CABLE & WIRELESS

ANNOUNCEMENT

CABLE AND WIRELESS plc
RESULTS FOR THE YEAR ENDED 31 MARCH 2006

- **Increase in earnings per share of 9% before exceptionals and Bulldog investment losses**
- **Creation of two separate and distinct business units – UK and International**
- **Solid growth in revenue, operating profit and cash flow in the International business**
- **Acquisition in the UK of Energis for net consideration of £608 million, contributing £266 million of revenue and £35 million of EBITDA since 11 November 2005**
- **UK defined benefit pension scheme fully funded on an ongoing basis after a top up payment of £98 million**
- **Increase in the full year dividend of 18% to 4.5p**

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GROUP RESULTS

The Group results presented below should be read in conjunction with the Group's consolidated income statement, balance sheet and cash flow statement and related notes on pages 33 to 42.

	2005/06			2004/05		
	Pre-except-ional £m	Except-ional[1] £m	Total £m	Pre-except-ional £m	Except-ional[1] £m	Total £m
Revenue	3,230	-	3,230	2,948	-	2,948
Outpayments and network costs	(1,914)	(1)	(1,915)	(1,631)	(8)	(1,639)
Staff costs	(527)	(34)	(561)	(527)	(70)	(597)
Other costs	(378)	14	(364)	(366)	(65)	(431)
Total operating costs before depreciation and amortisation[2]	(2,819)	(21)	(2,840)	(2,524)	(143)	(2,667)
EBITDA[3]	**411**	**(21)**	**390**	**424**	**(143)**	**281**
Depreciation and software amortisation	(263)	(232)	(495)	(185)	(8)	(193)
Group operating profit/(loss) before amortisation of acquired intangibles	**148**	**(253)**	**(105)**	**239**	**(151)**	**88**
Amortisation of acquired intangibles	(11)	(5)	(16)	(5)	-	(5)
Group operating profit/(loss)	**137**	**(258)**	**(121)**	**234**	**(151)**	**83**
Share of post-tax profit of joint ventures and associates	52	2	54	48	-	48
Total operating profit/(loss)	**189**	**(256)**	**(67)**	**282**	**(151)**	**131**
Gains and losses on sale of non-current assets	2	81	83	5	(8)	(3)
Net interest and other income[4]	18	78	96	39	-	39
Profit before income tax	**209**	**(97)**	**112**	**326**	**(159)**	**167**
Income tax (expense)/credit	(29)	2	(27)	(64)	89	25
Profit/(loss) for the year from continuing operations	**180**	**(95)**	**85**	**262**	**(70)**	**192**
Profit for the year from discontinued operations	2	88	90	22	140	162
Profit/(loss) for the year	**182**	**(7)**	**175**	**284**	**70**	**354**
Attributable to equity holders of the Company	120	(41)	79	221	73	294
Attributable to minority interests	62	34	96	63	(3)	60
Profit/(loss) for the year	**182**	**(7)**	**175**	**284**	**70**	**354**
Earnings per share from continuing operations attributable to equity holders (pence)	5.2p	(5.6)p	(0.4)p	8.6p	(2.9)p	5.7p
Earnings per share attributable to equity holders (pence)	5.2p	(1.7)p	3.5p	9.5p	3.2p	12.7p
Dividend per share (pence)			4.5p			3.8p
Capital expenditure			(416)			(373)
Cash and cash equivalents			1,127			2,021

[1] Exceptionals comprise items considered exceptional by virtue of their size, nature or incidence and include restructuring and impairment charges, releases of certain provisions and profits and losses on disposal of non-current assets
[2] Includes operational releases
[3] Earnings before interest, tax, depreciation and amortisation
[4] Includes interest income, interest expense and other income

CHAIRMAN'S STATEMENT

Commenting on the performance of the Group, Richard Lapthorne, Chairman, said:

"The last year has been one of change and of progress in which we have taken significant steps to continue the turnaround of Cable & Wireless. The acquisition of Energis and the separation of the business into two self-contained business units – International and UK, were particularly important.

"In the last three years, we have removed substantial risks to the Group's financial security with exits from unsustainable markets. We have successfully rebalanced the International business towards the growth areas of broadband and mobile, whilst absorbing the impact of liberalisation. The UK now has the tools to execute its strategy.

"With our strategic repositioning complete, our priorities for the next three years are clear – delivery and execution. Our commitment is to deliver for our customers and our shareholders.

"I am pleased to announce a final dividend of 3.1 pence per share. The total dividend for the year of 4.5 pence per share represents an increase of 18% over the prior year. The rise in the dividend reflects the increased visibility of the future prospects for the Group, which the move to the execution phase of our turnaround gives us."

EXECUTIVE SUMMARY – GROUP MANAGING DIRECTOR, CENTRAL

Group financial results

The Group's financial performance for the year is described on pages 5 to 10 and is discussed in more detail in the International and UK sections that follow on pages 11 to 16 and 17 to 26, respectively.

Group structure

Following the acquisition of Energis in November 2005, we announced, in January 2006, a restructure of the Group into two self-contained operational units – International and the UK (including our consumer broadband and telephony business, Bulldog).

Our Corporate Centre (Central) functions have been reshaped to ensure the continuation of proper governance and control. However, Central will no longer provide shared services to the two business units. As a result of moving shared services into the business units, around 65 employees have been transferred from Central to International and the UK - and around 35 are leaving the Group. We expect that this, together with other savings, will reduce costs by a net £20 million in 2006/07; Central costs will be reduced by £27 million, with the International business absorbing £7 million.

Subject to shareholder approval, the Remuneration Committee has approved a new management incentive scheme for senior executives of the UK and International businesses. The new scheme is designed to ensure that these individuals' remuneration is fully aligned with the goals of their business unit and in proportion to the future shareholder value created by their business.

Cash and cash equivalents

Despite the Group's acquisition of Energis and our continued investment in local loop unbundling through Bulldog, we continue to have a solid cash position with cash and cash equivalents of £1,127 million and net cash of £343 million at 31 March 2006. Following the development of our UK strategy, post the acquisition of Energis, and the top-up of the UK defined benefit pension scheme, we have decided to discontinue the balance of the £250 million share repurchase programme. This will also allow us to retain a robust cash position and have the resources to take advantage of the high-return opportunities that exist - especially in the International business' market.

UK defined benefit pension scheme

Following the latest triennial funding valuation of the scheme as at 31 March 2005, completed in March 2006, we agreed a revised funding programme with the pension trustees, with an immediate top-up contribution of £98 million, paid on 31 March 2006. As a result of this contribution, the scheme is fully funded on an ongoing basis, based on the 2005 funding valuation.

Dividend

The proposed full year dividend of 4.5 pence per share represents an increase of 18% over the prior year. We have taken the opportunity to rebase the dividend at a level that we feel reflects the new Group structure, the increased visibility with the move to the execution phase of the turnaround and the Board's confidence in our ability to achieve our objectives.

ANALYSIS OF GROUP RESULTS

The commentary that follows refers to the Group pre-exceptional results. For analysis of exceptional items see page 6.

Group results before exceptional items

Group revenue

The increase in Group revenue principally reflects the integration of Energis from 11 November 2005 and a solid performance in the International business, where growth in mobile and broadband revenues have more than offset the downward pressure on traditional fixed-line services. In the UK, both Services and Carrier revenues continue to be affected by churn and price erosion, driven in part by the trend from legacy to IP services.

Group operating costs

The main increases in operating costs relate to the consolidation of Energis, the outpayments associated with a higher volume of lower-margin Carrier business in the UK, the increase in mobile customers with associated customer acquisition costs in the International business and the investment in Bulldog as we drive customer growth. These increases have been partly offset by restructuring and other cost control activities, particularly in the UK, where we have made a gross reduction of 1,474 in the headcount of the combined Cable & Wireless UK and Energis business. In addition, UK operating costs have benefited from the impact of operational releases. These releases reflect the nature of telecoms services and largely relate to accruals made in previous years for liabilities with customers, suppliers, interconnect providers and other third parties. Whilst individually not material, an increased focus on settling outstanding issues in the year has resulted in an overall increased benefit to UK operating costs in 2005/06.

Group EBITDA and depreciation

The trends in revenues and operating costs described above result in marginally lower EBITDA compared with last year.

Depreciation has increased significantly year on year. This increase reflects a natural rise from historically low levels following the fixed asset impairments between 2002 and 2004, the consolidation of Energis, mobile and broadband rollout in International and the investment in local loop and backhaul infrastructure in Bulldog.

Group share of post-tax profit of joint ventures and associates

The main contributors to our share of post-tax profits of joint ventures and associates are the International business' investments in Bahrain, the Maldives and Trinidad & Tobago.

Group net interest and other income

Net interest and other income, before exceptionals, has declined year on year largely as a result of the lower gross cash balance. Additionally, in converting to reporting under International Financial Reporting Standards (IFRS), the adoption of IAS 32 and IAS 39, from 1 April 2005, resulted in an additional, non-cash interest charge of £9 million in respect of the revised treatment of our convertible bond under IFRS.

Group tax

We expect the pro-forma effective tax rates of the two business units to remain at current-year levels for the foreseeable future: nil in the UK, due to tax losses and unclaimed capital allowances, and in the low to mid twenties for the International business.

The total tax charge for continuing operations before exceptionals represents overseas tax and amounts to £29 million. There is no tax charge or credit in respect of discontinued items in 2005/06.

Group exceptional items

	International £m	UK £m	Central £m	2005/06 Total £m
Operating items:				
Restructuring	(13)	(8)	(20)	(41)
Hurricane costs	(6)	-	-	(6)
Write-down of non-current assets	-	(237)	-	(237)
Share of joint ventures and associates and other	1	-	27	28
Exceptional items within total operating profit	**(18)**	**(245)**	**7**	**(256)**
Non-operating items:				
Profit on disposal of non-current assets	70	11	-	81
Hurricane insurance receipts	6	-	-	6
Reversal of unused provisions and settlements relating to the Group's insurance subsidiary	-	-	72	72
Exceptional items below total operating profit	**76**	**11**	**72**	**159**
Total exceptional items before tax	**58**	**(234)**	**79**	**(97)**
Tax on exceptional items	2	-	-	2
Total exceptional items from continuing operations	**60**	**(234)**	**79**	**(95)**
Total exceptional items from discontinued operations	17	3	68	88
Total exceptional items	**77**	**(231)**	**147**	**(7)**

In 2005/06, we recognised a net exceptional charge before tax of £97 million for continuing operations. The main items reflected asset impairments, restructuring costs, profits on the sale of various investments and amounts resulting from the resolution of claims and other risks in our insurance subsidiary, Pender. The tax credit on these exceptional items amounted to £2 million.

The £237 million write down of assets in the UK business (excluding Energis) is primarily due to the change in the UK strategy to focus on fewer, larger customers - supporting them with the migration from legacy to IP solutions - and duplication arising from the combination with Energis. As a result, as part of the year-end review of asset carrying values required under IFRS, assets have been written down if they are surplus to requirements or obsolete due to recent changes in technology.

The International business recognised a profit of £70 million on the disposal of MobileOne, of which £34 million is attributable to minority interests.

We recognised income of £72 million in relation to Pender, our insurance subsidiary, through the release of unused provisions and accruals and the receipt of cash in respect of legal settlements, following progress in resolving outstanding claims and other risks.

Of the £88 million credit from discontinued operations, £68 million reflects credits arising from the release of certain provisions no longer required, associated with the exit from the US business. Profits on the disposal of our Sakhalin and Spanish businesses account for the remaining £20 million.

Other operating items principally comprise the release of balances held in respect of capacity transactions in prior years, which are no longer required.

Group earnings per share

	Before exceptionals £m	Exceptionals £m	Reported £m
Profit for the year from continuing operations before investment in Bulldog	**307**	**(95)**	**212**
Attributable to equity holders	*246*	*(129)*	*117*
Attributable to minority interests	*61*	*34*	*95*
Bulldog loss for the year	(127)	-	(127)
Profit/(loss) for the year from continuing operations	**180**	**(95)**	**85**
Attributable to equity holders	*119*	*(129)*	*(10)*
Attributable to minority interests	*61*	*34*	*95*
Profit for the year from discontinued operations	2	88	90
Profit/(loss) for the year	**182**	**(7)**	**175**
Attributable to equity holders	*120*	*(41)*	*79*
Attributable to minority interests	*62*	*34*	*96*
Earnings/(losses) per share from continuing operations before investment in Bulldog attributable to equity holders of the Company during the year (pence)	*10.7p*	*(5.6)p*	*5.1p*
2004/05	*9.8p*	*(2.9)p*	*6.9p*
Earnings/(losses) per share from continuing operations attributable to equity holders of the Company during the year (pence)	*5.2p*	*(5.6)p*	*(0.4)p*
2004/05	*8.6p*	*(2.9)p*	*5.7p*
Earnings/(losses) per share attributable to equity holders of the Company during the year (pence)	*5.2p*	*(1.7)p*	*3.5p*
2004/05	*9.5p*	*3.2p*	*12.7p*

Reconciliation of number of shares in issue to weighted average number of shares in issue

	31 March 2006 '000	31 March 2005 '000
Reported number of shares in issue	2,421,046	2,394,822
Shares held in treasury	(74,950)	(60,500)
Shares held by employee share ownership plan trust	(50,990)	(54,759)
Relevant number of shares in issue for EPS calculation	2,295,106	2,279,563
	2005/06	**2004/05**
Weighted average number of shares in issue	2,286,129	2,322,459

Earnings per share attributable to the equity holders of the Company during the year of 3.5 pence represent a decline of 72% compared with 2004/05. The main contributors to this decline are higher depreciation and amortisation, lower net interest income, significantly higher exceptional charges and a higher tax charge. Excluding the impact of exceptionals, earnings per share were 5.2p, a decline of 45% compared with the prior year.

Excluding exceptionals and our investment in local loop unbundling, our underlying earnings per share showed a 9% increase year on year.

Reconciliation of Group EBITDA to net cash flow before financing

	2005/06 £m
EBITDA[1]	411
Exceptional items	(21)
EBITDA less exceptionals	**390**
Share based payments	14
Defined benefit pension scheme expense	6
Defined benefit pension cash top-up contributions	(98)
Defined benefit pension scheme other cash contributions	(17)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)	(104)
(Decrease)/increase in provisions	(135)
Cash received in respect of other income	44
Cash generated from continuing operations	**100**
Income taxes paid	(47)
Interest received	107
Dividends received	34
Purchase of property, plant, equipment and intangible assets	(434)
Acquisitions and disposals	(484)
Redemption of credit linked notes	40
Other investment income	5
Cash generated from discontinued operating and investing activities	30
Net cash outflow before financing activities	**(649)**

[1] Earnings before interest, tax, depreciation, amortisation and exceptionals

The Group net cash outflow of £649 million represents outflows of £889 million in the UK business and £163 million in Bulldog and inflows of £363 million in International and £40 million in Central[1]. Further details in respect of International, the UK and Bulldog are included on pages 16, 22 and 26, respectively.

The significant movements between EBITDA and net cash flow before financing in Central are explained here.

Share-based payments of £14 million reflect the non-cash charge in the income statement in respect of our outstanding share option schemes.

Central paid a top-up payment of £39 million to the UK defined benefit pension scheme. Following this year’s top-up payments, the scheme is fully funded on an ongoing basis, based on the 2005 funding valuation.

During 2005/06, we sold £40 million of credit-linked notes referenced to our 2012 convertible bond in order to improve the liquidity of our investments.

Cash interest received in Central was £99 million in the year.

[1] Allocations based on internal management accounts

Discontinued operations

Discontinued operations in 2005/06 represent the post tax results of the Sakhalin and Spanish businesses prior to their sale and the gains on their disposal. Discontinued operations in 2004/05 additionally represent the post tax results of IDC in Japan prior to its sale and the gains on its disposal, together with further costs and credits from previously discontinued operations, primarily in the US.

Group cash and debt

Cash and cash equivalents

	31 March 2006 £m	31 March 2005 £m
UK	18	29
International	261	222
Central	887	1,850
Group cash and short-term investments	**1,166**	**2,101**
Less: credit-linked notes	(39)	(80)
Group cash and cash equivalents	**1,127**	**2,021**

Our cash position remains strong, with cash and cash equivalents of £1,127 million at 31 March 2006. The reduction in gross cash during the year was largely attributable to the acquisition of Energis for net consideration of £608 million. In addition, the UK business and Bulldog received £281 million and £163 million respectively for operational funding and capital investment. The International business remitted £148 million to Central. The disposals of our Sakhalin business, our stake in MobileOne and our training centre generated £130 million in aggregate, of which £44 million is attributable to minority interests. We paid dividends of £80 million and made a £98 million top-up contribution to the pension fund.

Cash and cash equivalents at 31 March 2006 exclude credit-linked notes with a fair value of £39 million referenced to our 2012 £200 million bond, which have a similar economic effect to repurchasing the bonds for the period of the investment. £50 million of cash and cash equivalents is not available for use by the Group in the short term: £33 million of bank deposits pledged as collateral against bank guarantees issued and £17 million held by the Group’s insurance subsidiary, Pender, against potential future claim settlements.

£60 million of cash held in the Seychelles is excluded from cash, as exchange controls make it unlikely that the cash will be repatriated in the short-term.

Debt

	Due in less than 1 year	Due in more than 1 but less than 2 years	Due in more than 2 but not more than 5 years	Due in more than 5 years	Total
	£m	£m	£m	£m	£m
UK	9	9	11	-	29
International	28	11	26	18	83
Central	106	-	202	364	672
Group debt at 31 March 2006	**143**	**20**	**239**	**382**	**784**
Group debt at 31 March 2005	**23**	**143**	**29**	**629**	**824**
Group debt at 1 April 2005	**23**	**128**	**29**	**569**	**749**

Our main outstanding debt instruments are three publicly quoted bonds and a loan from the European Investment Bank (EIB), with a carrying value of £672 million in aggregate, all borrowed by, or guaranteed by, Cable and Wireless plc. In addition, there are £83 million of borrowings in International, of which Cable and Wireless plc has guaranteed £42 million. There are also £29 million of finance lease liabilities in the UK acquired with Energis. The £106 million EIB loan, together with a related currency swap of £15 million, matures in September 2006 and we expect to repay this from existing cash resources.

Given the well-spread maturity profile of our debt, and the substantial cash resources still available to Cable and Wireless plc, we are satisfied that we can meet our working capital requirements for at least the next twelve months. Consequently, we have no current intention to conduct any major funding activity and see no need to maintain any significant committed facilities.

In transitioning to reporting under International Financial Reporting Standards, we adopted IAS 32 and IAS 39 on 1 April 2005. The table above sets out the position immediately before and after adoption together with the position at 31 March 2006. The impact of the adoption is set out in detail in the annual report for the year ended 31 March 2006, which will be available on or around 20 June 2006.

INTERNATIONAL BUSINESS

Introduction

The International business operates telecommunications companies in 33 countries. Our principal operations are in the Caribbean, Panama, Macau, Monaco and the Channel Islands. In the majority of our markets we are the leading telecoms provider.

Our ambition is to be the first choice for customers in all our markets and a key partner for Governments by investing in technology, our people and our brands.

We provide mobile services in 22 markets and continue to invest significantly in our mobile networks to ensure that we are providing a reliable, quality mobile service to our customers.

We provide broadband services in 21 markets. Our investment in broadband infrastructure and marketing is meeting the growing demand for broadband services. Improving access via a range of distribution channels - as well as increased speeds and enhanced services - have contributed to this growth in demand.

We face challenges in our fixed-line business where margins are under pressure from competition and mobile substitution. International direct-dial prices continue to fall and we anticipate that this decline will accelerate with VoIP becoming more commonplace. The growth in demand for VoIP services led us to launch our own product in the Cayman Islands and, following its success, we have started to roll this out in our other markets.

Across our markets, we face broadly the same issues. New technologies are driving down the value of existing offerings. At the same time, liberalisation has seen new entrants seeking to challenge our position, driving price erosion as these players compete aggressively. Additionally we are dealing with continuing developments in regulatory and government policy. Approximately 93% of our revenues are now earned in markets open to competition.

International business key performance indicators

	31 March 2006 '000
Mobile customers	2,746
Broadband customers	275
Fixed line connections	1,497

We had over 2.7 million mobile customers at the year-end, an increase of 22% over last year, with increased penetration across our business. As anticipated, our TDMA customer base continued to decline, but was more than offset by 56% year on year growth in our GSM customer base to over 1.9 million customers at 31 March 2006.

Our investment in broadband infrastructure and marketing is meeting the growing demand for these services, resulting in a 97% increase in customer numbers year on year.

The number of fixed line connections has increased slightly year on year. Increasing connections in Panama and modest growth across the business have offset the trend for fixed to mobile substitution.

International business income statement

Commenting on the year ended 31 March 2006, Harris Jones, Group Managing Director, International, said:

"I am pleased to report a solid set of financial results due to our unstinting focus on mobile and broadband, supported by tight management of our operating costs. In the year, we have seen a 22% increase in mobile customers and a 97% increase in our broadband customers."

	2005/06	**2004/05**	***Change as reported***[1]	***Constant currency change***[2]
	£m	**£m**	***%***	***%***
International voice	188	205	*(8)*	*(10)*
Domestic voice	338	338	-	*(1)*
Mobile	360	302	*19*	*17*
Broadband and dial-up internet	66	49	*35*	*34*
Data	104	99	*5*	*2*
Enterprise and other[3]	156	131	*19*	*18*
Total revenue	**1,212**	**1,124**	***8***	***6***
Outpayments and network costs	(466)	(401)	*(16)*	*(14)*
Staff costs	(163)	(158)	*(3)*	*(2)*
Other costs	(166)	(178)	*7*	*8*
Total operating costs before depreciation and amortisation	(795)	(737)	*(8)*	*(6)*
EBITDA[4]	**417**	**387**	***8***	***6***
Depreciation and software amortisation	(136)	(121)	*(12)*	*(11)*
Operating profit before amortisation of acquired intangibles	**281**	**266**	***6***	***4***
Amortisation of acquired intangibles	(6)	(5)	*(20)*	*(20)*
Operating profit before joint ventures and associates	**275**	**261**	*5*	*4*
Share of post-tax profit of joint ventures and associates	58	56	*4*	*1*
Operating profit before exceptional items	**333**	**317**	***5***	***3***
Exceptional items	(18)	(22)	*18*	
Total operating profit	**315**	**295**	***7***	
Capital expenditure	(142)	(171)	*17*	*18*
Headcount[5] at 31 March (number)	8,150	8,077	*(1)*	*N/a*

The International business result analysed between the Caribbean, Panama, Macau, Monaco and Rest of the World is included on page 31. Rest of the World comprises operations in the Channel Islands, the Middle East and the Atlantic, Pacific and Indian Oceans

[1] Positive percentages represent improvement

[2] Constant currency growth rates based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement

[3] Includes enterprise solutions for corporate customers, international management contracts, directory services and equipment rentals

[4] Earnings before interest, tax, depreciation, amortisation and exceptionals

[5] Full time equivalents

The commentary that follows focuses on changes at constant currency in order to highlight the underlying trends in the business.

Revenue
Total revenue increased by 6% year on year as our strong performance in the growth areas of mobile and broadband more than offset declines in fixed line revenues.

Fixed line revenue
Increasing competition, particularly in Barbados following liberalisation of the market in February 2005, was the main driver of the 10% decline in international voice revenues year on year. Fixed to mobile substitution also played a part across the whole of the Caribbean. The Rest of the World businesses also faced increasingly competitive markets and regulatory pricing pressure.

Mobile revenue
The 17% year on year revenue growth is due to strong customer demand, driven by our compelling propositions and brand development. We continue to invest in mobile networks and services in the 22 markets where we have a mobile presence.

Broadband and dial-up internet revenue
The growth in demand for broadband services has resulted in a 97% increase in our customer base and a 72% year on year growth in revenue, to £57 million. This growth has more than offset the 47% decline in dial-up internet revenue as customers migrate to higher speed services.

Data revenue
Data revenue comprises internet hosting, leased circuits and legacy data services. The 2% growth year on year is primarily driven by increased demand from business customers for direct internet access.

Enterprise and other revenue
Enterprise and other revenue comprises enterprise solutions for corporate customers, international management contracts, such as the services provided by Monaco Telecom to its associate in Afghanistan, directory services and equipment rentals.

The 18% increase year on year is principally due to a full year's consolidation of Monaco Telecom in 2005/06 and growth in enterprise solutions in Macau.

Operating costs
Outpayments and network costs, which include cost of sales and some fixed network costs, increased by 14% year on year, reflecting the acquisition costs associated with the growth of our mobile and broadband customer bases. Despite these increased customer acquisition costs, our efforts to drive efficiencies have controlled our underlying operating cost base to maintain EBITDA margins above 34%.

Staff costs increased 2% year on year, primarily due to the impact of consolidating a full year of Monaco Telecom. The 1% increase in headcount reflected small increases in the Caribbean, Panama and Monaco, partly offset by a decrease in the Rest of the World businesses.

Other costs, largely comprising property costs and professional fees, have been reduced by 8% as a result of the continued focus on cost control. Progress in negotiating supplier disputes in Monaco allowed us to release an accrual of £7 million.

These results are in spite of a blended inflation rate across our business of 4%.

Depreciation and capital expenditure
The 11% rise in depreciation reflects our investment over recent years in mobile and broadband to support growing customer demand for these services.

Capital expenditure as a percentage of revenue has decreased from 15% in 2004/05 to 12% in 2005/06. We have focused on high-return investments such as our mobile networks in Jamaica and Panama and the rollout of the broadband infrastructure in Jamaica. We also invested in the launch of mobile services in the Falkland Islands, enhanced our coverage in the Seychelles and are rolling out a new network to prepare for the launch of our mobile services in Jersey. In addition, we continued to invest in our fixed networks. Capital expenditure in 2004/05 was higher than usual, principally due to our major mobile technology upgrade from TDMA to GSM.

Joint ventures and associates
The main contributors are Batelco (Bahrain), Dhiraagu (Maldives) and TSTT (Trinidad & Tobago). Small declines in the profitability of all three were offset by growth in Monaco Telecom's investment in its associate, Roshan, which operates in the rapidly developing Afghanistan mobile market.

Exceptional items
Exceptional items in 2005/06 principally represent restructuring activities around the business. The main exceptional items in 2004/05 related to the impact of Hurricane Ivan.

Reconciliation of International business EBITDA to net cash flow before financing[1]

	2005/06 £m
EBITDA[2]	417
Exceptional items	(20)
EBITDA less exceptionals	**397**
Pension payments, net movement in working capital, provisions and intercompany	16
Cash generated from continuing operating activities	**413**
Income taxes paid	(46)
Interest received	7
Dividends received from joint ventures and associates	31
Purchase of property, plant, equipment and intangible assets	(170)
Acquisitions and disposals	96
Other investment income	6
Cash generated from discontinued operating and investing activities	26
Net cash inflow before financing activities	**363**

[1] Source: International business management accounts
[2] Earnings before interest, tax, depreciation, amortisation and exceptionals

Our net movement in pensions, working capital, provisions and intercompany balances is small, and offsets exceptional items, which principally represent the costs of our restructuring activities.

Our cash capital expenditure of £170 million, principally on mobile and broadband, represents the main utilisation of cash generated from operating activities.

Cash tax paid, of £46 million, is offset by interest received, dividend income and other investment income.

We generated £363 million of net cash flow before financing activities, including £110 million of cash proceeds from the disposal of our stake in MobileOne and our Sakhalin business. £44 million of the disposal proceeds are attributable to minority interests.

In 2005/06 we remitted to Central £148 million, reflecting 92% of our share of cash generated by subsidiaries, together with £31 million of dividends received from joint ventures and associates. In 2006/07, cash remittance will remain an area of focus and we expect to raise the proportion of operating cash flow of subsidiaries remitted to Central, to 100%.

UK BUSINESS

Introduction

In the UK business, we serve the largest users of telecoms services across the UK, continental Europe, Asia and the US – and consumer and small business broadband services in the UK through Bulldog. To date, there has been little overlap between the UK corporate and Bulldog businesses. However, as we move into 2006/07, we aim to use the local loop investment in Bulldog to further our corporate access strategy. Bulldog's performance is described in more detail on pages 23 to 26. The remaining pages 17 to 22 describe the UK corporate business.

Our ambition for the UK corporate business is to serve the UK's largest users of telecoms services, here and internationally, with high quality managed IP services supported by a great service experience. This points us at a very specific segment of the overall market – encompassing 3,000 corporates, carriers and public institutions. We have in place the right foundations to achieve this ambition and have begun executing our strategy.

We have two distinct sales channels that focus on our different customer markets – Services and Carrier. Our Services team works primarily with large corporates, systems integrators and public institutions. Our Carrier organisation provides for the needs of other telecoms carriers, service providers and resellers.

We are investing in the key areas of IP and hosting technology – areas that allow us to develop new, flexible solutions core to our customers' long-term requirements, rather than simply using IP to replicate existing products. This will translate into a gradual shift in our revenue mix – taking us from a business dominated by voice revenues to a business where IP solutions constitute a much larger portion of our revenues.

The following analysis of the UK business key performance indicators, income statement and cash flow reconciliation refer only to the corporate business and so exclude Bulldog. Equivalent analysis for Bulldog is on pages 23 to 26.

UK business key performance indicators

	31 March 2006
Customer strategy	
Number of customers	21,000
Operating model	
Reduction in monthly operating cost run rate from November 2005	£4.4 million
Headcount	5,614
LLU capability	
Number of exchanges unbundled	411

The KPIs above are metrics that our management team currently uses in assessing our progress against our objectives. The KPIs we use are likely to evolve as we move through our turnaround plan.

Customer strategy
We have reduced the number of customers we serve from 30,000 to 21,000 since November 2005; our aim is to have 18,000 customers by 30 September 2006. A relatively small proportion of our revenues currently come from IP products. We envisage the future UK business being focused on 3,000 customers, with 60% of revenues being derived from IP and hosting products. We have made good progress so far against this objective.

Operating model
Our customer strategy enables us to simplify our business and therefore operate with a lower cost base. We aim to reduce the monthly operating cost run rate by £5 million per month from November 2005 to 30 September 2006. Progress to the end of March 2006 has already shown a £4.4 million per month reduction.

From an opening position of 5,528, headcount reduced by a net 647 people in the period leading up to the acquisition of Energis. On 11 November 2005, as part of the acquisition of Energis, 1,560 people joined the business. Since then, as a result of integrating the UK and Energis, a further 827 people have left the business, leaving headcount at 5,614 at 31 March 2006. We expect to reduce headcount to 5,200 by 30 September 2006.

LLU capability
Local loop unbundling is a fundamental part of our UK corporate access strategy, which we will leverage in the future as part of our move to next generation and IP networks. At 31 March 2006, we had unbundled 411 exchanges and expect to have 800 unbundled by 30 September 2006.

UK business income statement

Commenting on the year ended 31 March 2006, John Pluthero, Group Managing Director, UK, said:

"This year, through the acquisition of Energis, we have put in place the final building block of our strategy to create the first built-for-purpose next generation telecoms company. Over the coming months and years, we will transform our business, taking out complexity, reducing our cost base and providing our customers with market-leading service. As we transform, we will take a leaner, fitter business into the future, generating £2 billion of revenue and double-digit operating profit margin within three to five years."

	2005/06[1]	**2004/05**	***Change as reported[2]***	***Constant currency change [3]***
	£m	**£m**	***%***	***%***
Services	965	935	*3*	*3*
Carrier	1,063	900	*18*	*18*
Total revenue	**2,028**	**1,835**	***11***	***10***
Outpayments and network costs	(1,421)	(1,238)	*(15)*	*(15)*
Staff costs	(290)	(291)	*-*	*-*
Other costs	(168)	(171)	*2*	*2*
Total operating costs before depreciation and amortisation[4]	(1,879)	(1,700)	*(11)*	*(10)*
EBITDA[5]	**149**	**135**	***10***	***10***
Depreciation and software amortisation	(118)	(61)	*(93)*	*(93)*
Operating profit before amortisation of acquired intangibles	**31**	**74**	***(58)***	***(58)***
Amortisation of acquired intangibles	(5)	-	*>(100)*	*>(100)*
Operating profit before joint ventures and associates	**26**	**74**	***(65)***	***(65)***
Share of post-tax loss of joint ventures and associates	(6)	(8)	*25*	*25*
Operating profit before exceptional items	**20**	**66**	***(70)***	***(70)***
Exceptional items	(245)	(99)	*>(100)*	
Total operating loss	**(225)**	**(33)**	***>(100)***	
Capital expenditure	(207)	(155)	*(34)*	*(34)*
Headcount[6] at 31 March (number)	5,614	5,528	*(2)*	*N/a*

[1] Energis consolidated from 11 November 2005
[2] Positive percentages represent improvement
[3] Constant currency growth rates based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement
[4] Includes operational releases
[5] Earnings before interest, tax, depreciation, amortisation and exceptionals
[6] Full time equivalents. The opening headcount position has been restated to include contractors working full-time on capital projects.

Integration, recovery and transformation
Since the acquisition of Energis on 11 November 2005, we have been working on integrating the two businesses – a programme that we completed by 31 March 2006.

We are now focused on transforming the integrated business into one that provides managed IP services to the largest corporates, carriers and public institutions in the UK and across the world.

The first step is to recover the business. In 2006/07, we expect to achieve EBITDA of between £135 million and £145 million. This will include a full year of Energis' results, offset by £20 million of EBITDA reduction from changes to the scope of the business. Based on our past experience, we also expect this to include operational releases in the region of £30 million to £40 million, compared with £76 million in 2005/06, when we had particular focus on resolving outstanding legacy issues. As a result, if we had chosen to focus purely on short-term performance and ignored our strategic ambition of £2 billion revenue and double digit operating profit margin, we would be targeting a significantly higher short-term EBITDA.

Our cost reduction activities are progressing well, and we expect to achieve more than the target of £55 million operating cost reduction by 2007/08, given at the time of acquiring Energis. By 31 March 2006, we had achieved annualised operating cost savings in excess of £50 million. By the end of the third year following the Energis acquisition, we expect annualised operating cost savings to have reached about £150 million. We expect the cost of delivering the headcount and property elements of these savings to be approximately £147 million over the three years from acquisition, with £21 million of that already incurred in 2005/06.

Energis
The year on year comparison of results is affected by the consolidation of Energis' results in 2005/06. The following commentary on the results, in discussing underlying trends, analyses the year on year changes excluding the impact of consolidating Energis in 2005/06. Energis contributed £266 million of revenue and £35 million of EBITDA to the UK results from the date of its acquisition. Energis' EBITDA margin for 2005/06 was 13% compared with the UK EBITDA margin (excluding Energis) of 6%.

Services revenue
Excluding the impact of Energis, Services revenues have declined 13% year on year. This decline is the product of customer churn and price erosion and the historically poor service experience. Additionally, 2004/05 revenues included one-off revenue items that did not repeat in 2005/06.

Carrier revenue
Excluding the impact of Energis, underlying Carrier revenues have increased by 8% year on year. The increase has been driven by higher volumes, utilising spare network capacity, offset in part by continued price pressure and the full impact of the September 2004 reduction in mobile termination rates.

Additionally, revenues have benefited from a number of operational releases totalling £16 million. The general nature of operational releases is explained in more detail in the operating costs section below.

Operating costs
Excluding the impact of Energis, total operating costs are marginally lower year on year.

During the year, operating costs have benefited from the impact of operational releases. Operational releases have been an ongoing feature of the UK business, reflecting the nature of the telecoms services we provide and the environment in which we provide them. These relate largely to accruals made in previous years for liabilities with customers, suppliers, interconnect providers and other third parties. Due to an increased focus on settling these items in 2005/06, there has been a benefit to operating costs. Whilst individually not material, the total impact on operating costs from operational releases in the year is £60 million.

Staff costs, as a percentage of revenue, have improved from around 16% to 14% as initiatives to control staff costs, such as consolidating support activities across the UK and continental Europe, offset rising employment costs.

Other costs have reduced slightly year on year. The principal elements of other costs are property costs, travel costs and professional fees. The reduction reflects ongoing programmes to minimise cost in these areas.

Depreciation and software amortisation and capital expenditure

Depreciation has increased significantly year on year. This increase reflects a natural rise from historically low levels following the fixed asset impairments between 2002 and 2004 and the consolidation of Energis.

Capital expenditure has increased year on year due to the impact of Energis and increased investment in IP products and platforms. More than half of our capital expenditure in 2005/06 related directly to customer delivery and next generation implementation.

Joint ventures and associates

The result represents our share of the post-tax losses of companies that operate submarine cable systems. The reduction in the loss compared to the prior year is due to the closure of Gemini in 2004/05 and an impairment of assets in Apollo in 2004/05.

Exceptional items

Exceptional items in 2005/06 are mainly due to a write down of obsolete assets in the UK business (excluding Energis), as discussed on page 6. We expect operating profit in 2006/07 to benefit by around £70 million from lower depreciation as a result.

In 2004/05, exceptional items primarily arose from restructuring.

Acquisitions and disposals

On 11 November 2005, we acquired Energis for net consideration of £608 million. In the third year following completion, we will pay a contingent consideration of between zero and £80 million, payable in cash or shares at our option, dependent on the level of Cable & Wireless' share price.

On 29 April 2005, we sold our training centre for £20 million, resulting in a profit on disposal of £11 million.

On 8 April 2005, we announced the completion of the disposal of our Spanish retail business for £4 million, resulting in a profit on disposal of £3 million.

Reconciliation of UK business EBITDA to net cash flow before financing[1]

	2005/06 £m
EBITDA[2]	149
Exceptional items	(8)
EBITDA less exceptionals	**141**
Defined benefit pension scheme cash top up payment	(59)
Defined benefit pension scheme other cash contributions	(11)
Net increase in working capital and intercompany	(67)
Movement in provisions	(91)
Cash generated from continuing operating activities	**(87)**
Purchase of property, plant, equipment and intangible assets	(221)
Acquisitions and disposals	(585)
Cash generated from discontinued operating and investing activities	4
Net cash outflow before financing activities	**(889)**

[1] Source: UK business management accounts
[2] Earnings before interest, tax, depreciation, amortisation and exceptionals

The cash outflow during the year principally reflects EBITDA of £149 million, the acquisition of Energis, capital expenditure, a pension top-up contribution and working capital movements.

The £8 million of exceptional costs and provision movements of £91 million include restructuring programme costs relating to the integration of the UK and Energis businesses. Other headcount, property and network cost reduction programmes, initiated in previous years, are also included in these costs.

The pension payment of £59 million reflects a top-up contribution to the UK defined benefit scheme. Following this top-up payment, along with a further £39 million from Central, the scheme is fully funded on an ongoing basis, based on the 2005 funding valuation.

The net increase in working capital and intercompany includes the impact of £76 million of operational releases, as described on page 20.

The net outflow of £585 million for acquisitions and disposals primarily represents the acquisition of Energis for net consideration of £608 million.

BULLDOG

Introduction

Using local loop unbundling (LLU), we provide broadband and telephony services to residential and small business customers in the UK. However, LLU is also a fundamental part of our overall UK corporate access strategy, which we intend to leverage in the future as part of our move to next generation and IP networks.

Using full LLU, rather than shared, allows us to maintain end-to-end bandwidth control and differentiate our services from those of our competitors. In 2005/06, we increased our broadband speeds from a maximum of 4Mbps to 8Mbps and, since the year-end, to a maximum of 16Mbps.

Competition in consumer broadband services is tough and is likely to increase as the rapid take up of broadband slows. Providers will increasingly compete with each other to win existing, rather than acquiring new, broadband customers. Pricing pressure is, therefore, likely to remain a feature of the market.

In the coming year, we will focus on sustaining our share of gross customer additions and on maintaining average revenue per customer, through innovative service offerings. To support our proposition of delivering excellent service, we will continue to invest in our systems, processes and people.

Bulldog key performance indicators

	31 March 2006
Customers:	
Residential LLU customers	112,000
Business LLU customers	6,000
Total customers	118,000
Number of exchanges unbundled	411
Average monthly revenue per residential customer (March 2006)	£36
Customer care:	
Orders provided on time	88%
Average time from order to delivery	14 days
Fault tickets resolved in less than 5 days	>90%

The KPIs above are benchmarks that our management team uses to assess progress against our plans to grow the business and provide customers with a high level of service. We will continue to monitor these KPIs and use them to drive continued performance improvement.

Customers

The increase in the LLU footprint from 252 to 411 exchanges, along with increased marketing and brand awareness and the launch of a range of innovative products, has driven customer growth to 118,000 at 31 March 2006.

Despite strong competition in the consumer broadband market, our average monthly revenue per customer in March 2006 was £36, comprising line rental, voice calls and broadband.

We expect to have 800 unbundled exchanges by 30 September 2006, driving further customer growth.

Customer care

As the first full local loop unbundler in the UK, we encountered significant challenges during the year as we grew our customer base. Our provisioning process has now improved dramatically and we are provisioning 88% of customers on time compared with 32% last year. The average time from order to delivery is now 14 days compared with 22 days last year. Openreach's process accounts for at least 10 of the current 14 days.

During the year, we made a number of changes to our provisioning, customer care and billing processes. As a result, in October 2005, Ofcom closed the investigation it had launched earlier in the year following a number of customer complaints.

Our improvement in provisioning and support services has halved the level of faults per customer despite the ten-fold increase in customer numbers. At the same time, we have invested heavily in our ability to resolve customers' problems when they do arise and are now resolving more than 90% of faults within five days of them being reported.

Bulldog income statement

	2005/06 £m	2004/05 £m
Total revenue	**33**	**11**
Outpayments and network costs	(66)	(13)
Staff costs	(28)	(12)
Other costs	(44)	(14)
Total operating costs before depreciation and amortisation	(138)	(39)
EBITDA[1]	**(105)**	**(28)**
Depreciation and software amortisation	(15)	(2)
Total operating loss	**(120)**	**(30)**
Capital expenditure	(70)	(40)
Headcount[2] at 31 March (number)	651	505

[1] Earnings before interest, tax, depreciation and amortisation
[2] Full time equivalents

Revenue
Revenue growth was driven by increasing the customer base from almost 10,000 in March 2005 to 118,000 residential and business customers in March 2006, as the number of unbundled exchanges increased from 252 to 411. A lesser factor was the consolidation of a full year in 2005/06 compared with 10 months from the acquisition of Bulldog in 2004/05.

Operating costs
Outpayments and network costs rose to £66 million in the year, largely due to the rise in the number of unbundled exchanges and the increase in customer numbers. The main elements that contribute to outpayments and network costs are the connection fees and rental charges payable to Openreach for each customer, the rental of space for our equipment in each Openreach exchange, the cost of terminating our customers' voice calls on third party networks and the cost of transporting data between the local exchange and its source or destination.

Staff costs increased to £28 million as overall headcount increased by 146 in the year. The increase in headcount reflects the growth phase that the business is in and the steps taken to improve customer care levels. The increase in cost per employee represents the higher skill levels of our new employees.

Marketing, customer operations and other general and administrative expenses account for the majority of other costs. The increase from the prior year is mainly due to the "Open the gate" advertising campaign and other brand marketing activities.

Depreciation and capital expenditure
The increase in depreciation has been driven by the capital invested in expanding our LLU footprint.

Capital expenditure was principally in respect of the unbundling of an additional 159 exchanges in the year, the provision of backhaul to those exchanges and investment in provisioning, billing and other support systems.

Reconciliation of Bulldog EBITDA to net cash flow before financing[1]

	2005/06 £m
EBITDA[2]	(105)
Net movement in working capital and intercompany	3
Cash utilised from continuing operating activities	**(102)**
Purchase of property, plant, equipment and intangible assets	(61)
Net cash outflow before financing activities	**(163)**

[1] Source: Bulldog management accounts
[2] Earnings before interest, tax, depreciation and amortisation

Cash invested in operations amounted to £102 million, comprising outpayments, network, staff, customer operations and general administrative costs, supporting rapid customer growth.

Capital expenditure of £61 million was invested in exchanges, metronodes, backhaul and IT infrastructure as we continued to expand our LLU footprint.

GROUP OUTLOOK

As indicated on page 20, EBITDA for the UK in 2006/07 will be in the range of £135 million to £145 million. While International establishes itself as an operationally discrete business, and invests in growth opportunities, its prospects remain good, albeit subject, as ever, to fluctuations in foreign exchange rates.

GROUP NON-OPERATING MATTERS

Dividend

The Board has recommended a full year dividend of 4.5 pence per share in respect of the year ended 31 March 2006, an increase of 18% compared with last year's dividend of 3.8 pence per share. Of this year's full year dividend of 4.5 pence per share, 1.4 pence per share was paid as an interim dividend. The final dividend of 3.1 pence per share will be paid on 11 August 2006 to ordinary shareholders on the register as at 16 June 2006.

The scrip dividend scheme will be offered in respect of the final dividend. Those shareholders who have already elected to join the scheme need do nothing since the final dividend will be automatically applied to the scheme.

Shareholders wishing to join the scheme for the final dividend (and all future dividends) should return a completed mandate form to: Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 2DZ by 14 July 2006. Copies of the mandate form, and the scrip dividend brochure, can be obtained from Lloyds TSB Registrars (UK callers: 0870 600 3975, overseas callers: +44 1903 502 541) or from the Company's website www.cw.com.

Return of capital

Following the acquisition of Energis and the top-up of the pension scheme, we have decided to discontinue the balance of the £250 million share buyback programme. At 31 March 2006, we had bought back 74,950,000 shares at an average price of 123.687 pence per share.

Pensions

The most recent triennial funding valuation of the UK defined benefit scheme was made as at 31 March 2005. We completed discussions with the trustees and the scheme actuary in March 2006, resulting in us paying a £98 million contribution on 31 March 2006. As a result of our top-up payment, the scheme is fully funded on an ongoing basis, based on the 2005 funding valuation. Our ordinary contribution rate for 2005/06, including administration costs and an allowance for the pension protection fund levy, was 22.3% of our employees' pensionable pay, or £13 million.

We used the latest, generally adopted mortality tables and other assumptions for the funding valuation, adjusted to reflect the scheme's actual experience, and included an allowance for future improvements in life expectancy. Under these assumptions, the average life expectancy is 26.5 years for a man aged 60 and 28.1 years for a woman aged 60. A one year change in the life expectancy assumption would have increased or decreased the scheme liabilities by around £40 million. A change of 0.25% in the assumed rate of return on scheme investments would have increased or decreased the funding required by around £86 million. A change of 0.25% in the assumed rate of wage and salary increases would have increased or decreased the funding required by around £7 million.

The IAS 19 deficit at 31 March 2006, for the main UK scheme, is £89 million, compared with £176 million at 31 March 2005. The assumptions used for the IAS 19 calculation are different from those adopted by the trustees and the scheme actuary to determine the funding position of the scheme. In particular, IAS 19 requires the Fund's liabilities to be discounted at an AA corporate bond rate, whereas the funding valuation discounts the liabilities at a higher expected rate of return on the scheme assets. We have further unfunded pension liabilities in the UK of £23 million.

A number of our overseas businesses also operate defined benefit pension schemes. The aggregate IAS 19 surplus of these schemes is £10 million at 31 March 2006, compared with a deficit of £5 million at 31 March 2005.

Incentive schemes

As a result of the creation of the two distinct businesses, we have made several changes to Directors' remuneration, and further changes are proposed. In summary, we propose to adjust base salaries to reflect levels of responsibilities in the new Group structure, restrict maximum potential bonus to 100% of salary and put in place new long-term incentive schemes.

We propose that Executive Directors receive one-off long-term incentive awards in 2006 as follows:

Restricted share plan

To encourage our Executive Directors to align their interests with shareholders, they received a matching award of restricted shares with Total Shareholder Return (TSR) performance conditions attached, on investing their own funds into Company shares.

Share option plan

We awarded the Directors with Central functions, Tony Rice and George Battersby, a one-off award of share options with a face value of ten times basic salary. The vesting of these share options is subject to relative TSR performance conditions.

Cash Long-Term Incentive Plan (Cash LTIP)

Subject to shareholder approval, John Pluthero and Harris Jones will participate in a new Cash LTIP. This plan will create a reward pool for each of the two business units over a four-year period. If a business grows by less than the pre-set hurdle rate of 8% per annum compounded, there will be no reward pool for that business. If a business grows by more than the hurdle rate, then 10% of the growth in value in excess of the hurdle rate goes into the reward pool. If the business grows by less than 20% per annum, then John Pluthero and Harris Jones will receive no more than they would receive under a traditional long-term incentive scheme. John Pluthero and Harris Jones will each receive a 20% share of their business' reward pool, with the remainder for senior executives in each business. 75% will be payable to all participants at the end of year three, and 100% (less any year-three payments) will be payable at the end of year four (2010).

De-listing from NYSE and de-registration from SEC

We previously maintained an American Depository Receipt (ADR) programme listed on the New York Stock Exchange (NYSE). Given the very small percentage of shares that were held and traded through the ADR programme, we concluded that the additional cost of its administration outweighed its potential benefits. Similarly, we determined that the costs of maintaining our registration with the US Securities and Exchange Commission (SEC) outweigh the associated benefits.

On 9 September 2005, we announced our intention to de-list from the NYSE and terminate our ADR programme as part of the process of terminating our registration with the SEC.

We de-listed from the NYSE and terminated our ADR programme, effective 4pm Eastern Standard Time, 13 December 2005, and are in the process of ending our SEC registration. We expect to terminate our SEC registration during June 2006, which will ultimately remove our US reporting obligations.

Adoption of International Financial Reporting Standards (IFRS)

We have successfully completed the adoption of IFRS and have prepared the 2005/06 numbers on this basis. We have restated the 2004/05 comparative numbers, on an IFRS basis, throughout this announcement.

As previously announced, the principal areas of impact for the Group in the transition to IFRS were the deconsolidation of our Maldives business, pension accounting and share-based payments.

Exchange rate movements

Year on year average exchange rates show a 2.4% appreciation of the US dollar against sterling and a 0.6% depreciation of the Jamaican dollar against sterling. These trends have had a £7 million positive impact on the International business' current year EBITDA as many of its businesses report in currencies that are linked or pegged to the US dollar or the Jamaican dollar.

A one US cent change in the US$:£ exchange rate has an approximately £2 million impact on the EBITDA of the International business.

The 3.0% relative decline of the Jamaican dollar against the US dollar had an adverse impact on the Jamaican business, where certain payments are denominated in US dollars.

	2005/06	**2004/05**
US$: £		
Average	1.7946	1.8388
Period end	1.7406	1.8701
Jamaican$: £		
Average	112.6044	111.9637
Period end	113.7600	113.8890

GROUP RESULTS DETAIL

Year ended 31 March 2006 compared with the year ended 31 March 2005

	2005/06 (£m)				2004/05 (£m)				*CC change[1] (%)*			
	International[2]	**UK[2]**	**Central[3]**	**Group Total**	**International[2]**	**UK[2]**	**Central[3]**	**Group Total**	***International[2]***	***UK[2]***	***Central[3]***	***Group Total***
Revenue	1,212	2,040	(22)	3,230	1,124	1,843	(19)	2,948	*6*	*12*	*(16)*	*9*
Outpayments and network costs	(466)	(1,466)	18	(1,914)	(401)	(1,248)	18	(1,631)	*(14)*	*(19)*	*-*	*(17)*
Staff costs	(163)	(318)	(46)	(527)	(158)	(303)	(66)	(527)	*(2)*	*(5)*	*30*	*-*
Other costs	(166)	(212)	-	(378)	(178)	(185)	(3)	(366)	*8*	*(14)*	*100*	*(2)*
Total op costs before dep'n and amort'n	(795)	(1,996)	(28)	(2,819)	(737)	(1,736)	(51)	(2,524)	*(6)*	*(16)*	*45*	*(11)*
EBITDA[4]	**417**	**44**	**(50)**	**411**	**387**	**107**	**(70)**	**424**	***6***	***(59)***	***29***	***(5)***
Depreciation and software amortisation	(136)	(133)	6	(263)	(121)	(63)	(1)	(185)	*(11)*	*>(100)*	*>100*	*(41)*
Operating profit/(loss)[5]	**281**	**(89)**	**(44)**	**148**	**266**	**44**	**(71)**	**239**	***4***	***>(100)***	***38***	***(39)***
Amortisation of acquired intangibles	(6)	(5)	-	(11)	(5)	-	-	(5)	*(20)*	*>(100)*	*-*	*>(100)*
Operating profit before JVs and associates[5]	**275**	**(94)**	**(44)**	**137**	**261**	**44**	**(71)**	**234**	***4***	***>(100)***	***38***	***(43)***
Joint ventures & associates	58	(6)	-	52	56	(8)	-	48	*1*	*25*	*-*	*6*
Total operating profit/(loss)[5]	**333**	**(100)**	**(44)**	**189**	**317**	**36**	**(71)**	**282**	***3***	***>(100)***	***38***	***(34)***
Exceptional items	(18)	(245)	7	(256)	(22)	(99)	(30)	(151)	*18[6]*	*>(100)[6]*	*>100[6]*	*(70)[6]*
Total operating profit/(loss)	**315**	**(345)**	**(37)**	**(67)**	**295**	**(63)**	**(101)**	**131**	***7[6]***	***>(100)[6]***	***63[6]***	***>(100)[6]***
Capital expenditure	(142)	(277)	3	(416)	(171)	(195)	(7)	(373)	*18*	*(42)*	*>100*	*(11)*
Headcount[7] at 31 March	8,150	6,265	156	14,571	8,077	6,033	326	14,436	*(1)*	*(4)*	*52*	*(1)*

[1] Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement
[2] Cable & Wireless announced the creation of two self-contained operational units, UK (including Bulldog) and International, on 31 January 2006
[3] "Central" is composed of the corporate centre and intra-group eliminations between the businesses
[4] Earnings before interest, tax, depreciation, amortisation and exceptionals
[5] Excluding exceptionals
[6] At reported exchange rates
[7] Full time equivalents

INTERNATIONAL BUSINESS RESULTS DETAIL

Year ended 31 March 2006 compared with year ended 31 March 2005

	2005/06 (£m)						**2004/05 (£m)**						***CC change[1] (%)***				
	Carib-bean	**Panama**	**Macau**	**Monaco**	**RoW[2]**	**Total**	**Carib-bean**	**Panama**	**Macau**	**Monaco**	**RoW[2]**	**Total**	***Carib-bean***	***Panama***	***Macau***	***Monaco***	***RoW[2]***
International voice	107	18	30	10	23	188	123	18	27	9	28	205	(14)	(2)	8	11	(19)
Domestic voice	182	109	19	9	19	338	178	117	17	8	18	338	1	(9)	9	12	4
Mobile	153	104	49	24	30	360	136	77	44	19	26	302	11	32	8	26	15
Broadband & dial-up internet	32	13	13	3	5	66	25	8	10	2	4	49	30	59	27	49	24
Data	47	22	8	7	20	104	46	22	8	6	17	99	(1)	(2)	(3)	16	16
Enterprise & other	43	18	17	71	7	156	42	15	11	56	7	131	1	17	50	26	(1)
Revenue	564	284	136	124	104	1,212	550	257	117	100	100	1,124	1	8	13	24	3
Outpayments and network costs	(196)	(110)	(63)	(70)	(27)	(466)	(183)	(90)	(48)	(55)	(25)	(401)	(6)	(19)	(28)	(27)	(7)
Staff costs	(87)	(23)	(11)	(19)	(23)	(163)	(88)	(23)	(11)	(13)	(23)	(158)	2	2	3	(46)	1
Other costs	(94)	(46)	(9)	(3)	(14)	(166)	(113)	(38)	(8)	(5)	(14)	(178)	18	(18)	(10)	40	1
Total op costs before dep'n and amort'n	(377)	(179)	(83)	(92)	(64)	(795)	(384)	(151)	(67)	(73)	(62)	(737)	3	(16)	(21)	(26)	(2)
EBITDA[3]	187	105	53	32	40	417	166	106	50	27	38	387	11	(3)	3	18	4
Dep'n and software amortisation	(63)	(35)	(16)	(7)	(15)	(136)	(58)	(31)	(15)	(6)	(11)	(121)	(7)	(10)	(4)	(16)	(35)
Operating profit[4]	124	70	37	25	25	281	108	75	35	21	27	266	13	(9)	3	19	(9)
Amortisation of acquired intangibles	-	-	-	(6)	-	(6)	-	-	-	(5)	-	(5)	-	-	-	(20)	-
Op profit before JVs and associates[4]	124	70	37	19	25	275	108	75	35	16	27	261	13	(9)	3	18	(9)
Joint ventures & associates	11	-	-	5	42	58	14	-	-	1	41	56	(22)	-	-	>100	-
Total operating profit[4]	135	70	37	24	67	333	122	75	35	17	68	317	9	(9)	3	41	(3)
Exceptional items	(16)	-	-	(3)	1	(18)	(21)	-	-	-	(1)	(22)	24[5]	-[5]	-[5]	>(100)[5]	>(100)[5]
Total operating profit	119	70	37	21	68	315	101	75	35	17	67	295	18[5]	(7)[5]	6[5]	24[5]	1[5]
Capital expenditure	(78)	(25)	(11)	(10)	(18)	(142)	(104)	(44)	(14)	(3)	(6)	(171)	26	45	24	>(100)	>(100)
Headcount[6] at 31 March	4,175	1,852	940	496	687	8,150	4,147	1,818	932	458	722	8,077	(1)	(2)	(1)	(8)	5

[1] Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement
[2] Rest of the World comprises operations in the Channel Islands, the Middle East and the Atlantic, Pacific and Indian Oceans
[3] Earnings before interest, tax, depreciation, amortisation and exceptionals
[4] Excluding exceptionals
[5] At reported exchange rates
[6] Full time equivalents

UK BUSINESS RESULTS DETAIL

Year ended 31 March 2006 compared with the year ended 31 March 2005

	2005/06 (£m)				2004/05 (£m)				*CC change[1] (%)*
	UK including Europe, US, Asia[2]	**Bulldog**	**Eliminations**	**Total**	**UK including Europe, US, Asia[2]**	**Bulldog**	**Eliminations**	**Total**	***UK including Europe, US, Asia[2]***
Services	965	-	-	965	935	-	-	935	*3*
Carrier	1,063	-	(21)	1,042	900	-	(3)	897	*18*
Bulldog	-	33	-	33	-	11	-	11	-
Revenue	**2,028**	**33**	**(21)**	**2,040**	**1,835**	**11**	**(3)**	**1,843**	***10***
Outpayments and network costs[3]	(1,421)	(66)	21	(1,466)	(1,238)	(13)	3	(1,248)	*(15)*
Staff costs	(290)	(28)	-	(318)	(291)	(12)	-	(303)	-
Other costs	(168)	(44)	-	(212)	(171)	(14)	-	(185)	*2*
Total op costs before dep'n and amort'n	(1,879)	(138)	21	(1,996)	(1,700)	(39)	3	(1,736)	*(10)*
EBITDA[4]	**149**	**(105)**	**-**	**44**	**135**	**(28)**	**-**	**107**	***10***
Depreciation and software amortisation	(118)	(15)	-	(133)	(61)	(2)	-	(63)	*(93)*
Operating profit/(loss)[5]	**31**	**(120)**	**-**	**(89)**	**74**	**(30)**	**-**	**44**	***(58)***
Amortisation of acquired intangibles	(5)	-	-	(5)	-	-	-	-	*>(100)*
Operating profit before JVs and associates[5]	**26**	**(120)**	**-**	**(94)**	**74**	**(30)**	**-**	**44**	***(65)***
Joint ventures & associates	(6)	-	-	(6)	(8)	-	-	(8)	*25*
Total operating profit/(loss)[5]	**20**	**(120)**	**-**	**(100)**	**66**	**(30)**	**-**	**36**	***(70)***
Exceptional items	(245)	-	-	(245)	(99)	-	-	(99)	*>(100)*
Total operating profit/(loss)	**(225)**	**(120)**	**-**	**(345)**	**(33)**	**(30)**	**-**	**(63)**	***>(100)***
Capital expenditure	(207)	(70)	-	(277)	(155)	(40)	-	(195)	*(34)*
Headcount[6] at 31 March	5,614	651	-	6,265	5,528	505	-	6,033	*(2)*

[1] Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement
[2] UK and Energis excluding Europe, US and Asia contributed £1,791 million of revenue and £140 million of EBITDA. Energis contributed £266 million of revenue and £35 million of EBITDA to the UK result
[3] Includes operational releases
[4] Earnings before interest, tax, depreciation, amortisation and exceptionals
[5] Excluding exceptionals
[6] Full time equivalents

EXTRACTS FROM THE FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Preliminary results

The financial information set out in this announcement does not constitute the Company's statutory report and accounts for the year ended 31 March 2006. Statutory accounts will be delivered to the Registrar of Companies following the Company's annual general meeting on 21 July 2006. The auditor has confirmed that it will report without qualification on those accounts.

The report of the auditor on the statutory accounts for the year ended 31 March 2005, prepared under UK GAAP, was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The comparative financial information for the year ended 31 March 2005 has been restated as a result of the adoption of IFRS, as described in the 'Application of IFRS 1' section on page 42.

A full copy of the financial statements or the annual review will be mailed to shareholders on or about 20 June 2006 and can be obtained thereafter from Nick Cooper, Company Secretary, The Point, 37 North Wharf Road, Paddington, London, W2 1LA.

Basis of preparation

As required by EU regulation, these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union ('Adopted IFRS'). Adopted IFRS are similar to IFRS issued by the IASB, except for certain provisions concerning hedge accounting that have no impact on the financial statements of the Group.

These are the Group's first consolidated financial statements under IFRS and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in the statutory accounts for the year ended 31 March 2006.

The Group established its IFRS accounting policies for the year ending 31 March 2006 and applied these standards retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 April 2004, except where permitted or required by IFRS 1 or other applicable standards. The accounting policies set have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to IFRS except for those relating to the classification and measurement of financial instruments and insurance contracts. The Group has made use of the exemption available under IFRS 1 *First-time adoption of International Financial Accounting Standards* to apply IAS 32 *Financial instruments: disclosure and presentation*, IAS 39 *Financial instruments: recognition and measurement* and IFRS 4 *Insurance contracts* from 1 April 2005. The policies applied to financial instruments for the years ended 31 March 2005 and 31 March 2006 are disclosed separately. These policies are set out in the statutory accounts for the year ended 31 March 2006.

The accounting policies have been applied consistently by Group entities.

Consolidated income statement
For the years ended 31 March

	2005/06			2004/05		
	Pre-except-ional £m	Except-ional £m	Total £m	Pre-except-ional £m	Except-ional £m	Total £m
Revenue	3,230	-	3,230	2,948	-	2,948
Operating costs before depreciation and amortisation	(2,819)	(21)	(2,840)	(2,524)	(143)	(2,667)
Amortisation	(46)	(60)	(106)	(20)	-	(20)
Depreciation	(228)	(177)	(405)	(170)	(8)	(178)
Group operating profit/(loss)	**137**	**(258)**	**(121)**	**234**	**(151)**	**83**
Share of post-tax profit of joint ventures and associates	52	2	54	48	-	48
Total operating profit/(loss)	**189**	**(256)**	**(67)**	**282**	**(151)**	**131**
Gains and losses on sale of non-current assets	2	81	83	5	(8)	(3)
Other income	7	78	85	5	-	5
Interest income	80	-	80	102	-	102
Interest expense	(69)	-	(69)	(68)	-	(68)
Profit/(loss) before income tax	**209**	**(97)**	**112**	**326**	**(159)**	**167**
Income tax (expense)/credit	(29)	2	(27)	(64)	89	25
Profit/(loss) for the year from continuing operations	**180**	**(95)**	**85**	**262**	**(70)**	**192**
Profit for the year from discontinued operations	2	88	90	22	140	162
Profit/(loss) for the year	**182**	**(7)**	**175**	**284**	**70**	**354**
Attributable to equity holders of the Company	120	(41)	79	221	73	294
Attributable to minority interests	62	34	96	63	(3)	60
Profit/(loss) for the year	**182**	**(7)**	**175**	**284**	**70**	**354**
Earnings per share attributable to the equity holders of the Company during the year (pence)						
Basic			3.5p			12.7p
Diluted			3.4p			12.1p
Earnings per share from continuing operations attributable to the equity holders of the Company during the year (pence)						
Basic			(0.4)p			5.7p
Diluted			(0.4)p			5.7p
Earnings per share from discontinued operations attributable to the equity holders of the Company during the year (pence)						
Basic			3.9p			7.0p
Diluted			3.6p			6.4p

Consolidated balance sheet
As at 31 March

	31 March 2006	31 March 2005
	£m	**£m**
ASSETS		
Non-current assets		
Intangible assets	682	206
Property, plant and equipment	1,489	1,268
Investments in associates and joint ventures	176	245
Trade investments	-	33
Available for sale financial assets	15	-
Deferred tax asset	17	29
Retirement benefit asset	41	26
Trade and other receivables	43	43
	2,463	**1,850**
Current assets		
Inventories	31	26
Trade and other receivables	944	805
Tax asset	2	-
Financial assets at fair value through income statement	39	-
Current asset investment	-	80
Cash and cash equivalents	1,127	2,021
	2,143	**2,932**
Assets held for sale	105	18
	2,248	**2,950**
Total assets	**4,711**	**4,800**
LIABILITIES		
Current liabilities		
Trade and other payables	1,381	1,293
Current tax liabilities	123	158
Loans and obligations under finance leases	143	23
Derivative financial instruments	15	-
Provisions for other liabilities and charges	89	279
	1,751	**1,753**
Liabilities associated with assets held for sale	-	4
	1,751	**1,757**
Net current assets	**497**	**1,193**
Non-current liabilities		
Loans and obligations under finance leases	641	801
Deferred tax liabilities	51	49
Provisions for other liabilities and charges	193	188
Retirement benefit obligations	143	227
	1,028	**1,265**
Net assets	**1,932**	**1,778**
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	605	599
Share premium	24	8
Reserves	961	876
	1,590	**1,483**
Minority interest	342	295
Total equity	**1,932**	**1,778**

Consolidated statement of recognised income and expense
For the years ended 31 March

	2005/06 £m	2004/05 £m
Fair value gains on available for sale financial assets	10	-
Fair value gains on available for sale financial assets recycled to income statement on sale	(70)	-
Actuarial (losses)/gains in the value of defined benefit retirement plans	(9)	76
Cumulative translation differences recycled on disposal of foreign investment	-	(2)
Exchange differences on translation of foreign operations	67	(38)
Tax on items taken directly to or transferred from equity	(1)	(3)
Net (loss)/income recognised directly in equity	(3)	33
Profit for the period	175	354
Total recognised income and expense for the period	**172**	**387**
Effect of adoption of IAS 32 and IAS 39 on 1 April 2005 on:		
Fair value reserve	32	-
Retained loss	13	-
Minority interest	31	-
	76	-
	248	**387**
Attributable to equity holders of the Company	133	328
Attributable to minority interests	115	59
	248	**387**

Consolidated cash flow statement
For the years ended 31 March

	2005/06 £m	2004/05 £m
Continuing operations		
Cash flows from operating activities		
Cash generated from continuing operations (see page 38)	100	279
Cash generated from discontinued operations (see page 38)	3	28
Income taxes paid	(47)	(60)
Net cash from operating activities	**56**	**247**
Cash flows from investing activities		
Interest received	107	88
Other investment income	5	4
Dividends received	34	31
Proceeds on disposal of trade investments	89	51
Proceeds on disposal of property, plant and equipment	35	9
Proceeds on disposal of intangible assets	2	-
Purchase of property, plant and equipment	(412)	(278)
Purchase of intangible assets	(22)	(43)
Purchase of credit linked notes	-	(80)
Proceeds from redemption of credit linked notes	40	50
Proceeds from disposal of associates and joint ventures	1	-
Acquisition of associates and joint ventures	(1)	(7)
Acquisition of shareholdings in subsidiaries (net of cash received)	(610)	(77)
Net cash from continuing operations	**(732)**	**(252)**
Discontinued operations		
Proceeds on disposal of trade investment	-	17
Proceeds on disposal of subsidiaries	27	96
Proceeds on disposal of associate and joint ventures	-	7
Purchase of property, plant and equipment	-	(9)
Net cash from discontinued operations	**27**	**111**
Net cash used in investing activities	**(705)**	**(141)**
Net cash (outflow)/inflow before financing activities	**(649)**	**106**
Cash flows from financing activities		
Dividends paid to minority interests	(59)	(27)
Dividends paid to shareholders	(80)	(97)
Repayments of borrowings	(46)	(82)
Loan to minority interest	(44)	-
Interest paid	(61)	(67)
Proceeds from borrowings	39	1
Purchase of treasury shares	(17)	(74)
Net proceeds on issue of ordinary share capital	11	6
Net cash used in financing activities	**(257)**	**(340)**
Discontinued operations	-	(4)
Net cash used in financing activities	**(257)**	**(344)**
Net decrease in cash and cash equivalents	**(906)**	**(238)**
Cash and overdrafts at the beginning of the period	2,021	2,270
Exchange gains and losses on cash and cash equivalents	12	(4)
	1,127	**2,028**
Less cash reflected as assets held for sale	-	(7)
Cash and cash equivalents at the end of the period	**1,127**	**2,021**

Cash flow from operating activities

Reconciliation of net profit to cash generated from operations

	2005/06	2004/05
	£m	£m
Continuing operations		
Net profit	85	192
Adjustments for:		
Tax expense/(credit)	27	(25)
Depreciation	228	170
Amortisation	46	20
Impairment	237	8
Gains and losses on sale of non-current assets	(83)	3
Other income	(7)	(5)
Interest and similar income	(80)	(102)
Interest and similar charges	69	68
(Decrease)/increase in provisions within operating profit	(135)	95
(Decrease)/increase in provisions below operating profit	(34)	-
Share-based payments	14	10
Defined benefit pension scheme expense	6	19
Defined benefit pension scheme top-up contributions	(98)	(100)
Defined benefit pension scheme other contributions	(17)	(27)
Share of results after tax of associates	(54)	(48)
Operating cash flows before working capital changes	**204**	**278**
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
(Increase)/decrease in inventories	(4)	5
Decrease in trade and other receivables	8	116
Increase/(decrease) in payables	(108)	(120)
Cash generated from continuing operations	**100**	**279**
Discontinued operations		
Net profit	90	162
Adjustments for:		
Tax expense	-	2
Depreciation and amortisation	-	1
Profit on disposal of investments	(20)	(16)
Profit on disposal of property, plant and equipment	(4)	-
Interest and similar charges	-	1
Profit on sale of operations	-	(130)
Decrease in provisions	(64)	-
Changes in working capital	1	8
Cash generated from discontinued operations	**3**	**28**
Cash generated from operations	**103**	**307**

Earnings per share

Basic earnings per ordinary share are based on the profit for the year attributable to shareholders and the weighted average number of shares in issue, excluding ordinary shares purchased by the Company and held as treasury shares.

	2005/06 £m	2004/05 £m
Profit for the financial year attributable to shareholders	79	294
Interest saved on loan stock conversion	20	11
Diluted profit for the financial year attributable to shareholders	**99**	**305**
Weighted average number of ordinary shares in issue (millions)	2,286	2,322
dilution effects of:		
share options	38	28
convertible unsecured loan stock	178	178
Diluted weighted average number of shares	**2,502**	**2,528**
Basic earnings per share (p/share)	**3.5p**	**12.7p**
Diluted earnings per share (p/share)	**3.4p**	**12.1p**
Continuing operations		
Profit/(loss) from continuing operations for the financial year attributable to shareholders	(10)	132
Diluted profit/(loss) from continuing operations for the financial year attributable to shareholders	10	143
Basic earnings/(losses) per share from continuing operations (p/share)	**(0.4)p**	**5.7p**
Diluted earnings/(losses) per share from continuing operations (p/share)	**(0.4)p**	**5.7p**
Discontinued operations		
Profit from discontinued operations for the financial year attributable to shareholders	89	162
Diluted profit from discontinued operations for the financial year attributable to shareholders	89	162
Basic earnings per share from discontinued operations (p/share)	**3.9p**	**7.0p**
Diluted earnings per share from discontinued operations (p/share)	**3.6p**	**6.4p**

Cable & Wireless uses the non-IFRS financial measure ‘Basic earnings per ordinary share before exceptional items’ as one of the key performance indicators for evaluating the financial performance of the business. The Board considers that this measure provides an important measure of the underlying operating performance of the Group because it excludes non-recurring items. For the year ended 31 March 2006, the Basic earnings per ordinary share before exceptional items was 5.2p (*2004/05: 9.5p*) computed as:

	2005/06 £m	2004/05 £m
Profit for the financial year attributable to shareholders	79	294
Impact of exceptional items after tax and minority interest	41	(73)
Profit for the financial year before exceptional items	**120**	**221**
Weighted average number of ordinary shares in issue (millions)	2,286	2,322
Basic earnings per ordinary share before exceptional items	**5.2p**	**9.5p**

Provisions for liabilities and charges

	Property	Redundancy	Network and asset retirement obligations	Other	Total
	£m	£m	£m	£m	£m
At 31 March 2005	119	59	112	177	467
Current portion	60	57	48	114	279
Non-current portion	59	2	64	63	188
Charged to income statement					
additional provision	4	43	23	19	89
amounts used	(43)	(57)	(27)	(53)	(180)
unused amounts reversed	(28)	(9)	(41)	(53)	(131)
Acquisitions	3	-	21	10	34
Discount adjustment	-	-	3	-	3
At 31 March 2006	**55**	**36**	**91**	**100**	**282**
Current portion	6	36	11	36	89
Non-current portion	49	-	80	64	193

Property

Provision has been made for the lower of the best estimate of the unavoidable lease payments or cost of exit in respect of vacant properties. Unavoidable lease payments represent the difference between the rentals due and any income expected to be derived from the vacant properties being sub-let. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

Redundancy

Provision has been made for the total employee-related costs of redundancies announced prior to 1 April 2005. Agreement had been reached with the local employee or union representatives that specified the number of staff involved and quantified the total amounts payable to those made redundant.

Network and asset retirement obligations

Provision has been made for the best estimate of the unavoidable costs associated with redundant network capacity. We expect to use the provision over the shorter of the period to exit and the lease contract life.

Provision has also been made for the best estimate of the asset retirement obligation associated with office sites, technical sites, domestic and sub-sea cabling. We expect to use this provision at the end of the life of the related asset on which the obligation arises.

Other

Other provisions include amounts relating to the disposal of the previously discontinued US businesses which are to be used within 12 months, amounts relating to specific claims held against the Group’s insurance subsidiary and amounts relating to acquisitions and disposals of Group companies and investments. The reversal of unused amounts reflects the resolution of claims and other risks during the year.

Minority interests

	Total £m
Balance as at 31 March 2005	295
Share of total recognised income and expenditure for the year	117
Dividends paid	(59)
Disposals	(9)
Balance as at 31 March 2006	**344**

Joint ventures and associates – our share

	Revenue		Post-tax profit	
	2005/06 £m	2004/05 £m	2005/06 £m	2004/05 £m
UK				
Gemini	-	1	-	(1)
Apollo	1	-	(3)	(7)
Others	-	-	(3)	-
	1	**1**	**(6)**	**(8)**
International				
Trinidad & Tobago (TSTT)	123	107	12	14
Bahrain (Batelco)	63	60	26	26
Afghanistan (Roshan)	36	-	5	1
The Maldives (Dhiraagu)	26	24	12	15
Fiji (Fintel)	8	8	2	2
Others	7	6	1	(2)
	263	**205**	**58**	**56**
Total before exceptionals	**264**	**206**	**52**	**48**
Exceptionals: Dhiraagu	-	-	2	-
Total	**264**	**206**	**54**	**48**

Application of IFRS 1

The Group established its IFRS accounting policies for the year ended 31 March 2006 and applied these standards retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 April 2004, except where permitted or required by IFRS 1 or other applicable standards.

On transition to IFRS, the Group recognised all assets and liabilities as required by IFRS and derecognised all assets and liabilities not permitted by IFRS. Assets and liabilities were all measured in accordance with IFRS. Except where noted below, IFRS recognition and measurement principles were applied retrospectively.

As permitted by IFRS 1, the Directors have elected to adopt IAS 32 *Financial instruments: disclosure and presentation*, IAS 39 *Financial instruments: recognition and measurement* and IFRS 4 *Insurance contracts* from 1 April 2005. The Group has continued to account for and disclose financial instruments in accordance with FRS 4 *Capital instruments* and FRS 13 *Derivatives and other financial instruments*: *disclosures* for periods ending before that date. The impact of the adoption of IAS 32, IAS 39 and IFRS 4 is provided in the statutory accounts for the year ended 31 March 2006.

As permitted by IFRS 1, the Directors have elected not to apply IFRS 3 *Business combinations* to business combinations that occurred before the date of transition. Business combinations that occurred before the date of transition are accounted for in accordance with UK GAAP. The Group had no unamortised positive goodwill recognised under UK GAAP as at 1 April 2004, so no review of the goodwill for compliance with the IFRS measurement principles was necessary. Negative goodwill has been credited to reserves on transition, as it is not carried on the balance sheet under IFRS 3.

The Directors have elected to take advantage of the IFRS 1 exemption from the provisions of IAS 21 *The effects of changes in foreign exchange rates* for the cumulative translation differences that existed at the date of IFRS transition. Consequently, cumulative translation differences on retranslation of subsidiaries' net assets as at 1 April 2004 have been set to zero.

IFRS 2 *Share-based payments* has been applied only to grants of equity settled share-based payments made after 7 November 2002 that had not vested by 1 January 2005.

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GLOSSARY OF TERMS

Terms used in this release	**Brief description of meaning**
Access/internet access	Broadband or dial-up connections, which allow customers to access the internet from their own premises
ADR	American Depository Receipt
ARPU	Average monthly revenue per customer
Carrier	A business segment dealing with other telecommunications companies around the world
Central	The Group's Corporate Centre
Company	Cable and Wireless plc
Constant Currency	Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates
Data Services	Services to transmit data over fixed-line, IP or mobile platforms using leased lines, Frame Relay, ATM or IP-based products such as IP-VPN
EIB	The European Investment Bank
EPS	Earnings per share
Frame Relay	A legacy data product that allows broadband data transmission with an additional layer of intelligence and functionality beyond leased lines
GAAP	Generally Accepted Accounting Principles
Group	Cable and Wireless plc and its subsidiaries
GSM	Global System for Mobile Communications or a digital mobile platform that allows the transmission of voice data and global roaming
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Interconnect	Connection arrangements between carriers
International business	Collectively, the Caribbean, Panama, Macau, Monaco and the Rest of the World
IP	Internet Protocol or a set of rules that govern how interconnected devices communicate
IP-VPN	An internet-based network used to provide companies with an internal communications system, linking employees in different offices worldwide
Liberalised markets/liberalisation	Markets that were previously restricted that are now open to competition
Local Loop	Telecommunications connection from the local exchange to the customer premises

Terms used in this release	Brief description of meaning
LLU	Local Loop Unbundling is the process of installing DSL Equipment in rented space within an incumbent operator's local exchange
Mbps	Megabits per second: Method of measuring the speed at which data is transmitted
Mobile Services	Delivery of voice and data services to mobile handsets through wireless technologies
Network costs	Network costs include the purchase of bandwidth, operating and maintenance of equipment, operation of software and cables, wayleaves, customer acquisition costs, cost of goods sold, licences and associated royalties payable to government
Next Generation Network	IP-based network
NYSE	The New York Stock Exchange
Ofcom	The Office of Communications in the United Kingdom: the independent regulatory body set up under the Communications Act 2003 which has responsibility for the enforcement and monitoring, and where appropriate initiating modification, of telecommunications licences in the United Kingdom
Openreach	Openreach, which is a new part of BT, has been created to deliver installation and maintenance services on behalf of Britain's telephone and internet service providers
Outpayments	Payments to other network operators to carry traffic on behalf of Cable & Wireless' customers
Services	The part of the UK business working primarily with large corporates, systems integrators and public institutions
Switched voice	Abbreviation of telecommunications services provided over the *Public Switched Telephone Network*, which refers to the international telephones system based on copper wires carrying analogue voice data
TDMA	Time Division Multiple Access or digital mobile technology that assigns a specific radio frequency to each user to deliver mobile voice and data
Transit	A term to describe moving data from a source point to a destination point using various network elements
UK	UK including Energis, Europe, US, Asia and Bulldog
VoIP	Voice over Internet Protocol or an IP voice service that provides enhanced functionality, such as the delivery of voice, video, data, with the reliability and features associated with switched voice networks
VPN	Virtual Private Network or a corporate network provided to a customer by a telecommunications operator using elements of a switched network. To the customer, it offers all the features of a private network, such as direct dialling between offices in different countries