1,504 million bond (31st March, 2002: US$200 million).

The remainder of the Group debt represents primarily amortising loans with the exception of a loan of £121 million maturing in 2006.

The US$1,504 million bond represented zero coupon exchangeable bonds, which were exchangeable into ordinary shares of PCCW. The bonds were issued on 9th April, 2001 at 100 per cent. of their US$1,504 million principal amount. The bonds were redeemed at their principal amount on 9th June, 2003.

On 16th June, 2003, the Company announced that it was offering £258 million Senior Unsecured Convertible Bonds due 2010, with a cash coupon of 4 per cent. per annum, and an initial conversion price of 145 pence per share; the bonds will be redeemed at par. It is anticipated that this offering will complete prior to 25th July, 2003, subject to the satisfaction of certain conditions. The funding will be used to strengthen the Company's balance sheet and increase its financial flexibility.

**Borrowing facilities**

The total amount of the Group's undrawn committed facilities as at 31st March, 2003 was £30 million. This facility matured on 30th June, 2003.

**Credit ratings**

The Company's long-term credit rating was downgraded during the year to below investment grade. Credit ratings at 3rd June, 2003 are detailed in the table below. The rating from Moody's is under review at the date of filing for a possible downgrade.

| Cable and Wireless plc's debt ratings | |
|---|---|
| Standard & Poor's | BB |
| Moody's | Ba1 |
| Fitch | BB+ |

The ratings downgrade has no impact on the interest cost of existing debt. However the downgrade may limit future access to the debt capital markets and may both increase the future cost of funding and impact adversely the terms on which debt may be available. In addition, cash collateral or guarantees may be required to support any future credit terms.

**Escrow account**

On 6th December, 2002, following a decision by Moody's to downgrade the long term rating of the Company from Baa2 to Ba1, the Group disclosed that a 'ratings trigger' clause became operative. The clause was contained in the tax indemnity which formed part of the agreement with Deutsche Telekom for the disposal of the Group's 50 per cent. interest in One2One. This disposal was completed on 1st October, 1999 for a total cash consideration of £3.45 billion. Cable & Wireless provided Deutsche Telekom with an indemnity in the event of the Inland Revenue assessing tax liabilities against the companies sold by Cable & Wireless to Deutsche Telekom. As a result of the downgrade, the Company paid £1.5 billion into escrow on 13th January, 2003. Following the agreement reached with the Inland Revenue to settle the Group's outstanding UK Corporation Tax affairs for the ten years to 31st March, 2001, the monies held in escrow were released by 31st March, 2003 and the funds received on 1st April, 2003.

**Other loans and contractual obligations under leases**

Cable & Wireless' loans and contractual obligations under finance and operating leases are analysed in the Notes 22 and 28 to the Financial Statements.

None of the above funding arrangements and facilities have covenants that are expected to restrict normal business activities.

### Operating lease commitments

In the normal course of its business, Cable & Wireless and its subsidiaries enter into operating leases, relating to property, customer terminating equipment and other operational commitments. Minimum lease terms range from 1 year to 50 years. The effect such obligations are expected to have on liquidity and cash flow in future periods is summarised below.

| Payments due by period | Total | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Operating lease payments (undiscounted) | 1,612 | 245 | 182 | 160 | 140 | 132 | 753 |

In addition, under certain property operating leases Cable & Wireless and its subsidiaries could be required to make payments to lessors at the end of the lease to restore the condition of the properties. These amounts will not be known until the leases expire. The actual amounts paid may be reduced in the event that Cable & Wireless is able to exit the contracts prior to the minimum lease term expiring.

In November 2002, Cable & Wireless disclosed estimated gross property and other lease costs in the region of £2.2 billion as at 30th September, 2002. Since announcing this amount, the Group has continued to review its property portfolio. The outcome of that review, together with the impact of lease exits achieved and payments made by 31st March, 2003 reduce this figure to £1.6 billion. This is analysed in the table below.

| Property and other lease costs | US | Continental Europe | UK | Japan | Regional | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Total estimated full term payments at 30th September, 2002 | 937 | 130 | 950 | 135 | 87 | 2,239 |
| Reclassification[1] | 34 | (34) | — | — | — | — |
| Property rates taxes[2] | — | — | (128) | — | — | (128) |
| Impact of minimum break clause[3] | — | — | (203) | (32) | — | (235) |
| Lease payments extinguished in period[4] | (61) | (7) | (33) | (1) | — | (102) |
| Lease payments made in period | (60) | (28) | (39) | (23) | (12) | (162) |
| Total at 31st March, 2003 | **850** | **61** | **547** | **79** | **75** | **1,612** |
| Of which: | | | | | | |
| Provided in balance sheet at 31st March, 2003 | 348 | 19 | 36 | 2 | — | 405 |
| Guaranteed by Cable and Wireless plc | 71 | 13 | 30 | — | — | 114 |

1 A property located in Europe but managed by the US business has been reclassified from Continental Europe to United States in the table.

2 Certain property rates taxes were included in the estimated property lease commitments for the UK at 30th September, 2002.

3 Estimated minimum lease commitments in respect of United Kingdom and Japan leases have been reduced significantly following a detailed review of break clauses within the lease agreements entered into by the Group.

4 Payments extinguished in the period represent ongoing lease commitments that have been avoided by exiting the leases.

Cable & Wireless' other contractual obligations at the end of 2003 include capital expenditure commitments and other financial commitments. Details are set out in Note 27 to the Financial Statements. Details on derivatives are given in Note 26.

## CASH FLOW

### Summary consolidated cash flow statement

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| **Net cash inflows from operating activities** | **95** | 94 | 1,287 |
| Return on investments and servicing of finance | **65** | 159 | (212) |
| Taxation paid | **(438)** | (139) | (310) |
| Capital expenditure | **(810)** | (1,868) | (3,293) |
| Financial investment | **595** | 194 | (771) |
| Acquisitions and disposals | **110** | 1,845 | 4,932 |
| Equity dividends paid | **(119)** | (669) | (395) |
| Movement in liquid resources (movement in short term deposits) | **(1,040)** | 2,586 | 129 |
| Net financing repaid | **(578)** | (567) | (944) |
| **(Decrease)/Increase in cash in the year** | **(2,120)** | 1,635 | 423 |

There was a net decrease in cash of £2,120 million in 2003, largely due to a £1,040 million increase in liquid resources and capital expenditure of £810 million.

Operating activities generated net cash of £95 million in 2003 despite operating losses of £6,000 million as these included significant non-cash item charges for depreciation and amortisation, £861 million, and exceptional asset impairment charges, £5,106 million.

Tax paid in 2003 includes £380 million with respect to settlement of the Group's UK tax affairs for the ten years ended 31st March, 2001. Details of the settlement are given in Note 12 to the Financial Statements.

Capital expenditure of £810 million in 2003 included network build of £310 million and the rollout of a GSM mobile network in the Caribbean and Panama and expansion of the TDMA network in the Caribbean £113 million, together with expenditure on billing systems, IT support for capital projects and network terminating and customer premises equipment.

Financial investments generated net cash of £595 million in 2003 of which £600 million related to the proceeds on disposal of a portfolio of preference shares.

Liquid resources increased by £1,040 million in 2003. At 31st March, 2003 liquid resources included the £1.5 billion placed into escrow that was released by 31st March, 2003 and the funds received on 1st April, 2003.

Net financing repaid of £578 million in 2003 included long term debt repayments of £649 million partly offset by long term debt issued of £88 million.

See also "Description of Cable & Wireless – Capital Expenditure".

## DISCLOSURES ABOUT MARKET RISK

### Credit risk

Cash deposits and other financial instruments give rise to credit risk, which represents the loss that would be recognised if a counterparty failed to perform as contracted. The counterparties to the Group's financial instruments are major international institutions and the credit rating of these counterparties is monitored on a regular basis in accordance with guidelines established by the Board.

### Interest rate risk

The Group is exposed to movements of interest rates on its debt, surplus cash balances and derivative instruments. The treasury function seeks to reduce volatility by fixing a proportion of interest rates in advance.

Taking account of such actions, a 50 basis point increase in interest rates to which the Group is exposed would increase net interest income by £9 million. A 50 basis point reduction in interest rates would reduce net interest income by the same amount.

### Exchange rate risk

The Group is exposed to movements in exchange rates in relation to foreign currency payments, dividend income from foreign subsidiaries, reported profits of foreign subsidiaries and the net asset carrying value of foreign investments.

Cable & Wireless trades in over 80 countries and much of its revenue is from international traffic flows settled in major currencies, principally US dollars. In addition, many of the currencies of the countries in which Cable & Wireless operates are linked, directly or indirectly, to the US dollar.

The Group manages its exposure to movements in exchange rates on a net basis and uses forward foreign exchange contracts and other derivative and financial instruments to reduce the exposure.

As part of the overall policy of managing the exposure arising from foreign exchange movements relating to the carrying value of foreign investments, the Group may, from time to time, elect to match certain foreign currency liabilities against foreign investments.

During the year the Group reversed a previous decision to match foreign currency liabilities totalling £486 million. These liabilities were re-denominated into Sterling. There was no cost to the Group from this transaction. Currently there are no foreign currency liabilities matched against foreign investments.

No foreign currency exposure arose from the US$1,504 million PCCW zero coupon exchangeable bond since this was matched by US dollar cash investments.

In broad terms, based on the 2003 mix of profits, the impact of a unilateral 1 per cent. weakening of sterling would have been to increase the operating loss by £32 million.

Overseas subsidiaries generally finance themselves in their domestic currency. However, in Jamaica it is impractical to implement this policy due to limited availability of local currency funding. Consequently Cable & Wireless Jamaica is predominantly funded with US dollar denominated bank debt.

## CRITICAL ACCOUNTING POLICIES

In the preparation of Cable & Wireless' consolidated financial statements a number of estimates and assumptions are made relating to the reporting of results of operations and financial condition. Results may differ significantly from those estimates under different assumptions and conditions. Cable & Wireless believes that the following discussion addresses its most critical accounting policies, which are those that are most important to the presentation of its consolidated financial condition and results. These policies require management's most difficult, subjective and complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

### Valuation of fixed assets and goodwill

Cable & Wireless assesses the impairment of fixed assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following:

- significant under-performance relative to expected historical or projected future operating results;
- significant changes in the use of its assets or the strategy for its overall business;
- significant negative industry or economic trends; and
- significant decline in its stock price for a sustained period and its market capitalisation relative to net book value.

Cable & Wireless determines any impairment by comparing the carrying values of each of Cable & Wireless' income generating units to their recoverable amounts (the higher of net realisable value and the present value of the future cash flows obtainable as a result of an asset's continued use). During 2003, Cable & Wireless impaired tangible fixed assets by £2,381 million (2002: £1,909 million) and goodwill by £2,725 million (2002: £2,007 million). The impairment represented the amount by which the carrying value exceeded the present value of the future cash flows.

Future cash flows were determined with reference to Cable & Wireless' five year plan using a growth rate of 2.5 per cent. in the period beyond Cable & Wireless' five year plan (based on a nominal increase in GDP for the countries in which Cable & Wireless operates), and a discount rate of 14 per cent. which represents the estimated weighted average cost of capital for Cable & Wireless. Changes to the assumptions used by management to determine the level of impairment required, such as the discount rate or growth rate used, could significantly affect Cable & Wireless' results.

### Depreciation and amortisation of fixed assets

Cable & Wireless assigns useful lives to fixed assets based on periodic studies of actual asset lives and the intended use for those assets. Changes in circumstances such as technological advances, prospective economic utilisation and physical condition of the assets concerned could result in the actual useful lives differing from initial estimates. Where Cable & Wireless determines that the useful life of property and equipment should be shortened, Cable & Wireless depreciates the net book value in excess of the residual value over the revised remaining useful life, thereby increasing depreciation expense. Any change in asset lives would be reported in Cable & Wireless' financial statements when the change in estimate is determined. There have been no material changes in asset lives during the periods presented.

### Revenue recognition

Turnover, which excludes value added tax, represents the amount receivable in respect of telecommunications services provided to customers and is accounted for on the accruals basis. Revenue is recognised monthly as services are provided. Revenue in respect of services invoiced in advance is deferred and recognised on provision of the service. Revenue in respect of unbilled services is accrued.

*Interconnection with other operators*

In Cable & Wireless' normal course of business it interconnects its networks with other telecommunications operators. In certain instances it uses estimates to determine the amount of income receivable from or payments to these other operators. The prices at which these services are charged are sometimes regulated and may be subject to retrospective adjustment. Estimates are used in assessing the likely effect of these adjustments.

**Exceptional items**

Under UK GAAP, the Company classified the following income/(costs) as exceptional items:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Exceptional operating costs | **(442)** | (210) | — |
| Exceptional depreciation | **(2,381)** | (1,909) | (444) |
| Exceptional amortisation | **(2,725)** | (2,007) | — |
| Exceptional profits less (losses) on sale or termination of operations | **(147)** | 1,057 | 4,311 |
| Exceptional costs of fundamental reorganisation | **—** | — | (530) |
| Exceptional write down of investments | **(390)** | (904) | (43) |
| Exceptional finance charges | **—** | — | (110) |
| Exceptional profits on disposal of fixed assets | **62** | — | 42 |

Judgement is required to classify such items as exceptional items. The Company is guided by FRS 3 'Reporting Financial Performance' which provides that material items which derive from events or transactions that fall within the ordinary activities are disclosed as exceptional items by virtue of their size or incidence such that the financial statements give a true and fair view. Exceptional depreciation and amortisation arise from the impairment review discussed above.

*Exceptional operating costs*

In the year ended 31st March, 2003 exceptional items included in other operating costs related principally to provisions for ongoing obligations associated with US businesses from which Cable & Wireless withdrew, impaired assets and redundancy and reorganisation costs incurred during the year. These provisions are based on various assumptions, including future severance costs, sublease or disposal costs and contractual termination costs. Such estimates are judgmental and may change based on actual experience.

**Provisions**

The Company complies with FRS 12 'Provisions, contingent liabilities and contingent assets'. A provision is recognised when there is a constructive obligation in respect of a past event. Provisions were recognised for tax, pensions, redundancy costs, property costs and onerous contracts during 31st March, 2003. Management's judgement is required to quantify such provisions.

*Pensions*

The regular cost of providing benefits under defined benefit schemes is charged to operating profit over the expected remaining service lives of the members of the schemes so as to achieve a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal defined benefit schemes are allocated to operating profit over the expected remaining service lives of the members.

The expected cost of providing these defined benefit pensions will depend on an assessment of such factors as:

- the life expectancy of the members;
- the length of service;
- the rate of salary progression;
- the rate of return earned on assets in the future; and
- the rate used to discount future pension liabilities.

The assumptions used by Cable & Wireless are set out in Note 8 to the Financial Statements and are estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. Changes to these assumptions could materially impact the size of the unfunded defined benefit scheme liability of £578 million, calculated under FRS 17, Retirement Benefits, disclosed in Note 8.

**Restructuring charges**

In the year ended 31st March, 2001, restructuring charges were recorded as a result of additional actions to reorganise, re-size and reduce operating costs and create greater efficiency in various areas. These charges, for both severance and exit costs, required the use of estimates. Actual restructuring results did not differ materially from those estimated.

**NEW UK ACCOUNTING STANDARDS ADOPTED**

**Capacity Sales**

As disclosed in prior years, the Group sells network capacity to third parties pursuant to indefeasible rights-of-use agreements (**IRUs**). In prior periods, in accordance with UK accounting standards, where substantially all of the risks and rewards of ownership were transferred to the purchaser over the economic life of the asset, these transactions were accounted for as sales and recognised in turnover at fair value at the time of delivery and acceptance.

On 27th March, 2003, the Urgent Issues Task Force of the UK Accounting Standards Board issued UITF 36, Contracts for sales of capacity. The abstract is applicable for accounting periods ending on or after 30th June, 2003, although early adoption is encouraged, and application is retrospective. The Group has adopted UITF 36 for the year ended 31st March, 2003.

As a result of the adoption of the new abstract, revenues or gains in respect of capacity sales to carriers from whom capacity or other services were also acquired are no longer recognised as the transactions are not considered to meet all the conditions required under the new abstract, in particular the requirement for the capacity provided or received to have a readily ascertainable market value as set out in FRS 10, Goodwill and intangible assets. The Group's cash sales to carriers with no related purchase are largely unaffected by the conditions of the new abstract and will continue to be recognised at the time of delivery and acceptance.

The Group's new accounting policy in respect of capacity sales is set out in the Group's statement of accounting policies on page F-8 below. The impact of adoption on the reported results of the Group is set out in Note 4 to the Financial Statements, including the impact on prior periods as the abstract applies retrospectively.

## UNITED KINGDOM TAXATION

*The comments below are of a general nature. They reflect the Issuer's understanding of current United Kingdom taxation law and United Kingdom Inland Revenue practice and they are subject to changes therein. They do not purport to constitute legal or tax advice. In addition, the comments relate only to the position of persons who are the absolute beneficial owners of the Bonds and the Coupons and may not apply to certain classes of person (such as dealers in securities and persons connected with the Issuer) to whom special rules may apply. These comments are not exhaustive.*

*Holders of Bonds who are in any doubt as to their tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.*

### 1. Interest on the Bonds

1.1 The Bonds issued will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 841 of the Income and Corporation Taxes Act 1988 (the **Act**). The London Stock Exchange is a recognised stock exchange for these purposes. Under an Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and admitted to trading by the London Stock Exchange. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom tax.

1.2 Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid to a person who belongs in the United Kingdom and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that either:

(a) the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or

(b) the payment is made to:

(i) a local authority;

(ii) a charity (within the meaning of section 506(1) of the Act);

(iii) the trustees or other persons having the management of a fund entitled to an exemption under section 620(6) of the Act (retirement annuity trust schemes);

(iv) a person holding investments or deposits for the purposes of a scheme entitled to exemption under section 643(2) of the Act (approved personal pension schemes);

(v) the plan manager of a plan, where an individual investing under the plan is entitled to an exemption under section 333 of the Act (personal equity plans and individual saving accounts), and the plan manager receives the payment in respect of investments under the plan;

(vi) a society or institution with whom tax-exempt special savings accounts (within the meaning of section 326A of the Act) may be held, where the society or institution receives the payment in respect of investments held for the purposes of such accounts,

or is made to one of the other classes of exempt bodies or persons set out in section 349B of the Act,

provided that the Inland Revenue has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that none of the conditions specified in section 349B of the Act will be satisfied in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

1.3 In all other cases, interest will generally be paid under deduction of income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

1.4 Persons in the United Kingdom (1) paying interest to or receiving interest on behalf of another person, or (2) paying amounts due on the redemption of the Bonds to or receiving such amounts on behalf of another person, may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

1.5 The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Bonds (other than certain trustees) who are not resident for tax purposes in the United Kingdom, except where such persons carry 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, in which case tax may be levied on the United Kingdom branch or agency. There are exemptions for interest received by certain categories of agents (such as some brokers and investment managers). Proposed legislation, intended to take effect in relation to accounting periods beginning on or after 1st January, 2003, would (if enacted in its current form) amend the above to the effect that corporate holders of Bonds not resident in the United Kingdom may be liable to United Kingdom taxation only to the extent that they carry on a trade through a United Kingdom permanent establishment to which the Bonds are attributable. Exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

1.6 If interest were paid under deduction of United Kingdom income tax (e.g. if the Bonds ceased to be listed on a recognised stock exchange), Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

1.7 Bondholders within the charge to United Kingdom corporation tax will be subject to tax as income on interest arising in respect of the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment. Such Bondholders will generally be charged in each accounting period by reference to interest which, in accordance with such Bondholder's authorised accounting method, is applicable to that period.

1.8 Bondholders who are not subject to United Kingdom corporation tax but who are subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Bonds on a receipts basis.

1.9 On 3rd June, 2003, the European Council of Economics and Finance Ministers agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The proposals are anticipated to take effect from 1st January, 2005.

## 2. Dividends on the Ordinary Shares

2.1 The Issuer will not be required to withhold tax at source when paying a dividend on the Ordinary Shares.

2.2 An individual holder of Ordinary Shares who is resident in the United Kingdom (for tax purposes) and who receives a dividend from the Issuer should generally be entitled to a tax credit which such shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the **gross dividend**), which is also equal to one-ninth of the cash dividend received. A United Kingdom resident individual shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such shareholder's liability to income tax on the dividend and there is no right to claim any repayment from the Inland Revenue. A United Kingdom resident individual shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. In the case of a United Kingdom resident individual shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match his tax liability on the gross dividend and he will have to account for additional tax equal (at present rates) to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received).

2.3 United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Issuer, although charities will be entitled to limited compensation in lieu of repayable tax credits until 5th April, 2004.

2.4 Tax credits on dividends paid by the Issuer in respect of Ordinary Shares held in personal equity plans (**PEPs**) or individual savings account (**ISAs**) will be repayable on dividends paid on or before 5th April, 2004.

2.5 A corporate shareholder resident in the United Kingdom for tax purposes will generally not be subject to United Kingdom corporation tax on dividends paid by the Issuer. Such shareholders will not be able to claim repayment of tax credits attaching to dividends.

2.6 A non-United Kingdom tax resident shareholder is not generally entitled to the benefit of a tax credit in respect of any dividend received.

2.7 A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. A shareholder who is not resident in the United Kingdom (for tax purposes) should consult his own tax adviser concerning his tax liabilities on dividends received from the Issuer.

**3. Disposal or Conversion of the Bonds**

3.1 Non-United Kingdom Resident Bondholders

Bondholders who are not resident or ordinarily resident for tax purposes in the United Kingdom and who do not carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bonds are attributable are outside the charge to United Kingdom taxation on chargeable gains with respect to the disposal of the Bonds and the conversion of the Bonds into Ordinary Shares. See paragraph 1.5 above in relation to the position in respect of accounting periods beginning on or after 1st January, 2003 of non-resident companies carrying on a trade through a United Kingdom permanent establishment to which the Bonds are attributable.

3.2 Bondholders Within the Charge to United Kingdom Corporation Tax

The Bonds will constitute "relevant discounted securities" as defined in Schedule 13 to the Finance Act 1996 and accordingly Bondholders within the charge to United Kingdom corporation tax will be party to a "loan relationship" within the meaning of Chapter II of Part IV of the Finance Act 1996. Consequently, such a Bondholder:

(a) will be subject to tax on all profits on the Bonds (whether income or capital in nature or whether attributable to currency fluctuations or otherwise) as income (broadly in accordance with its statutory accounting treatment);

(b) will be treated on conversion, for the purposes of computing its profits that are subject to United Kingdom corporation tax as income, as disposing of the relevant Bonds for their market value at the time of conversion; and

(c) will be treated on conversion, for the purposes of United Kingdom corporation tax on chargeable gains, as acquiring the Ordinary Shares for an amount equal to the market value of the relevant Bonds at the time of conversion less the amount of any cash received on conversion.

3.3 Other Bondholders

As detailed above, the Bonds are relevant discounted securities. Consequently, a Bondholder who is not within the charge to United Kingdom corporation tax and is resident or ordinarily resident for tax purposes in the United Kingdom or carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which his Bonds are attributable:

(a) will be subject to United Kingdom income tax on any profit which it makes on a transfer or redemption of the Bonds;

(b) should be treated on conversion, for the purposes of applying the rules described in paragraph (a) above, as redeeming the relevant Bonds for a payment of a sum equal to the market value of the Ordinary Shares into which the Bond is converted and any cash received on redemption; and

(c) will be treated on conversion, for the purposes of United Kingdom capital gains tax, as acquiring his Ordinary Shares for an amount equal to the market value of the relevant Bonds at the time of conversion less the amount of any cash received on conversion.

## 4. Disposal of Ordinary Shares

A disposal of Ordinary Shares will constitute a disposal for the purposes of United Kingdom taxation of capital gains and, accordingly, may give rise to a liability to taxation for Shareholders who are resident for tax purposes or ordinarily resident in the United Kingdom or carried on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Ordinary Shares are attributable, subject to the usual reliefs and allowances which may then be available. See paragraph 1.5 above in relation to the position in respect of accounting periods beginning on or after 1st January, 2003 of non-resident companies carrying on a trade through a United Kingdom permanent establishment to which the Bonds are attributable.

## 5. Stamp duty and stamp duty reserve tax

5.1 No United Kingdom stamp duty or stamp duty reserve tax (**SDRT**) is payable on the issue of a Bond or on the transfer by delivery of a Bond (so long as the Bonds and Ordinary Shares continue to be listed on a recognised stock exchange and the agreement to transfer is not made in contemplation of or as part of an arrangement for a take-over of the Issuer).

5.2 No United Kingdom stamp duty or SDRT is payable on the issue of the Ordinary Shares upon conversion of Bonds other than an issue to issuers of depositary receipts or providers of clearance services (or their nominees or agents).

5.3 The transfer on sale of an Ordinary Share will be liable to *ad valorem* stamp duty generally at the rate of 0.5 per cent. of the amount or value of the consideration for the transfer rounded up to the nearest £5. The purchaser normally pays the stamp duty.

5.4 An unconditional agreement to sell an Ordinary Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration for the sale. If a duly stamped transfer in respect of the agreement is produced within six years of the date that the agreement is entered into or (if later) the date that it becomes unconditional, any SDRT paid is repayable generally with interest, and any unpaid SDRT charge is cancelled.

5.5 Transfers of Ordinary Shares (1) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts within Section 67 or Section 93 of the Finance Act 1986 or (2) to, or to a nominee agent for, a person providing a clearance service within Section 70 or Section 96 of the Finance Act 1986, will generally be subject to stamp duty or SDRT at 1.5 per cent. of the amount or value of the consideration or, in certain circumstances, the value of the Ordinary Shares transferred (rounded up to the nearest £5 in the case of stamp duty) unless, in the case of a transfer to a clearance service, the clearance service has made an election under Section 97A of the Finance Act 1986. Clearance services may, provided they meet certain conditions, elect for the 0.5 per cent. rate of stamp duty or SDRT to apply to transfers of securities within such services instead of the 1.5 per cent. rate applying to an issue or transfer of such securities into the clearance service.

5.6 Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the system unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at the rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.

**THE ABOVE SUMMARIES REFLECT CERTAIN ASPECTS OF CURRENT LAW AND PRACTICE IN THE UNITED KINGDOM. PROSPECTIVE BONDHOLDERS WHO ARE IN DOUBT AS TO THEIR TAX POSITION OR WHO MAY BE SUBJECT TO TAX IN ANY OTHER JURISDICTION SHOULD CONSULT THEIR PROFESSIONAL ADVISERS.**

## SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd., Cazenove & Co. Ltd., ABN AMRO Rothschild, Barclays Capital Securities Limited, Deutsche Bank AG London, HSBC Bank plc, Lehman Brothers International (Europe) and Morgan Stanley & Co. International Limited (the **Managers**) have, pursuant to a Subscription Agreement dated 10th July, 2003, severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at 100 per cent. of their principal amount. The principal amount of Bonds which each Manager has agreed to subscribe is set out in the table below:

| Manager | Principal amount of Bonds |
|---|---|
| J.P. Morgan Securities Ltd. | 167,514,100 |
| Cazenove & Co. Ltd. | 55,408,510 |
| ABN AMRO Rothschild | 5,798,565 |
| Barclays Capital Securities Limited | 5,798,565 |
| Deutsche Bank AG London | 5,798,565 |
| HSBC Bank plc | 5,798,565 |
| Lehman Brothers International (Europe) | 5,798,565 |
| Morgan Stanley & Co. International Limited | 5,798,565 |

The Issuer will pay a commission in respect of underwriting services of 2.4 per cent. of such principal amount. The Subscription Agreement entitles J.P. Morgan Securities Ltd. on behalf of the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities.

The Issuer has agreed that it will not, without the prior consent of J.P. Morgan Securities Ltd., for a period of 90 days commencing on 16th June, 2003 (i) issue, offer, lend, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, mortgage, charge, assign, grant any option, right, or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares (or any interest therein or in respect thereof) or any rights arising from or attaching to any such Ordinary Shares at any time, or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, or enter into any other transaction with the same economic effect as, or agree to do or announce or otherwise publicise the intention to do any of the foregoing, whether any such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise, provided that nothing herein shall prevent or restrict (a) the issue of the Bonds, the conversion of the Bonds into Ordinary Shares or any purchase of Bonds by the Issuer, (b) the completion of any transaction which was publicly announced prior to 16th June, 2003, (c) the exercise of any options or other rights granted prior to 16th June, 2003 to officers and employees of the Group (being the Issuer and its subsidiaries and affiliates) and (d) the grant and/or exercise of any options or other rights to or by officers and employees of the Group pursuant to any scheme or plan in existence prior to 16th June, 2003.

### United States

The Bonds and the Shares to be issued and delivered on conversion of the Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented that it has offered and sold the Bonds, and has agreed that it will offer and sell the Bonds, constituting part of its allotment (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Manager has agreed that, at or prior to confirmation of sale of Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Bonds from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (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 (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, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act."

The Bonds are subject to United States tax 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 United States tax regulations.

Until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering of the Bonds) may violate the registration requirements of the Securities Act.

**United Kingdom**

Each Manager has represented and agreed that:

(1) 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 VI of the Act 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 (as amended) or the Act;

(2) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

(3) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Act) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the Act does not apply to the Issuer.

**General**

No action has been taken by the Issuer or the Managers that would, or is intended to, permit a public offer of the Bonds or distribution of this Offering Circular or any other offering material in relation to the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

Without prejudice to the generality of the above, each Manager has agreed that it will obtain any consent, approval or permission which is required for the offer, purchase or sale by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and it will comply with all such laws and regulations.

## GENERAL INFORMATION

### 1. Listing

The listing of the Bonds on the Official List will be expressed in pounds sterling as a percentage of their principal amount (excluding accrued interest). Transactions will normally be effected for settlement in pounds sterling and, under current practice, for delivery on the third business day after the day of the transaction. It is expected that admission to the Official List and admission of the Bonds to trading on the London Stock Exchange's Market for listed Securities will be granted on or about 16th July, 2003 subject only to the issue of the Temporary Global Bond. Before official listing and admission to trading, however, dealings in the Bonds will be permitted by the London Stock Exchange in accordance with its rules.

### 2. Authorisation

The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 13th June, 2003 and by a committee of the Board of Directors passed on 15th June, 2003.

### 3. Clearing reference numbers

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code is 017103989 and the ISIN is XS0171039893.

### 4. Incorporation and registered office

4.1 The Issuer was incorporated under the name Imperial and International Communications Limited on 8th April, 1929 under the Companies Acts 1908 and 1917 as a private limited Issuer limited by shares and registered in England and Wales with number 238525. On 5th June, 1934, it changed its name to Cable and Wireless Limited. On 5th June, 1981, Cable and Wireless Limited was re-registered as a public limited company under section 43 of the Act and changed its name to Cable and Wireless Public Limited Company.

4.2 The registered and head office of the Issuer is at 124 Theobalds Road, London, WC1X 8RX.

### 5. Share Capital

5.1 The issued share capital of the Issuer is and immediately following conversion of all of the Bonds (assuming that the Conversion Amount per Bond is £1.45, no change to the conversion price, no cash settlement of any conversion and assuming no further issues of Ordinary Shares by the Issuer after 10th July, 2003 and prior to conversion of the Bonds) will be as follows:

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| | **Number** | **Amount** | **Number** | **Amount** |
| Ordinary Shares of 25p each | 3,500,000,000 | £875 million | 2,383,125,495 | £596 million |
| **Following conversion of the Bonds** | | | | |
| Ordinary Shares of 25p each | 3,500,000,000 | £875 million | 2,560,858,986 | £640 million |

Details of the outstanding options and awards over Ordinary Shares are set out in paragraphs 8 and 10.2 of this section.

5.2 The following is a summary of the changes in the issued share capital of the Issuer which have occurred between 2nd July, 2000 and the date of this document:

(a) The following Ordinary Shares have been issued on the exercise of the Issuer's share options during this period:

| **2001 Scheme** | **No. of Shares Issued** |
|---|---|
| C&W Savings Related Share Option Scheme | 2,175,128 |
| C&W Global Savings Related Share Option Scheme | 746,760 |
| C&W Senior Employees' Share Option Scheme | 2,972,751 |
| C&W Revenue Approved Share Option Scheme | 1,905,620 |
| C&W Employees' Stock Purchase Plan | 274,878 |
| **2002** | |
| C&W Savings Related Share Option Scheme | 286,640 |
| C&W Senior Employees' Share Option Scheme | 170,741 |
| C&W Revenue Approved Share Option Scheme | 186,965 |
| **2003** | |
| C&W Senior Employees' Share Option Scheme | 1 |
| C&W Revenue Approved Share Option Scheme | 9 |
| Unapproved Special Director Share Options | 1,000,000 |
| **2004 (until 10th July, 2003)** | |
| C&W Savings Related Share Option Scheme | 800 |
| C&W Revenue Approved Share Option Scheme | 1 |

(b) Other changes in the issued share capital of the Issuer are listed below:

| **2001** | **No. of Shares Issued/Cancelled** |
|---|---|
| Conversion of 7% Convertible Unsecured Loan Stock 2008 | 17,998,603 |
| Consideration issued for acquisition of minority interest in CWC DataCo | 327,471,046 |
| Scheme payments to ntl | 7,337,655 |
| Conversion of CWC loan notes and exercise of CWC Savings Related Share Options | 375,766 |
| **2002** | |
| Purchase of own shares | (419,998,627) |
| **2003** | |
| Nil | |
| **2004 (until 10th July, 2003)** | |
| Nil | |

5.3 Save as disclosed in paragraph 5.2 above and paragraphs 5.7, 8.2, 8.3 and 10.2 below of this section:

(a) no share or loan capital of the Issuer or any of its subsidiaries has within the three years preceding the date of this document (other than intra-group issues by wholly owned subsidiaries) been issued or agreed to be issued or is now proposed to be issued fully or partly paid, either for cash or for a consideration other than cash to any person;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Issuer or any of its subsidiaries within the three years immediately preceding the date of this document in connection with the issue or sale of any share or loan capital of any such company; and

(c) neither the Issuer nor any of its subsidiaries has granted any options over its share or loan capital which remain outstanding or has agreed, conditionally or unconditionally, to grant any such options.

5.4 The provisions of section 89(1) of the Companies Act (which, to the extent not disapplied pursuant to section 95 of the Companies Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94 of the Companies Act) which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Issuer except to the extent disapplied by the resolution referred to in paragraph 5.5(b) below. Section 89(1) of the Companies Act would apply to the allotment of the Bonds but not to the allotment of the Ordinary Shares which will be issued on conversion of the Bonds. However, the allotment of the Bonds will take advantage of the disapplication of the provisions of section 89(1) of the Companies Act conferred by the resolution referred to in paragraph 5.5(b) below. In addition, the Directors of the Issuer have tabled a resolution to be passed at the next annual general meeting, due to be held on 25th July, 2003, to give them the power to allot further equity securities in connection with a rights issue or otherwise up to a maximum aggregate nominal amount of £198,593,791.25 in relation to paragraph 5.6 below.

5.5 By resolutions passed at the annual general meeting of the Issuer held on 12th July, 2002:

(a) the Directors of the Issuer were generally authorised, pursuant to section 80 of the Companies Act, to allot relevant securities (as defined in that section) up to a maximum aggregate nominal value of £279,468,827, such authority to expire on 11th July, 2007; and

(b) the Directors of the Issuer were given power to allot equity securities (as defined in section 94 of the Companies Act) for cash provided that such power, which was expressed to expire on 11th July, 2007, was limited to the allotment of equity securities in connection with a rights issue and otherwise up to a maximum aggregate nominal amount of £29,776,558.

5.6 The resolution tabled for the next annual general meeting, due to be held on 25th July, 2003, referred to in paragraph 5.4, together with the resolutions referred to in paragraph 5.5 relate to the number of ordinary shares relating to the Bonds. The terms and conditions of the conversion rights of the Bonds are set out from page 17 of this Offering Circular.

5.7 In so far as is known to the Issuer, the following persons were the only persons interested directly or indirectly in, 3 per cent. or more of the current issued share capital of the Issuer:

| Name of share owner | Number of the Issuer Ordinary Shares | Percentage of issued share capital (%) |
|---|---|---|
| Franklin Resources, Inc. and its affiliates | 103,190,957 | 4.33 |
| Legal & General Investment Management | 83,946,580 | 3.52 |
| The Trustees of BT Pension Scheme and BriTel Fund Trustees Ltd | 73,933,430 | 3.10 |

So far as the Directors are aware there are no persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Issuer.

## 6. Number of Employees

The average monthly numbers of employees of the Group over the last three financial years were:

| | 2003 Number | 2002 Number | 2001 Number |
|---|---|---|---|
| Cable & Wireless Global | 12,167 | 13,345 | 16,160 |
| Cable & Wireless Regional | 10,433 | 11,915 | 15,034 |
| Other | 167 | 195 | 164 |
| Discontinued operations (pro rated) | 385 | 4,769 | 16,546 |
| | 23,152 | 30,224 | 47,904 |

## 7. Summary of the memorandum and articles of association

7.1 Memorandum of association

The memorandum of association of the Issuer provides that its objects are, amongst other things, to conduct communications business of all types including, but not limited to, telegraph, telephone, telex, television, radar, satellite and computers throughout the world and doing all matters and things incidental thereto. The objects of the Issuer are set out in full in clause 4 of its memorandum of association which is available for inspection as described in paragraph 15 below.

7.2 Articles of association

The articles of the Issuer adopted on 12th July, 2002, include provisions to the following effect:

(a) **Rights attaching to ordinary shares**

(i) Voting rights of members – subject to disenfranchisement in the event of (aa) non-payment of any call or other sum due and payable in respect of any share or (bb) any non-compliance with any statutory notice requiring disclosure of the beneficial ownership of any shares and subject to any special rights or restrictions as to voting for the time being attached to any shares (as to which there are none at present). On a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative not being himself a member, has one vote and on a poll every member present in person, by proxy or by representative has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

(ii) Dividends – subject to the rights attached to any shares issued on any special terms and conditions (as to which there are none at present), dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls should be treated for these purposes as paid up on the share.

(iii) Dividends – the holders of Shares are entitled to the profits of the company available for dividend and resolved by ordinary resolution to be distributed either by the Company in general meeting or by the Directors from time to time. The Directors may, with the sanction of an ordinary resolution, operate a plan (or plans) for the benefit of shareholders whereby the Directors, on such terms and conditions as they think fit, may offer shareholders various options in lieu of receiving cash dividends. These alternatives include the right to elect to receive fully paid ordinary shares or the right to elect either to subscribe for unissued ordinary shares or to pay up any partly paid or unpaid ordinary shares. The Companies Act limits the Company's payment of dividends and returns of capital to distributable profits and reserves.

(iv) Return of capital – subject to the rights attached to any shares issued on any special terms and conditions (no shares of this type having yet been issued), on a winding up the surplus assets remaining after payment of all creditors of the Issuer will be divided among the members of the Issuer according to their respective holdings of shares. The liquidator may, with the sanction of an extraordinary resolution of the Issuer and any other sanction required by statute (aa) divide among the members in specie the whole or any part of the assets of the Issuer; or (bb) vest the whole or any part of the assets in trustees on such trusts for the benefit of members as the liquidator shall think fit, but no member shall be compelled to accept any assets upon which there is any liability.

(b) **Transfer of shares**

A member may transfer all or any of his uncertificated shares and the Issuer shall register the transfer of any uncertificated shares in accordance with any applicable statutory provision. The board may, in its absolute discretion and without giving any reason for its decision, refuse to register any transfer of an uncertificated share where permitted by any applicable statutory provision. If the board refuses to register a transfer of an uncertificated share it shall, within two months of the date on which the transfer instruction relating to such a transfer was received by the Issuer, send to the transferee notice of the refusal.

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form, or in such other form as the board may approve. The instrument of transfer shall be signed by or on behalf of the transferor and, except in the case of a fully paid share, by or on behalf of the transferee. The board may, in its absolute discretion and without giving any reason for it, refuse to register any transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place on an open and proper basis) or any certificated share on which the Issuer has a lien. The board may also refuse to register any instrument of transfer of a certificated share unless it is lodged at the registered office, or such other place as the board may decide, for registration, accompanied by the share certificate for the shares to be transferred (except where the shares are registered in the name of a market nominee and no certificate has been issued for them) and such other evidence as the board may reasonably require to prove title of the intending transferor. If the board refuses to register a transfer of a certificated share it shall, within two months after the date on which the instrument of transfer was lodged, send to the transferee notice of the refusal. The board may refuse to register any transfer unless it is only in respect of one class of shares and in favour of no more than four transferees.

(c) **Changes in capital**

The Issuer may by ordinary resolution

(i) increase its share capital;

(ii) consolidate and divide all or any of its share capital into shares of a larger amount;

(iii) sub-divide all or part of its share capital into shares of a smaller amount; and

(iv) cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

The Issuer may by special resolution:

(v) purchase its own shares; and

(vi) reduce its share capital and any capital redemption reserve or share premium account.

(d) **Variation of rights**

Whenever the share capital of the Issuer is divided into different classes of shares (which it is not as at the date of this document), all or any of the rights for the time being attached to any class of shares may be varied, either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At any separate general meeting, the necessary quorum is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question (but at any adjourned meeting, any person holding shares of the class or his proxy is a quorum).

(e) **Uncertificated shares – general powers**

In relation to any uncertificated share, the Issuer may utilise the relevant system in which it is held to the fullest extent available from time to time in the exercise of any of its powers or functions under any applicable statutory provision or the articles of association or otherwise in effecting any action. Any provision in the articles of association in relation to uncertificated shares which is inconsistent with any applicable statutory provision shall not apply. The Issuer may, by notice in writing to the holder of an uncertificated share, require the holder to change the form of that share to certificated form within such period as may be specified in the notice. For the purpose of effecting any action by the Issuer, the Directors may determine that holdings of the same member in uncertificated form and in certificated form shall be treated as separate holdings.

(f) **Directors**

(i) The Directors (disregarding alternate Directors) shall not, unless otherwise determined by an ordinary resolution of the Issuer, be less than five nor more than 20 in number.

(ii) A director need not be a member of the Issuer.

(iii) There is no age limit for Directors.

(iv) At each annual general meeting any director then in office who has been appointed by the board since the previous annual general meeting or who was in office at the time of the two previous annual general meetings and who was not elected or re-elected by general meeting of the Issuer shall retire from office but shall be eligible for re-appointment.

(v) The Directors shall be paid out of the funds of the Issuer by way of remuneration for their services as Directors. Such fees shall not exceed in aggregate £350,000 per annum or such larger sum as the Issuer may, by ordinary resolution, determine. Such fee shall be divided among them in such proportion and manner as they may agree, or failing agreement, equally.

(vi) The board may grant special remuneration to any director who performs any special or extra services to or at the request of the Issuer. Special remuneration may be payable to a director in addition to his ordinary remuneration (if any) as a director.

(vii) The Directors shall also be paid out of the funds of the Issuer all expenses properly incurred by them in and about the discharge of their duties, including their expenses of travelling to and from the meetings of the board, committee meetings, general meetings and separate meetings of the holders of any class of securities of the Issuer.

(viii) The board can decide whether to provide pensions, annual payments, insurance, gratuities or other benefits to any people who are, or were, Directors or employees of the Issuer or of any subsidiary undertaking or acquired company or business. The Directors or any committee authorised by the Directors may extend these arrangements to any relation or dependant of such person. This includes present or former spouses. The Directors can also decide to contribute to a scheme or fund or to pay premiums to a third party for these purposes.

(ix) A Director or former Director will not be accountable to the Issuer or the shareholders for any benefit provided as described in sub-paragraph (viii) above. Anyone receiving such a benefit will not be disqualified from being or becoming a Director of the Issuer.

(x) Subject to any applicable statutory provisions, a director shall not be disqualified by his office from entering into any contract with the Issuer, either with regard to his tenure of any office or position in the management, administration or conduct of the business of the Issuer, or as vendor, purchaser or otherwise. A director may hold and be remunerated in respect of any other office or place of profit (other than the office of auditor of the Issuer) in conjunction with his office as director and he (or his firm) may also act in a professional capacity for the Issuer (except as auditor) and may be remunerated for it.

(xi) A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Issuer shall declare the nature of his interest at a meeting of the Directors.

(xii) A director shall not vote or be counted in the quorum at a meeting in respect of any resolution concerning his own appointment (including fixing and varying its terms), or the termination of his own appointment, as the holder of any office or place of profit with the Issuer or any other Issuer in which the Issuer is interested but, where proposals are under consideration concerning the appointment (including fixing or varying its terms), or the termination of the appointment of two or more Directors to offices or places of profit with the Issuer or any Issuer in which the Issuer is interested, those proposals may be divided and considered in relation to each director separately; and in such case each of the Directors concerned (if not otherwise debarred from voting under the articles of association) shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment or the termination of his own appointment.

(xiii) A director shall not vote (or be counted in the quorum at a meeting) in respect of any contract in which he has an interest which (together with any interest of a connected person) is to his knowledge a material interest. Notwithstanding the above, a director shall be entitled to vote (and be counted in the quorum) on: (aa) any contract in which he is interested by virtue of an interest in shares, debentures or other securities of the Issuer or otherwise in or through the Issuer; (bb) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Issuer or any of its subsidiary undertakings; or a debt or obligation of the Issuer or any of its subsidiary undertakings for which he himself has assumed responsibility under a guarantee or indemnity or by the giving of security; (cc) any issue or offer of shares, debentures or other securities of the Issuer or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as holder of any such securities or as an underwriter or sub-underwriter; (dd) any contract concerning another Issuer in which he and any connected person do not to his knowledge hold an interest in shares (within the meaning of sections 198 to 211 of the Act) representing one per cent. or more of the issued shares of any class of such Issuer or of the voting rights of that Issuer; (ee) any arrangement for the benefit of employees of the Issuer or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and (ff) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

(g) **Borrowing powers**

The board may exercise all the powers of the Issuer to borrow money, and to mortgage or charge its undertakings, property and assets (present and future) and uncalled capital, and to issue debentures, debenture stock and other securities whether outright or as collateral security for any debt, liability or obligation of the Issuer or of any third party.

The Directors shall restrict the borrowings of the Issuer and exercise all rights exercisable by the Issuer in relation to its subsidiaries so as to secure (as regards subsidiaries, so far as by such exercise it can secure) that the aggregate amount for the time being remaining outstanding of all moneys borrowed by the group (which expression in this sub-paragraph means the Issuer and its subsidiaries for the time being) and for the time being owing (subject as set out in the relevant article) to persons outside the group shall not at any time, without the previous sanction of an ordinary resolution of the Issuer in general meeting, exceed an amount equal to two and a half times the adjusted capital and reserves.

To date no resolution of the type referred to in this paragraph has been passed.

(h) **Unclaimed dividends**

Any dividend unclaimed for a period of 12 years after having been declared shall automatically be forfeited and cease to remain owing by the Issuer.

**8. Issuer's share schemes and details of outstanding options and awards under the Issuer's share schemes**

The following is a summary of the principal terms of the Issuer's share schemes (together the **Cable & Wireless Share Schemes**):

8.1 Summary of the main features of the Incentive Plan 2001

The following is a summary of the main features of the Incentive Plan 2001 (the **Plan**). The Plan comprises four elements:

- Share Option Plan;
- Performance Share Plan;
- Restricted Share Plan; and
- Stock Appreciation Rights.

The Plan may operate in conjunction with a trust.

(a) **Eligibility**

Employees (including Executive Directors) of the Company and all companies which are under the control of the Company or which are subsidiaries of it are eligible to participate in the Share Option Plan, the Performance Share Plan, and the Restricted Share Plan. Actual participation will be determined by the remuneration committee. Stock Appreciation Rights are only offered to employees in circumstances where the taxation, legal or administrative implications of offering share options or shares make it impossible or undesirable to use them.

(b) **Share Option Plan**

**Participants:** The Share Option Plan is the principal element under which awards are made annually to the Executive Directors, other executives and other key staff. A separate schedule to the Plan allows the Company to grant Inland Revenue approved share options in the UK.

**Individual limits:** The remuneration committee sets the upper limit for individual awards from time to time with reference to local market practice. The Share Option Plan has a limit for individuals of 10 times salary for each annual grant. The remuneration committee has set an overriding annual limit of six times salary for the Chief Executive and four times salary for the other Executive Directors. The remuneration committee will return to shareholders for further approval if they wish to award annual grants in excess of this level.

**Performance conditions:** Where it is appropriate in the local market, performance conditions are attached either to the grant or exercise of options. Performance conditions are applied in determining the levels of options granted to employees in the US, but are not applied to the vesting of such awards.

Share options granted to all employees outside of the US are subject to performance conditions. The performance conditions are based upon the Company's Total Shareholder Return measured against the constituents of the FTSE Global Telecoms Sector Index between the third and fifth anniversaries of the date of grant.

The remuneration committee has power to vary or waive performance conditions to take account of a change of circumstances but only if the remuneration committee considers that the amended condition is a fairer measure of the performance of the Company, Cable & Wireless Group, business unit or the participant, and provided that the amended performance condition is not materially easier nor more difficult to achieve than it was when the award was first granted. The remuneration committee reviews the performance conditions prior to each grant to ensure that it is challenging and in line with best practice and current ABI guidelines.

**Vesting:** For share options outside of the US, full vesting occurs only if the TSR performance of the Company meets or exceeds the upper quartile measured against the constituents of the FTSE Global

Telecoms Sector Index at the end of any month between the third and fifth anniversaries of the date of grant. Where TSR performance meets the median, 50 per cent. of the initial award vests. A sliding scale operates between median and upper quartile, and nothing vests for performance below median. If performance conditions have not been met by the fifth anniversary of the date of grant, the options lapse.

Whilst performance conditions are not attached to the vesting of share option to employees in the US, 25 per cent. of amounts to US employees vest on the first anniversary of the date of grants with a further 25 per cent. on each subsequent anniversary.

**Option price:** The option price is the average of middle market quotations (as derived from the Daily Official List) for the five dealing days immediately preceding the date of grant.

(c) **Performance Share Plan**

**Participants:** Executive Directors of the Company and other top executives (approximately 100 participants). These individuals may also be granted awards under the Share Option Plan.

**Level of awards:** The level of any award is determined by the remuneration committee each year by reference to total remuneration with a market peer group, subject to an overriding annual limit of one times salary for the participant. No awards have been made under this plan since 2002.

**Performance conditions:** Performance conditions are always attached to awards of performance shares. The performance measure is determined by the remuneration committee. The performance conditions for the Performance Share Plan is based upon the Company's Total Shareholder Return measured against the constituents of the FTSE Global Telecoms Index on the third anniversary of the date of the award.

**Vesting:** Vesting of award shares under the Performance Share Plan is subject to satisfaction of the performance conditions. Full vesting occurs only if the TSR performance of the Company meets or exceeds the upper quartile on the third anniversary of the date of the award. Where TSR performance meets the median, 40 per cent. of the initial award vests. A sliding scale operates between median and upper quartile, and nothing vests for TSR performance below the median. A dividend award supplement operates on the Performance Share Plan. Dividends that would have been paid on the performance shares which vests, will be regarded as having been re-invested in additional shares.

(d) **Restricted Share Plan**

**Intended participants:** Restricted shares are only awarded in exceptional circumstances such as to attract key strategic individuals.

**Level of awards:** The remuneration committee sets the level and upper limit of awards.

**Performance conditions:** As the main aim of this incentive element is to attract key individuals and compensate them for incentive arrangements lost upon joining the Company, the award of restricted shares is not necessarily linked to the achievement of corporate performance conditions.

**Vesting:** The length of the vesting period is flexible and at the discretion of the remuneration committee. No payment is made by a participant when an award is granted or vests.

(e) **Stock Appreciation Rights**

These are used to mirror the benefits from the three other elements of the Plan described above, but pay out rewards in cash. These are used in countries where it is more tax effective not to use actual shares or share options, or where the use of actual shares or share options is prevented or made difficult by local legislation.

(f) **Terms applicable to all elements of the Plan**

(i) **Limits on issue of new Shares:** The number of new shares which may be issued under the Plan on any day shall not, when added to the new shares issued or issuable under the Plan and any other employees' share scheme over the previous 10 years, exceed 10 per cent. of the ordinary share capital of the Company in issue immediately before that day. The remuneration committee ensures that the number of new shares which may be issued under the Plan on any day to the Executive Directors and other top executives (approximately 100) when added to new shares issued, or still issuable, under the Plan and any other employees' share scheme over the last 10 years pursuant to grants or awards to individuals as members of that participant group, does not exceed 5 per cent. of the ordinary share capital of the Company in issue immediately before that day. Existing shares do not therefore count towards these limits, but new shares issued to trustees to enable them to satisfy awards are taken into account.

(ii) **Cessation of Employment:** Awards generally lapse immediately when an employee ceases employment. They do not lapse in certain specified circumstances, including where employment ceases because of death, injury, disability, retirement, early retirement, redundancy and the employing company or business ceasing to be within the group or in other circumstances at the discretion of the remuneration committee. Performance conditions are treated as satisfied in these specified circumstances.

(iii) **Takeovers:** If there is a takeover of the Company, a scheme of arrangement or similar other major corporate events, awards under the Plan crystallise. If it is possible to determine at that time whether the performance conditions are satisfied, awards will become exercisable or vest if the performance conditions are satisfied during the period from the first day of the performance period up to a date being no earlier than 30 days before the happening of the relevant event. If the performance conditions are not satisfied, the remuneration committee's consent is required as to the extent to which, if at all, awards become exercisable or vest. If, in the opinion of the remuneration committee, it is not possible to determine whether the performance conditions are satisfied, the remuneration committee shall at its discretion determine the extent to which, if at all, awards become exercisable or vest. Awards not subject to performance conditions vest in full. The early vesting of awards will not apply where a company acquires control of the Company and following that acquisition, the shareholders of the Company immediately prior to the acquisition between them hold more than 50 per cent. of the issued share capital of the acquiring company, unless the remuneration committee decides that the foregoing vesting rules should apply.

(iv) **Variation of capital:** If there is a capitalisation issue, rights issue, rights offer, sub-division, consolidation or reduction of capital, demerger or any variation to the share capital of the Company, the number of shares subject to an award will be adjusted in such a manner as the remuneration committee determines and the auditors confirm to be fair and reasonable.

(v) **Alterations:** The remuneration committee may at any time alter or add to any of the provisions of the Plan (with the prior consent of any trustees if they have made any awards). However, no alteration or addition can be made to the provisions which relate to (i) the class of persons eligible to participate in the Plan; (ii) the terms upon which ordinary shares may be transferred to a participant under an award; (iii) the adjustments to awards in the event of a variation of capital; and (iv) the amendment rule, without the prior approval by ordinary resolution of the Company's shareholders unless it is a minor alteration or addition which is to benefit the administration of the Plan, is necessary or desirable in order to take account of any change in legislation or regulation, or to obtain or maintain favourable taxation, exchange control, accounting or regulatory treatment for the Company, any member of the Cable & Wireless Group or any participant. In addition the prior approval by ordinary resolution of the Company's shareholders will be sought for any fundamental change to the Company's policy as to the imposition of performance conditions or the performance measure or to the basis for determining the level of awards.

(g) **Overseas Aspects**

The Board may amend or alter the provisions of the Plan and the terms of awards as it considers necessary or desirable to take account of or mitigate or comply with laws or regulations of any jurisdiction, country or territory other than Great Britain. This may be by way of a separate schedule or schedules to the main Plan.

8.2 Summary of the main features of the Deferred Short Term Incentive Plan

The following is a summary of the main features of the Deferred Short Term Incentive Plan.

(a) Initially participants will be Executive Directors of the Company. They are given the opportunity, but are not obliged, to defer up to 50 per cent. of any Short Term Incentive Plan bonus earned into ordinary shares of the Company. The deferred bonus is used to purchase shares in the market place (**purchased shares**) and these are held by trustees. Subject to the achievement of further performance criteria participants are awarded "matching shares" without further payment.

(b) It is intended that performance conditions will always attach to matching shares. The performance measure is determined by the remuneration committee. Initially the performance measure attached to the vesting of matching shares is Total Shareholder Return measured against the constituents of the FTSE Global Telecoms Sector Index over three years. The number of matching shares received will depend upon the extent to which the performance conditions have been satisfied. Matching shares will be awarded on the basis of one matching share for two purchased shares for median performance, rising to two matching shares for each purchased share for upper quartile performance. No matching shares will be awarded for performance below median.

(c) Purchased and matching shares are released to participants after three years.

(d) A dividend award supplement will apply to the Plan. Dividends that would have been paid on the purchased shares and the actual award of matching shares during the performance period are reinvested in additional shares at the prevailing market price of an ordinary share as at the payment date of the respective dividends.

(e) The terms described above under the Incentive Plan arrangements relating to Plan limits, cessation of employment, takeovers, variation of capital, alterations and overseas aspects apply similarly to this Plan.

8.3 Summary of the main features of the Employee Stock Purchase Plan

The following is a summary of the main features of the Employee Stock Purchase Plan (the **US Plan**).

(a) The US Plan is a savings related plan offered to US employees of the Cable & Wireless Group. Under the US Plan employees can contribute to a special account up to US$800 per payroll period. At the end of a year long savings period the savings are used to buy ordinary shares in the Company in the form of American Depositary Shares (**ADSs**). ADSs are the form in which the Company's ordinary shares are traded on the New York Stock Exchange. The purchase price of each ADS is 85 per cent. of the market price of an ADS at the beginning of the savings period. The US Plan permits participants to withdraw their accumulated savings at any time prior to the actual purchase of shares.

(b) The US Plan is structured so as to meet the requirements of section 423 of the US Internal Revenue Code of 1986, which provides certain tax advantages to participants.

(c) **Eligibility**

All employees of Cable & Wireless Holdings, Inc. and its subsidiaries, other than certain part time and other employees identified in the US Plan, are eligible to participate.

(d) **Scheme Limits**

The maximum number of shares that may be purchased under the US Plan is 10 million ordinary shares.

(e) **Cessation of Employment**

Employees who leave the employment of a US subsidiary during a savings period will generally have their contributions refunded and will not be entitled to acquire any ADSs under the US Plan. In the event of retirement or death the participant's beneficiary may elect to purchase the ADSs at the end of the savings period.

(f) **Amendments to the US Plan**

Amendments to the US Plan may be made by the board of Cable & Wireless Holdings, Inc. or the board of the Company, but no amendment may be made which would cause the US Plan not to meet the requirements of section 423.

8.4 Summary of the main features of the Share Purchase Plan

The following is a summary of the Share Purchase Plan, which is a Share Incentive Plan. The Share Purchase Plan operates in conjunction with a UK resident trust.

(a) **Eligibility**

All employees (including Executive Directors) of the Company and any participating subsidiary and who are chargeable to income tax under Section 15 Income Tax (Earnings and Pensions) Act 2003 are eligible to participate in the Share Purchase Plan. The Directors may also include other employees. Each time the Share Purchase Plan is operated, the Directors can decide whether to offer partnership, free or matching shares. Currently the Share Purchase Plan is operated over partnership and dividend shares.

(b) **Partnership Shares**

Employees may be invited to buy partnership shares out of pre-tax salary. This is limited to an amount of pre-tax salary, currently £125 per month or 10 per cent. of salary each month, whichever is the lower. The shares are purchased monthly. The shares may be withdrawn from the Share Purchase Plan at any time but there may be PAYE and national insurance contributions payable upon such an event unless the participant is leaving employment on account of injury, disability, redundancy, retirement or death, or the shares have been in the Share Purchase Plan for at least five years.

(c) **Matching Shares**

The Directors may offer additional matching shares based on the number of partnership shares bought by an employee. Not more than two matching shares may be offered for each partnership share bought. As with partnership shares, the matching shares are held in trust and may be withdrawn at any time. There are PAYE and national insurance liabilities on the employee if the shares are withdrawn within five years unless the employee leaves employment on account of injury, disability, redundancy, retirement or death.

(d) **Free Shares**

Employees may be given free shares with a market value of up to £3,000 each year per individual (or the Inland Revenue limit if different). All allocations must generally be offered on similar terms. An award may be subject to objective performance targets to be satisfied in the period before allocation. The shares would be held in trust for up to five years and there would be PAYE and national insurance liabilities for the participant if shares are withdrawn earlier except in the event of the employee leaving employment on account of injury, disability, redundancy, retirement or death.

(e) **Dividend Shares**

The Share Purchase Plan will allow for the reinvestment of cash dividends, currently up to £1,500 per year paid on shares held in the trust, to be applied in the purchase of additional shares for a participating employee, to be held on tax advantageous terms.

(f) **Plan Limits**

The Share Purchase Plan is currently operated using existing shares purchased in the market. However, the Directors have the authority to use new shares, in which case any allocation of shares will count against the limits on the number of new shares which may be issued under the Company's employees' share plans. In particular, there is a limit of 10 per cent. of the issued ordinary share capital under all plans over any 10 year period.

(g) **Alterations**

The Directors may change the rules and trust deed of the Share Purchase Plan with the approval of the Share Purchase Plan trustee. However, shareholder approval is required for changes which are to the advantage of employees and which relate to eligibility; the individual limits on taking part; the overall limits on the issuing of shares; the rights attaching to shares received; the rights of participants upon any variation of share capital; and the amendment rule itself.

The Directors will not, however, need to obtain shareholder approval if the changes are minor and are to do with the administration of the Share Purchase Plan, a change in the law, or intended to obtain or keep favourable tax treatment, exchange control or regulatory treatment for employees or the Company. The directors cannot change the terms of the Share Purchase Plan or the trust deed whilst they are approved by the Inland Revenue, unless the Inland Revenue so agrees.

8.5 Summary of the main features of the Savings Related Share Option Plan

The following is a summary of the Savings Related Share Option Plan (**Sharesave Plan**). The existing Plan will expire on 20th July, 2003. A proposal to adopt a new UK Sharesave Plan, similar to the existing plan, is being put to the shareholders for approval at the Annual General Meeting to be held on 25th July, 2003.

(a) **Eligibility**

All UK resident employees and full-time Executive Directors of participating members of the Cable & Wireless Group may apply for options under the Sharesave Plan whenever it is operated. The board may permit other employees to participate. The Sharesave Plan has been approved by the Inland Revenue.

(b) **Grant of options**

Invitations to participate in the Sharesave Plan may normally only be issued during the period of 42 days following the announcement of results for the Company for any period.

(c) **Option exercise price and individual limits on participation**

The exercise price of options may not be less than (i) 80 per cent. of the average middle market quotation of a Company share derived from the London Stock Exchange Daily Official List on the five dealing days immediately before the date of grant; or (ii) in the case of any option under which the Company's shares are to be issued, the nominal value of a share.

At the time of receiving options, participants must enter into a savings contract with a nominated savings institution under which they agree to make monthly contributions of between £5 and £250 (or any higher amount permitted by legislation) from their pay. The number of Company shares over which a participant is granted an option will be the number that can be acquired at the exercise price with the savings made, plus a bonus payable on maturity of the savings contract.

(d) **Overall limit on participation**

The number of new shares which may be issued under the Sharesave Plan on any day shall not, when added to the new shares issued or issuable under the Plan and any other employees' share scheme operated by the Company over the previous 10 years exceed 10 per cent. of the ordinary share capital of the Company in issue immediately before that day.

(e) **Exercise of options**

Options may normally only be exercised in the six month period following the maturity date of the related savings contract. This may be after the third, fifth or seventh anniversary of the date of grant.

(f) **Termination of employment**

In certain circumstances, early exercise of options is permitted in respect of the number of Company shares that may be acquired using the proceeds of the partially completed savings contract. Examples of these circumstances are where the participant leaves employment with the Cable & Wireless Group in circumstances of death, disability, injury or redundancy (within the meaning of the Employment Rights Act 1996), or upon reaching age 60, or where the Company is taken over or reorganised or where the business or subsidiary for which the participant works ceases to be part of the Cable & Wireless Group. If a participant leaves employment with the Cable & Wireless Group other than in any special circumstances his option will lapse.

(g) **Takeover**

If any person obtains control of the Company as a result of making an offer to acquire the whole of its issued share capital (or, having such control, makes a general offer to acquire all the shares other than those already owned by that person) participants will have six months within which to exercise their options; thereafter, they will lapse. If a person becomes bound or entitled to give notice to acquire the Company's shares under sections 428 to 430F of the Act, a Participant may exercise his options during the period when that person remains so bound or entitled; thereafter they will lapse.

Participants may, in certain circumstances, be given the opportunity to exchange their options for options over ordinary shares in an acquiring company.

If the Company is reconstructed or wound up, options outstanding under the Sharesave Plan will be exercisable within specified time limits and will then lapse.

(h) **Adjustment of options**

If there is a variation in the share capital of the Company, including by way of a capitalisation or rights issue, consolidation, sub-division or a reduction in share capital, the number of shares under option and the exercise price may be adjusted by the board with the approval of the Inland Revenue where the auditors confirm in writing that such an adjustment is, in their opinion, fair and reasonable.

(i) **Amending the Sharesave Plan**

The rules of the Sharesave Plan can be amended at any time by the board with the approval of the Inland Revenue.

However, no amendment to the advantage of eligible employees or participants can be made without the prior approval of the Company in general meeting if the amendment relates to the provisions in the rules relating to eligibility, limits on the number of shares available for issue under the Sharesave Plan, the basis for determining a Participant's entitlement to shares and any adjustment in the event of a variation in the share capital of the Company, unless the alteration or addition is minor in nature and made to benefit the administration of the Sharesave Plan, to comply with the provisions of any existing or proposed legislation affecting the Sharesave Plan or to obtain or maintain favourable tax, exchange control or regulatory treatment for employees and participants or for the Company or any member of the Company's group. In addition, no amendment that would materially prejudice the interests of existing Participants may be made without the prior consent of participants holding three-quarters of the aggregate number of shares subject to outstanding options. Any changes are subject to the prior approval of the Inland Revenue.

(j) **The Global Share Option Scheme**

The Company has extended its sharesave scheme to its overseas employees (with the exception of those in the US). It operates along similar lines to the Sharesave Plan with local variances to accommodate local legal and tax considerations. The existing Scheme will expire on 20th July, 2003. A proposal to adopt a new Global Sharesave Scheme, similar to the expiring Scheme, is being put to the shareholders for approval at the Annual General Meeting to be held on 25th July, 2003.

8.6 Closed Plans

Details of plans which are now closed but under which awards outstanding may still vest are as follows:

Prior to July 2001 the Company granted share options under the C&W Senior Employees' Share Option Plan (**SESOS**) and the C&W Revenue Approved Share Option Plan (**RESOS**). Options awarded under these plans between June 1999 and July 2001 are subject to performance conditions based on Cable & Wireless' TSR performance relative to the FTSE 100 Index, underpinned by real growth in EBITDA and turnover. For full vesting, Cable & Wireless' TSR must achieve at least upper quartile level against the FTSE 100 between the third and fifth anniversaries of the date of grant. Half vesting applies for TSR at the median level, with a sliding scale between median and upper quartile. If the performance conditions are not met by the fifth anniversary of the date of grant, the options lapse. As at the date of this report, no such options have achieved their performance conditions.

RESOS and SESOS options granted before June 1999 became exercisable if growth in the Company's published Earnings Per Share (excluding exceptional items) measured over any period of three consecutive financial years, commencing not earlier than the financial year in which the option was granted, exceeded by not less than 6 per cent. the percentage growth of the Retail Price Index over the same three year period. All such options became exercisable in full. No further grants will be made under the SESOS or RESOS plans.

## 9. Financial and trading position and prospects

Save for the redemption of the PCCW Bonds in June 2003 as disclosed in note (2) to the table on page 48, there has been no significant change in the financial or trading position of the Issuer or the Group since 31st March, 2003 (the date of its last audited accounts). There has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31st March, 2003 (the date of its last audited accounts).

## 10. Directors and Directors' interests

10.1 Directors

The Directors of the Issuer and their respective functions are as follows:

| Director | Office |
|---|---|
| Richard Douglas Lapthorne | Chairman, Non-Executive Director |
| Robert Oscar Rowley | Executive Deputy Chairman |
| Sir Winfried Franz Wilhelm Bischoff (to retire from the Board at the conclusion of the AGM on 25th July, 2003) | Non-Executive Deputy Chairman |
| Francesco Caio | Chief Executive Officer, Executive Director |
| Kevin Loosemore | Chief Operating Officer, Executive Director |
| Adrian Chamberlain | Group Director of Strategy and Business Development, Executive Director |
| Bernard Peter Gray | Non-Executive Director |
| Graham Edward Howe | Non-Executive Director |
| Kasper Bo Rorsted | Non-Executive Director |
| Dr. Janet Patricia Morgan | Non-Executive Director |
| David Norman Prince | Finance Director, Executive Director |
| William Anthony Rice | Non-Executive Director |

On 30th June, 2003, the Company announced that Lord Robertson of Port Ellen would be appointed Executive Deputy Chairman with effect from 1st February, 2004.

The business address of each of the Directors is 124 Theobalds Road, London WC1X 8RX.

Set out below is a description of the principal activities performed by certain of the Directors outside the Group considered to be significant with respect to the Group:

**Richard Lapthorne**

Richard Lapthorne is Non-executive Chairman of Morse PLC, Avecia plc, Tunstall Holdings Ltd, TI Automotive Limited, Oasis International Leasing in Abu Dhabi and Vice Chairman of JP Morgan Investment Bank.

**Robert Rowley**

Robert Rowley is a Non-executive Director of Prudential plc, where he is Chairman of the Audit Committee, and of Taylor Nelson Sofres.

**Sir Winfried Bischoff**

Sir Winfried F. W. Bischoff is Chairman of Citigroup, Europe, and a member of the Management Committee of Citigroup Inc. Sir Winfried is a Non-executive Director of Land Securities plc, The McGraw-Hill Companies Inc., IFIL – Finanziaria di Partecipazioni SpA, Eli Lilly and Company and Siemens Holdings plc.

**Francesco Caio**

Francesco Caio is a Non-executive Director of Merloni Eletrodomestici and Netscalibur Italia.

**Kevin Loosemore**

Kevin Loosemore is a Non-executive Director of The Big Food Group plc.

**Bernard Gray**

Bernard Gray is Chief Executive of CMP Information, the UK headquartered publishing and events division of United Business Media.

**Kasper Rorsted**

Kasper Rorsted is Senior Vice President and General Manager, EMEA for Hewlett Packard holding this role since the merger of Hewlett Packard and Compaq in May 2002.

**Janet Morgan**

Janet Morgan is a Non-executive Director of the Scottish American Investment Company plc, the Nuclear Generation Decommissioning Fund Ltd., the Scottish Oriental Smaller Companies Investment Trust plc, NMT Group plc, BPB plc and Stagecoach plc.

**Anthony Rice**

Tony Rice is Chief Executive of Tunstall Holdings Ltd. and a Non-executive Director of Telewest plc and Atlantic Coast Airlines.

10.2 Directors' interests

The interests of the Director(s), their immediate families and any person connected with any Director within the meaning of section 346 of the Act in the share capital of the Issuer (all of which are beneficial unless otherwise stated), which:

(a) have or will have been notified to the Issuer pursuant to sections 324 and 328 of the Act;

(b) are required to be entered into the register referred to in section 325 of the Act; or

(c) are interests of a connected person (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed under (a) or (b) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director are as follows:

| Director | Number of Ordinary Shares |
|---|---|
| Sir Winfried Bischoff | 63,108 |
| Adrian Chamberlain | 8,076 |
| Bernard Gray | - |
| Richard Lapthorne | 1,000,000 |
| Dr Janet Morgan | 6,160 |
| David Prince | 23,596 |
| Anthony Rice | - |
| Robert Rowley | 435,440 |
| Francesco Caio | 383,632 |
| Kevin Loosemore | 383,632 |
| Kasper Rorsted | - |
| Graham Howe | - |

The interests of the Directors together represent approximately 0.096 per cent. of the issued share capital of the Issuer.

The following options over Ordinary Shares have been granted to the Directors under the employee share schemes described in paragraph 8 of this section, such options being exercisable at the price and between the dates shown below:

| Name of Director | Number of Ordinary Shares under option | Grant date | Exercise price (pence) | Exercise period | Scheme |
|---|---|---|---|---|---|
| Adrian Chamberlain | 176,471 | **27/07/01** | **340** | 27/7/04 – 26/7/08 | SOP Unapproved |
| | 201,000 | **23/5/02** | **262** | 23/5/05 – 22/5/09 | SOP Unapproved |
| | 258,000 | **23/5/02** | **204.05** | 23/5/05 – 22/5/09 | SOP Unapproved |
| | 3,054 | **22/12/99** | **982** | 22/12/02 – 21/12/09 | C&W RESOS |
| | 1 | **25/5/00** | **966.2** | 25/5/03 – 24/5/10 | C&W RESOS |
| | 25,000 | **3/7/96** | **420.5** | 3/7/99 – 2/7/03 | C&W SESOS |
| | 49,000 | **13/6/97** | **553.3** | 13/6/00 – 12/6/04 | C&W SESOS |
| | 16,294 | **22/12/99** | **982** | 22/12/02 – 21/12/06 | C&W SESOS |
| | 9,832 | **25/5/00** | **966.2** | 25/5/03 – 24/5/07 | C&W SESOS |
| | 2,295 | **18/12/98** | **558.64** | 1/3/04 – 31/8/04 | C&W SAYE |
| | 410 | **16/6/00** | **985.92** | 1/9/05 – 28/2/06 | C&W SAYE |
| **Total** | **741,357** | | | | |
| David Prince | 17,985 | **1/7/02** | **166.8** | 1/7/05 – 30/6/09 | SOP Approved |
| | 342,015 | **1/7/02** | **166.8** | 1/7/05 – 30/6/09 | SOP Unapproved |
| | 229,000 | **1/7/02** | **262** | 1/7/05 – 30/6/09 | SOP Unapproved |
| **Total** | **589,000** | | | | |
| Francesco Caio | 28,929 | **26/6/03** | **103.7** | 26/6/06 – 25/6/10 | SOP Approved |
| | 2,671,167 | **26/6/03** | **103.7** | 26/6/06 – 25/6/10 | SOP Unapproved |
| | 10,393 | **4/7/03** | **89** | 1/9/06 – 28/2/07 | C&W SAYE |
| **Total** | **2,710,489** | | | | |
| Kevin Loosemore | 28,929 | **26/6/03** | **103.7** | 26/6/06 – 25/6/10 | SOP Approved |
| | 1,861,139 | **26/6/03** | **103.7** | 26/6/06 – 25/6/10 | SOP Unapproved |
| | 10,393 | **4/7/03** | **89** | 1/9/06 – 28/2/07 | C&W SAYE |
| **Total** | **1,900,461** | | | | |
| Robert Rowley | 28,929 | **26/6/03** | **103.7** | 26/6/06 – 25/6/10 | SOP Approved |
| | 935,391 | **26/6/03** | **103.7** | 26/6/06 – 25/6/10 | SOP Unapproved |
| | 17,893 | **4/7/03** | **89** | 1/9/08 – 28/2/09 | C&W SAYE |
| **Total** | **982,213** | | | | |

The following award over Ordinary Shares have been made to the Directors under the Performance Share Plan and Restricted Share Plan. Such award will vest in accordance with the rules of the Plan as described in paragraph 8 of this section and the dates shown below:

| Name of Director | Scheme | Award date | Vesting date | Market price on Award (pence) | Shares Under Award at 30th June, 2003 |
|---|---|---|---|---|---|
| Adrian Chamberlain | PSP | 27/7/01 | 27/7/04 | 340 | 58,824 |
| | PSP | 23/5/02 | 23/5/05 | 204.05 | 171,600 |
| **Total** | | | | | **230,424** |
| Richard Lapthorne | Matching Shares | 10/1/03 | 10/1/06 | 57 | 1,000,000 |
| **Total** | | | | | **1,000,000** |
| David Prince | PSP | 23/5/02 | 23/5/05 | 204.05 | 196,100 |
| | Restricted Share Plan | 1/7/02 | 30/6/03 | 166.8 | 82,434 |
| | Restricted Share Plan | 1/7/02 | 30/6/04 | 166.8 | 82,434 |
| **Total** | | | | | **360,968** |
| Francesco Caio | | | | | |
| **Total** | Restricted Share Plan | 4/6/03 | 4/6/06 | 97.75 | 383,632 |
| | | | | | 383,632 |
| Kevin Loosemore | | | | | |
| **Total** | Restricted Share Plan | 4/6/03 | 4/6/06 | 97.75 | 383,632 |
| | | | | | 383,632 |
| Robert Rowley | | | | | |
| **Total** | Restricted Share Plan | 4/6/03 | 4/6/06 | 97.75 | 383,632 |
| | | | | | 383,632 |

So long as his appointment continues, Richard Lapthorne will acquire from the Company 200,000 Ordinary Shares in the Company (the Annual Acquisition of Shares) on the following dates at the lower of the mid-market price or:

(a) 10th January, 2004 – 57 pence per Ordinary Share;

(b) 10th January, 2005 – 63 pence per Ordinary Share;

(c) 10th January 2006 – 78 pence per Ordinary Share; and

(d) Each subsequent anniversary with the price increasing 15 pence per Ordinary Share.

It is intended that Richard Lapthorne will retain all of these Ordinary Shares for the duration of his appointment.

The following share incentive arrangements for Bernard Gray, Graham Howe, Dr Janet Morgan, Anthony Rice and Kasper Rorsted were made to secure or retain their appointments as Non-executive Directors of the Company given the general turmoil in the telecommunications industry, the associated decline in the share price of the Company and the re-structuring of the Company's Board of Directors.

Each of these Non-executive Directors will purchase a specified number of Ordinary Shares in the Company on 4th June, 2004, and on the anniversary of this date until 4th June, 2006 inclusive:

| **Director** | **Number of Ordinary Shares** |
|---|---|
| Bernard Gray | 100,000 |
| Graham Howe | 100,000 |
| Dr Janet Morgan | 30,000 |
| Anthony Rice | 100,000 |
| Kasper Rorsted | 30,000 |

The Purchase price for the Ordinary Shares to be purchased on 4th June, 2004, 4th June, 2005 and 4th June 2006 shall be the lower of the closing mid-market price on such dates or the closing mid-market price on 4th June, 2003 which was 103.5 pence per share.

Save as set out in this paragraph 10 of this section, it is not expected that any Director will have any interest in the share or loan capital of the Issuer on Admission and there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group and which were effected by the Issuer during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

10.3 Directors' remuneration

The aggregate emoluments of the Directors, were £3,226,142, including emoluments of £807,087 paid to Directors who resigned during the year ended 31st March, 2003 (2002 – £2,634,369, which includes emoluments of £387,049 paid to Directors who resigned during the year ended 31st March, 2002).

10.4 Loans and guarantees granted to Directors

As at 31st March, 2003 the total outstanding loans made by any member of the Group to the Directors was £Nil and the total amount of indebtedness of the Directors guaranteed by any member of the Group was £Nil.

## 11. Significant and other undertakings

The Issuer is the principal operating and holding company of the Group. The significant and other undertakings of the Issuer (as determined in accordance with the UK Listing Rules) are as follows:

| Subsidiaries | Ownership | Address of registered office | Field of activity |
|---|---|---|---|
| Cable & Wireless UK | 100% | 124 Theobalds Road, London WC1X 8RX | Telecommunications |
| Cable & Wireless USA, Inc | 100% | c/o Corporation Service Company, 1013 Center Road, Wilmington, Delaware 19805, USA | Telecommunications |
| Cable & Wireless Jamaica Limited | 82% | 47 Half Way Tree Road, Kingston 5, Jamaica | Telecommunications |
| Cable and Wireless (Cayman Islands) Limited | 100% | 2nd Floor, Leeward 4 Building, Safehaven Corporate Centre, PO Box 293 George Town, Cayman Islands | Telecommunications |
| Cable & Wireless Panama SA[(a)] | 49% | Condominio Plaza Internacional, Torre C Via Espana, Ciudad de Panama, PO Box 659, Panama 9A, Panama | Telecommunications |
| Companhia de Telecomunicacoes de Macau, S.A.R.L. | 51% | Telecentro, Rua de Lagos, PO Box 868, Taipai, Macau | Telecommunications |
| Cable & Wireless IDC Inc. | 98% | CS Building, 5-20-8 Asakusabashi, Taito-Ku, Tokyo 111-8061, Japan | Telecommunications |
| Cable & Wireless Internet Services, Inc. | 100% | Corporation Services Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA | Telecommunications |
| Cable & Wireless (Barbados) Limited | 81% | Windsor Lodge, Government Hill, St. Michael, Barbados | Telecommunications |
| Cable and Wireless (West Indies) Limited | 100% | 124 Theobalds Road, London WC1X 8RX | Telecommunications |
| Yemen International Telecommunications Company LLC[(b)] | 51% | PO Box 168, Tahreer Square, Jana'a, Yemen | Telecommunications |
| Dhivehi Raajjeyge Gulhun Private Limited[(b)(c)] | 45% | 19 Medhuziyaaraiy Magu, PO Box 2082 Male, 20-30 Maldives | Telecommunications |
| Cable and Wireless (Far East) Ltd | 100% | 28th Floor, Low Block Grand Millennium Plaza, 181 Queen's Road Central, Sheung Wan, Hong Kong | Telecommunications |
| Great Eastern Telecommunications Limited | 51% | c/o Charles Adams Ritchie & Duckworth, Zephyr House, Mary Street, PO Box 709, George Town, Grand Cayman, Cayman Islands | Telecommunications |
| Cable & Wireless Telecommunication Services GmbH | 100% | Landsberger Strasse 155, 80687 Munich, Germany | Telecommunications |
| Cable & Wireless S.A. | 100% | Tour Neptune, 20 Place de Seine, Paris la Defense, Cedex 92086 France | Telecommunications |
| Cable & Wireless Netherlands B.V. | 100% | Structuurbaan 40, Postbus 1394, 3439 MB Nieuwegein, Netherlands | Telecommunications |
| Cable & Wireless SLU | 100% | c/o Ramirez De Avellano, 29, 28043 Madrid, Spain | Telecommunications |
| Cable & Wireless Switzerland AG | 100% | Hohlstrasse 536, CH-8048 Zurich, Switzerland | Telecommunications |
| Cable & Wireless Services (Ireland) Limited | 100% | 1 Airton Road, Tallaght, Dublin 24 Ireland | Telecommunications |
| Cable & Wireless S.p.A. | 100% | Via Cavriana 20, Milano 20134, Italy | Telecommunications |

| Subsidiaries | Ownership | Address of registered office | Field of activity |
|---|---|---|---|
| Pender Insurance Limited | 100% | Tower House, Loch Promenade, Douglas, Isle of Man | Insurance |
| **Joint ventures** | | | |
| Telecommunications Services of Trinidad and Tobago Limited[(d)] | 49% | 1 Edward Street, Port of Spain, Trinidad and Tobago | Telecommunications |
| **Associates** | | | |
| Bahrain Telecommunications Company B.S.C.[(b)] | 20% | PO Box 14, Manama, Bahrain | Telecommunications |

(a) The Group regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.
(b) This company had a financial year end of 31st December, 2002 due to the requirements of the shareholders' agreement.
(c) The Group regards this company as a subsidiary undertaking because it exercises dominant influence through a management agreement.
(d) This company is audited by a firm other than KPMG International member firms.

## 12. Principal establishments

The Group carries on its business from numerous establishments across the world, none of which are material in the context of the Group as a whole.

## 13. Litigation

Save as disclosed under "Description of Cable & Wireless – Legal Proceedings" no member of the Group is or has been engaged in nor, so far as the Issuer is aware, has pending or threatened, any legal or arbitration proceedings which may have, or have had during the recent past (covering at least the 12 months preceding the date of this document), a significant effect on the Group's financial position.

## 14. Auditors and nature of financial information

(a) The annual accounts of the Issuer for each of the years ended 31st March, 2001, 2002 and 2003 were audited by KPMG Audit Plc of 1 Puddle Dock, London EC4V 3PD. KPMG Audit Plc is a firm of chartered accountants.

(b) The financial information in relation to the Issuer contained in this document does not constitute statutory accounts for the purposes of Section 240(5) of the Companies Act.

(c) KPMG Audit plc have made reports under Section 235 of the Companies Act on the financial statements of the Issuer for the years ended 31st March, 2001, 2002 and 2003 which were unqualified and did not contain any statement as is described in Section 237(2) or (3) of the Companies Act. Statutory accounts of the Issuer have been delivered to the Registrar of Companies for each of the two financial years ended 31st March, 2001 and 2002 and will be delivered to the Registrar of Companies for the financial year ended 31st March, 2003.

## 15. Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) for a period of not less than 14 days from the date of publication of this document at the offices of the Authorised Adviser and at the Issuer's registered office at 124 Theobalds Road, London WC1X 8RX:

(a) the existing memorandum and articles of association of the Issuer;

(b) the consolidated audited accounts of the Group for the three financial years ended 31st March, 2001, 2002 and 2003;

(c) the Trust Deed, incorporating the forms of the Temporary Global Bond, the Permanent Global Bond, the definitive Bonds and the Coupons, and the Paying and Conversion Agency Agreement; and

(d) the Subscription Agreement.

## FINANCIAL STATEMENTS

The financial information as at, and for each of the years ended 31st March, 2001, 2002 and 2003 presented in the Consolidated Profit and Loss Account, Continuing Operations Profit and Loss Account, Discontinued Operations Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Consolidated Equity Shareholders' Funds and Reconciliation of Movements in Equity Shareholders' Funds for the Company have been extracted without material adjustment from the audited accounts of Cable & Wireless.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT
### FOR THE YEAR ENDED 31 MARCH

| | Note | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| | | £m | £m | £m |
| **Turnover of the Group including its share of joint ventures and associates** | 3 | **4,651** | 6,098 | 8,245 |
| Share of turnover of – joint ventures | 17 | **(195)** | (285) | (333) |
| – associates | 17 | **(65)** | (65) | (61) |
| **Group turnover *** | 3,4 | **4,391** | 5,748 | 7,851 |
| Operating costs before depreciation, amortisation and exceptional items | 5 | **(4,057)** | (5,013) | (6,194) |
| Exceptional operating costs | 5,10 | **(442)** | (210) | — |
| Operating costs before depreciation and amortisation | | **(4,499)** | (5,223) | (6,194) |
| Depreciation before exceptional items | 5,16 | **(735)** | (1,072) | (1,126) |
| Exceptional depreciation | 5,10,16 | **(2,381)** | (1,909) | (444) |
| Depreciation | | **(3,116)** | (2,981) | (1,570) |
| Amortisation of capitalised goodwill before exceptional items | 5,15 | **(126)** | (562) | (469) |
| Exceptional amortisation | 5,10,15 | **(2,725)** | (2,007) | — |
| Amortisation | | **(2,851)** | (2,569) | (469) |
| **Total operating costs** | 5 | **(10,466)** | (10,773) | (8,233) |
| **Group operating loss *** | | **(6,075)** | (5,025) | (382) |
| Share of operating profits in joint ventures | 17 | **53** | 95 | 97 |
| Share of operating profits in associates | 17 | **22** | 20 | 17 |
| **Total operating loss** | | **(6,000)** | (4,910) | (268) |
| Exceptional profits less (losses) on sale and termination of operations | 10 | **(147)** | 1,057 | 4,311 |
| Exceptional costs of fundamental reorganisation | 10 | **—** | — | (530) |
| Profits less (losses) on disposal of fixed assets before exceptional items | 9 | **—** | (7) | 4 |
| Exceptional items | 10 | **62** | — | 42 |
| Profits less (losses) on disposal of fixed assets | | **62** | (7) | 46 |
| Exceptional write down of investments | 10 | **(390)** | (904) | (43) |
| **(Loss)/profit on ordinary activities before interest** | | **(6,475)** | (4,764) | 3,516 |
| Net interest and other similar income/(charges) | | | | |
| – Group (including exceptional finance charges of £nil, 2002 – £nil, 2001 – £110m) | 10,11 | **103** | 227 | — |
| – joint ventures and associates | 17 | **(1)** | (12) | — |
| Total net interest and other similar income | | **102** | 215 | — |
| **(Loss)/profit on ordinary activities before taxation** | | **(6,373)** | (4,549) | 3,516 |
| Tax on (loss)/profit on ordinary activities | 9,10,12 | **(36)** | (311) | (520) |
| **(Loss)/profit on ordinary activities after taxation** | | **(6,409)** | (4,860) | 2,996 |
| Equity minority interests | | **(124)** | (94) | (258) |
| **(Loss)/profit for the financial year** | | **(6,533)** | (4,954) | 2,738 |
| Dividends | 13 | **(37)** | (427) | (462) |
| **(Loss)/profit for the year retained** | 25 | **(6,570)** | (5,381) | 2,276 |
| **Basic (loss)/earnings per Ordinary Share** | 14 | **(280.4)p** | (181.2)p | 100.3p |
| Basic (loss)/earnings per Ordinary Share before exceptional items and goodwill amortisation | 14 | **(18.0)p** | (8.4)p | 11.2p |
| Diluted (loss)/earnings per Ordinary Share | 14 | **(280.4)p** | (181.2)p | 99.2p |
| **Dividends per Ordinary Share** | | **1.6p** | 16.5p | 16.5p |

The accompanying notes are an integral part of these Financial Statements.

* Refer to page F-2 for continuing operations analysis and page F-3 for discontinued operations analysis.

## CONTINUING OPERATIONS PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH

| | Note | 2003 Continuing operations £m | 2002 Continuing operations £m | 2001 Continuing operations £m |
|---|---|---|---|---|
| **Turnover of the Group including its share of joint ventures and associates** | 3 | **4,507** | 4,984 | 4,966 |
| Share of turnover of – joint ventures | 17 | **(195)** | (216) | (218) |
| – associates | 17 | **(65)** | (65) | (60) |
| **Group turnover** | 3,4 | **4,247** | 4,703 | 4,688 |
| Operating costs before depreciation, amortisation and exceptional items | 5 | **(3,818)** | (3,925) | (3,731) |
| Exceptional operating costs | 5,10 | **(442)** | (204) | — |
| Operating costs before depreciation and amortisation | | **(4,260)** | (4,129) | (3,731) |
| Depreciation before exceptional items | 5 | **(711)** | (912) | (649) |
| Exceptional depreciation | 5,10 | **(2,324)** | (1,822) | (353) |
| Depreciation | | **(3,035)** | (2,734) | (1,002) |
| Amortisation of capitalised goodwill before exceptional items | 5,15 | **(126)** | (561) | (270) |
| Exceptional amortisation | 5,10,15 | **(2,725)** | (1,794) | — |
| Amortisation | | **(2,851)** | (2,355) | (270) |
| **Total operating costs** | 5 | **(10,146)** | (9,218) | (5,003) |
| **Group operating loss** | | **(5,899)** | (4,515) | (315) |
| Share of operating profits in joint ventures | 17 | **53** | 51 | 56 |
| Share of operating profits in associates | 17 | **22** | 20 | 17 |
| **Total operating loss** | | **(5,824)** | (4,444) | (242) |
| Exceptional costs of fundamental reorganisation | 10 | **—** | — | (530) |
| Profits less (losses) on disposal of fixed assets before exceptional items | 9 | **—** | (10) | 4 |
| Exceptional items | 10 | **62** | — | 8 |
| Profits less (losses) on disposal of fixed assets | | **62** | (10) | 12 |
| Exceptional write down of investments | 10 | **(390)** | (904) | (43) |
| **Loss on ordinary activities before interest** | | **(6,152)** | (5,358) | (803) |

The accompanying notes are an integral part of these Financial Statements.

## DISCONTINUED OPERATIONS PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 MARCH

| | Note | 2003 Discontinued operations | 2002 Discontinued operations | 2001 Discontinued operations |
|---|---|---|---|---|
| | | £m | £m | £m |
| **Turnover of the Group including its share of joint ventures and associates** | 3 | **144** | 1,114 | 3,279 |
| Share of turnover of – joint ventures | 17 | **—** | (69) | (115) |
| – associates | 17 | **—** | — | (1) |
| **Group turnover** | 3,4 | **144** | 1,045 | 3,163 |
| Operating costs before depreciation, amortisation and exceptional items | 5 | **(239)** | (1,088) | (2,463) |
| Exceptional operating costs | 5,10 | **—** | (6) | — |
| Operating costs before depreciation and amortisation | | **(239)** | (1,094) | (2,463) |
| Depreciation before exceptional items | 5 | **(24)** | (160) | (477) |
| Exceptional depreciation | 5,10 | **(57)** | (87) | (91) |
| Depreciation | | **(81)** | (247) | (568) |
| Amortisation of capitalised goodwill before exceptional items | 5 | **—** | (1) | (199) |
| Exceptional amortisation | 5,10 | **—** | (213) | — |
| Amortisation | | **—** | (214) | (199) |
| **Total operating costs** | 5 | **(320)** | (1,555) | (3,230) |
| **Group operating loss** | | **(176)** | (510) | (67) |
| Share of operating profits in joint ventures | 17 | **—** | 44 | 41 |
| **Total operating loss** | | **(176)** | (466) | (26) |
| Exceptional profits less (losses) on sale and termination of operations | 10 | **(147)** | 1,057 | 4,311 |
| Profits less (losses) on disposal of fixed assets before exceptional items | 9 | **—** | 3 | — |
| Exceptional items | 10 | **—** | — | 34 |
| Profits less (losses) on disposal of fixed assets | | **—** | 3 | 34 |
| **(Loss)/profit on ordinary activities before interest** | | **(323)** | 594 | 4,319 |

The accompanying notes are an integral part of these Financial Statements.

## CONSOLIDATED BALANCE SHEET
## AT 31 MARCH

| | Note | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| | | £m | £m | £m |
| **Fixed assets** | | | | |
| Intangible assets | 15 | **(2)** | 2,900 | 5,016 |
| Tangible assets | 16 | **1,937** | 4,617 | 7,979 |
| Loans to joint ventures and associates | 17 | **1** | 9 | 49 |
| Interest in net assets of joint ventures* | 17 | **148** | 330 | 315 |
| Investments in associates | 17 | **83** | 78 | 70 |
| Other investments | 17 | **123** | 209 | 117 |
| Total fixed asset investments | | **355** | 626 | 551 |
| | | **2,290** | 8,143 | 13,546 |
| **Current assets** | | | | |
| Stocks | 18 | **51** | 82 | 292 |
| Current asset investments | 19 | **246** | 1,155 | 2,344 |
| Debtors – due within one year | 20 | **1,455** | 2,374 | 2,621 |
| – due after more than one year | 20 | **166** | 164 | 241 |
| Short term deposits | 21 | **2,958** | 4,063 | 4,938 |
| Cash at bank and in hand | 21 | **196** | 216 | 285 |
| | | **5,072** | 8,054 | 10,721 |
| **Creditors: amounts falling due within one year** | 22 | **(3,275)** | (3,971) | 4,636 |
| **Net current assets** | | **1,797** | 4,083 | 6,085 |
| **Total assets less current liabilities** | | **4,087** | 12,226 | 19,631 |
| Creditors: amounts falling due after more than one year | 22 | **(807)** | (2,031) | 2,394 |
| Provisions for liabilities and charges | 23 | **(760)** | (838) | 854 |
| | | **(1,567)** | (2,869) | 3,248 |
| **Net assets** | | **2,520** | 9,357 | 16,383 |
| **Capital and reserves** | | | | |
| Called up share capital | 24 | **596** | 595 | 700 |
| Share premium account | 25 | **1,745** | 1,745 | 1,743 |
| Capital redemption reserve | 25 | **105** | 105 | — |
| Merger reserve | | **—** | — | 3,127 |
| Profit and loss account | 25 | **(297)** | 6,513 | 9,682 |
| **Equity shareholders' funds** | | **2,149** | 8,958 | 15,252 |
| **Equity minority interests** | | **371** | 399 | 1,131 |
| **Capital employed** | | **2,520** | 9,357 | 16,383 |

* Interests in net assets of joint ventures include the Group's share of gross assets of joint ventures of £224 million (2002 – £492 million) and the Group's share of gross liabilities of joint ventures of £76 million (2002 – £162 million) – see Note 17.

The accompanying notes are an integral part of these Financial Statements.

Note: The consolidated balance sheet for 2001 has not been adjusted to reflect the change in accounting policy for capacity sales in light of the adoption of UITF 36 Abstract 36 'Contracts for sales of capacity'. Notes to the 31st March, 2001 consolidated balance sheet have not been reproduced.

## COMPANY BALANCE SHEET
## AT 31 MARCH

| | Note | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| | | £m | £m | £m |
| **Fixed assets** | | | | |
| Tangible assets | 16 | **22** | 42 | 67 |
| Loans to joint ventures and associates | 17 | **1** | 11 | 11 |
| Interest in net assets of joint ventures | | **—** | — | 40 |
| Investments in associates | 17 | **24** | 17 | 17 |
| Investments in subsidiaries | 17 | **18,116** | 24,733 | — |
| Other investments | 17 | **85** | 174 | 18,832 |
| Total fixed asset investments | | **18,226** | 24,935 | 18,900 |
| | | **18,248** | 24,977 | 18,967 |
| **Current assets** | | | | |
| Stock | 18 | **1** | 1 | 2 |
| Current asset investments | 19 | **11** | 308 | 1,289 |
| Debtors – due within one year | 20 | **154** | 480 | 172 |
| – due after more than one year | 20 | **90** | 73 | 64 |
| Short term deposits | 21 | **2,755** | 1,705 | 1,056 |
| Cash at bank and in hand | | **28** | 5 | 31 |
| | | **3,039** | 2,572 | 2,614 |
| **Creditors:** amounts falling due within one year | 22 | **(1,132)** | (978) | 838 |
| **Net current assets** | | **1,907** | 1,594 | 1,776 |
| **Total assets less current liabilities** | | **20,155** | 26,571 | 20,743 |
| **Creditors:** amounts falling due after more than one year | 22 | **(16,482)** | (15,265) | 10,548 |
| **Provisions for liabilities and charges** | 23 | **(19)** | (217) | 218 |
| | | **(16,501)** | (15,482) | 10,766 |
| **Net assets** | | **3,654** | 11,089 | 9,977 |
| **Capital and reserves** | | | | |
| Called up share capital | 24 | **596** | 595 | 700 |
| Share premium account | 25 | **1,745** | 1,745 | 1,743 |
| Revaluation reserve | 25 | **9,379** | 9,156 | — |
| Capital redemption reserve | 25 | **105** | 105 | — |
| Merger reserve | | **—** | — | 3,127 |
| Profit and loss account | | | | |
| – Realised profit | | **2,970** | 3,114 | 4,407 |
| – Unrealised loss | | **(11,141)** | (3,626) | — |
| | 25 | **(8,171)** | (512) | 4,407 |
| **Equity shareholders' funds** | | **3,654** | 11,089 | 9,977 |

The accompanying notes are an integral part of these Financial Statements.

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 MARCH

| | Note | 2003 £m | 2002 £m | 2001 £m |
|---|---|---|---|---|
| **Net cash inflow from operating activities** | 29 | **95** | 94 | 1,287 |
| Dividends from joint ventures | | **13** | 11 | 66 |
| Dividends from associates | | **15** | 15 | 15 |
| | | **28** | 26 | 81 |
| **Returns on investments and servicing of finance** | | | | |
| Interest and similar income received | | **197** | 383 | 334 |
| Interest paid (including exceptional finance charges of £nil, 2002 – £nil, 2001- £110m) | | **(88)** | (238) | (384) |
| Net interest element of finance lease rentals paid | | **(2)** | (5) | (4) |
| Dividends paid to minorities | | **(70)** | (61) | (262) |
| Dividends received from preference shares | | **—** | 54 | 14 |
| Income received from other investments | | **—** | — | 9 |
| | | **37** | 133 | (293) |
| **Taxation** | | **(438)** | (139) | (310) |
| **Capital expenditure and financial investment** | | | | |
| Purchase of tangible fixed assets | | **(810)** | (1,868) | (3,293) |
| Purchase of intangible fixed assets | | **—** | — | (72) |
| Sale of tangible fixed assets | | **15** | 21 | 123 |
| Purchase of current asset investments | | **(3)** | (608) | (804) |
| Purchase of investments | | **(38)** | (121) | (84) |
| Sale of current asset investments | | **600** | — | — |
| Sale of investments | | **11** | 900 | 26 |
| Capital element of finance lease rentals received | | **—** | — | 41 |
| Loans to joint ventures and associates | | **10** | 2 | (1) |
| | | **(215)** | (1,674) | (4,064) |
| **Acquisitions and disposals** | | | | |
| Receipts from sales of subsidiary undertakings | | **14** | 2,372 | 5,311 |
| Purchase of selected assets and business activities of Exodus | | **—** | (478) | — |
| Purchase of shareholdings in subsidiary undertakings (net of cash received) | | **2** | (49) | (349) |
| Payments to acquire investments in joint ventures and associates | | **—** | — | (30) |
| Receipts from sale of associates | | **94** | — | — |
| | | **110** | 1,845 | 4,932 |
| **Equity dividends paid to shareholders** | | **(119)** | (669) | (395) |
| **Management of liquid resources** | | | | |
| Movement in short term investments and fixed deposits (net) | 32 | **(1,040)** | 2,586 | 129 |
| **Financing** | | | | |
| Purchase of own shares | | **—** | (1,107) | — |
| Issue of ordinary share capital | | **1** | 2 | 40 |
| Capital element of finance lease rental repayments | | **(18)** | (15) | (12) |
| Other long term debt issued | | **88** | 1,338 | 746 |
| Long term debt repaid | | **(649)** | (785) | (1,718) |
| | | **(578)** | (567) | (944) |
| **(Decrease)/increase in cash in the year** | 30 | **(2,120)** | 1,635 | 423 |

The accompanying notes are an integral part of these Financial Statements.

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| (Loss)/profit for the financial year | (6,533) | (4,954) | 2,738 |
| Currency translation differences on foreign currency net investments and related borrowings | (240) | 20 | 190 |
| Tax (charge)/credit on translation differences taken to reserves | — | (3) | 11 |
| Other | — | — | 4 |
| Total (losses)/gains relating to the financial year | (6,773) | (4,937) | 2,943 |
| Prior year adjustment – change in accounting policy for capacity sales (Note 4) | (66) | | |
| **Total losses recognised since last annual report** | (6,839) | | |

## RECONCILIATION OF MOVEMENTS IN CONSOLIDATED EQUITY SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH

| | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Loss for the financial year | (6,533) | (4,954) |
| Dividends – interim | (37) | (40) |
| – special interim | — | (304) |
| – final | — | (83) |
| Loss for the year carried forward | (6,570) | (5,381) |
| Other recognised gains and losses relating to the year | (240) | 17 |
| Purchase of own shares | — | (1,107) |
| New share capital issued | 1 | 2 |
| Goodwill written back | — | 410 |
| Net decrease in equity shareholders' funds | (6,809) | (6,059) |
| Opening equity shareholders' funds (prior years adjusted)* | 8,958 | 15,017 |
| **Closing equity shareholders' funds** | 2,149 | 8,958 |

* Opening equity shareholders' funds were originally £9,024 million before deducting a prior year adjustment of £66 million (2002 – £15,252 million before deducting a prior year adjustment of £235 million) relating to a change in accounting policy for capacity sales.

## RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS FOR THE COMPANY FOR THE YEAR ENDED 31 MARCH

| | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Loss for the financial year | (7,639) | (6,696) |
| Dividends – interim | (37) | (40) |
| – special interim | — | (304) |
| – final | — | (83) |
| Loss for the year carried forward | (7,676) | (7,123) |
| Other recognised gains relating to the year | 17 | 184 |
| Revaluation | 223 | 9,156 |
| Purchase of own shares | — | (1,107) |
| New share capital issued | 1 | 2 |
| Net (decrease)/increase in equity shareholders' funds | (7,435) | 1,112 |
| Opening equity shareholders' funds | 11,089 | 9,977 |
| **Closing equity shareholders' funds** | 3,654 | 11,089 |

The accompanying notes are an integral part of these Financial Statements.

## STATEMENT OF ACCOUNTING POLICIES

### Basis of preparation

The accounts are prepared in accordance with applicable accounting standards and on the historical cost basis except for the revaluation of investments in subsidiaries in the Company's accounts.

The accompanying consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP).

The preparation of Financial Statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### New accounting standards

The Group sells network capacity to third parties pursuant to indefeasible rights-of-use agreements (IRUs). In prior periods, in accordance with UK accounting standards, where substantially all of the risks and rewards of ownership transfer to the purchaser, over the economic life of the asset, these transactions were accounted for as sales and recognised in turnover at fair value at the time of delivery and acceptance.

On 27 March 2003, the Urgent Issues Task Force (UITF) of the UK Accounting Standards Board issued UITF Abstract 36, 'Contracts for sales of capacity'. The abstract is applicable for accounting periods ending on or after 30 June 2003, although early adoption is encouraged, and application is retrospective. The Group has adopted UITF Abstract 36 for the year ended 31 March 2003.

As a result of the adoption of the new abstract, revenues or gains in respect of capacity sales to carriers from whom capacity or other services were also acquired are no longer recognised as the transactions are not considered to meet all the conditions required under the new abstract, in particular the requirement for the capacity provided or received to have a readily ascertainable market value as set out in Financial Reporting Standard 10 'Goodwill and intangible assets'. The Group's cash sales to carriers with no related purchase are largely unaffected by the conditions of the new abstract and will continue to be recognised at the time of delivery and acceptance.

The impact of adoption on the reported results of the Group is set out in Note 4 to the Financial Statements, including the impact on prior period comparatives as the abstract applies retrospectively. The revised accounting policy is set out on page F-10.

### Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the Company and all its subsidiaries and include the Group's share of the results and net assets of its joint ventures and associates. The accounts of principal subsidiaries, joint ventures and associates are made up to 31 March.

Where subsidiaries, joint ventures or associates have been acquired during the year, goodwill, being the difference between the fair value of consideration given and the fair values attributed to the separable net assets acquired, is capitalised on the balance sheet and amortised through the profit and loss account.

For acquisitions made before 1 April 1998, goodwill was written off directly to reserves. Goodwill written off directly to reserves is reinstated in the profit and loss account when the related business is sold.

### Foreign currencies

Average rates of exchange ruling during the year are used to translate the profit and loss accounts of overseas subsidiaries, joint ventures and associates. Foreign currency assets and liabilities are translated at year end rates and any exchange differences arising are dealt with through the profit and loss account.

The net investments in the Group's overseas subsidiaries, joint ventures and associates are translated into sterling at year end rates of exchange. Exchange differences resulting from the translation of opening net investments at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and year end rates, are dealt with as movements in Group reserves.

Where net investments are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the retranslation of such borrowings are also recorded as movements on Group reserves and any excess taken to the profit and loss account.

All other exchange differences are dealt with through the profit and loss account.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. The cost of fixed assets includes directly attributable labour and overhead costs. Interest incurred up to the time that separately identifiable major capital projects are ready for service is also capitalised as part of the cost of assets.

Depreciation is not provided on freehold land or projects under construction. On other tangible fixed assets, depreciation is provided on the difference between the cost of tangible fixed assets and the estimated residual value, in equal annual instalments over the estimated useful lives of the assets. These lives are:

| | Lives | Average |
|---|---|---|
| Cables | up to 20 years | 15 years |
| Network equipment | 3 to 25 years | 8 years |
| Ducting | 40 years | 40 years |
| Freehold buildings | 40 years | 40 years |
| Leasehold land and buildings | up to 40 years or term of lease if less | 40 years |

Surpluses and deficits on disposals of tangible fixed assets are determined by reference to sale proceeds and net book values.

### Intangible fixed assets

From 1 April 1998 intangible fixed assets acquired have been recorded at cost and amortised on a straight line basis over their estimated useful life, not exceeding 20 years. Intangible fixed assets primarily comprise goodwill arising on the acquisition of businesses.

Goodwill arising on acquisition prior to 1 April 1998 was eliminated directly against reserves. The profit or loss on the disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any goodwill previously eliminated directly against reserves.

### Asset impairment

Intangible and tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Where an impairment indicator is identified, the carrying value of the income generating unit is compared with its recoverable amount. Where the recoverable amount is less than the carrying value an impairment is recognised.

### Fixed asset investments

Joint ventures and associates are accounted for in the Group accounts under the gross equity and equity methods of accounting respectively.

Other fixed asset investments in the Group accounts are stated at cost less amounts written off in respect of any impairments.

Investments in subsidiaries are included in the Company balance sheet at valuation.

### Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

### Tax

The charge for tax is based on the result for the year and takes into account tax deferred due to timing differences between the treatment of certain items for tax and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets are regarded as recoverable to the extent that on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

**Stocks**

Stocks of equipment, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost, including appropriate allocation of labour and overheads, less provision for deterioration and obsolescence. Stocks held for resale are stated at the lower of cost and net realisable value.

**Discontinued operations**

The Group complies with Financial Reporting Standard 3 (FRS 3), 'Reporting financial performance', in determining the classification of operations as discontinued or continuing.

**Revenue recognition**

Turnover, which excludes value added tax, represents the amount receivable in respect of telecommunications services provided to customers and is accounted for on the accruals basis. Amounts are recognised as services are provided; in respect of services invoiced in advance, amounts are deferred until provision of the service.

***Interconnection with other operators***

Amounts payable by and to telecommunications operators of national and international networks are recognised as services are provided. Charges are negotiated separately and are subject to continuous review.

***Capacity sales***

Sales of network capacity to third parties pursuant to IRUs are accounted for as sales and recognised at the time of delivery and acceptance where:

- the purchaser's right of use is exclusive and irrevocable;
- the asset is specific and separable;
- the term of the contract is for the major part of the asset's useful economic life;
- the attributable cost of carrying value can be measured reliably; and
- no significant risks are retained by the Group.

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

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

**Pensions**

The regular cost of providing benefits under defined benefit schemes is charged to operating profit over the expected remaining service lives of the members of the schemes so as to achieve a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal defined benefit schemes are allocated to operating profit over the expected remaining service lives of the members.

The cost of providing benefits under defined contribution schemes is charged as it becomes payable.

The Group has applied the transitional arrangements of Financial Reporting Standard 17 (FRS 17) 'Retirement benefits' and appropriate additional disclosures have been included in Note 8.

**Leased assets**

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Depreciation on the relevant assets and interest are charged to the profit and loss account. All other leases are operating leases and the rentals are charged to operating profit on a straight line basis over the lease term.

**Debt issue costs**

The costs of issue of capital instruments such as bonds and debentures are charged to the profit and loss account over the life of the instrument.

**Derivatives**

***Swaps and forward rate agreements***

The net interest paid or received under interest rate and cross currency swaps and forward rate agreements (FRAs) is recorded on an accruals basis and included within net interest in the profit and loss account.

The notional amounts of interest rate swaps and FRAs are not recorded on the balance sheet. Cross currency swaps are used to hedge the initial draw down and final repayment of foreign currency denominated debt, as well as the foreign currency interest flows.

***Forward exchange contracts***

Forward exchange contracts are carried on the balance sheet at the difference between the amounts of the payable and receivable currency revalued at the closing exchange rate. The interest differential, being the difference between the contract rate and the spot rate on the date of entering into the forward exchange contract, is charged to the profit and loss account as interest over the life of the contract.

***Exchange gains and losses***

Exchange gains and losses on revaluation and maturity of forward exchange contracts and cross currency swaps are treated differently depending on the underlying exposure they hedge:

- for contracts which hedge firm third party commitments the exchange gains and losses are recognised in the profit and loss account in the same period as the underlying transaction;
- for contracts over underlying currency assets or liabilities the exchange gains and losses are off-set against the equal and opposite exchange gains or losses arising on the retranslation of the underlying assets or liabilities;
- for contracts taken out to hedge overseas equity investments the exchange gains and losses are taken to reserves to off-set against the exchange differences arising on the retranslation of the net assets of the investments on consolidation; and
- for contracts which hedge general trading flows the exchange gains or losses are taken to the profit and loss account in the period in which they arise.

Where the underlying exposure changes, or ceases to exist, the contract would be terminated and the exchange gain or loss arising taken to the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Company's profit and loss account

The Company has taken advantage of the exemption contained in the Companies Act 1985 from presenting its own profit and loss account. The loss for the year of the Company amounted to £7,639 million (2002 – loss of £6,696 million, 2001 – profit of £810 million).

### 2. Historical cost profits and losses

There is no difference between the Group results as reported and on the historical cost basis. Accordingly no additional note of historical cost profits and losses has been prepared.

### 3. Turnover

The Group's operations are all considered to fall into one class of business, namely telecommunications.

### 4. Segmental information

Cable & Wireless is an international telecommunications company. During the periods presented it operated through two segments, Cable & Wireless Global and Cable & Wireless Regional, which can be further analysed by geographic area. Cable & Wireless Global provides communication solutions to business and wholesale customers. It offers IP, data and voice products with a focus on IP and data, centred on the key markets of US, Europe (including UK) and Japan. Cable & Wireless Regional provides a full range of telecommunications services to both consumer and business customers, including fixed and mobile voice, data and IP. The major businesses in this segment are in the Caribbean and Panama, but it also includes operations in Macau, the Middle East, South East Asia and in the Pacific, Indian and Atlantic Oceans.

Details of Group turnover, contributions to operating (loss)/profit, net operating assets/(liabilities) by geographical region are as follows:

| Turnover | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| **Cable & Wireless Global** | | | |
| US | 512 | 530 | 503 |
| UK | 1,728 | 2,075 | 2,158 |
| Europe | 304 | 305 | 251 |
| Japan | 323 | 361 | 450 |
| | 2,867 | 3,271 | 3,362 |
| **Cable & Wireless Regional** | | | |
| Caribbean (including Panama) | 1,062 | 1,150 | 1,066 |
| Asia (including Sakhalin) | 154 | 156 | 199 |
| Other | 195 | 160 | 168 |
| | 1,411 | 1,466 | 1,433 |
| Inter-regional turnover | (31) | (34) | (107) |
| Continuing operations | 4,247 | 4,703 | 4,688 |
| Discontinued operations | 144 | 1,045 | 3,163 |
| Group turnover | 4,391 | 5,748 | 7,851 |

The Group turnover figure disclosed represents turnover of the Company and its subsidiaries allocated to the location to which the Group invoices its services. This is generally the same as the location to which telecommunications services are supplied. It does not follow, however, that international telecommunications traffic which the Group may be responsible for carrying on part of its route would necessarily originate in that location. The Group does not have access to information on the original source or ultimate destination of international telecommunications traffic.

Turnover for 2001 and 2002 has been adjusted to reflect the introduction of UITF Abstract 36 'Contracts for sales of capacity' (see below) and for operations now classified as discontinued.

Discontinued operations comprise sales in the US in 2003 of £144 million (2002 – US £281 million and Australia £764 million, 2001 – US £354 million, Australia £1,815 million, Hong Kong £878 million and UK £116 million).

The Company has adopted UITF Abstract 36 for the year ended 31 March 2003. The requirements of UITF Abstract 36 have been incorporated into a revised accounting policy for capacity sales. Accordingly the amounts for the current and corresponding periods have been updated on the basis of the new accounting policy. The impact of this change for the 12 months to 31 March 2003 is to decrease turnover by £nil (2002 – £163 million, 2001 – £248 million) in respect of sales made to carriers from whom capacity was also acquired, and to decrease cost of sales by £nil (2002 – £76 million, 2001 – £123 million). In respect of capacity purchases from carriers to whom Cable & Wireless also sold capacity, the net impact is to decrease the impairment charge in 2002 by £105 million, decrease the depreciation charge in 2003 by £2 million (2002 – £12 million, 2001 – £9 million) and decrease exceptional operating costs by £3 million (2002 – £128 million, 2001 – £nil). The impact on profit for the year ended 31 March 2003 is an increase of £6 million (2002 – increase of £168 million, 2001 – decrease of £117 million). The cumulative effect of adopting UITF Abstract 36 was to decrease net assets by £66 million as at 31 March 2002.

Cash capacity sales of £nil (2002 – £29 million, 2001 – £91 million) are included within Group turnover, with attributable cost of sales of £nil (2002 – £10 million, 2001 – £37 million). Revenue from operating and maintenance and similar services relating to capacity was £11 million (2002 – £37 million, 2001 – £30 million), with cost of sales of £2 million (2002 – £16 million, 2001 – £13 million).

**(Loss)/profit on ordinary activities before interest and taxation**

| | Operating (loss)/profit before exceptional items | Exceptional items | (Loss)/profit on ordinary activities before interest and taxation | | |
|---|---|---|---|---|---|
| | | | 2003 | 2002 | 2001 |
| | £m | £m | £m | £m | £m |
| Cable & Wireless Global | (794) | (5,461) | (6,255) | (4,741) | (1,218) |
| Cable & Wireless Regional | 430 | (35) | 395 | 257 | 345 |
| Other | (44) | (377) | (421) | (945) | (3) |
| Discontinued operations | (119) | (204) | (323) | 594 | 4,319 |
| Joint ventures and associates | 75 | 54 | 129 | 71 | 73 |
| | (452) | (6,023) | (6,475) | (4,764) | 3,516 |

The exceptional items are described fully in Note 10.

Segmental information in respect of the Group's investments in joint ventures and associates is given in Note 17.

Financing is dealt with at a Group level and therefore net interest and other similar income/(charges) cannot be allocated to a geographic region.

| Net operating assets/(liabilities) | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| **Cable & Wireless Global** | | |
| US | (537) | (217) |
| UK | (117) | 3,228 |
| Europe | (60) | 82 |
| Japan | 115 | 303 |
| | (599) | 3,396 |
| **Cable & Wireless Regional** | | |
| Caribbean (including Panama) | 911 | 1,040 |
| Asia (including Sakhalin) | 56 | 60 |
| Other | 69 | 66 |
| | 1,036 | 1,166 |
| Other | (176) | (451) |
| Discontinued operations | (212) | 1,117 |
| | 49 | 5,228 |
| Other net assets | 2,471 | 4,129 |
| Net assets | 2,520 | 9,357 |

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

## 5. Operating costs

| | Continuing operations before exceptional items | Exceptional Items (note 10) | Discontinued operations before exceptional items | 2003 | Continuing operations before exceptional items | Exceptional Items (note 10) | Discontinued operations before exceptional items | 2002 |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Outpayments to other telecommunications administrations and carriers | 1,552 | — | 123 | 1,675 | 1,926 | — | 466 | 2,392 |
| Rental of transmission facilities | 241 | — | — | 241 | 389 | — | 10 | 399 |
| Cost of sales relating to equipment sales and rentals | 167 | — | — | 167 | 52 | — | 113 | 165 |
| Employee costs | 806 | 90 | 46 | 942 | 786 | — | 156 | 942 |
| Pension costs | 62 | — | 1 | 63 | 35 | — | 11 | 46 |
| Property rentals, taxes and utility costs | 178 | 211 | 8 | 397 | 115 | — | 38 | 153 |
| Depreciation and impairment of owned tangible fixed assets | 701 | 2,381 | 24 | 3,106 | 896 | 1,909 | 157 | 2,962 |
| Depreciation of tangible fixed assets held under finance leases | 10 | — | — | 10 | 16 | — | 3 | 19 |
| Amortisation and impairment of capitalised goodwill | 126 | 2,725 | — | 2,851 | 561 | 2,007 | 1 | 2,569 |
| Operating lease rentals: | | | | | | | | |
| – plant and equipment | 71 | — | 6 | 77 | 37 | — | 37 | 74 |
| – other | 94 | 28 | 1 | 123 | 75 | — | 12 | 87 |
| Other operating costs | 647 | 113 | 54 | 814 | 510 | 210 | 245 | 965 |
| | 4,655 | 5,548 | 263 | 10,466 | 5,398 | 4,126 | 1,249 | 10,773 |

| | Continuing operations before exceptional items | Exceptional items (note10) | Discontinued operations before exceptional items | 2001 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Outpayments to other telecommunications administrations and carriers | 1,969 | — | 834 | 2,803 |
| Rental of transmission facilities | 141 | — | 46 | 187 |
| Cost of sales relating to equipment sales and rentals | 84 | — | 429 | 513 |
| Employee costs | 747 | — | 424 | 1,171 |
| Pension costs | 58 | — | 34 | 92 |
| Property rentals, taxes and utility costs | 85 | — | 106 | 191 |
| Television programming costs | — | — | 21 | 21 |
| Depreciation and impairment of owned tangible fixed assets | 642 | 444 | 472 | 1,558 |
| Depreciation of tangible fixed assets held under finance leases | 7 | — | 5 | 12 |
| Amortisation of capitalised goodwill | 270 | — | 199 | 469 |
| Operating lease rentals: | | | | |
| – plant and equipment | 70 | — | 65 | 135 |
| – other | 65 | — | 10 | 75 |
| Other operating costs | 512 | — | 494 | 1,006 |
| | 4,650 | 444 | 3,139 | 8,233 |

All exceptional items relate to continuing operations except £57 million of depreciation (2002 – other operating costs £6 million, depreciation £87 million and amortisation £213 million, 2001 – depreciation £91 million) which relates to discontinued operations.

Certain operating lease rental charges are included within rental of transmission facilities and property rentals, taxes and utility costs in operating costs. Including these amounts, operating lease rentals for the financial year totalled £164 million for plant and equipment and £138 million for other assets (2002 – plant and equipment £118 million and other £141 million, 2001 – plant and equipment £143 million and other £75 million).

The remuneration of the auditors and their associates in respect of audit services provided to the Group during the year was £4.9 million (2002 – £2.6 million, 2001 – £2.7 million). The remuneration of the auditors and their associates in respect of non-audit services to the Company and its UK subsidiaries during the year was £3.6 million (2002 – £3.8 million, 2001 – £12.4 million) and to overseas subsidiaries £1.4 million (2002 – £1.8 million, 2001 – £4.6 million) as summarised below:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Acquisition and disposal services | 0.2 | 0.8 | 3.3 |
| Tax services | 2.5 | 1.4 | 3.7 |
| General consultancy | — | 2.5 | 8.6 |
| Other advisory services | 2.3 | 0.9 | 1.4 |
| | 5.0 | 5.6 | 17.0 |

## 6. Employees

The average monthly number of persons employed by the Group during the year was:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | Number | Number | Number |
| Cable & Wireless Global | 12,167 | 13,345 | 16,160 |
| Cable & Wireless Regional | 10,433 | 11,915 | 15,034 |
| Other | 167 | 195 | 164 |
| Discontinued operations (pro rated) | 385 | 4,769 | 16,546 |
| | 23,152 | 30,224 | 47,904 |

The aggregate remuneration and associated costs of Group employees, including amounts capitalised, was:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Salaries and wages | 895 | 1,003 | 1,422 |
| Social security costs | 71 | 99 | 166 |
| Pension costs – principal schemes (Note 8) | 31 | 12 | 37 |
| – other costs | 32 | 34 | 55 |
| | 1,029 | 1,148 | 1,680 |

## 7. Directors' remuneration and shareholdings

Information covering Directors' remuneration (including pension entitlements), interest in shares and interests in share options (including in each case those arising under the Share Option Plan and Performance Share Plan) is included in the Directors' Remuneration Report on pages 65 to 78 of the Issuer's 2003 Annual Report.

## 8. Pensions

### Defined benefit schemes

The Company and its principal subsidiaries operate pension and other retirement schemes which cover the majority of employees in the Group. These schemes include both the defined benefit type, whereby retirement benefits are based on the employees' final remuneration and length of service, and defined contribution schemes, whereby retirement benefits reflect the accumulated value of agreed contributions paid by, and in respect of, employees. With the exception of the unfunded, unapproved retirement benefit schemes, the remaining schemes are funded through separate trustee administered schemes. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the schemes at regular intervals, usually triennially.

An actuarial valuation of the principal United Kingdom defined benefit pension scheme (the Scheme) was prepared at 31 March 2002 for the purpose of UK Statement of Standard Accounting Practice 24 (SSAP 24) 'Accounting for pension costs'.

The valuation of the Scheme disclosed a shortfall in the market value of the Scheme's assets compared with the accrued liabilities. This was principally due to the fall in the Scheme's asset values following the fall in global equity markets between 1 April 1999 and 31 March 2002. Thus, with agreement from the actuary, the Company increased its contributions to the Scheme to 20 per cent. of salary with effect from 1 April 2002, and made a one-off contribution to the Scheme of £47 million in December 2002 in respect of the shortfall.

The Scheme was valued using the projected unit method and the principal assumptions were that future investment returns on existing assets would, on average, be 3.2 per cent. a year above the level of price inflation, that the return on new investments would be 3.9 per cent. a year above price inflation, that general salary growth would be 1.7 per cent. a year above price inflation, and that inflation related pension increases would generally be in line with price inflation. The market value of the Scheme's investments at the valuation date was £1,401 million. The Scheme also holds some insurance policies which have an assessed value of £11 million. The total value of the assets was 97 per cent. of the value of the aggregate benefits that had accrued to members of the Scheme, allowing for expected future earnings increases in the case of employees.

The assumptions used for calculating the pension cost for accounting purposes differ from the funding assumptions in that the assumed return on existing assets is 3.3 per cent. a year above price inflation. In the financial statements, the deficit in the Scheme is spread over the remaining service lives of the employed members. Under those assumptions as at 31 March 2002, the total value of the investments was 99 per cent. of the value of the aggregate benefits that had accrued to members of the Scheme.

The pension costs as shown in Note 6 comprise:

| | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Regular costs | 22 | 20 |
| Variation from regular costs (including interest) | 9 | (8) |
| | 31 | 12 |

Pension schemes other than the principal scheme are accounted for on the basis of local custom and practice. Pension prepayments relating to the Scheme of £112 million (2002 – £72 million, 2001 – £64 million) are included in other debtors (Note 20). Provisions for obligations to pay terminal gratuities on retirement to staff who are not members of the pension and retirement schemes are included in provisions for pensions (Note 23).

**Defined contribution schemes**

The pension cost for the year for the defined contribution schemes was £19 million (2002 – £10 million, 2001 – £26 million).

**Disclosures in respect of Financial Reporting Standard 17 (FRS 17) – 'Retirement benefits'**

The above figures have been prepared in accordance with the requirements of SSAP 24. The UK has published FRS 17, however, its full introduction has been deferred. The accounting requirements of FRS 17 are broadly as follows:

- pension scheme assets are valued at market values at the balance sheet date;
- pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on high quality (AA) corporate bonds of equivalent term and currency to the liability;
- for accounting periods beginning on or after 1 January 2005 the pension scheme surplus (to the extent it is considered recoverable) or deficit will be recognised in full and presented on the face of the balance sheet; and
- the movement in the scheme surplus/deficit will be split between operating charges, financing items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The transitional disclosures in respect of FRS 17 are set out below:

Qualified independent actuaries, Watson Wyatt LLP, updated the actuarial valuations of the major defined benefit schemes operated by the Group to 31 March 2003. The main financial assumptions in accordance with FRS17 are as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | UK | Rest of Group | UK | Rest of Group |
| | % | % | % | % |
| Inflation assumption | 2.5 | 4.3 | 2.5 | 4.9 |
| Rate of increase in salaries | 4.3 | 5.6 | 4.3 | 6.3 |
| Pension increases | 2.5-3.0 | 3.6 | 2.5-3.0 | 3.6 |
| Deferred pension increases | 2.5 | 3.0 | 2.5 | — |
| Discount rate | 5.5 | 6.9 | 5.8 | 7.5 |
| Long term expected rate of return on : | | | | |
| – Equities | 8.5 | 9.1 | 7.8 | 9.6 |
| – Bonds | 5.0 | 7.1 | 5.5 | 7.3 |
| – Other | 4.0 | 4.8 | 4.5 | 4.6 |

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The assumptions shown above for the Rest of Group represent a weighted average of the assumptions used for the individual funds.

The UK defined benefit scheme is closed to new entrants and under the projected unit method for closed schemes the current service cost will increase as the members of the scheme approach retirement.

The assets and liabilities of the defined benefit schemes operated by the Group are as follows:

| | At 31 March 2003 | | At 31 March 2002 | |
|---|---|---|---|---|
| | UK | Rest of Group | UK | Rest of Group |
| | £m | £m | £m | £m |
| Equities | 855 | 61 | 1,130 | 56 |
| Bonds | 246 | 56 | 262 | 54 |
| Other | 53 | 36 | 9 | 30 |
| Total fair value assets | 1,154 | 153 | 1,401 | 140 |
| Present value of scheme liabilities | (1,630) | (207) | (1,434) | (154) |
| Deficit in funded defined benefit schemes | (476) | (54) | (33) | (14) |
| Deficit in unfunded defined benefit schemes | (18) | (30) | (15) | (14) |
| **Total deficit in defined benefit schemes** | (494) | (84) | (48) | (28) |

No deferred tax asset would be recognised when this liability is reflected in the Financial Statements. There will be a consequential impact on reserves once this liability is reflected in the Financial Statements.

If the above amounts were recognised in the Financial Statements, the Group's shareholders funds at 31 March 2003 would be as follows:

| | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Shareholders' funds as presented | 2,149 | 8,958 |
| Less: SSAP 24 net assets | (71) | (40) |
| Shareholders funds' excluding SSAP 24 net assets | 2,078 | 8,918 |
| FRS 17 retirement benefits net liability | (578) | (76) |
| **Shareholders' funds including FRS 17 retirement benefits net liability** | 1,500 | 8,842 |

Under the transitional requirements of FRS 17, the following disclosures are given to show the impact on the profit and loss account and statement of total recognised gains and losses if FRS 17 had been adopted in full. These amounts have not been included in the profit and loss account or the statement of total recognised gains and losses.

Analysis of amounts that would be charged to operating profit for the year ended 31 March 2003 in respect of defined benefit schemes is as follows:

| | UK | Rest of Group | Total |
|---|---|---|---|
| | £m | £m | £m |
| Current service cost | 27 | 17 | 44 |
| **Total charged to operating profit** | 27 | 17 | 44 |

Analysis of other amounts that would be charged to the profit and loss account for the year ended 31 March 2003 is as follows:

| | UK | Rest of Group | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Gain on curtailment** | — | (3) | (3) |

Analysis of amounts that would be charged to other finance income for the year ended 31 March 2003 is as follows:

| | UK | Rest of Group | Total |
|---|---|---|---|
| | £m | £m | £m |
| Interest on pension scheme liabilities | 84 | 14 | 98 |
| Expected return on pension scheme assets | (102) | (12) | (114) |
| **Net return** | (18) | 2 | (16) |

Analysis of amounts that would be recognised in the statement of total recognised gains and losses for the year ended 31 March 2003 is as follows:

| | UK | Rest of Group | Total |
|---|---|---|---|
| | £m | £m | £m |
| Actual return less expected return on pension scheme assets | (380) | (16) | (396) |
| Experience losses on scheme liabilities | (18) | (12) | (30) |
| Changes in the assumptions underlying the present value of the scheme liabilities | (111) | (7) | (118) |
| Total actuarial loss recognised in the statement of total recognised gains and losses | (509) | (35) | (544) |

History of experience gains and losses for the year ended 31 March 2003 is as follows:

| | UK | | Rest of Group | | Total | |
|---|---|---|---|---|---|---|
| | £m | % | £m | % | £m | % |
| Difference between expected and actual return on scheme assets | (380) | (33) | (16) | (10) | (396) | (30) |
| Experience losses on scheme liabilities | (18) | (1) | (12) | (5) | (30) | (1) |
| Total actuarial loss recognised in the statement of total recognised gains and losses | (509) | (31) | (35) | (15) | (544) | (29) |

Analysis of movement in the deficit during the year ended 31 March 2003 is as follows:

| | UK | Rest of Group | Total |
|---|---|---|---|
| | £m | £m | £m |
| Deficit at 1 April 2002 | (48) | (28) | (76) |
| Contributions made | 72 | 15 | 87 |
| Current service costs | (27) | (17) | (44) |
| Curtailment gain | — | 3 | 3 |
| Other finance income/(charge) | 18 | (2) | 16 |
| Actuarial loss | (509) | (35) | (544) |
| Other movements | — | (26) | (26) |
| Exchange gain | — | 6 | 6 |
| Deficit at 31 March 2003 | (494) | (84) | (578) |

Other movements consist of acquisitions and minor schemes not previously included.

## 9. Profits less (losses) on disposal of fixed assets

Profits less (losses) on disposal of fixed assets before exceptional items amount to £nil (2002 – loss of £7 million, 2001 profit of £4 million). The tax charge attributable is £nil (2002 – £nil, 2001 – £1 million) and the minority interest is £nil (2002 – £1 million, 2001 – £1 million).

## 10. Exceptional items

Exceptional items in 2003, 2002 and 2001 comprise:

| | Note | Exceptional items £m | Taxation £m | Minority interest £m | Total 2003 £m | Exceptional items £m | Taxation £m | Minority interest £m | Total 2002 £m |
|---|---|---|---|---|---|---|---|---|---|
| **Operating items** | | | | | | | | | |
| Other operating costs | (i), (vi) | (442) | 10 | 11 | **(421)** | (210) | — | 3 | (207) |
| Fixed asset impairment and amounts written off | (ii), (iii), (vii) | (2,381) | 48 | — | **(2,333)** | (1,909) | — | 28 | (1,881) |
| Goodwill impairment charge | (ii), (vii) | (2,725) | — | — | **(2,725)** | (2,007) | — | — | (2,007) |
| | | (5,548) | 58 | 11 | **(5,479)** | (4,126) | — | 31 | (4,095) |
| **Non operating items** | | | | | | | | | |
| Profits less (losses) on sale and termination of operations | (iii), (viii) | (147) | — | — | **(147)** | 1,057 | (228) | 7 | 836 |
| Profits less (losses) on disposal of fixed assets | (iv) | 62 | — | (33) | **29** | — | — | — | — |
| Write down of investments | (v), (ix) | (390) | — | — | **(390)** | (904) | — | — | (904) |
| | | (6,023) | 58 | (22) | **(5,987)** | (3,973) | (228) | 38 | (4,163) |

| | Note | Exceptional items £m | Taxation £m | Minority interest £m | Total 2001 £m |
|---|---|---|---|---|---|
| **Operating items** | | | | | |
| Fixed asset impairment charge | (x) | (444) | — | 3 | (441) |
| **Non operating items** | | | | | |
| Profits less (losses) on sale and termination of operations | (xi) | 4,311 | (373) | 8 | 3,946 |
| Costs of fundamental reorganisation | (xii) | (530) | 15 | 17 | (498) |
| Profits less (losses) on disposal of fixed assets | (xiii) | 42 | 9 | (16) | 35 |
| Write down of investments | (xiv) | (43) | — | — | (43) |
| Finance charges | (xv) | (110) | 9 | — | (101) |
| | | 3,226 | (340) | 12 | 2,898 |

### Year ended 31 March 2003

(i) The Group announced a restructuring of the Cable & Wireless Global business on 13 November 2002. Exceptional costs in the period of £248 million associated with this restructuring include £182 million in respect of property costs, £52 million in respect of redundancy costs and £14 million of other costs.

Other exceptional costs relate to integration costs of Digital Island and the business activities of Exodus of £31 million, redundancy costs of £38 million principally in Cable & Wireless Regional, £44 million of provisions in respect of rentals on vacant properties and £81 million in respect of onerous network contracts and distressed carrier asset write offs (Cable & Wireless Global £159 million, Cable & Wireless Regional £35 million).

(ii) The Group has carried out a review to determine whether there has been an impairment of its fixed assets and goodwill. The carrying values of fixed assets and goodwill of each of the Group's income generating units have been compared to their recoverable amounts, represented by their value in use to the Group. The charge has been determined in accordance with Financial Reporting Standard 11 (FRS 11) 'Impairment of fixed assets and goodwill' which involves amongst other factors using a growth rate of 2.5 per cent after five years (based on a nominal increase in GDP for the countries in which the Group operates), and a discount rate of 14 per cent. The resulting charge in Cable & Wireless Global is £10 million. Other operations £2 million in respect of goodwill and £1,479 million in respect of fixed assets. This charge is in addition to the charge of £2,713 million in respect of goodwill and £787 million in respect of fixed assets recognised at the half year. Exceptional depreciation also includes the write-off of redundant fixed assets of £58 million. Tax credits of £48 million are available on the Cable & Wireless Regional impairment charges of £191 million which was disclosed in the 2002 Group Financial Statements.

(iii) The Group has exited its US retail voice business, as announced on 15 May 2002. The exceptional costs associated with this amount to £288 million and include exit costs of £200 million, redundant fixed asset write downs of £57 million included in the exceptional depreciation charge and other write downs of £31 million. In addition, £84 million of accrued costs relating to disposals in previous years, principally the disposal of the consumer operations of Cable & Wireless Communications plc on 30 May 2000, have been released (Discontinued £204 million).

(iv) The profit of £62 million on disposal of fixed assets principally comprises a £54 million gain on the sale of part of the Group's interest in MobileOne (Asia) Pte Ltd (Joint ventures and associates £54 million, Other £8 million).

(v) The current asset investments principally relating to Pacific Century CyberWorks Ltd (PCCW) have been written down by £274 million to market value at 31 March 2003. The shares held by the Employee Share Ownership Plan Trust (ESOP) have been written down by £116 million to market value at 31 March 2003. (Cable & Wireless Global £7 million, Other £383 million).

**Year ended 31 March 2002**

(vi) Exceptional items included in other operating costs related principally to provisions in respect of ongoing obligations associated with businesses withdrawn from and redundant assets (Cable & Wireless Global £112 million, Discontinued operations £6 million), costs associated with the integration of the Web hosting businesses (Cable & Wireless Global £44 million) and redundancy and reorganisation costs incurred (Cable & Wireless Global £48 million).

(vii) The Group carried out a review as at 31 March 2002 to determine whether there had been an impairment of its fixed assets and goodwill. The carrying values of fixed assets and goodwill of each of the Group's income generating units were compared to their recoverable amounts, represented by their value in use to the Group. In accordance with FRS11, the value in use of each of the Group's income generating units was determined with reference to the Group's five year plan, which had been approved by the Board, using a growth rate of 2.5 per cent. in the period beyond the Group's five year plan (based on a nominal increase in GDP for the countries in which the Group operates), and an average discount rate of 11 per cent. The resulting charge in Cable & Wireless Global is £2,007 million in respect of goodwill and £1,502 million in respect of fixed assets, and in Cable & Wireless Regional £191 million in respect of fixed assets and £87 million in respect of fixed assets in discontinued operations. In addition, £129 million of fixed assets relating to Cable & Wireless Global businesses withdrawn from service were written off at 30 September 2001.

(viii) The Group disposed of its interest in Cable & Wireless Optus Limited to Singapore Telecommunications Limited (SingTel) on 6 September 2001 resulting in a gain of £1,057 million. The consideration received included shares and bonds issued by SingTel which were converted into cash.

(ix) Current asset investments held in ntl Incorporated (ntl) and CMGI Inc. were written down to nil value and the investment in PCCW was written down to estimated realisable value (Other £904 million).

**Year ended 31 March 2001**

(x) Implementation of the Group's strategy based on IP affected the useful life and carrying value of certain network assets employed in its switched circuit voice business. An assessment of the value in use of this business based on a discount rate of 9.5 per cent., resulted in an impairment charge to these assets of £444 million (Cable & Wireless Global £353 million, Discontinued operations £91 million).

(xi) The Group disposed of its interests in Cable & Wireless HKT Limited and ConsumerCo to PCCW and ntl for a gain of £3,594 million and £586 million respectively. The consideration received in respect of both transactions included cash and shares in the acquirer which under the terms of the sale and purchase agreements, the Group was required to retain for various periods. These are disclosed as part of discontinued operations. The gain primarily includes the subsequent partial sales of the PCCW (profit of £600 million) and ntl (loss of £25 million) shares, less the reduction in market value of the retained shares below their book values (£449 million).

(xii) The Group effected the transformation of its activities from an integrated model offering a total range of services to consumer and business customers structured on geographic lines to one focussing on the provision of global IP solutions to business customers. The costs directly associated with this reorganisation and restructuring amounted to £530 million (Cable & Wireless Global £451 million, Cable & Wireless Regional £66 million, other £13 million) and included announced redundancies, retraining, recruitment and relocation (£265 million) and property, product and systems rationalisation (£208 million).

(xiii) Related to the sale of mobile telephone transmission towers in Australia and properties in the United Kingdom and is included as part of discontinued operations.

(xiv) Related to the write down of certain fixed asset investments to reflect identified impairments (Cable & Wireless Global £24 million, Cable & Wireless Regional £9 million, Other £10 million).

(xv) Related to penalties incurred on the early redemption of CWC's sterling and US dollar denominated bonds as part of the restructuring of its operations during the sale process.

### 11. Net interest and other similar income/(charges)

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| **Interest receivable and similar income** | | | |
| Deposits and short term loan interest and similar income | **198** | 319 | 344 |
| Preference share dividends | **—** | 54 | 14 |
| Share of profits of international telecommunications satellite organisations | **—** | 4 | 21 |
| Exchange losses on retranslation of foreign currency denominated loans and deposits | **(9)** | — | (23) |
| | **189** | 377 | 356 |
| **Interest payable and other similar charges** | | | |
| Finance charges on leases | **(3)** | (5) | (14) |
| Bank loans and overdrafts | **(77)** | (134) | (190) |
| Other loans | **(8)** | (22) | (70) |
| Exceptional finance charges | **—** | — | (110) |
| Discount charge | **(3)** | — | — |
| | **(91)** | (161) | (384) |
| Less: Interest capitalised | **5** | 11 | 28 |
| | **(86)** | (150) | (356) |
| Net interest and other similar income/(charges) | **103** | 227 | — |

No tax relief is available on interest capitalised in the year ended 31 March 2003.

### 12. Tax on (loss)/profit on ordinary activities

The charge for tax, based on the Group (loss)/profit for the year, comprises:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| **United Kingdom** | | | |
| Corporate tax at 30% (2002 – 30%, 2001 – 30%) | | | |
| Current | **39** | 59 | 342 |
| Double taxation relief | **(39)** | (37) | (38) |
| Deferred | **1** | (7) | 87 |
| Adjustments in respect of prior years – current | **(54)** | (18) | (20) |
| – deferred | **(7)** | — | — |
| | **(60)** | (3) | 371 |
| **Overseas** | | | |
| Current | **65** | 295 | 118 |
| Deferred | **26** | 11 | 29 |
| Adjustments in respect of prior years – current | **43** | 19 | (15) |
| – deferred | **(51)** | (31) | — |
| | **83** | 294 | 132 |
| **Joint ventures and associates** | | | |
| Joint ventures | **13** | 20 | 16 |
| Associates | **—** | — | 1 |
| | **13** | 20 | 17 |
| Tax on (loss)/profit on ordinary activities | **36** | 311 | 520 |

The Group's effective tax rate varies from the statutory tax rate as a result of the following factors:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | % | % | % |
| Statutory tax rate | 30.0 | 30.0 | 30.0 |
| Income/expenses not taxable/allowable – permanent | **(12.9)** | (21.9) | (21.6) |
| Income/expenses not taxable/allowable – timing | **(17.4)** | (11.9) | (0.4) |
| Tax losses not utilised | **(6.6)** | (9.1) | 3.6 |
| Tax rate differences | **5.7** | 5.5 | 0.7 |
| Adjustments to tax charge in respect of previous periods | **0.2** | — | (1.0) |
| Current tax rate | **(1.0)** | (7.4) | 11.3 |

On 25 March 2003 the Group reached agreement with the Inland Revenue to settle the Group's outstanding UK corporation tax affairs for the 10 years up to 31 March 2001. The agreement involved the payment of £380 million to the Inland Revenue in respect of all previously unsettled matters for this period. The settlement has no impact on the current year tax charge as the amount of the settlement was covered by existing provisions (see Note 23).

**13. Dividends**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| Interim | **37** | 40 | 138 |
| Special interim | **—** | 304 | — |
| Final | **—** | 83 | 324 |
| | **37** | 427 | 462 |

**14. (Loss)/earnings per share**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | £m | £m | £m |
| (Loss)/profit for the financial year attributable to shareholders | **(6,533)** | (4,954) | 2,738 |
| Interest saved on loan stock conversion for distribution | **—** | — | 2 |
| Diluted (loss)/profit for the financial year attributable to shareholders | **(6,533)** | (4,954) | 2,740 |
| Weighted average number of shares in issue | **2,329,814,506** | 2,733,445,915 | 2,730,991,541 |
| Dilution effects of – share options | **6,494,406** | 1,296,950 | 14,641,309 |
| – convertible unsecured loan stock | **—** | — | 15,067,564 |
| Diluted weighted average number of shares | **2,336,308,912** | 2,734,742,865 | 2,760,700,414 |
| Basic (loss)/earnings per Ordinary Share before exceptional items and goodwill amortisation | **(18.0)p** | (8.4)p | 11.2p |
| Basic (loss)/earnings per Ordinary Share on exceptional items | **(257.0)p** | (152.3)p | 106.1p |
| Basic (loss) per Ordinary Share on goodwill amortisation | **(5.4)p** | (20.5)p | (17.0)p |
| Basic (loss)/earnings per Ordinary Share | **(280.4)p** | (181.2)p | 100.3p |
| Diluted (loss)/earnings per Ordinary Share | **(280.4)p** | (181.2)p | 99.2p |

Basic and diluted (loss)/earnings per Ordinary Share are based on the (loss)/profit for the year attributable to shareholders. Basic (loss)/earnings per Ordinary Share before exceptional items and goodwill amortisation is based on the weighted average number of shares in issue and has been provided in order to show the effects of exceptional items and the amortisation of capitalised goodwill on reported earnings.

## 15. Intangible fixed assets

| | Negative Goodwill | Positive Goodwill | Licences and other intangibles | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cost** | | | | |
| At 1 April 2002 | — | 6,186 | 9 | **6,195** |
| Additions | (14) | 10 | — | **(4)** |
| Exchange | — | (55) | — | **(55)** |
| **At 31 March 2003** | **(14)** | **141** | **9** | **6,136** |
| **Amortisation** | | | | |
| At 1 April 2002 | — | (3,290) | (5) | **(3,295)** |
| Charge for the year – amortisation | 2 | (128) | — | **(126)** |
| – impairment | — | (2,721) | (4) | **(2,725)** |
| Exchange | — | 8 | — | **8** |
| At 31 March 2003 | **2** | **(6,131)** | **(9)** | **(6,138)** |
| **Net book value** | | | | |
| **At 31 March 2003** | **(12)** | **10** | **—** | **(2)** |
| **At 31 March 2002** | — | 2,896 | 4 | **2,900** |

Negative goodwill is being amortised over five years. Positive goodwill is being amortised over 20 years. These periods have been determined after taking into account the nature of the businesses.

## 16. Tangible fixed assets

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment | Projects under construction | Total | Land and buildings | Plant and equipment | Projects under construction | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost** | | | | | | | | |
| At 1 April 2002 | 809 | 9,550 | 1,208 | **11,567** | 13 | 56 | 5 | **74** |
| Additions* | 26 | 283 | 443 | **752** | — | 3 | 3 | **6** |
| Disposals | (19) | (333) | (2) | **(354)** | (11) | — | — | **(11)** |
| Transfers | 56 | 790 | (846) | **—** | — | 4 | (4) | **—** |
| Exchange adjustments | (45) | (419) | (50) | **(514)** | — | (1) | — | **(1)** |
| **At 31 March 2003** | **827** | **9,871** | **753** | **11,451** | **2** | **62** | **4** | **68** |
| **Depreciation** | | | | | | | | |
| At 1 April 2002 | 279 | 6,671 | — | **6,950** | 11 | 21 | — | **32** |
| Charge for the year | 102 | 633 | — | **735** | — | 4 | — | **4** |
| Impairment and exceptional depreciation | 176 | 2,205 | — | **2,381** | — | 20 | — | **20** |
| Disposals | (12) | (329) | — | **(341)** | (10) | — | — | **(10)** |
| Transfers | (34) | 34 | — | **—** | — | — | — | **—** |
| Exchange and other adjustments | (15) | (196) | — | **(211)** | — | — | — | **—** |
| **At 31 March 2003** | **496** | **9,018** | **—** | **9,514** | **1** | **45** | **—** | **46** |
| **Net book value** | | | | | | | | |
| **At 31 March 2003** | **331** | **853** | **753** | **1,937** | **1** | **17** | **4** | **22** |
| At 31 March 2002 | 530 | 2,879 | 1,208 | **4,617** | 2 | 35 | 5 | **42** |

Included in the cost of tangible fixed assets is £54 million (2002 – £77 million) relating to assets held under finance leases. Accumulated depreciation on these assets is £50 million (2002 – £51 million).

Included within additions is £102 million (2002 – £184 million) in respect of own work capitalised.

* Included within additions is £21 million of tangible fixed assets relating to Cable and Wireless Guernsey Limited which was acquired on 30 May 2002.

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | £m | £m | £m | £m |
| **Land and buildings at net book value** | | | | |
| Freeholds | **194** | 319 | 1 | 2 |
| Long leaseholds | **52** | 15 | — | — |
| Short leaseholds | **85** | 196 | — | — |
| | **331** | 530 | 1 | 2 |

## 17. Fixed asset investments

| | Group | | | Company | | | |
|---|---|---|---|---|---|---|---|
| | Joint ventures and associates | Other investments | Total | Joint ventures and associates | Subsidiary undertakings | Other investments | Total |
| | £m | £m | £m | £m | £m | £m | £m |
| **Cost/valuation** | | | | | | | |
| At 1 April 2002 | 152 | 235 | **387** | 33 | 25,768 | 174 | **25,975** |
| Additions | 2 | 38 | **40** | — | 1,253 | 38 | **1,291** |
| Transfers | (19) | 19 | **—** | — | — | — | **—** |
| Disposals | (31) | (14) | **(45)** | — | (23) | (11) | **(34)** |
| Revaluation | — | — | **—** | — | 223 | — | **223** |
| Exchange adjustments | (21) | (5) | **(26)** | — | — | — | **—** |
| **At 31 March 2003** | **83** | **273** | **356** | **33** | **27,221** | **201** | **27,455** |
| **Loans** | | | | | | | |
| At 1 April 2002 | 9 | — | **9** | 11 | 6,295 | — | **6,306** |
| Additions | — | — | **—** | — | 853 | — | **853** |
| Loans repaid | (8) | — | **(8)** | (10) | (1,429) | — | **(1,439)** |
| **At 31 March 2003** | **1** | **—** | **1** | **1** | **5,719** | **—** | **5,720** |
| **Provisions and amounts written off** | | | | | | | |
| At 1 April 2002 | (43) | (26) | **(69)** | (16) | (7,330) | — | **(7,346)** |
| Amounts written back in year | — | — | **—** | 7 | — | — | **7** |
| Increase in year | (2) | (126) | **(128)** | — | (7,515) | (116) | **(7,631)** |
| Disposals | — | 1 | **1** | — | 21 | — | **21** |
| Exchange adjustments | — | 1 | **1** | — | — | — | **—** |
| **At 31 March 2003** | **(45)** | **(150)** | **(195)** | **(9)** | **(14,824)** | **(116)** | **(14,949)** |
| **Share of post acquisition reserves** | | | | | | | |
| At 1 April 2002 | 299 | — | **299** | — | — | — | **—** |
| Share of retained profit | 33 | — | **33** | — | — | — | **—** |
| Disposals | (114) | — | **(114)** | — | — | — | **—** |
| Exchange adjustments | (25) | — | **(25)** | — | — | — | **—** |
| **At 31 March 2003** | **193** | **—** | **193** | **—** | **—** | **—** | **—** |
| **Net book value** | | | | | | | |
| **At 31 March 2003** | **232** | **123** | **355** | **25** | **18,116** | **85** | **18,226** |
| At 31 March 2002 | 417 | 209 | **626** | 28 | 24,733 | 174 | **24,935** |

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Joint ventures and associates | | Other investments | | Joint ventures and associates | | Other investments | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Investments at net book value** | | | | | | | | |
| Listed shares | **84** | 84 | **21** | 21 | **17** | 17 | **—** | 6 |
| Unlisted shares | **147** | 324 | **64** | 61 | **7** | 2 | **47** | 45 |
| Loans | **1** | 9 | **—** | — | **1** | 9 | **—** | — |
| Other | **—** | — | **—** | 4 | **—** | — | **—** | — |
| Listed ESOP shares (Note 24) | **—** | — | **38** | 123 | **—** | — | **38** | 123 |
| | **232** | 417 | **123** | 209 | **25** | 28 | **85** | 174 |

The market value of the Group's holdings in listed shares was £196 million (2002 – £215 million) for joint ventures and associates and £62 million (2002 – £24 million) for other investments. The market value of the Company's holdings in listed shares of joint ventures and associates was £196 million (2002 – £215 million) and £nil (2002 – £10 million) for other investments. The Group and Company's investment in listed ESOP shares has been written down to market value at 31 March 2003.

**Reconciliation of Group share of profits less (losses) of joint ventures and associates with post acquisition retained reserves**

| | Joint ventures | Associates | 2003 | Joint ventures | Associates | 2002 | Joint ventures | Associates | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Share of turnover | 195 | 65 | **260** | 285 | 65 | 350 | 333 | 61 | 394 |
| Operating costs | (142) | (43) | **(185)** | (190) | (45) | (235) | (236) | (44) | (280) |
| Operating profits less (losses) | 53 | 22 | **75** | 95 | 20 | 115 | 97 | 17 | 114 |
| Net interest | (2) | 1 | **(1)** | (12) | — | (12) | (2) | 2 | — |
| Share of profits less (losses) before tax | 51 | 23 | **74** | 83 | 20 | 103 | 95 | 19 | 114 |
| Taxation charge | (13) | — | **(13)** | (20) | — | (20) | (16) | (1) | (17) |
| Dividends paid to Group companies | (13) | (15) | **(28)** | (11) | (15) | (26) | (66) | (14) | (80) |
| Share of retained profits | 25 | 8 | **33** | 52 | 5 | 57 | 13 | 4 | 17 |

**Segmental analysis of Group share of turnover and operating profit/(losses) of joint ventures and associates**

| | Turnover | | | Operating profit/(loss) | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| | £m | £m | £m | £m | £m | £m |
| **Cable & Wireless Global** | | | | | | |
| Global Services | **6** | — | 33 | **—** | (6) | 11 |
| **Cable & Wireless Regional** | | | | | | |
| Caribbean | **111** | 109 | 87 | **35** | 35 | 32 |
| Asia | **52** | 75 | 55 | **13** | 17 | 5 |
| Other | **91** | 97 | 103 | **27** | 25 | 25 |
| Continuing operations | **260** | 281 | 278 | **75** | 71 | 73 |
| Discontinued operations | **—** | 69 | 116 | **—** | 44 | 41 |
| | **260** | 350 | 394 | **75** | 115 | 114 |

The Global Services category comprises businesses which provide services to multinational customers and consequently supply these services from many geographic locations.

**Group share of net assets of joint ventures and associates**

| | Joint ventures | Associates | 2003 | Joint ventures | Associates | 2002 |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Fixed assets | 177 | 67 | **244** | 282 | 73 | 355 |
| Current assets | 47 | 35 | **82** | 210 | 34 | 244 |
| Group share of gross assets | 224 | 102 | **326** | 492 | 107 | 599 |
| Current borrowings | (5) | — | **(5)** | (15) | (1) | (16) |
| Other current liabilities | (33) | (19) | **(52)** | (82) | (24) | (106) |
| Long term borrowings | (25) | — | **(25)** | (51) | (4) | (55) |
| Other long term liabilities | (13) | — | **(13)** | (14) | — | (14) |
| Group share of gross liabilities | (76) | (19) | **(95)** | (162) | (29) | (191) |
| Share of net assets | 148 | 83 | **231** | 330 | 78 | 408 |

**Segmental analysis of the Group share of net assets of joint ventures and associates**

| | Joint ventures | Associates | 2003 | Joint ventures | Associates | 2002 |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Cable & Wireless Global** | | | | | | |
| Global Services | — | — | — | 142 | — | 142 |
| **Cable & Wireless Regional** | | | | | | |
| Caribbean | 121 | — | **121** | 123 | — | 123 |
| Asia | — | — | — | 41 | — | 41 |
| Other | 27 | 83 | **110** | 24 | 78 | 102 |
| | 148 | 83 | **231** | 330 | 78 | 408 |

## 18. Stocks

Stocks comprise network equipment and items held for resale.

## 19. Current asset investments

Current asset investments comprise a listed investment in PCCW with a book value and market value at 31 March 2003 of £235 million (Company – £nil) and £11 million of gilts (Company – £11 million).

The Ordinary shares in PCCW form the exchange property in respect of the zero coupon exchangeable bonds due 2003 as detailed in Note 26.

## 20. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | £m | £m | £m | £m |
| **Amounts falling due within one year** | | | | |
| Trade debtors | **962** | 1,505 | **3** | 3 |
| Amounts owed by subsidiary undertakings | **—** | — | **82** | 97 |
| Amounts owed by joint ventures and associates | **8** | 5 | **5** | 4 |
| Other taxation and social security | **11** | — | **—** | — |
| Other debtors | **229** | 589 | **58** | 370 |
| Prepayments and accrued income | **241** | 275 | **6** | 6 |
| Lease payments receivable | **4** | — | **—** | — |
| | **1,455** | 2,374 | **154** | 480 |
| **Amounts falling due after more than one year** | | | | |
| Other taxation and social security | **16** | — | **—** | — |
| Other debtors | **45** | 50 | **—** | 1 |
| Prepayments and accrued income | **101** | 99 | **90** | 72 |
| Lease payments receivable | **4** | 15 | **—** | — |
| | **166** | 164 | **90** | 73 |
| **Total debtors** | **1,621** | 2,538 | **244** | 553 |

## 21. Short term deposits and cash at bank and in hand

Of the total amounts shown, £49 million (2002 – £45 million) is held in countries subject to exchange regulations which may delay repatriation.

On 13 January 2003, the Company paid £1.5 billion into escrow in respect of the disposal of One2One in 1999. Following the agreement reached with the Inland Revenue on 25th March, 2003 to settle the Group's outstanding UK corporation tax affairs for the 10 years to 31 March 2001, the monies held in escrow were released by 31st March, 2003 and the funds received on 1 April 2003.

## 22. Creditors

| Amounts falling due within one year | Group 2003 | Group 2002 | Company 2003 | Company 2002 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Loans and obligations under finance leases** | | | | |
| Bank loans and overdrafts | **2** | 11 | — | — |
| Current instalments due on loans | **810** | 204 | 716 | — |
| Obligations under finance leases | **13** | 22 | — | — |
| | **825** | 237 | 716 | — |
| **Other creditors** | | | | |
| Payments received on account | **16** | 10 | — | — |
| Trade creditors | **846** | 1,161 | — | — |
| Amounts owed to subsidiary undertakings | **—** | — | 51 | 68 |
| Amounts owed to associates and joint ventures | **—** | 131 | — | 14 |
| Dividends payable | **—** | 83 | — | 83 |
| Other taxation and social security | **286** | 326 | 131 | 156 |
| Other creditors | **445** | 724 | 135 | 544 |
| Accruals and deferred income | **857** | 1,299 | 99 | 113 |
| | **2,450** | 3,734 | 416 | 978 |
| **Total creditors falling due within one year** | **3,275** | 3,971 | 1,132 | 978 |

| Amounts falling due after more than one year | Group 2003 | Group 2002 | Company 2003 | Company 2002 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Other loans** | | | | |
| Sterling repayable at various dates up to 2019 | **786** | 636 | 586 | 349 |
| US dollars repayable at various dates up to 2038* | **666** | 1,417 | 449 | 1,187 |
| Other currencies repayable at various dates up to 2017 | **74** | 159 | — | — |
| | **1,526** | 2,212 | 1,035 | 1,536 |
| Less: Current instalments due | **(810)** | (204) | (716) | — |
| | **716** | 2,008 | 319 | 1,536 |
| Obligations under finance leases | **5** | 14 | — | — |
| Total other loans and obligations under finance leases | **721** | 2,022 | 319 | 1,536 |
| **Other creditors** | | | | |
| Other taxation and social security | **74** | — | 74 | — |
| Amounts owed to subsidiary undertakings | **—** | — | 16,089 | 13,729 |
| Other creditors | **11** | 3 | — | — |
| Accruals and deferred income | **1** | 6 | — | — |
| | **86** | 9 | 16,163 | 13,729 |
| **Total creditors falling due after more than one year** | **807** | 2,031 | 16,482 | 15,265 |

* Includes the zero coupon exchangeable bonds due 2003, which are exchangeable into ordinary shares of PCCW as detailed in Note 26.

The Articles of Association of the Company permit borrowing up to two and a half times the capital and reserves of the Group.

| | Group 2003 | Group 2002 | Company 2003 | Company 2002 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Payment profile of total other loans and obligations under finance leases** | | | | |
| In more than one year but not more than two years | **56** | 1,295 | **—** | 1,217 |
| In more than two years but not more than five years | **226** | 276 | **121** | 121 |
| In more than five years | **439** | 451 | **198** | 198 |
| | **721** | 2,022 | **319** | 1,536 |

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.

Borrowings totalling £26 million are secured on assets of the Group (2002 – £32 million).

## 23. Provisions for liabilities and charges

| | Note | At 1 April 2002 | Additions/ (releases) | Amounts used | Foreign exchange and other movements | At 31 March 2003 |
|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m |
| **Group** | | | | | | |
| Taxation, including deferred taxation | (i) | 493 | (31) | (380) | (15) | **67** |
| Pensions | (ii) | 36 | 9 | (5) | (1) | **39** |
| Redundancy | (iii) | 15 | 108 | (79) | — | **44** |
| Property | (iv) | 216 | 303 | (97) | (17) | **405** |
| Network | (v) | 60 | 159 | (34) | (3) | **182** |
| Other | (vi) | 18 | 75 | (67) | (3) | **23** |
| | | **838** | **623** | **(662)** | **(39)** | **760** |

| | Note | At 1 April 2002 | Additions | Amounts Used | At 31 March 2003 |
|---|---|---|---|---|---|
| | | £m | £m | £m | £m |
| **Company** | | | | | |
| Taxation, including deferred taxation | (i) | 203 | (5) | (197) | **1** |
| Pensions | (ii) | 14 | 4 | — | **18** |
| | | **217** | **(1)** | **(197)** | **19** |

### *(i) Taxation, including deferred taxation*

The movement in the Group deferred tax balance from £105 million to £67 million (Company – £6 million to £1 million) during the year comprises £31 million credited in the profit and loss account (Company: £5 million) and £7 million relating to exchange and other movements (Company – £nil). The total deferred tax balance relates to excess capital allowances. The movement in the Group's other tax provisions from £388 million to £nil (Company – £197 million to £nil) comprises utilisation of £380 million in respect of the tax settlement (Company – £197 million) and £8 million (Company – £nil) relating to exchange and other movements.

The deferred tax liability does not include an amount of £24 million (2002 – £58 million) of contingent tax liability arising on the reserves of overseas subsidiaries, joint ventures and associates which the Group does not expect to remit to the United Kingdom.

As at 31 March 2003, the Group had tax losses to carry forward of approximately £6,860 million (2002 – £2,588 million) against which no deferred tax asset has been recognised. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### *(ii) Pensions*

The Group operates various unfunded pension plans. Provision is made for the expected cost of meeting the associated liabilities. In view of their long term nature, the timing of utilisation of these provisions is uncertain. Included within this provision is an amount of £4.7 million (2002 – £6.4 million) to cover the cost of former Directors' pension entitlements.

### *(iii) Redundancy*

Provision has been made for the cost of redundancies announced during the year which are expected to be utilised within 12 months.

### *(iv) Property*

Provision has been made for the best estimate of the unavoidable lease payments on vacant properties, being the difference between the rentals due and any income expected to be derived from their being sub-let. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life. Provision has also been made for the difference between rentals on properties relating to businesses acquired during the previous financial year and their fair value at the date of acquisition. The provision is being utilised over the lease contract life.

*(v) Network*

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

*(vi) Other*

Other provisions include £13 million relating to the disposal of the US discontinued businesses. It is expected that this provision will be utilised within 12 months. Other provisions also include £9 million relating to specific claims held against the Group's insurance subsidiary.

## 24. Called up share capital

| | 2003 | 2002 |
|---|---|---|
| **Authorised** | | |
| 3,500,000,000 Ordinary Shares of 25p each (2002 – 3,499,999,996 Ordinary Shares of 25p each) | **£875m** | £875m |
| Special Rights Preference Share of £1 | — | £ 1 |
| **Allotted, called up and fully paid** | | |
| 2,383,124,694 Ordinary Shares of 25p each (2002 – 2,382,124,684 Ordinary Shares of 25p each) | **£596m** | £595m |

A proposal to re-designate the Special Rights Preference Share into four Ordinary Shares of 25p nominal value each was approved at the Annual General Meeting held on 12 July 2002. As a consequence the Company's authorised share capital now comprises 3,500,000,000 Ordinary Shares of 25p each.

Purchases and allotments of Ordinary Shares of 25p each were made during the year in respect of the following:

| | Number of shares allotted | Gross consideration received £ |
|---|---|---|
| C&W Senior Employees' Share Option Scheme | 1 | 12 |
| C&W Revenue Approved Share Option Scheme | 9 | 47 |
| Allotment of shares to Director | 1,000,000 | 570,000 |
| | 1,000,010 | 570,059 |

At 31 March 2003 outstanding options granted under share option schemes to subscribe for Ordinary Shares were as follows:

| | Number of shares | Price | Remaining period |
|---|---|---|---|
| C&W Senior Employees' Share Option Scheme (SESOS) . . . | 428,994 | 420.5p | 2003 |
| | 1,483,726 | 472.4 to 553.3p | 2003-2004 |
| | 787,953 | 537.2 to 716.3p | 2003-2005 |
| | 3,683,191 | 722.3 to 982.0p | 2003-2006 |
| | 11,315,017 | 885.7 to 1311.9p | 2003-2007 |
| | 1,079,975 | 760.9 to 856.27p | 2004-2008 |
| | 910,941 | 470.6 to 545.22p | 2004-2008 |
| C&W Savings Related Share Option Schemes (SAYE) . . . . . | 70,677 | 358.16p | 2003 |
| | 136,549 | 336.4 to 376.56p | 2003-2004 |
| | 115,114 | 394.48 to 427.84p | 2003-2005 |
| | 321,643 | 533.68 to 558.64p | 2003-2006 |
| | 92,839 | 625.36p | 2003-2007 |
| | 159,635 | 687.68p | 2003-2007 |
| | 61,359 | 985.92p | 2003-2008 |
| | 89,394 | 761.76p | 2004-2008 |
| | 635,743 | 357.92p | 2004-2009 |
| | 530,100 | 274.64p | 2005-2009 |
| | 1,962,593 | 158.36p | 2005-2009* |
| | 23,453,884 | 36.96p | 2006-2010* |
| C&W Revenue Approved Share Option Scheme (RESOS). . . | 314,701 | 338.04 to 397.7p | 2003 |
| | 321,289 | 446.5p | 2003-2004 |
| | 382,536 | 413.7p | 2003-2005 |
| | 358,447 | 420.5p | 2003-2006 |
| | 722,616 | 478.5 to 553.3p | 2003-2007 |
| | 179,082 | 704.6p | 2003-2008 |
| | 779,732 | 722.3 to 982.0p | 2003-2009 |
| | 7,560,683 | 907.8 to 1311.9p | 2003-2010 |
| | 360,225 | 760.9p | 2004-2011 |
| | 58,040 | 470.6p | 2004-2011 |
| C&W Share Option Plan (Approved and Unapproved) . . . . . | 70,591,987 | 219.70 to 415.69p | 2003-2009 |
| | 30,905,617 | 158.6875 to 262.0p | 2003-2009* |
| C&W Global Savings Related Share Option Scheme (GSAYE) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 276,858 | 546.72p | 2003-2005 |
| | 564,994 | 625.36 to 687.68p | 2003-2007 |
| | 65,630 | 893.76 to 1110.38p | 2003-2008 |
| | 143,480 | 761.76p | 2004-2006 |
| | 2,282,827 | 229.92 to 777.20p | 2004-2007 |
| | 820,321 | 135.86 to 203.02p | 2005-2008* |
| | 1,078,398 | 109.76p | 2005-2008* |
| | 8,012,778 | 36.96p | 2006-2010* |

At 31 March 2003 outstanding options for American Depositary Receipts (ADRs) under the Cable & Wireless Employee Stock Purchase Plan are as follows:

| | Number of ADRs | Price US$ | Normal dates of exercise |
|---|---|---|---|
| C&W Employee Stock Purchase Plan . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 90,723 | 5.14 | 30/09/03* |
| | 131,511 | 2.95 | 31/03/04* |

* Granted during the year ended 31 March 2003.

### The Employee Share Ownership Plan Trust

The Employee Share Ownership Plan Trust (the Trust) is a discretionary trust which has been funded by loans from the Company to acquire shares in Cable and Wireless plc. The Trust held 54,738,313 shares (2002 – 38,862,510 shares) valued at £38 million (2002 – £87 million) on 31 March 2003. The cost of running the Trust is included in the profit and loss account. The Trustees of the plan may notionally allocate Ordinary Shares in the Company annually to Executive Directors or other senior executives and other key staff. Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the Performance Share

Plan, the Restricted Share Plan, the Deferred Short Term Incentive Plan, details of which are given in the Directors' Remuneration Report, and the Share Option Plan, details of which are given below. The shares will be provided from existing Ordinary Shares in issue acquired by the Trustees. The expected cost of all these shares is charged to the profit and loss account over the life of the relevant scheme. Surplus shares may be held to satisfy future awards. The Trust has waived its rights to dividends. At 31 March 2003, there were 26,754 shares under options in relation to the Long Term Incentive Plan, 8,710,393 shares under contingent awards in relation to the Performance Share Plan, 763,283 shares under restricted share awards in relation to the Restricted Share Plan, 44,109 shares under the Deferred Short Term Incentive Plan and 76,210,041 shares under options in relation to the Share Option Plan.

**Cable & Wireless Savings Related Share Option Scheme and Cable & Wireless Global Savings Related Share Option Scheme**

Under the Cable & Wireless Savings Related Share Option Scheme (SAYE scheme), UK employees can enter a savings contract with a bank to save regular monthly sums of between £5 and £250 for a period of either three or five years. At the end of the savings contract, the participant receives interest from the bank on their savings. The savings and the interest may then be used to exercise an option over Ordinary Shares of the Company which are issued at a discount of 20 per cent. to the market value of the Company's Ordinary Shares at the date of grant. The Company has extended the SAYE scheme to its overseas employees by the Cable & Wireless Global Savings Related Share Option Scheme (GSAYE scheme). The GSAYE scheme is offered throughout the Group's territories (with the exception of the UK and US) and it operates along similar lines to the SAYE scheme with local variances to accommodate local legal and tax considerations.

The Group has taken advantage of the exemption contained in UITF Abstract 17 – 'Employee share schemes' not to recognise a charge to the profit and loss account in respect of its Inland Revenue approved SAYE scheme.

**Cable & Wireless Revenue Approved Share Option Scheme**

Prior to July 2001, Cable & Wireless granted share options under the Cable & Wireless Revenue Approved Share Option Scheme (RESOS). Options awarded under this plan between June 1999 and July 2001 are subject to performance based conditions based on Cable & Wireless' Total Shareholder Return (TSR) performance relative to the FTSE 100 Index, underpinned by real growth in earnings before interest, tax, depreciation and amortisation and turnover. For full vesting, Cable & Wireless' TSR must achieve at least upper quartile level against the FTSE 100 between the third and fifth anniversaries of the date of grant. Half vesting applies for TSR at the median level, with a sliding scale between median and upper quartiles. If the performance conditions are not met by the fifth anniversary of the date of grant, the options lapse. As at the date of this report, no such options have achieved their performance conditions.

Options granted under RESOS before June 1999 became exercisable if growth in Company's published earnings per share (excluding exceptional items) measured over any period of three consecutive financial years, commencing not earlier than the financial year in which the option was granted, exceeded by not less than 6 per cent. the percentage growth of the Retail Price Index over the same three year period. All such options became exercisable in full. No further grants will be made under the RESOS plan.

**Cable & Wireless Share Option Plan**

The Share Option Plan is the principal vehicle for long-term retention and incentivisation for the Executive Directors, other executives and key staff. The level of any award is determined by the Remuneration Committee each year by reference to total remuneration within a market peer group, subject to an overriding annual limit of six times salary for the Chief Executive and four times salary for other Executive Directors.

The vesting of share options awarded to the Executive Directors and to all employees outside the United States is subject to relative TSR performance conditions. Full vesting occurs only if the TSR performance of the Company meets or exceeds the upper quartile between the third and fifth anniversaries of the date of grant. Where TSR performance meets the median, 50 per cent. of the initial award vests. A sliding scale operates between median and upper quartile, and nothing vests for TSR performance below the median. If performance conditions have not been met by the fifth anniversary of the date of grant, the options lapse.

Performance conditions are applied in determining the level of awards to employees in the United States, but do not normally apply to the vesting of such awards. In addition, 25 per cent. of awards to employees in the United States vest on the first anniversary of the date of the grant with a further 25 per cent. on each subsequent anniversary. These terms reflect normal practice in the United States.

### Cable & Wireless Employee Stock Purchase Plan (ESPP)

The Company also offers employees of its US subsidiaries the Cable & Wireless Employee Stock Purchase Plan (ESPP) which is a section 423 qualified plan under the US Internal Revenue Code 1986. Under the Plan, employees can save over a one year period sums of between US$10 and US$800 per payroll payment. At the end of each period the employees have the option to purchase ADRs in the Company at a 15 per cent. discount to the market price of an ADR at the date of grant. Each ADR represents three Ordinary Shares in the Company.

### Cable & Wireless Share Purchase Plan

The Company also offers its employees who are chargeable to income tax, under Section 15 Income Tax (Earnings and Pensions) Act 2003, the Cable & Wireless Share Purchase Plan (the Plan) which is a Revenue Approved Share Incentive Plan. Under the Plan, employees can contribute between £5 and £125 per month, or 10 per cent. of pre tax salary each month, whichever is the lower, to buy partnership shares in the Company. Shares are held in a UK resident trust and can be withdrawn from the trust at any time, but there may be pay as you earn taxation and national insurance contributions payable in such events if the shares have not been held in the trust for five years. Dividends on the partnership shares are re-invested in additional Dividend Shares.

## 25. Reserves

| | Group | | |
|---|---|---|---|
| | Share premium | Capital redemption reserve | Profit and loss account |
| | £m | £m | £m |
| At 1 April 2002 after prior year adjustment | 1,745 | 105 | 6,513 |
| Exchange adjustments | — | — | (240) |
| Loss for the year retained | — | — | (6,570) |
| **At 31 March 2003** | 1,745 | 105 | (297) |

| | Company | | | |
|---|---|---|---|---|
| | Share premium | Revaluation reserve | Capital redemption reserve | Profit and loss account |
| | £m | £m | £m | £m |
| At 1 April 2002 | 1,745 | 9,156 | 105 | (512) |
| Revaluation | — | 223 | — | — |
| Exchange adjustments | — | — | — | 17 |
| Loss for the year retained | — | — | — | (7,676) |
| **At 31 March 2003** | **1,745** | **9,379** | **105** | **(8,171)** |

The Company profit and loss account includes a net unrealised loss of £11,141 million (2002 – £3,626 million) in respect of impairments to investments in subsidiary undertakings.

The Company carries investments in subsidiary undertakings at valuation. Provisions for impairment have been made in respect of some of the Company's investments in subsidiary undertakings.

The Directors have considered the value of the Company's other fixed assets and are satisfied that the aggregate value of those assets which have not actually been revalued was not less than the aggregate amount at which they are stated in the Company's accounts. Thus, under section 275(6) of the Companies Act 1985 the 'relevant items' (as mentioned in section 270(2) of the Act) are accordingly regarded as stated in the Company's accounts on the basis that a revaluation of all of the Company's fixed assets took place at that time. Consequently, the provisions for impairment are deemed by section 275 of the Companies Act 1985 to be an unrealised loss.

Exchange adjustments in the Group are net of exchange profits of £20 million (2002 – £27 million, 2001 – losses of £39 million) on foreign currency borrowings. The cumulative amount of goodwill charged to reserves in prior years as a result of acquisitions, net of goodwill written back through the profit and loss account and statement of total recognised gains and losses, amounted to £475 million (2002 – £475 million, 2001 – £885 million). Of this amount £441 million (2002 – £441 million, 2001 – £441 million) related to joint ventures and associates.

## 26. Financial instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to financial instruments is set out under "Operating and Financial Review – Liquidity and Capital Resources – Treasury policy" above.

For the purpose of the disclosures which follow in this note, short term debtors and creditors which arise directly from the Group's operations have been excluded from financial assets and liabilities as permitted under Financial Reporting Standard 13 – 'Derivatives and other financial instruments: disclosures' except for currency risk disclosures. The disclosures therefore focus on those financial instruments which play a significant medium to long term role in the financial risk profile of the Group. An analysis of the carrying value of all financial assets and liabilities is given in the fair value table on page F-37.

### *Interest rate management*

The interest rate profile of the financial liabilities of the Group at 31 March 2003, after taking account of interest rate swaps and cross currency interest rate swaps, is set out in the table below:

| Currency | Floating rate | Fixed rate | Non-interest bearing | 2003 | Floating rate | Fixed rate | Non-interest bearing | 2002 |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Sterling | 121 | 667 | — | **788** | 219 | 428 | — | 647 |
| US$ | 104 | 119 | 449 | **672** | 122 | 408 | 914 | 1,444 |
| Yen | — | 74 | — | **74** | 13 | 147 | — | 160 |
| Other | 7 | 5 | — | **12** | 1 | 7 | — | 8 |
| | 232 | 865 | 449 | **1,546** | 355 | 990 | 914 | 2,259 |

The floating rate financial liabilities comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from one week to six months by reference to LIBOR for sterling and US dollar borrowings.

The non-interest bearing financial liabilities comprise £449 million (2002 – £914 million) of the zero coupon exchangeable bonds, which are exchangeable into ordinary shares of PCCW. The bonds were issued on 9 April 2001 at 100 per cent. of their US$1,504 million principal amount. During the year the Group purchased US$600 million (2002 – US$200 million) of the principal amount of the bonds at a discount to their face value. This resulted in a gain of US$15 million (£10 million), (2002 – US$10 million (£7 million)) which is recognised in the current year profit and loss account in full. Subject to the conditions of the bonds, the bondholders had the option to exchange the bonds into ordinary shares of PCCW at any time prior to the close of business on 2 June 2003. The Company had the option to redeem the bonds at their principal amount provided that the market value of the ordinary shares of PCCW on such dealing day is greater than 120 per cent. of the aggregate principal amount of the outstanding bonds on each of 15 of any 20 consecutive dealing days. Unless previously purchased or redeemed (on exchange or otherwise), the bonds will be redeemed at their principal amount on 9 June 2003.

The Group has a net asset of £4 million (2002 – £1 million net liability) resulting from the fair value of forward exchange contracts entered into before 31 March 2003. This has been excluded from the preceding table.

The weighted average interest rates for the fixed rate financial liabilities of the Group at 31 March 2003, together with the periods for which the rates were fixed, are set out in the table below:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| Currency | Weighted average interest rate % | Weighted average period for which rate is fixed Months | Weighted average interest rate % | Weighted average period for which rate is fixed Months |
| Sterling | **7.9** | 95 | 8.6 | 154 |
| US$ | **5.4** | 82 | 6.2 | 42 |
| Yen | **3.7** | 62 | 2.6 | 58 |
| Other | **10.9** | 114 | 10.9 | 121 |
| | **7.3** | 91 | 6.7 | 94 |

The interest and other similar income rate profile of the financial assets of the Group at 31 March 2003, after taking account of interest rate swaps, is set out in the table below:

| Currency | Floating rate | Non-interest bearing | 2003 | Floating rate | Non-interest bearing | 2002 |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Sterling | 2,404 | 87 | **2,491** | 3,575 | 176 | 3,751 |
| US$ | 623 | 11 | **634** | 1,077 | 17 | 1,094 |
| Yen | 12 | 1 | **13** | 22 | 8 | 30 |
| HK$ | 1 | 254 | **255** | 2 | 546 | 548 |
| Other | 125 | 5 | **130** | 212 | 8 | 220 |
| | 3,165 | 358 | **3,523** | 4,888 | 755 | 5,643 |

The floating rate financial assets principally comprise cash and short term deposits. Of the total, approximately 90 per cent. is held by the Group's central treasury operations as sterling and US dollar cash deposits with short term maturities based on LIBOR and maturities ranging between one and 12 months.

At 31 March 2003, the Group had no financial assets upon which fixed income was earned during that year. The non-interest bearing financial assets are held in the form of shares.

During the year the Company purchased £75 million of credit linked notes issued by an AA-rated bank and referenced to the £200 million bond maturing in 2012. Two notes of £25 million and £50 million were purchased with maturities of September 2003 and July 2004 respectively. The transactions have a similar economic effect to repurchasing the referenced bonds for the period of the investment. The notes pay interest at an average rate of LIBOR plus 151 basis points.

In return for receiving interest on the credit linked notes at rates in excess of LIBOR the final redemption to be received by the Company is determined by certain circumstances related to the credit risk of the Company. These circumstances arise if there has been a 'credit event' as defined in the terms of the note, in which case the counterparties may redeem the notes at less than par value. A credit event arises in the event of any of the following circumstances in respect of Cable and Wireless plc only:

– bankruptcy;

– failure to make any payment due under any of its debt obligations, after expiration of any grace period and subject to a threshold of £25 million; and

– restructuring of any of its debt subject to a threshold of £25 million.

If a credit event should take place, the credit linked note is unlikely to be redeemed for cash. Instead the Company is likely to receive its own bonds or debt obligations with a par value equivalent to that of the credit linked notes in settlement of redemption of the note.

***Exchange risk management***

The following table shows the Group's currency exposures at 31 March 2003 on currency transactions that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas companies.

| | Net foreign currency monetary assets/(liabilities) in £m | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | | | | 2002 | | | | |
| Functional currency of the operating company | US$ | Sterling | Euros | Other | Total | US$ | Sterling | Euros | Other | Total |
| Sterling | 20 | — | 2 | 2 | **24** | 54 | — | 7 | 5 | 66 |
| Yen | (12) | — | — | (3) | **(15)** | (14) | — | — | (7) | (21) |
| HK$ | 3 | 3 | — | — | **6** | 3 | — | — | — | 3 |
| Euros | (1) | (4) | — | 1 | **(4)** | (4) | 1 | — | — | (3) |
| Other | (26) | 10 | (3) | 9 | **(10)** | (169) | 3 | (6) | 11 | (161) |
| | (16) | 9 | (1) | 9 | **1** | (130) | 4 | 1 | 9 | (116) |

The amounts shown in the table above take into account the effect of any cross currency swaps, forward exchange contracts and other derivatives entered into to manage these currency exposures.

***Maturity of financial liabilities***

The maturity profiles of the Group's financial liabilities, as listed in the fair value table below, are disclosed in Note 22.

***Borrowing facilities***

The undrawn committed facilities available at 31 March 2003, in respect of which all conditions precedent had been met at that date, were as follows:

| | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Expiring within one year | **30** | 90 |
| Expiring in year two | **—** | 30 |
| | **30** | 120 |

***Fair value***

The estimated fair value of the Group's financial instruments are summarised below:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Carrying amount | Estimated fair value | Carrying amount | Estimated fair value |
| | £m | £m | £m | £m |
| **Primary financial instruments held or issued to finance the Group's operations** | | | | |
| Trade investments | **85** | **126** | 86 | 86 |
| Cash | **196** | **196** | 216 | 216 |
| Short term deposits | **2,958** | **2,958** | 4,063 | 4,063 |
| Current asset investments | **246** | **246** | 1,155 | 1,196 |
| Net investment in finance lease receivables | **—** | **—** | 15 | 15 |
| Loans and obligations under finance leases due within one year | **(376)** | **(378)** | (237) | (237) |
| Convertible bonds | **(449)** | **(447)** | (914) | (882) |
| Other loans and obligations under finance leases due after more than one year | **(721)** | **(681)** | (1,108) | (1,148) |
| Other creditors falling due after more than one year | **(86)** | **(86)** | (9) | (9) |
| **Derivative financial instruments held to manage interest rate and currency exposure** | | | | |
| Forward rate agreements, interest rate swaps – assets | **—** | **3** | — | 21 |
| – (liabilities) | **—** | **(1)** | — | (3) |
| Cross currency swaps – assets | **1** | **1** | 35 | 35 |
| – (liabilities) | **(16)** | **(16)** | (26) | (28) |
| Forward exchange contracts | **7** | **4** | (1) | (1) |

*Trade investments*

Trade investments above are detailed in Note 17 but exclude ESOP shares carried at £38 million (2002 – £123 million) with a fair value of £38 million (2002 – £87 million). The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

*Cash at bank and in hand, short term deposits and short term borrowings*

The carrying value approximates to fair value either because of the short maturity of the instruments or because the interest rate on investments is reset after periods not greater than six months.

*Current asset investments*

The fair value is based on market value or estimates of likely sales proceeds.

*Convertible bonds and other long term debt*

The fair value is based on quoted market prices or, where these are not available, on the quoted market prices of comparable debt issued by other companies.

*Forward rate agreements, interest rate and cross currency swaps*

The fair value of forward rate agreements, interest rate and cross currency swaps is the estimated amount which the Group would expect to pay or receive were it to terminate the swaps at the balance sheet date. This takes into consideration current interest rates, current exchange rates and the current creditworthiness of the counterparties. The nominal value of swaps at 31 March 2003 was £2,146 million (2002 – £5,206 million).

*Forward exchange contracts*

The value of these contracts is the estimated amount which the Group would expect to pay or receive on the termination of the contracts. This takes into consideration current interest rates and current exchange rates. At 31 March 2003 the Group had £406 million of such contracts outstanding (2002 – £107 million).

***Hedges***

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging (excluding hedges that have been accounted for by adjusting the carrying value of a fixed asset recognised on the balance sheet), and on the underlying asset or liability, are as follows:

| | Gains | (Losses) | Net gains/ (losses) |
|---|---|---|---|
| | £m | £m | £m |
| **Unrecognised gains and losses on hedges** | | | |
| At 1 April 2002 | 88 | (72) | 16 |
| Recognised during the year | (53) | 4 | (49) |
| Arising in the year that were not recognised during the year | (32) | 64 | 32 |
| **At 31 March 2003** | **3** | **(4)** | **(1)** |
| Of which: | | | |
| Expected to be recognised in less than one year | 3 | (3) | — |
| Expected to be recognised in after more than one year | — | (1) | (1) |

The above net unrecognised loss is a reflection of different market interest rates ruling at 31 March 2003.

## 27. Commitments and contingent liabilities

***Commitments***

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | £m | £m | £m | £m |
| Contracted | **135** | 367 | — | — |

The Group figures above exclude amounts payable for certain network assets to be ordered by August 2005 under a take or pay contract. During the year this contract was re-negotiated. The £16 million committed and payable under the amended contract has been provided for as at 31 March 2003.

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

***Contingent liabilities***

Contingent liabilities at the end of the financial year for which no provision or disclosure has been made elsewhere in the financial statements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| | **£m** | **£m** | **£m** | **£m** |
| Trading guarantees | **181** | 154 | **181** | 154 |
| Other guarantees | **—** | — | **489** | 547 |
| | **181** | 154 | **670** | 701 |

Upon re-examination of the Group's trading guarantees the comparative for 2002 has been amended to £154 million.

Trading guarantees principally comprise performance bonds or contracts issued in the normal course of business guaranteeing the Group will meet its obligations to complete projects in accordance with the contractual terms and conditions. The guarantees also enable the customer to obtain repayment of any advance payment in the event of the relevant subsidiary failing to carry out its contractual obligations in full. Some of these guarantees are uncapped.

The nature of contracts includes projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

Other guarantees include guarantees in respect of the financial obligations of subsidiary undertakings principally in respect of leases, borrowings and letters of credit.

Pender Insurance Limited ('Pender'), the Group's Isle of Man insurance subsidiary, has written policies in favour of the Group and third parties. Significant insurance claims have been made against Pender under certain of these third party policies. Pender is currently taking legal advice and it intends to defend vigorously these claims, and has notified its reinsurers where appropriate. The Board of Pender, in accordance with Financial Reporting Standard 12 "Provisions, contingent liabilities and contingent assets" determined that no provision was required in its financial statements for these claims for the year ended 31 March 2003. As certain of the insurance claims have not yet been fully quantified or substantiated by the claimants, it is not currently practicable to estimate their financial effects. Since 31 March 2003, Pender has ceased to write third party insurance.

***Other matters***

In addition the Company has, as is considered standard practice in such agreements, given guarantees and indemnities in relation to a number of disposals of subsidiary undertakings in prior years. Generally, liability has been capped at no more than the value of the sales proceeds, although some uncapped indemnities have been given.

In relation to the sale of CWC ConsumerCo, the Company gave a number of standard warranties and indemnities. There is no time limit or cap that applies generally. The Company also gave warranties and indemnities in relation to facility sharing agreements.

The Directors do not expect any of these guarantees to result in a material loss to the Group or Company.

## 28. Leases

Group operating lease commitments payable in the following year, analysed according to the period in which each lease expires are as set out below. The comparative disclosure has been adjusted following the announcement on 13 November 2002 of the Group's interim results that included additional information in respect of the Group's estimated property and other lease commitments.

| | Land and buildings | | Other assets | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| | **£m** | **£m** | **£m** | **£m** |
| Expiring within one year | **17** | 4 | **49** | 72 |
| Expiring in years two to five | **44** | 37 | **34** | 34 |
| Expiring thereafter | **97** | 111 | **23** | 24 |
| | **158** | 152 | **106** | 130 |

The Company had no operating lease commitments payable (2002 – £nil).

## 29. Reconciliation of Group operating loss to net cash inflow from operating activities

| For the year ended 31 March | 2003 | 2002 | 2001 |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Group operating loss | **(6,075)** | (5,025) | (382) |
| Add back non-cash items: | | | |
| Depreciation and amortisation (before exceptional items) | **861** | 1,634 | 1,595 |
| Exceptional non-cash items (Note 10) | **5,446** | 3,916 | 444 |
| Other non-cash items | **27** | 197 | 35 |
| Decrease/(increase) in stocks | **33** | (90) | (37) |
| Decrease/(increase) in debtors | **882** | (182) | (531) |
| (Decrease)/increase in creditors | **(893)** | (156) | 389 |
| Fundamental reorganisation costs | **(89)** | (133) | (186) |
| Net cash outflow in respect of provisions | **(97)** | (67) | (40) |
| Net cash inflow from operating activities | **95** | 94 | 1,287 |

## 30. Reconciliation of net cash flow to movement in net funds/(debt)

| For the year ended 31 March | 2003 | 2002 | 2001 |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| (Decrease)/increase in cash in the year | **(2,120)** | 1,635 | 423 |
| Cash outflow/(inflow) resulting from (increase)/decrease in debt and lease financing | **581** | (538) | 984 |
| Cash outflow/(inflow) resulting from increase/(decrease) in liquid resources (Note 32) | **1,040** | (2,586) | (129) |
| (Decrease)/increase in net debt resulting from cash flows | **(499)** | (1,489) | 1,278 |
| Conversion of unsecured loan stock | **—** | — | 37 |
| Borrowings of businesses acquired and disposed | **—** | 1,239 | 2,044 |
| Translation and other differences | **87** | (22) | 190 |
| Movement in net debt in the year | **(412)** | (272) | 3,549 |
| Net funds/(debt) at 1 April | **2,020** | 2,292 | (1,257) |
| Net funds at 31 March | **1,608** | 2,020 | 2,292 |

## 31. Analysis of changes in net funds/(debt)

| | At 1 April 2002 | Cash flow | Exchange movements | At 31 March 2003 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Cash at bank and in hand | 216 | (7) | (13) | **196** |
| Short term deposits repayable on demand | 2,240 | (2,121) | 21 | **140** |
| Bank overdrafts | (11) | 8 | 1 | **(2)** |
| | 2,445 | (2,120) | 9 | **334** |
| Liquid resources (Note 32) | 1,823 | 1,040 | (45) | **2,818** |
| Debt due within 1 year | (226) | (707) | 110 | **(823)** |
| Debt due after 1 year | (2,022) | 1,288 | 13 | **(721)** |
| Total debt | (2,248) | 581 | 123 | **(1,544)** |
| Total net funds | 2,020 | (499) | 87 | **1,608** |

## 32. Liquid resources

Liquid resources comprise short term deposits which are readily convertible into known amounts of cash at or close to their carrying value.

Included within liquid resources are amounts totalling £48 million (2002 – £47 million) held by the Group's insurance subsidiary. These assets are actively managed to meet insurance liabilities. These assets are required to meet insurance solvency requirements and, as a result, are not all readily available for the general purposes of the Group. Other short term deposits typically include bank deposits, excluding those which are repayable on demand, commercial paper and government securities. These deposits have short maturities and a high turnover arising from rollover as part of the Group's treasury management activities.

## 33. Related party transactions

***Transactions with joint ventures and associates***

All transactions with joint ventures and associates arise in the normal course of business. The aggregate transactions recorded by the Group with joint ventures and associates, which are considered to be material and which have not been disclosed elsewhere in the financial statements, are summarised below:

| For the year ended 31 March | 2003 | 2002 |
|---|---|---|
| | £m | £m |
| Turnover | **2** | 7 |
| Outpayments | **4** | 6 |
| Other operating expenses payable | **—** | 2 |
| Dividends received | **28** | 26 |
| Purchase of fixed assets | **—** | 4 |

Amounts owed by joint ventures and associates and owed to joint ventures and associates are set out in Notes 20 and 22 respectively.

***Transactions with Directors***

There were no material transactions with Directors, except for those relating to remuneration and shareholdings disclosed in the Directors' Remuneration Report set out in the Issuer's 2003 Annual Report.

## 34. Legal Proceedings

***Class action litigation against Cable and Wireless plc***

Between December 2002 and February 2003, ten shareholder class action lawsuits were filed in the United States District Court for the Eastern District of Virginia naming Cable and Wireless plc and several of its officers and directors as defendants.

In March 2003, the court consolidated all of the cases into one action, styled as In re Cable and Wireless plc Securities Litigation, Civil Action No. 02-1860-A. The Court has appointed Ontario Teachers' Pension Plan Board, an institutional investor located in Canada, and Alex Osinski, a U.S. citizen, as co-lead plaintiffs (collectively 'lead plaintiffs') to prosecute on behalf of all plaintiffs.

In May 2003, the lead plaintiffs filed a consolidated complaint that alleges violations of certain sections of the Securities and Exchange Act of 1934 and the rules promulgated thereunder. A central allegation is that the defendants made false and misleading statements about the Company's financial condition by failing to disclose on a timely basis the existence of a tax indemnity and a ratings trigger to place money in escrow until any liability which the Company may have had under the tax indemnity was finally determined. The indemnity and ratings trigger appear in an agreement between the Company and Deutsche Telekom for the sale of the Company's interest in the mobile telephone company that operated under the name One2One.

In addition to the allegations relating to the tax indemnity, the consolidated complaint also alleges that the defendants made false and misleading statements by: (1) failing to disclose certain lease liability commitments and (2) improperly recognising revenue received from sales of capacity to other carriers.

The plaintiffs seek unspecified money damages in their complaints.

Cable & Wireless believes that it has meritorious defences to these claims and intends to vigorously defend itself in this litigation.

*Dispute with IBM UK Limited*

Disputes between (1) Cable and Wireless plc and IBM United Kingdom Limited, (2) Cable & Wireless USA, Inc. and International Business Machines Corporation and (3) IBM Japan Limited and Cable & Wireless IDC Incorporated (collectively 'Cable & Wireless' and 'IBM' respectively) have arisen out of a Global Framework Agreement (GFA) dated 20 December 2000, and related agreements, pursuant to which IBM agreed to supply to Cable & Wireless information technology services.

In order to monitor the quality of the services provided by IBM, including price and service levels, the GFA contains 'benchmarking' provisions, which set out the processes and procedures by which the services provided by IBM are to be assessed against a pre-determined objective. In February 2002, the parties engaged Compass America Inc (Compass) to conduct a benchmark for the 14 month period from 1 January 2001 to 28 February 2002, the results of which revealed significant levels of overcharging by IBM.

Disputes arose as to whether the GFA obliged IBM to repay to Cable & Wireless the amounts that the benchmark established it has been overcharged and as to whether the Compass reports were valid both in terms of their substance and conformity with the GFA benchmarking requirements. On 4 July 2002, the Company issued proceedings for a declaration that it is entitled to compensation from IBM UK for any period of overcharging, including past overcharging, and to compensation in respect of overcharging as identified by Compass.

After an inconclusive Court-ordered mediation that took place in December 2002, the Court ordered an expedited trial of all matters in issue between the parties. Full pleadings were then exchanged. Cable & Wireless seeks a declaration as to the meaning of certain overcharging related provisions of the GFA and compensation for overcharging by IBM. From January 2001 to the date Cable & Wireless' proceedings were issued, its claim in respect of overcharging by IBM amounts to approximately £115 million in respect of the United Kingdom and approximately US$22 million in respect of the United States. For each month that IBM refuses to reduce its charges a further substantial overcharge arises. IBM UK and IBM US seek the declaration in respect of the Compass reports referred to above and IBM UK has brought counterclaims in respect of work it alleges Cable & Wireless should have given to it under the GFA and claims damages to be assessed. IBM Japan Limited seeks payment of certain charges allegedly due and payable to it by Cable & Wireless IDC Inc. Subsequently, on 21 February 2003, the Court directed that Cable & Wireless' claim as to the meaning of certain overcharging related provisions of the GFA should be heard separately from the other claims and counterclaims as a preliminary issue. The preliminary issue has been set for trial in September 2003.

Cable & Wireless believes that it has meritorious defences to the counter claims asserted by IBM and intends to vigorously defend itself in this litigation.

*Claim by APCC Services, Inc. and others*

On 30 March 2001, a complaint was filed in the US District Court for the District of Columbia against Cable & Wireless USA, Inc. and was served on Cable & Wireless USA, Inc. on 25 June 2001. The complaint was filed by a group of billing and collection agents on behalf of hundreds of entities that own and operate public payphones throughout the United States. The complaint alleges that Cable & Wireless USA, Inc. violated the US Communications Act and the rules, regulations, and orders of the Federal Communications Commission by not adequately compensating the independent payphone operators for toll free and access code calls that were made from the independent payphone operators' payphones and carried over Cable & Wireless USA, Inc.'s network.

The complaint seeks approximately US$5 million in monetary damages. In August 2001, Cable & Wireless USA, Inc. and the plaintiff entered into a tolling agreement whereby the obligations of the parties in litigation would be suspended until 1 November 2001, while the parties attempted to resolve the dispute informally. Plaintiffs refiled their complaint which is now pending in the US District Court for the District of Columbia. The parties agreed to a confidential, non-binding, third-party neutral evaluation for settlement purposes which is currently ongoing.

Cable & Wireless USA, Inc. believes that it has meritorious defences to the claims. If the dispute is not resolved through the neutral evaluation process, Cable & Wireless USA, Inc. intends to vigorously defend the action.

*Litigation against Digital Island, Inc./Cable & Wireless Internet Services, Inc.*

As described in 'Description of Cable & Wireless – History', in 2002 Cable & Wireless acquired 100 per cent of Digital Island, which is now known as Cable & Wireless Internet Services, Inc.

Akamai Technologies, Inc. (Akamai) and the Massachusetts Institute of Technology (MIT) filed a patent infringement suit against Digital Island on 13 September 2000 in the US District Court for the District of Massachusetts, alleging that a version of Digital Island's content delivery service infringes a patent owned by MIT and licensed exclusively to Akamai. On 20 September 2000, Akamai and MIT filed a further claim alleging infringement by Digital Island of a second Akamai patent.

On 21 December 2001, a jury invalidated three of the claims related to one of the Akamai patents. The jury also found that Digital Island infringed one independent claim and three dependent claims of this patent. Digital Island was found not to have infringed the other patent. On 23 August 2002, the Court entered a permanent injunction prohibiting further infringement of certain of the surviving claims. Cable & Wireless has revised its content delivery service (at little cost to and with no other effect on its customers) in such a way that Cable & Wireless believes that the infringement no longer exists and that the injunction is of no effect. Nevertheless, on 17 September 2002, Akamai filed a contempt motion with the Court asserting that Cable & Wireless Internet Services, Inc. is violating the injunction by continuing to infringe the surviving Akamai claims. The Court denied Akamai's motion on 1 November 2002. A damages trial has not yet been scheduled on the infringed claims.

On 22 January 2003, Akamai filed a patent infringement suit against Cable & Wireless Internet Services, Inc. in the US District Court for the Eastern District of Virginia, alleging that the Cable & Wireless content delivery service infringes a recently-issued patent owned by Akamai. Upon motion by Cable & Wireless Internet Services, Inc. the case was transferred to the District Court for the District of Massachusetts.

On 22 April 2003, Akamai filed a patent infringement suit against Cable & Wireless Internet Services, Inc. in the US District Court for the District of Massachusetts, alleging that the Cable & Wireless content delivery service infringes a patent issued to Akamai that same day. Akamai has not yet effected service of the complaint in this case.

On 29 August 2002, Teknowledge Corporation (Teknowledge) filed a patent infringement suit against Cable & Wireless Internet Services, Inc., Akamai, and Inktomi Corporation in the US District Court for the District of Delaware, alleging that the content delivery service of each defendant infringes a patent owned by Teknowledge. Upon motion by Cable & Wireless Internet Services, Inc. the case was transferred to the District Court for the Northern District of California.

Cable & Wireless Internet Services, Inc. believes that it has meritorious defences to the outstanding claims asserted in these cases and intends to vigorously defend itself in these cases.

*Class actions against Digital Island, Inc. in connection with its initial public offering*

In August 2001, Digital Island became aware that two purported shareholder class action lawsuits were filed in the US District Court for the Southern District of New York naming Digital Island as a defendant along with certain of its present and former officers and directors and alleging violations of certain sections of the Securities Act 1933 and the Securities Exchange Act 1934.

The actions (which now include a third suit making virtually identical claims and allegations) allege that the Registration Statement and Prospectus through which Digital Island conducted its initial public offering (IPO) in June 1999 was false and misleading because it failed to disclose, amongst other things, that:

(i) the underwriters of the IPO allegedly had solicited and received excessive and undisclosed commissions from certain investors in exchange for which the underwriters allocated to those investors material portions of the restricted number of Digital Island shares issued in connection with the IPO; and

(ii) the underwriters allegedly had entered into agreements with customers whereby the underwriters agreed to allocate Digital Island shares to those customers in the IPO in exchange for which the customers agreed to purchase additional Digital Island shares in the after market at pre-determined prices.

On 15 July 2002, Cable & Wireless moved to dismiss all claims against it. On 19 February 2003, the Court denied the motion to dismiss.

Cable & Wireless Internet Services, Inc. is now engaged in settlement discussions with the plaintiffs. Notwithstanding this, Cable & Wireless Internet Services, Inc. believes that it has meritorious defences to these claims and, should the settlement discussions prove unsuccessful, intends to vigorously defend itself in any such litigation.

*Class action securities litigation against Digital Island, Inc., Cable & Wireless and others*

Digital Island, Cable and Wireless plc, Dali Acquisition Corp. (Dali) (a former subsidiary of Cable & Wireless), and certain of the then present and former directors of Digital Island, have been named as defendants in six separate putative class action lawsuits alleging various claims arising out of Cable & Wireless' acquisition of Digital Island in August 2001. Three of the lawsuits were filed in the US District Court for the District of Delaware and three were filed in the Delaware Court of Chancery. The three federal lawsuits were consolidated into a single case, and, while the plaintiffs' motion to consolidate the three state cases was granted on 24 April 2002, the plaintiffs have yet to file a consolidated, amended complaint.

The federal suit alleged that the defendants violated federal securities laws by failing to disclose on a timely basis that Digital Island had entered into certain business agreements with Bloomberg, L.P., and Major League Baseball. It further alleged that compensation agreements with certain officers and/or directors of the company violated the federal securities 'all-holders' rule. One state lawsuit alleged violations of Delaware law based upon similar allegations.

The other two state lawsuits alleged various violations of Delaware law against the same corporate defendants and the present and former Digital Island directors, including that they failed to disclose all material facts relating to Digital Island's relationship with Microsoft, and that they failed to obtain a fair price for Digital Island shares.

On 10 September 2002, a federal judge granted the defendants' motion to dismiss the federal lawsuits with prejudice. Plaintiffs have appealed the decision to the US Circuit Court of Appeals for the Third Circuit. Cable & Wireless believes that it and its subsidiaries have meritorious defences to the claims asserted in these lawsuits, and intends to continue to vigorously defend itself in that litigation as well should the plaintiffs pursue those claims.

*Litigation with Cibertec International, S.A. and Inversiones Kamasu, S.A.*

Cibertec International, S.A. and Inversiones Kamasu, S.A. initiated proceedings against Cable & Wireless Panama, S.A. and Cable and Wireless (CALA Management Services) Limited in Panama on 29 October 1999. The claim is for approximately US$125 million and alleges breach of contract. On 18 November 2002, the Panamanian Circuit Court handed down a decision against Cable & Wireless Panama, S.A. awarding damages of US$67,255,000, including moral damages and costs. The Court decided that Cable & Wireless Panama, S.A. had failed to maintain in sufficient confidence certain of the proprietary information of the plaintiffs.

Cable & Wireless Panama, S.A. appealed the judgement on 3 December 2002 and intends to pursue this appeal vigorously. Pending the resolution of its appeal, Cable & Wireless Panama, S.A. is not obliged to pay, and has not paid, any of the awards against it.

*Claim against the Minister of Finance and Economy*

On 16 December 2002, a complaint was filed at the Supreme Court of Justice of Panama against the Minister of Finance and Economy in Panama alleging that the Operating Agreement executed between Cable and Wireless (CALA Management Services) Limited and INTEL, S.A. (now Cable & Wireless Panama, S.A.) as part of the privatisation agreements was null and void *ab initio*, on the grounds that it had not been published in the Official Gazette in Panama.

On 21 March 2003, the Court admitted the claim against the Minister of Finance and Economy.

Panamanian counsel consider this claim to be without merit and none of Cable and Wireless plc, Cable & Wireless Panama, S.A. or Cable and Wireless (CALA Management Services) Limited are parties to the complaint. However, if the complaint were to be successful and the Operating Agreement declared null and void, then the complainants could file a complaint against Cable and Wireless (CALA Management Services) Limited requiring the return of all management fees collected under the agreement since its execution. This would amount to approximately £60 million. In the event that this complaint is successful, Cable & Wireless and its subsidiaries intend to vigorously pursue any legal recourse available to them.

*Claim by Caribtel (Caribbean) Limited*

On 9 May 2003, Caribtel (Caribbean) Limited, a telecommunications operator specialising in calling cards, filed a suit against Cable & Wireless Jamaica Limited in the Supreme Court of Judicature of Jamaica. Caribtel has alleged that Cable & Wireless Jamaica Limited wrongfully disconnected Caribtel's local access telephone services, resulting in a breach of contract and a violation of the Jamaican Fair Competition Act and the Telecommunications Act. Caribtel is claiming US$50 million of lost income to its pre-paid local access calling card business for the period from 25 April 2003 to 25 April 2006. Caribtel has also claimed aggravated and/or exemplary damages of Jamaica $300 million (approximately £2.94 million) and is seeking injunctive relief to have Cable & Wireless Jamaica Limited reinstate Caribtel's local access telephone service.

On 22 May 2003, Caribtel presented a petition for injunctive relief before the Supreme Court of Jamaica requesting that Cable & Wireless Jamaica Limited be required to reinstate Caribtel's local access telephone service; be restrained from disconnecting any other telecommunications facility currently supplied to Caribtel's business premises until trial; and be prevented from calling on a prior bank guarantee that Caribtel had provided to Cable & Wireless Jamaica Limited in conjunction with a settlement agreement entered into between the parties in February 2003 relating to breaches of contract by Caribtel in December 2002. The injunctions were not granted by the court. However, Cable & Wireless Jamaica Limited gave an undertaking that it would not disconnect the direct internet access facility pending a hearing scheduled for 2 June 2003.

Prior to the hearing of 2 June 2003, Caribtel approached Cable & Wireless Jamaica Limited with a view to arriving at a settlement. The parties entered into negotiations as a result of which the matter was taken off the court list by consent of both parties. A new court date will be set if the parties are unable to arrive at a settlement. Cable & Wireless Jamaica Limited believes that its actions were lawful and that it was entitled to disconnect Caribtel's services under its contract with Caribtel. If the settlement negotiations prove unsuccessful, Cable & Wireless Jamaica Limited will continue to defend itself vigorously in this matter.

*Arbitration between Tilts Communications A/S/Cable and Wireless plc/Sonera OY and Republic of Latvia/Lattelekom SIA*

In September 2001, Cable and Wireless plc was joined as a party to an arbitration in connection with its former participation with Sonera OY (Sonera) in the joint venture Tilts Communications A/S (Tilts). Through Tilts, Cable and Wireless plc and Sonera purchased a 49 per cent shareholding in a Latvian telecommunications company, Lattelekom SIA (Lattelekom) in 1994. Cable and Wireless plc sold its interest in Tilts to Sonera in June 1998.

Tilts commenced arbitration proceedings in August 2000 against the Republic of Latvia alleging a number of breaches of an agreement signed in 1994 by Tilts, Lattelekom and the Republic of Latvia (the 'Umbrella Agreement'). Tilts claims a total of approximately LVL87.6 million (approximately £95 million) from the Republic of Latvia as compensation for, amongst other things, losses sustained as a consequence of the shortening of the twenty year exclusivity period granted to Lattelekom as the provider of fixed line telecommunications services.

The Republic of Latvia has asserted nine counterclaims for a total of approximately LVL599.5 million (approximately £656 million) against Tilts, alleging that Tilts has failed to comply with various obligations it assumed under the Umbrella Agreement including (i) to digitalise and otherwise improve Lattelekom's network in accordance with its contractual commitments, (ii) to meet certain quality of service and network performance commitments, and (iii) to procure that Sonera sell its shares in GSM operator Latvijas Mobilais Telefons to Lattelekom. Tilts considers that the counterclaims asserted by the Republic of Latvia are unfounded.

Cable and Wireless plc was joined as a party to the arbitration by the Republic of Latvia because it (and Sonera) guaranteed the performance by Tilts of its obligations under the Umbrella Agreement to the Republic of Latvia by performance and parental guarantees. However, as part of the arrangements relating to Sonera's purchase of Cable and Wireless plc's shares in Tilts, Sonera provided Cable and Wireless plc with an indemnity for any liability incurred by Cable and Wireless plc under these guarantees. Provided Sonera honours its obligations under the indemnity, Cable and Wireless plc will not be exposed to any liability under these guarantees. Cable and Wireless plc has taken legal advice. Based on this advice, Cable and Wireless plc believes that the indemnity is binding. In addition, Sonera provided Cable and Wireless plc with a letter dated 11 December 2001, confirming that in its view all liabilities, costs and expenses incurred by Cable and Wireless plc in connection with the arbitration fell within the scope of the indemnity. Following the acquisition of Sonera in 2002, the successor entity to Sonera, TeliaSonera, provided Cable and Wireless plc with a further letter dated 23 February 2003, acknowledging Sonera's obligations under the indemnity and stating that TeliaSonera's acquisition of Sonera did not alter the validity of the confirmations given by Sonera in its earlier letter of 11 December 2001.

Other than the above, there are no pending legal or regulatory proceedings against the Company or any of its subsidiaries, which the Company believes will if determined adversely to the Group have a material adverse effect on the Group's liquidity or results of operation.

## 35. Subsidiary undertakings, joint ventures and associates at 31 March 2003

| | | | Ownership | | | | |
|---|---|---|---|---|---|---|---|
| **Subsidiaries** | **Local currency** | **Issued Share Capital (m)** | **Direct** | **Via subsidiaries** | **Class of shares** | **Country of incorporation** | **Area of operation** |
| Cable & Wireless UK | £ | 2,333 | — | 100% | Ordinary | England | UK |
| Cable & Wireless USA, Inc | US$ | — | — | 100% | Ordinary | US | US |
| Cable & Wireless Jamaica Limited | J$ | 15,883 | — | 82% | Ordinary | Jamaica | Jamaica |
| Cable and Wireless (Cayman Islands) Limited | Cay$ | — | — | 100% | Ordinary | Cayman Islands | Cayman Islands |
| Cable & Wireless Panama SA [a] | Balboa | 316 | — | 49% | Ordinary | Panama | Panama |
| Companhia de Telecomunicacoes de Macau, S.A.R.L.[b] | Pataca | 150 | 51% | — | Ordinary | Macau | Macau and China |
| Cable & Wireless Global Limited | £ | — | — | 100% | Ordinary | Rep. of Ireland | World-wide |
| Cable & Wireless IDC Inc. | Yen | 36,200 | — | 98% | Ordinary | Japan | Japan |
| Cable & Wireless Internet Services Inc. | US$ | — | — | 100% | Ordinary | US | US |
| Cable & Wireless (Barbados) Limited | B$ | — | — | 81% | Ordinary | Barbados | Barbados |
| Cable and Wireless (West Indies) Limited | £ | 5 | — | 100% | Ordinary | England | Caribbean |
| Yemen International Telecommunications Company LLC[b] | YRiyal | 192 | 51% | — | Ordinary | Yemen | Yemen |
| Dhivehi Raajjeyge Gulhun Private Limited[bc] | Rufiya | 190 | 45% | — | Ordinary | Maldives | Maldives |
| **Joint ventures** | | | | | | | |
| Telecommunications Services of Trinidad and Tobago Limited[d] | T$ | 283 | — | 49% | Ordinary | Trinidad and Tobago | Trinidad and Tobago |
| **Associates** | | | | | | | |
| Bahrain Telecommunications Company B.S.C.[b] | Dinar | 100,000 | 20% | — | Ordinary | Bahrain | Bahrain |

**Notes**

The Group comprises a large number of companies and it is not practical to include all of them in this list. The list therefore, only includes those companies whose results or financial position, in the opinion of the Directors, principally affects the figures shown in the Group's Financial Statements.

Full details of all subsidiary undertakings, joint ventures, associates and trade investments will be attached to the Company's Annual Return, to be filed with the Registrar of Companies in England and Wales.

a The Group regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.

b This company had a financial year end of 31 December 2002 due to the requirements of the shareholders' agreement.

c The Group regards this company as a subsidiary undertaking because it exercises dominant influence through a management agreement.

d This company is audited by a firm other than KPMG International member firms.

**REGISTERED OFFICE OF THE ISSUER**
**Cable and Wireless plc**
124 Theobalds Road
London WCIX 8RX
United Kingdom

**TRUSTEE**
**Capita IRG Trustees Limited**
Guildhall House
81/87 Gresham Street
London EC2V 7QE

**LEGAL ADVISERS**

**TO THE ISSUER**

**Allen & Overy**
One New Change
London EC4M 9QQ
United Kingdom

**TO THE MANAGERS AND THE TRUSTEE**

**Linklaters**
One Silk Street
London EC2Y 8HQ
United Kingdom

**PRINCIPAL PAYING AND CONVERSION AGENT**
**JPMorgan Chase Bank**
Trinity Tower
9 Thomas More Street
London E1W 1YT
United Kingdom

**AUDITORS OF THE ISSUER**
**KPMG Audit Plc**
1 Puddle Dock
London EC4V 3PD
United Kingdom

**AUTHORISED ADVISER**

**J.P. Morgan Securities Ltd.**
125 London Wall
London EC2Y 5AJ
United Kingdom

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