OUR BUSINESS: WHERE IT IS AND WHERE IT WILL BE

2005/06 Annual report

CABLE & WIRELESS

Contents

Introduction and overview

2 About us and highlights
3 Chairman's statement
5 Group Managing Director, Central and Finance Director's review
7 Summary Group performance

Section 1: International business

10 Group Managing Director, International's review
12 Overview
14 Performance

Section 2: UK business

18 Group Managing Director, UK's review
20 Overview
23 Performance

Section 3: Group matters

30 Non-operating performance
32 Exceptional items
34 Cash and liquid resources
36 Acquisitions, disposals and other corporate changes
37 Capital structure
38 Pensions
39 Risk factors

Section 4: Board and governance

42 Board of Directors
44 Directors' report
48 Corporate governance report
53 Report of the Audit committee
55 Directors' remuneration report
66 Statement of Directors' responsibilities

Section 5: Consolidated financial statements

68 Independent auditor's report
69 Consolidated income statement
70 Consolidated balance sheet
71 Consolidated statement of recognised income and expenses
72 Consolidated cash flow statement
73 Notes to the financial statements

Section 6: Individual financial statements of Cable and Wireless plc

144 Independent auditor's report
145 Balance sheet
146 Reconciliation of movements in equity shareholders' funds for the Company
147 Notes to the financial statements

Section 7: Shareholder information

166 Shareholder information
168 Glossary of terms

Definitions
This report ('Annual report') comprises the annual report of Cable and Wireless plc prepared in accordance with United Kingdom Registration and Listing Rules requirements. The Annual review for the year ended 31 March 2006 is published as a separate document.

Unless otherwise stated in this Annual report, the terms 'Cable & Wireless', the 'Group', 'it', 'we', 'us' and 'our' refer to Cable and Wireless plc and its subsidiaries, collectively. The term 'Company' refers to Cable and Wireless plc.

Cable & Wireless prepares its financial information in accordance with International Financial Reporting Standards applicable for use in the EU. Unless otherwise indicated, any reference in this report to financial statements is to the consolidated financial statements of Cable & Wireless on pages 69 to 141 of this report.

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

Information has been updated to the most practical date prior to the approval date of the document on 31 May 2006.

This document includes terms which may be specific to the industry, the Group or accounting practice. A glossary of terms is included on pages 168 to 170 to explain and define such terms, as appropriate.

References to year-on-year comparisons are stated in constant currency terms.

Cautionary statement regarding forward-looking statements
This Annual report contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Cable & Wireless' plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. A summary of some of the potential risks faced by Cable & Wireless is set out on pages 39 to 40.

Cable & Wireless undertakes no obligation to revise or update any forward-looking statement contained within this Annual report, regardless of whether those statements are affected as a result of new information, future events or otherwise.

Addressees of the Annual report
This Annual report is addressed solely to the members of Cable and Wireless plc as a body, to assist them in assessing the strategies adopted by the Company and the potential for those strategies to succeed. Neither the Company nor its Directors accept or assume responsibility to any person for this Annual report (beyond the responsibilities arising from the production of this Annual report under the requirements of the Companies Act 1985) or any responsibility to update any statements in this Annual report.

Introduction and overview

2 About us and highlights

3 Chairman's statement

5 Group Managing Director, Central and Finance Director's review

7 Summary Group performance

Introduction and overview
About us and highlights

Cable & Wireless is one of the world's leading international communications groups. It operates through two standalone businesses – International and UK.

The International business operates telecommunications companies in 33 countries offering mobile, broadband, domestic and international fixed line services to residential and business customers, with principal operations in the Caribbean, Panama, Macau, Monaco and the Channel Islands.

The UK business provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia, and broadband services in the UK through Bulldog.

The highlights of last year for Cable & Wireless were:

- Acquisition in the UK of Energis, the number three in our market
- Creation of two discrete and self-contained businesses – International and UK
- Strategic repositioning complete. Improving delivery and execution for our customers is the future priority
- Solid growth in revenue, operating profit and cash flow in the International business
- 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, up 18% to 4.5 pence per share

Chairman's statement

– Acquisition in the UK of Energis

– Creation of two self-contained businesses, International and UK

– Strategic repositioning complete

– Future priorities – delivery and execution for our customers and shareholders

– 18% increase in the full year dividend to 4.5 pence per share

The last year has been one of change and of progress.

We have taken significant steps to redefine and continue the turnaround of Cable & Wireless – the most important of these being:

- the acquisition in the UK of the number three in this market, Energis – more on this later; and
- the new structure that we have put in place, separating Cable & Wireless into two discrete and self-contained businesses, International and UK.

Our new structure is designed to maximise shareholder value. With dedicated management focus to tackle and capitalise on the differing financial, operational and regulatory characteristics in each of our businesses, both the International and UK businesses are now responsible for their overall financial performance and return on capital employed, and are rewarded in proportion to the shareholder value created by that business.

Also in line with our move to create two distinct businesses, we have redefined the role and scope of our Group corporate centre, which will give rise to £20 million of annual savings.

This new structure marks the next phase for Cable & Wireless with the job of the last three years complete. During that time, we have:

- removed risks to the Group's financial security with exits from unsustainable markets;
- successfully rebalanced the International business towards the growth areas of broadband and mobile, whilst absorbing the impact of liberalisation that we face in a number of our key markets; and
- put in place in the UK the strategic tools to reposition and stabilise our business.

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 for our shareholders.

International

In the International business, where we are the leading player in virtually all of the 33 countries in which we operate, we are very conscious of the responsibilities that our position demands.

We have made good progress in, and are committed to, increasing mobile and broadband coverage, and rolling out new technologies and compelling services for customers. We continue to play an active role in the communities and environments in which we operate. All this is borne out by our solid customer acquisition and retention rates – achieved in the face of stiff and growing competition.

UK

Our UK business is undergoing a transformation.

The acquisition of Energis in November 2005 saw us buying scale, a strong customer base of large corporate and public sector

Introduction and overview
Chairman's statement

customers and solid management capabilities. With the strategic asset that our local loop unbundling capability (via Bulldog) gives us, we now have all the tools in place to be a real alternative to BT for our customers.

Prior to the acquisition of Energis, we stated that our intention was for the UK to become a business with £2 billion of revenues and double digit operating margin. These same targets have been committed to by our new UK management team which has every confidence in delivering them.

Our ambition for this business is to serve the largest users of telecoms in the UK and globally with IP-based services – and to be famous for delivering a great service experience to our customers.

Inevitably as we effect major change to this organisation, individual lives are directly affected and I would like to thank those employees who have left the business, as well as those who continue with us on our journey.

Board structure
Our move to split the businesses has resulted also in a new board structure for Cable & Wireless. We have created two new operating boards, one each for International and the UK, which report to the main Group board. These new boards benefit from operationally strong and experienced executive management teams – and we have consequently slimmed down the main board. In particular, Lord Robertson of Port Ellen has stepped down from the main board to concentrate on his role as Non-executive Chairman of the International business, with a particular focus on our relationships with local governments and regulators. I would like to thank all the Directors who are stepping down from the main Group board – my thanks go to them for the work that they have done in getting our business to where it is today. It is their efforts that have, in no small part, succeeded in preparing Cable & Wireless for the next phase of its reinvention.

Dividend
I am pleased to announce a final dividend, to be paid in August, subject to shareholder approval, of 3.1 pence per share. The total dividend of 4.5 pence per share represents an 18% increase over the previous 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.

The future
The environments in which we operate continue to be remarkably challenging – in most cases suffering from price cutting and stiff competition, particularly as we move towards technology convergence.

The move to all IP-based services will exacerbate these characteristics as players struggle to win and maintain market share. With our focus on delivering a superior level of service to our customers, we are now well placed to capitalise on this and give our customers a new and superior experience of buying telecommunications services.

I would like to take this opportunity to thank our employees for their hard work, focus and determination to deliver for customers regardless of the challenging environment in which we must operate. They are the ones that bring our ambitions to life and they are the ones that customers identify with. As such, I am confident that, together, we can build our future success.

Richard Lapthorne
Chairman

Group Managing Director, Central and Finance Director's review

Tony Rice
Group Managing Director, Central and Finance Director

– Revenue of £3,230 million, an increase of 9% on last year (at constant currency)

– Earnings before interest, tax, depreciation and amortisation ('EBITDA') and exceptional items of £411 million

– Group cash balance of £1,127 million

– UK defined benefit pension scheme fully funded

– Final dividend of 3.1 pence, payable in August 2006

Group financial results

Our financial performance for the year is set out on page 7 and is discussed in more detail in the International, UK and Group matters sections that follow on pages 9, 17 and 29 respectively.

Cash position at year end

Despite our acquisition of Energis and continued investment in local loop unbundling through our Bulldog business, we continue to have a strong cash position with a Group cash and cash equivalents balance at year end of £1,127 million and net cash of £343 million.

Corporate structure

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

As a result, the central functions of Cable & Wireless have been reshaped to ensure the continuation of proper governance and control at our corporate centre, although they no longer provide shared services for the two businesses.

Overall headcount in the centre is being reduced by 100, of which 65 people are moving into the International and UK units as a result of moving shared services into the businesses. We expect this headcount reduction and other Central savings to 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.

We will continue to comply with the high standards of corporate governance followed by all companies listed on the London Stock Exchange in line with the UK's Combined Code and UK Listing Authority's rules. As part of this, our Internal Audit function continues to be a part of the Central team.

The Central team will act as a portfolio manager to the businesses, supporting, encouraging and driving the creation of shareholder value through a suite of financial measures and appropriate incentivisation. Each business is responsible for its overall financial performance and return on capital employed. This is designed to give them the right balance of autonomy and accountability to drive shareholder value.

Subject to shareholder approval, the Remuneration Committee has approved a new management incentive scheme for executives. The new scheme ensures that the remuneration of individuals is fully aligned with the goals of their business and in proportion to the future shareholder value created by that business. Details are set out in the Directors' remuneration report on pages 55 to 65.

Pension schemes

We provide pension schemes in most of the countries in which we operate and remain committed to supporting these. The principal defined benefit scheme is the funded scheme covering UK employees. During the year we have continued to work with the Trustees of this scheme to ensure that the fund remains appropriately funded, taking into account the latest views on the life expectancy of the scheme members and other relevant actuarial assumptions. Following the latest triennial funding valuation as at

Introduction and overview
Group Managing Director, Central and Finance Director's review

31 March 2005, completed in March 2006, we agreed a revised funding programme which included an immediate contribution of £98 million, paid on 31 March 2006. Following this payment, the scheme is fully funded on an ongoing basis, based on the 2005 funding valuation.

Share repurchase programme
In November 2004, we announced a £250 million share repurchase programme. By 31 March 2005, we had completed repurchases totalling £75 million as part of this programme. During the year, we repurchased a further 14.45 million shares at an aggregate cost of £17 million.

Following the acquisition of Energis and the top-up of our pension scheme, we have decided not to continue this share repurchase programme in order to maintain a strong balance sheet and provide financial flexibility for investment in the business. In parallel, we propose to reward shareholders with a progressive dividend policy – hence the 18% increase in the full year dividend for the 2005/06 year.

Significant acquisitions and disposals
Over the year, we have made a number of acquisitions and disposals. The most significant acquisition was of Energis, for net consideration of £608 million in November 2005. The acquisition has strengthened our management capability, increased our scale and reach in the UK and enhanced earnings from the outset. Since acquisition, Energis has performed in line with our expectations, generating revenues of £266 million and EBITDA of £35 million.

We announced in February that we are exploring options for the potential disposal of our 20% shareholding in the Bahrain-based telecoms company, Batelco.

Termination of US registration and SEC reporting
We have previously maintained an American Depositary Receipt ('ADR') programme and listing on the New York Stock Exchange for US investors. 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. We therefore closed the programme in December 2005. For the same reasons, we are in the process of deregistering our securities with the SEC which we expect to complete in June 2006. This will ultimately remove our US reporting obligations.

Tony Rice
Group Managing Director, Central and Finance Director

Summary Group performance

Our performance for the year ended 31 March 2006 is set out below.

We have successfully completed our transition to International Financial Reporting Standards ('IFRS') and consequently the 2005/06 numbers have been prepared on this basis. 2004/05 comparative numbers have been restated throughout this Annual report and will not therefore be directly comparable to information shown in the 2004/05 Annual report (which was prepared under UK GAAP). As previously announced, the principal areas of impact for the Group were: the deconsolidation of the Group's Maldives business and pension and share-based payment accounting. Reconciliations between UK GAAP and IFRS are shown in note 42 to the consolidated financial statements on pages 131 to 135.

Group performance

	2005/06			2004/05		
	Pre-exceptional £m	Exceptional[1] £m	Total £m	Pre-exceptional £m	Exceptional[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)
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

The income statement of the Group, which is prepared in accordance with International Financial Reporting Standards applicable for use in the EU, and from which the information above is extracted, is included in the consolidated financial statements on page 69.

[1] Exceptional items are income or expenditure items considered to be exceptional by virtue of their size, nature or incidence. Examples of such items in the current or previous year include restructuring and impairment charges, releases of certain provisions and profits and losses on disposal of non-current assets.
[2] Includes operational releases.
[3] EBITDA (Earnings before interest, tax, depreciation and amortisation) is calculated as Group operating profit plus depreciation and amortisation.
[4] Includes interest income, interest expense and other income.

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 has 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.

The main increases in operating costs relate to the consolidation of Energis, outpayments associated with a higher volume of lower-margin carrier business in the UK, the increase in mobile customers with the 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 businesses. 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

Introduction and overview
Summary Group performance

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.

These trends in revenues and operating costs result in marginally lower EBITDA compared with last year.

Depreciation and amortisation has increased significantly year-on-year reflecting a natural rise from historically low levels following the fixed asset impairments between 2002 and 2004, the consolidation of Energis investment in mobile and broadband rollout in the International business and the investment in local loop and backhaul infrastructure in Bulldog. The main contributors to our share of post-tax profit of joint ventures and associates are the International business' investments in Bahrain, the Maldives and Trinidad & Tobago.

Net interest and other income, before exceptionals, has declined largely as a result of the lower gross cash balance. Additionally, in converting to reporting under 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.

Exceptional items are discussed in detail on page 32.

Group pre-exceptional income statement segmented by business

	2005/06					2004/05				
	International £m	UK £m	Bulldog £m	Other[1] £m	Group total £m	International £m	UK £m	Bulldog £m	Other[1] £m	Group total £m
Revenue	1,212	2,028	33	(43)	3,230	1,124	1,835	11	(22)	2,948
Outpayments and network costs	(466)	(1,421)	(66)	39	(1,914)	(401)	(1,238)	(13)	21	(1,631)
Staff costs	(163)	(290)	(28)	(46)	(527)	(158)	(291)	(12)	(66)	(527)
Other costs	(166)	(168)	(44)	–	(378)	(178)	(171)	(14)	(3)	(366)
Operating costs before depreciation and amortisation[2]	(795)	(1,879)	(138)	(7)	(2,819)	(737)	(1,700)	(39)	(48)	(2,524)
EBITDA[3]	417	149	(105)	(50)	411	387	135	(28)	(70)	424
Depreciation and software amortisation[4]	(136)	(118)	(15)	6	(263)	(121)	(61)	(2)	(1)	(185)
Operating profit/(loss) before amortisation of acquired intangibles	281	31	(120)	(44)	148	266	74	(30)	(71)	239
Amortisation of acquired intangibles	(6)	(5)	–	–	(11)	(5)	–	–	–	(5)
Group operating profit/(loss)	275	26	(120)	(44)	137	261	74	(30)	(71)	234
Share of post-tax profit of joint ventures and associates	58	(6)	–	–	52	56	(8)	–	–	48
Total operating profit/(loss)	333	20	(120)	(44)	189	317	66	(30)	(71)	282
Headcount[4]	8,150	5,614	651	156	14,571	8,077	5,528	505	326	14,436
Net cash inflow/(outflow) before financing[5]	363	(889)	(163)	40	(649)					

[1] Other includes Central costs and eliminations.
[2] Includes operational releases.
[3] EBITDA (Earnings before interest, tax, depreciation and amortisation) is calculated as Group operating profit plus depreciation and amortisation.
[4] Full-time equivalents at 31 March.
[5] Segmental cash flow information is derived from management reporting systems.

Discussion relating to the individual businesses can be found in the business performance sections of this Annual report. International business performance is discussed on pages 14 to 16, UK business performance on pages 23 to 25 and Bulldog business performance is discussed on pages 26 and 27.

EBITDA loss has reduced by £20 million primarily to previous central reorganisations resulting in lower staff costs and headcount and reduced spending on corporate projects.

Further discussion on the consolidated Group performance can be found on pages 30 to 40 of this document.

International business

10 Group Managing Director, International's review

12 Overview

14 Performance

International business
Group Managing Director, International's review

– A solid set of results for International

– Revenue up by 6%

– EBITDA up by 6%

– Mobile customers increased by 22%

– Broadband customers increased by 97%

– Net cash inflow before financing of £363 million

I am pleased to report a solid set of financial results for Cable & Wireless International for the year ending 31 March 2006. Our unrelenting focus on our mobile and broadband growth prospects, supported by tight management of our operating costs, have contributed to these results.

We are the pre-eminent integrated telecoms provider for small to medium sized economies and both the first choice for customers and a key partner for governments in virtually all of our 33 markets around the world.

Following progressive liberalisation over the past five years, 93% of our revenues are generated in competitive environments, dispelling any myth that our businesses are monopolies in under-developed telecoms markets. With each year, our appetite for competition grows and we continue to invest in technology, our brand and our people in order to increase our market share.

Over the last year, our overall revenues increased by 6% (at constant currency) to £1,212 million with strong year-on-year growth in mobile revenues (up 17%) and broadband revenues (up 72%).

In mobile, we are the market leader in 18 out of 22 of our mobile markets and in the past year, despite increasing competition, we have seen our customer base increase by 22%.

I am particularly pleased to report that we are seeing dramatic improvements in our mobile market share in Jamaica – after it fell following the introduction of competition in 2002. With new mobile competition in many of our markets, we are robust in our defence of market share and have seen particularly strong mobile performance in the Maldives, St. Kitts and Guernsey.

In broadband, we have seen a 72% increase in revenue and 97% increase in customer base and, in several markets, penetration statistics exceed those of the UK. We are the market leader in all the 21 markets where we offer broadband. We continue actively to drive down prices and increase speeds in all of our markets and believe that broadband is critical to our customer relationships and success.

Like nearly all global telecoms operators, we face challenges in our fixed line business where voice margins are under pressure from mobile substitution. International fixed line prices continue to fall and we anticipate that this decline will continue with VoIP becoming more commonplace – our own VoIP product introductions have been well received.

Our focus on controlling staff and other costs resulted in a reduction of 4%. This occurred against a backdrop of a blended inflation rate of 4%.

EBITDA increased year-on-year by 6% to £417 million, equivalent to an EBITDA margin of 34%. Operating profit, including our share of profits from associate and joint venture companies, increased by 3% to £333 million.

Over the last year, we have repositioned the International business to ensure we are best placed to deliver an unrivalled customer experience and help governments deliver their economic development agendas. We continue to manage the portfolio's profitability to generate cash and deliver value for our shareholders.

I am delighted that Lord Robertson of Port Ellen has taken the position of Non-executive Chairman of Cable & Wireless International, bringing with him a wealth of experience and a deep understanding of international affairs. Together Lord Robertson and I have increased management capability by developing a strong operating board for Cable & Wireless International and appointing a number of new CEOs and CFOs across the business in the past year.

We are leveraging the opportunities that our global scale presents: we have a common billing infrastructure in place across 21 of our markets (with more to follow) which is enabling us to converge our mobile, fixed and broadband propositions; internal benchmarking is in place across our networks, IT and finance functions so that we can accelerate the transfer of best practice around our portfolio.

This visibility provides our leadership with an accurate view of our performance trends and gives me confidence in our future.

We continue to grow mobile and broadband share by making sure that the customer is at the heart of every decision we make. By managing costs and generating cash, we are developing a platform from which to expand our business footprint.

This year has seen a number of steps towards inorganic growth. In the Seychelles, we have acquired the country's largest internet service provider – enabling us to offer an integrated service to customers there – and in Jersey, we are preparing to launch a new mobile service to compete with the incumbent Jersey Telecom. I am personally looking forward to playing the role of challenger!

These are exciting times for Cable & Wireless International. In October, we celebrate the 25th anniversary of CTM (our business in Macau) and we are proud to be sponsoring the ICC Cricket World Cup 2007 in the Caribbean.

Our position as the only full-service telecoms provider in the majority of our markets means that we are well placed to capitalise on the acceleration towards integrated communication solutions. I believe that the technology pendulum is swinging our way and we intend to make the most of it.

Harris Jones
Group Managing Director, International

International business
Overview

Where we are
Our International business operates telecommunications companies in 33 countries, offering mobile, broadband, domestic and international fixed line services to residential and business customers. Our principal operations are in the Caribbean, Panama, Macau, Monaco and the Channel Islands.

Our ownership of these companies is varied – some are wholly owned and others are partly owned with the public, the local government or other corporate partners. Our 33 businesses comprise 24 subsidiaries and 9 joint ventures and associates.

In virtually all our markets, we are the leading and incumbent telecommunications provider – 93% of our revenues are generated in markets open to competition.

Due to the diversity of our markets in terms of size, geography or culture, we treat each business individually by tailoring our services to the relevant market – but with the benefit of our scale and a global network.

Across our markets, we face broadly the same issues. New technologies are driving down the price of existing offerings. At the same time, liberalisation has seen new entrants seeking to challenge our position and driving price erosion as they compete aggressively. Additionally, we are dealing with continuing developments in regulatory and government policy.

We are meeting the challenge of increased competition head on by ensuring that we provide the best possible quality, value and innovative services to our customers. This means that we must respond to other operators and, with new technologies being introduced all the time, continuously improve to stay ahead.

Where we want to be
Our ambition is to be the first choice for customers and the first choice partner for governments in delivering their economic development agenda.

We will do this by investing in technology, our brands and our people.

Key to achieving this is growing our mobile and broadband offering whilst sustaining our fixed line revenues and ensuring we deliver the excellent levels of service our customers desire and deserve – it is what will lead customers to choose us and remain with us and it goes much deeper than simply having competitive pricing plans in place.

So what does this mean in practice?

Firstly, we recognise that it is important to get the basics right so we are improving the quality and speed of all of our services – as well as the reliability and performance of our networks.

Secondly, we are providing our customers with quick and easy ways to access our services by developing new distribution channels and self-provisioning packages for broadband and increasing the availability of online bill payment.

The ability to anticipate and respond to our customers' needs enables us to compete more effectively. We believe that the future of our telecoms services is in offering integrated communications solutions – and that our fixed line infrastructure is a vital component of this.

We are already developing business VoIP solutions and looking to package our fixed services with our mobile and broadband propositions where appropriate. The development of value-added propositions and download and content strategies for both mobile and broadband should ensure that our services stay apace with customer trends.

Driving complexity out of our operations is a priority. For example, we are looking to streamline our business processes and systems and continue to identify consolidation opportunities in the areas of purchasing, supply chain, IT and networks. This will reduce our costs and allow us to redirect our resources to deliver for our customers.

Our capital expenditure aligns with our strategic objectives of growth in mobile and broadband and focuses on target initiatives that generate the maximum return on our investment. We seek to ensure quality and reliability of service in all of our markets by investing in the maintenance and upgrades of our networks. Key initiatives over the previous financial year have been significant investment in Panama's mobile network and roll-out of the broadband network in Jamaica. In addition, we've continued to maintain and improve our fixed network infrastructure. We will continue to invest in all of our platforms in order to underpin our growth aspirations.

All this is brought to life by our people. To deliver the experience our customers deserve, we have to have the right people in the right jobs. This means recruitment, development programmes and succession planning to ensure that we are well placed to deliver.

Products and services
Our products and services span domestic and international voice and data (fixed line) services, mobile and broadband.

In this increasingly competitive environment, developing brands that have local resonance is key to our commercial strategy. Alongside our Cable & Wireless brand, we have a mix of local brands such as CTM in Macau, Monaco Telecom, Dhiraagu in the Maldives and bMobile across the Caribbean for our mobile proposition.

Mobile
We provide mobile services in 22 markets – and continue to invest significantly. Our mobile data services include high-speed data, email, internet, picture messaging and other business and consumer content directly to mobile devices. We are testing enhanced services like TV and video streaming via mobile handsets in Macau and Monaco.

Broadband
Our investment in broadband infrastructure and marketing is meeting the growing demand for our services. Improving access via a range of distribution channels, as well as continually upgrading our network to increase speeds and enhance our services have all

contributed to this. The growth of 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.

Traditional fixed line

Our fixed networks carry voice and data services and also provide broadband connectivity. We continue to invest in the maintenance and improvement of our fixed network infrastructure and develop appealing propositions for our customers, such as the launch of new pre-pay fixed line services.

Regulatory environment

In recent years, virtually all our markets have been opened up to competition. Typically, this has resulted in significant reductions of international prices, partially offset by rebalancing in favour of domestic call prices. Intensifying competition has normally followed the initial market liberalisation, resulting in further pressure on prices. Generally, we have also seen growth in mobile and broadband services following liberalisation.

Our work in our local communities

We recognise the positive role we can play in promoting economic and social development in our local communities. Accordingly, the ways in which we do business, develop our people, treat the environment and interact with these communities are important to our continued development.

Community investment

With a particular emphasis on working with the younger generation, we have established a number of charitable foundations, for example, in Jamaica, Panama and the Seychelles. Total charitable donations made by Cable & Wireless International during the year were £2.3 million.

The digital divide

We're committed to assisting governments in their development programmes by providing internet access for public services like schools, universities and hospitals – as well as working to provide residential access to all sections of the population.

In Macau, our 'i.Campus' Student Broadband Award provides free broadband services to selected primary and secondary students. Meanwhile, in Grenada, we partner with the Grenada Rural Enterprise Project to give broadband access to, and improve computer literacy in, communities around the island.

Community involvement

We were delighted to win a Social Responsibility Award in Panama for our work with the University of Panama. Meanwhile, on the back of our sponsorship of the ICC Cricket World Cup 2007, and as part of our ongoing commitment to Caribbean grass-roots cricket, we have donated over 20 moveable pitches to local organisations across the region to make cricket more accessible, nurture talent and help to build excitement in the months leading to the World Cup.

Healthy communities

In the Seychelles, we provided the local charity CARE with the funding to provide educational material to schools on the dangers of taking heroin. In Jamaica, we made contributions to a number of local charities including the Jamaica Cancer Society, the Dare to Care Children's Home and St. Aloysius Primary School.

International business
Performance

International business income statement

	2005/06 £m	2004/05 £m	Change as reported[1] %	Constant currency change[2] %
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	**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*
Operating costs before depreciation and amortisation	**(795)**	(737)	*(8)*	*(6)*
EBITDA[3]	**417**	387	*8*	*6*
Depreciation and software amortisation	**(136)**	(121)	*(12)*	*(11)*
Group operating profit before exceptional items and amortisation of acquired intangibles	**281**	266	*6*	*4*
Amortisation of acquired intangibles	**(6)**	(5)	*(20)*	*(20)*
Group operating profit before exceptional items	**275**	261	*5*	*4*
Share of post-tax profit of joint ventures and associates	**58**	56	*4*	*1*
Total operating profit before exceptional items	**333**	317	*5*	*3*
Exceptional items	**(18)**	(22)	*18*	*n/m[4]*
Total operating profit	**315**	295	*7*	*n/m[4]*
Capital expenditure	**142**	171	*17*	*18*
Headcount (number)[5]	**8,150**	8,077	*(1)*	*n/m[4]*

For reporting purposes, we divide the business into the following regions: the Caribbean, Panama, Macau, Monaco and Rest of the World. 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 rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement.
[3] EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.
[4] n/m – not meaningful.
[5] Full time equivalents at 31 March.

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
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
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
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
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
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 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 and amortisation 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

	2005/06 £m	2004/05 £m
Joint ventures		
Dhiraagu (Maldives)	14	15
TSTT (Trinidad and Tobago)	12	14
Roshan (Afghanistan)	5	1
Other	3	–
Associates		
Batelco (Bahrain)	26	26
Share of post-tax profit including exceptionals	60[1]	56

[1] Includes £2 million exceptional credit in Dhiraagu.

The main contributors are Batelco, Dhiraagu and TSTT. Declines in the profitability of these were offset by growth in Monaco Telecom's investment in its associate, Roshan, which operates in the rapidly developing Afghanistani 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.

Acquisitions and disposals

During the year we acquired an internet services provider in the Seychelles for £1.9 million. We sold our operations in Sakhalin for £23 million, realising a profit of £17 million and our 12% investment in MobileOne, a Singaporean mobile operator, for proceeds of £87 million, realising a profit of £70 million. Refer to page 36 for further details.

On 22 February 2006, we announced that we were exploring options for the potential disposal of our 20% holding in our Bahrain associate, Batelco.

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] Segmental cash flow information is derived from management reporting systems.
[2] EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

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. 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, including over £110 million of cash proceeds from the disposal of our stake in MobileOne and our Sakhalin business. £43 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 (excluding the share attributable to minority interests), 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 flows of subsidiaries remitted to Central, to 100%.

International business
Performance

International business key performance indicators

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

All numbers sourced from billing systems in each individual business unit, rolled up to total International business number.

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.

UK business

18 Group Managing Director, UK's review

20 Overview

23 Performance

UK business
Group Managing Director, UK's review

– Acquisition of Energis completed on 11 November 2005

– Integration of Cable & Wireless and Energis completed

– Key operational metrics, including customer numbers, operating cost run rate and service improvement in line with targets

I began the last financial year running Energis – a business that was largely through its own turnaround and facing the challenge of how it could move into the next generation of technologies and services. I ended the year running the UK business unit of Cable & Wireless – a business that has only just started its turnaround but whose prospects for that future world are as clear and tangible as they are exciting.

The acquisition of Energis, completed on 11 November 2005 marked a transition. The work of Richard Lapthorne and Francesco Caio until then was to systematically remove those obstacles to our future success like the exit of unsustainable markets and to put in place the strategic pillars for the future.

Francesco's handsome legacy for the UK is a business of significant scale (hence the Energis acquisition), of market leadership in local loop unbundling (hence Bulldog) and a commitment to Next Generation Networks ('NGN') (£190 million committed in April 2005).

These three components combine to provide the tools with which we can create the first built-for-purpose next generation telecoms company. That was the vision then – and it's the vision now.

That vision requires some explaining. For too long now, fixed line telecoms companies have bellyached about price erosion, over capacity and escalating costs. The truth is – it's our own fault. We have taught customers that price is the only criterion for selection because service has been poor. Our cost base is high because we run multiple technology platforms and billing systems, all because past strategies were too opportunistic and defensive. Those days are over. With our big building blocks of scale, local loop and NGN, we can fashion a company that will lead the market in the quality and breadth of the way it supports its customers as they seek to exploit the new functionality and economics of the new technologies.

No part of our business will look the same in the future as it does now. The products and services we provide will change, the way we sell them will change, how they are provisioned and supported will change and our entire support function will morph to accommodate those changes. We will need new skills and a new culture. Above all, our financial performance will change.

And so we begin this next phase – to build that company. It is a big task – full of complexity, interdependence and with many moving parts. We are, however, well equipped to take on this challenge. We have great customers, a capable team, the benefit of a full dress rehearsal in Energis and towering ambition.

Our approach to this task reflects the reality of our business and marketplace.

To begin with, we had to integrate the two businesses, old Cable & Wireless and Energis – a programme that is complete. So now, the full recovery work can really kick in: shedding those parts of our business which are not part of our future, improving our service performance and driving out costs. Our final phase is transformation – taking our leaner, fitter business into the future with a new integrated infrastructure and a disciplined approach to making money. All told, our journey will last four to five years. In the four and a half months since acquisition, we've made good progress, in fact we're right on plan, already delivering annualised cost savings in excess of £50 million. In line with our focus on fewer, larger customers, we have begun reducing our customer base and have already given notice to over 9,000 customers and we have reduced headcount of the combined businesses by 1,474. Overall, we expect to reduce headcount to between 2,500 and 3,500 over the next three to five years.

We have built a strong management team which is in the process of developing a customer-centric, execution-obsessed culture across our business – and importantly, our service is improving – we have cut delivery times and introduced new service-based products allowing our customers to choose the level of service to suit. This approach has helped Royal Bank of Scotland, one of our major customers, to award us its 'best technology supplier' award and our Irish business to be short-listed for an ICT excellence award for best telecommunications company.

All of this has a clear output. We will become known for quality services and employing great people who are obsessive about customers, developing into the first choice partner for the largest users of telecoms in the UK and internationally.

Combined, these factors will secure robust, consistent financial performance that will ultimately result in £2 billion revenues and double digit operating margin.

John Pluthero
Group Managing Director, UK

UK business
Overview

The UK business serves the largest users of telecoms services across the UK, continental Europe, Asia and the US – and 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.

UK corporate business

Where we are

We provide our customers with a rich portfolio of services, but have a particular focus on helping them successfully manage the difficult migration from many different legacy telecom platforms to an all-IP environment.

Despite some recent market consolidation, the UK telecommunications industry remains highly competitive. The industry continues to suffer from price erosion – particularly in voice services which are largely seen as a commodity.

While the market is competitive, spend on telecoms by businesses in the UK is largely flat year-on-year. This masks a change in the way this spend is being apportioned. Over the last year, the market has seen voice spend declining, while data spend has remained static. Spend on hosting and application services, meanwhile has increased.

Our core customers – Chief Information Officers and IT Directors within large organisations – are under increasing pressure to achieve more for less. This is particularly so where IP-based technology is transforming the consumer marketplace at low cost and is driving a gradual, but quickening, migration to IP services.

We are also seeing large business customers looking to remove complexity from their business, enabling more flexibility and agility when it comes in turn to serving their customers' needs. Part of this process has seen them actively reducing the number of suppliers they engage with, using those supply partners that remain to provide a range of managed services – where the supplier takes on responsibility for the effective management of all third party organisations involved in the provision of services.

This trend for managed services has been prevalent across the board but is having significant impact in the technology industry, where traditional relationships were previously based purely on best price, whereas in future, relationships will be based on best service and management skills.

This has also driven many customers to procure their total telephony and communications solutions from System Integrators ('SIs'). This provides us with an enormous opportunity as we are the only telecoms provider with the scale and access to supply the SIs with everything they need – without directly competing with them.

Where we want to be

We will focus our resources on serving fewer, larger customers with a wide range of IP-based services tailored to fit their specific business needs – and delivering them a higher level of service than they receive from other areas of the telecoms industry.

This points us at a very specific segment of the overall market – encompassing 3,000 corporates, carriers and public institutions – where in excess of £7 billion is spent on telecommunications each year.

We will invest 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. This will mean 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 revenue.

By proactively reducing the number of customers we serve, we can target our resource and investment to ensure that our core customers receive a far more personalised service experience – built to match their specific needs. Our customer research tells us that this is the area where telecoms providers are at their weakest and this is the gap we intend to close.

We are investing our resources in delivering a suite of high quality, bespoke managed IP services – we won't simply use IP to replicate our existing products. These managed IP services – such as data networks, hosting, VoIP and virtual call centres – are increasingly critical to our customers and allow them to focus on their core business, serve their customers better and reduce their cost base – whilst retaining peace of mind that the resilience and security of their business communications are in safe hands.

So that we stay close to our customers – developing the understanding and insight that our service promise is founded on – we have introduced two distinct go-to-market sales channels, Services and Carrier.

Our Services team works primarily with large corporates, SIs and public institutions looking for a provider that can manage all their telecommunications requirements. These customers typically require a trusted partner that will deliver resilient and secure, mission-critical services over the course of contracts spanning many years.

Our Carrier organisation provides for the needs of telecommunications carriers, service providers and resellers across more than 140 countries in our key markets of the UK, continental Europe, Asia and the US.

In line with our strong delivery focus, our people are now measured against new performance criteria based around customer insight and the ability to deliver. And we are revamping the way in which we reward people by recognising excellent service and the ability to secure longer-term and higher margin business.

Products and services

We have developed a technically advanced portfolio of solutions based on the needs of our core customers – today and in the future. Our suite of solutions is built around the following four areas of expertise:

Contact centres

Our solutions ensure customers can connect, automate and manage inbound and outbound customer communications effectively and efficiently. Intelligent network technology and advanced voice recognition systems ensure calls are routed directly to suitable agents, locally or abroad. We also enable customer interaction via email, internet or telephone – or a combination of all three.

Data and IP

We span all data networking needs from local and wide area networks to services delivered using IP and Raman ring-based communications technology and value-added solutions – from best in class network security to disaster recovery solutions. Resilience and security are features of all our networking solutions, as is cost, effective design and speedy implementation.

Hosting and applications

Our integrated hosting, networking, security and archiving solutions cover a wide range, from internet transactions to complex, just-in-time, supply management solutions.

Voice

We are the world's fourth largest carrier of voice services and provide and develop a comprehensive portfolio of voice over IP-based products allowing customers access to new services and cost models, without the need for costly infrastructure investment.

Bulldog

Through Bulldog, we provide broadband and telephony services to residential, SoHo and SME customers in the UK. Using local loop unbundling ('LLU'), we install our own equipment in BT's local exchanges thereby taking control of the local loop between the BT exchange and the customer's home or office.

Where we are

We were the first major company in the UK to engage in full unbundling of broadband and voice and currently serve just under 120,000 residential and small business customers. Full unbundling gives us a technological advantage over our competitors as we can differentiate our service offering, maintain full bandwidth control and provide for our customers end-to-end – rather than simply reselling BT's products.

We offer broadband speeds up to a maximum of 16Mbps. Our range of packages are designed to suit our customers' varying needs.

A number of our competitors have announced plans for LLU but, to date, they have made little progress. We believe we have around a six to twelve month advantage over them in the rollout of LLU. In addition, to date, our LLU competitors have largely chosen only to unbundle the data capability in the exchange and so will remain dependent on BT to provide voice services to customers.

Competition in consumer broadband services is tough and, as the migration of customers from narrowband to broadband services slows, competition is likely to increase as existing players fight to gain market share, rather than to attract new broadband customers. For the same reason, price pressure will remain a fixture of our market.

Where we want to be

To date, we have chosen to leverage our investment in LLU through Bulldog. However, that is only part of the LLU picture for Cable & Wireless. Local loop capability is a fundamental part of our overall UK corporate access strategy and is in line with our move to Next Generation and IP networks.

We know that excellent service is central to attracting and retaining customers. We have to get our service right first time, every time – and we have to do that quickly and efficiently. A lot of this has to do with our systems, processes and people. We will continue to invest significant time and effort in improving how we serve our customers. This includes putting in place systems for online customer provisioning and problem resolution and the creation of a customer relationship management system to provide customer service agents with the right tools to deliver a quick and effective service to our customers.

Regulatory environment

During the year, Ofcom completed its Strategic Review of the UK telecommunications market. This resulted in BT giving the regulator a number of undertakings in lieu of a referral to the Competition Commission. BT moved the part of its wholesale division that manages its access network into a new entity, Openreach, with the aim of dealing with all telecoms operators on the same basis as BT's retail divisions. Thus far we have seen little benefit or improved BT performance from this move.

UK business
Overview

Our work in our communities

We recognise the positive role that we can play in promoting economic and social development in our communities. Accordingly, the ways in which we do business, develop our employees, treat the environment and interact with our communities are important to us.

Information Communications Technology ('ICT') training

We continue to run our highly successful ICT Academy. Based in our Bracknell headquarters, this after-school club sees us tutoring local children between the ages of 11 and 14 on the use of computer technology. We have also just started working with WebPlay, a UK-based ICT charity, and Bracknell Borough Council to help children from local schools develop and design a web-based online tourist guide of the Bracknell area.

Using the internet responsibly

We are fully aware of the positive benefits delivered by having access to the internet. However, in a small minority of instances, material is inappropriate.

As a founding member of the Internet Watch Foundation (IWF) in the UK, we work with the relevant authorities to mitigate the risks presented by minors having access to material designed for over 18s or illegal content in general. Our Acceptable Use Policy (AUP) provides details on the types of prohibited activity including spam, slander, obscenity and child pornography which customers and third parties must not participate in when using our network. The AUP can be found at www.cw.com

UK corporate business performance

UK corporate business income statement

The following analysis of the UK business' performance refers only to the corporate business and so excludes Bulldog. Equivalent analysis for Bulldog is on pages 26 and 27.

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

[1] Energis included from 11 November 2005.
[2] Positive percentages represent improvement.
[3] Includes operational releases.
[4] EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.
[5] Full time equivalents including contractors at 31 March. 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 recovery and 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.

Energis

The year-on-year comparison of results is impacted 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%.

Revenue

Services

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

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 telecom 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 in 2005/06, there has been a benefit to operating costs. Whilst individually not material, the total impact on operating costs from operational releases 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 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.

UK business
UK corporate business performance

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 assets in the UK business (excluding Energis), as discussed on page 32. 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 nil 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 sold our Spanish retail business for £4 million, resulting in a profit on disposal of £3 million.

Reconciliation of UK corporate 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] Segmental cash flow information is derived from management reporting systems.
[2] EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

The cash outflow during the year principally reflects EBITDA of £149 million, less the Energis acquisition, 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 main 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 £76 million of operational releases, as described on page 23.

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

UK corporate 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	£4.4m
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, a further 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
Bulldog performance

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)
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 (number)[2]	651	505

[1] EBITDA is earnings before interest, tax, depreciation and amortisation.
[2] Full time equivalents at 31 March.

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 ten months from the acquisition of Bulldog in 2004/05.

Operating costs
Outpayments and network costs rose to £66 million 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] Segmental cash flow information is derived from management reporting systems.
[2] EBITDA is earnings before interest, tax, depreciation and amortisation and exceptional items.

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.

Bulldog key performance indicators (KPIs)

	31 March 2006
Customers	
Residential LLU customers	112,000
Business LLU customers	6,000
Total customers	118,000
Number of exchanges unbundled	411
Monthly average revenue per residential customer	£36
Customer care	
Orders provided on time	88%
Average time from order to delivery	14 days
Fault tickets resolved in less than five 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 was £36, comprising line rental, voice calls and broadband.

We expect to have 800 unbundled exchanges by 30 September 2006.

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 ten 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.

Group matters

30 Non-operating performance

32 Exceptional items

34 Cash and liquid resources

36 Acquisitions, disposals and other corporate changes

37 Capital structure

38 Pensions

39 Risk factors

Group matters
Non-operating performance

The following discussions deal with the remaining, non-operational areas of the income statement not dealt with in the business performance sections of International and UK, and which are primarily managed at Group level.

Non-operating items

	2005/06			2004/05		
	Pre-exceptional £m	Exceptional[1] £m	Total £m	Pre-exceptional £m	Exceptional[1] £m	Total £m
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 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

The income statement for the Group, which is prepared in accordance with International Financial Reporting Standards applicable for use in the EU, and from which the information above is extracted, is included in the consolidated financial statements on page 69.

[1] Exceptional items are income or expenditure items considered to be exceptional by virtue of their size, nature or incidence. Examples of such items in the current or previous year include restructuring and impairment charges, releases of certain provisions and profits and losses on disposal of non-current assets.

Exceptional items are discussed on page 32.

Gains and losses on sale of non-current assets
These gains and losses arise on the sale of businesses that do not meet the definition of discontinued operations, investments and fixed assets.

In 2004/05, the £5 million gain on disposal of fixed assets primarily relates to the sale of various small trade investments and associates including the Group's 3.4% stake in Intelsat, a UK satellite communications company, and the Group's stake in RTC, a Bulgarian associate.

Interest income
Interest income has decreased this year compared with last year due to reduced cash balances during 2005/06.

This decrease in cash is mainly the result of the net cash paid of £608 million for the acquisition of Energis and funding to invest in the turnaround of the UK business and the development of our local loop unbundling capability through Bulldog. The reduction in interest income from lower average cash balances was partially offset by higher average interest rates in 2005/06 compared with 2004/05.

For a more detailed discussion on the significant movements in our cash and short-term investment balances, refer to the Cash and liquid resources section below on pages 34 to 35.

Interest expense
The interest expense has increased primarily due to the first time adoption of IAS 32 and IAS 39 dealing with financial instruments applicable in 2005/06. This led to a change in treatment of the Group's convertible bond resulting in an additional, non cash, interest charge of £9 million. Additionally, the Group has increased finance lease charges in 2005/06 as a result of the £33 million of finance leases acquired with Energis. These increases have been partially offset by the full year impact of bond buy backs in 2004/05.

For a more detailed discussion on Group financial instruments and the impact of the first time adoption of IAS 32 and IAS 39, please refer to note 43 of the financial statements.

We discuss movements in our debt financing in the Capital structure section below on page 37.

Taxation

	2005/06 £m	2004/05 £m
Profit on ordinary activities before taxation[1]	202	331
Tax (charge)/credit on ordinary activities	(27)	23
Effective tax rate	13.4%	(7.1)%

[1] Continuing and discontinued activities.

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.

Including the impact of exceptional items and discontinued activities, the effective tax rate for 2005/06 was 13.4% compared to a rate in 2004/05 of (7.1)%. The effective tax rates excluding the impact of exceptional items, discontinued activities and an exceptional tax credit in 2004/05 were 13.9% for 2005/06 and 19.6% for 2004/05.

The principal reason for the difference in the rates is the mix of profits and losses and tax rates across the countries in which we operate.

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.

Discontinued operations

Discontinued operations are significant businesses that the Group has sold (or abandoned) in the current or prior years. The result shown is the post-tax profit of both the activities prior to sale and gains and losses on disposal.

The 2005/06 result includes the operating result of the Group's Spanish and Sakhalin operations until their sale in April 2005 and July 2005 respectively. The 2004/05 results include the Spanish and Sakhalin operations together with C&W IDC (Japan) sold in January 2005. The gains on disposals of these businesses and credit relating to businesses previously discontinued are treated as exceptional and are set out on page 32.

More detailed information on discontinued operations is set out in note 12 to the financial statements.

Earnings per share (basic)

	Continuing before exceptionals p	Exceptionals p	Reported p
Earnings/(losses) per share from continuing operations attributable to the equity holders of the Company during the year	5.2	(5.6)	(0.4)
2004/05	8.6	(2.9)	5.7
Earnings/(losses) per share attributable to the equity holders of the Company during the year	5.2	(1.7)	3.5
2004/05	9.5	3.2	12.7

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 5.2 pence, a decline of 45% compared with the prior year.

Excluding exceptional items and our investment in local loop unbundling, our underlying earnings per share showed a 9% increase.

Reconciliations of earnings and shares in issue are set out in note 13 to the consolidated financial statements.

Group matters
Exceptional items

Group exceptional items

	2005/06					2004/05				
	International £m	UK £m	Bulldog £m	Central[1] £m	Total £m	International £m	UK £m	Bulldog £m	Central[1] £m	Total £m
Continuing operations										
Operating items										
Restructuring	(13)	(8)	–	(20)	(41)	(2)	(109)	–	(30)	(141)
Hurricane costs	(6)	–	–	–	(6)	(17)	–	–	–	(17)
Write down of non-current assets	–	(237)	–	–	(237)	(3)	(5)	–	–	(8)
Other	(1)	–	–	27	26	–	15	–	–	15
Share of post-tax profits of associates and joint ventures	2	–	–	–	2	–	–	–	–	–
Exceptional items within total operating profit	(18)	(245)	–	7	(256)	(22)	(99)	–	(30)	(151)
Non-operating items										
Profit/(losses) on disposal of non-current assets and sale and termination of businesses	70	11	–	–	81	(3)	–	–	(5)	(8)
Hurricane insurance proceeds	6	–	–	–	6	–	–	–	–	–
Reversal of unused provisions and settlements relating to the Group's insurance subsidiary	–	–	–	72	72	–	–	–	–	–
Total exceptional items before tax	58	(234)	–	79	(97)	(25)	(99)	–	(35)	(159)
Tax provision release	–	–	–	–	–	–	–	–	85	85
Tax on exceptional items	2	–	–	–	2	4	–	–	–	4
Total exceptional items after tax from continuing operations	60	(234)	–	79	(95)	(21)	(99)	–	50	(70)
Discontinued operations										
Operating items										
Restructuring prior to disposal	–	–	–	–	–	–	(2)	–	–	(2)
Exceptional items within total operating profit	–	–	–	–	–	–	(2)	–	–	(2)
Non-operating items										
Gains on sale and termination of operations	17	3	–	–	20	–	38	–	66	104
Profits on disposal of fixed assets	–	–	–	–	–	–	16	–	–	16
Reversal of unutilised provisions	–	–	–	68	68	–	–	–	22	22
Total exceptional items before tax	17	3	–	68	88	–	52	–	88	140
Tax on exceptional items	–	–	–	–	–	–	–	–	–	–
Total exceptional items after tax from discontinued operations	17	3	–	68	88	–	52	–	88	140
Total exceptional items after tax	77	(231)	–	147	(7)	(21)	(47)	–	138	70

[1] Central includes items in respect of previously discontinued businesses, including the US.

In 2005/06 we recognised a net exceptional charge before tax of £97 million for continuing operations. The main charges are a write down of assets, restructuring costs offset by profits on the sale of various investments, insurance proceeds in respect of hurricane damage and amounts resulting from progress in resolving claims and other risks in our insurance subsidiary, Pender Insurance Limited ('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.

Other includes releases of provisions relating to a joint venture and to prior period capacity transactions. These are offset by costs associated with the December 2004 Asian tsunami. The 2004/05 equivalent was releases of onerous contract provisions.

Exceptional gains in the current year include £70 million on the sale of the Group's 12% stake in MobileOne, a Singaporean mobile operator (of which £34 million is attributable to minority interests), and £11 million on the sale of the Group's training centre, Coventry College. There were no significant losses.

The exceptional loss of £8 million in 2004/05 relates to non-current assets which have now been sold.

Following progress in resolving outstanding claims and other risks in Pender, our insurance subsidiary, we recognised income of £72 million through the release of unused provision and accruals and the receipt of cash in respect of legal settlements.

We recognised an exceptional gain of £88 million from discontinued operations. This gain reflected the sale of the Sakhalin (a profit of £17 million) and Spanish (a profit of £3 million) businesses during the year and credits associated with releases of provisions held against risks arising from the exit from the US business, as claims and risks are resolved.

In the year to 31 March 2005 the Group recognised a net exceptional charge before tax in continuing operations of £159 million comprising restructuring expenses, hurricane costs, impairment, profit on disposal of non-current assets and losses on the sale and termination of operations. The Group also recognised an exceptional gain of £140 million from discontinued operations. Of these, £52 million related to the disposal of C&W IDC (Japan) in February 2005 and £88 million to cash received and provisions released in respect of the exit from the US business.

We also recognised an exceptional tax credit of £85 million as a result of the settlement and clarification of various long-standing overseas tax items at less than their expected cost.

Group matters
Cash and liquid resources

Reconciliation of Group EBITDA to net cash flow before financing

	2005/06 £m	2004/05 £m	Change £m
EBITDA[1]	411	424	(13)
Exceptional items	(21)	(143)	122
EBITDA less exceptional items	390	281	109
Share-based payments	14	10	4
Defined benefit pension schemes expense	6	19	(13)
Defined benefit pension schemes top-up contributions	(98)	(100)	2
Defined benefit pension schemes – other cash contributions	(17)	(27)	10
Changes in working capital	(104)	1	(105)
(Decrease)/increase in provisions	(135)	95	(230)
Cash received in respect of other income	44	–	44
Cash generated from continuing operating activities	100	279	(179)
Income taxes paid	(47)	(60)	13
Interest received	107	88	19
Dividends from joint ventures and associates	34	31	3
Purchase of property, plant, equipment and intangible assets	(434)	(321)	(113)
Acquisitions and disposals	(484)	(24)	(460)
(Disposal)/acquisition of credit linked notes	40	(30)	70
Other	5	4	1
Cash generated from discontinued operating and investing activities	30	139	(109)
Net cash (outflow)/inflow before financing activities	(649)	106	(755)

[1] EBITDA is earnings before interest, tax, depreciation, amortisation and exceptional items.

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 15, 24 and 26 respectively.

Other significant movements between EBITDA and net cash flow before financing in Central are as follows:

Share-based payments of £14 million reflect the non-cash charge in the income statement in respect of share awards under current schemes.

Central paid a top-up payment of £39 million to the main UK defined benefit pension scheme (in addition to the £59 million paid by the UK business). Following this year's top-up payments, the scheme is fully funded on an ongoing basis, based on the 2005 funding valuation. Cash payments to the schemes differ from the accounting charge in the income statement.

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; in the prior year we acquired £80 million of these notes and sold £50 million held previously.

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

Cash flow summary

	2005/06 £m	2004/05 £m
Cash flows generated from continuing operations	100	279
Cash generated from discontinued operations	3	28
Income taxes paid	(47)	(60)
Cash flows from operating activities	56	247
Cash flows used in investing activities	(705)	(141)
Cash flows before financing activities	(649)	106
Cash flows used in financing activities	(257)	(344)
Net decrease in cash and cash equivalents	(906)	(238)

The consolidated cash flow statement for the Group, which is prepared in accordance with IFRS applicable for use in the EU, and from which the information above is extracted, is included in the consolidated financial statements on page 72.

Operating cash flows from our continuing business fell by £179 million primarily as a result of investment in local loop unbundling through Bulldog and support for the UK business. Operating cash flows from discontinued operations reflect the results of discontinued activities until their sale as discussed on page 31.

The £13 million reduction in income taxes paid is due principally to the non-recurrence of the prior-year settlement of various long-standing overseas tax matters.

Investing cash flows reflect capital expenditure of £434 million as discussed in the businesses' performance sections, together with the acquisition of Energis and offset by interest, dividends and proceeds from the sale of investments.

The fall in financing cash outflows is largely due to lower purchases of treasury shares and lower debt repayments. An increase in dividends paid to minority interests was partially offset by additional borrowings. Other movements in financing cash flows were primarily the result of funds lent to subsidiary interests.

Exchange rate changes accounted for £12 million movement in the cash balance.

[1] Allocations based on internal management accounts.

Cash and liquidity management

At 31 March 2006, the Company held cash and short-term investments of £856 million (2005 – £1,816 million). Of the £310 million cash held by other Group companies, £221 million was attributable to Cable & Wireless, and £89 million attributable to minority shareholders. The full analysis of cash and short-term investments held by the Group is as follows:

	31 March 2006 £m	31 March 2005 £m
Accessible funds held by Cable and Wireless plc	823	1,781
Restricted funds held by Cable and Wireless plc (cash collateral)	33	35
Gross cash and investments held by Cable and Wireless plc	856	1,816
Cable and Wireless plc share of gross cash held in subsidiaries	204	145
Minority share of gross cash held in subsidiaries	89	103
Restricted funds held in subsidiaries (Pender Insurance and cash collateral)	17	37
Total gross cash and investments held by the Group	1,166	2,101
Credit linked notes	(39)	(80)
Cash and cash equivalents held by the Group	1,127	2,021

Cash and cash equivalents available to the Group do not include cash held in subsidiaries where exchange controls or similar restrictions make it unlikely that cash could be repatriated to the Company within a year. As at 31 March 2006, £60 million (2005 – £55 million) held in the Seychelles has been excluded on this basis.

A key objective for Group Treasury is to maximise the proportion of the Group's cash and cash equivalents held by the Company, to ensure that this is available, if required, for liquidity purposes and to optimise investment returns.

Cash and cash equivalents held by the Company includes £33 million of restricted funds in the form of bank deposits pledged as collateral against contingent liabilities. A further £17 million of restricted funds has been secured by the Group's insurance subsidiary Pender against potential future claims. These amounts are not available for use by the Group in the short-term.

During 2004, Cable and Wireless plc purchased £80 million of Credit Linked Notes issued by AA-rated banks and referenced to the Company's £200 million bond maturing in 2012. This transaction has a similar economic effect to repurchasing the 2012 bonds. The Company sold £40 million of these notes during 2005/06 in order to improve the liquidity of its investments. At 31 March 2006, the Company held £40 million (fair value of £39 million) of Credit Linked Notes (2005 – £80 million). Further information on these transactions is given in note 19 to the financial statements.

Other cash and cash equivalents held by the Company as at 31 March 2006 are now wholly invested in short-term bank deposits, with institutions where short-term ratings are A1 or better, and AAA-rated money market funds.

Group matters
Acquisitions, disposals and other corporate changes

Acquisitions

On 11 November 2005, we acquired the Energis business, for an initial net cash consideration of £608 million and assumed £33 million of finance lease obligations. In the third year following completion, we have agreed to pay contingent consideration of between nil and £80 million, payable in cash or shares at our option, dependent on the level of our share price. For further information on this transaction refer to note 38 of the financial statements.

Since acquisition Energis has generated revenues of £266 million and EBITDA of £35 million.

On 31 December 2005 Cable & Wireless (Seychelles) Limited acquired Atlas (Seychelles) Limited, a Seychellois company providing Internet services, for consideration of SR19 million (£1.9 million).

Disposals

On 7 April 2005, we completed the disposal of our Spanish retail business for consideration of €7 million (£4 million), recognising a profit on disposal of £3 million.

On 13 July 2005, we completed the sale of our Sakhalin fixed and mobile businesses for a consideration, inclusive of the repayment of a loan from us of US$2.2 million, of US$44 million (£25 million at the exchange rate on 12 July 2005). The consideration, excluding loan repayment, was paid in cash on completion. Our loan was repaid on 12 September 2005. The profit on disposal was £17 million.

On 28 October 2005, a 51% owned subsidiary sold its 12.1% stake in MobileOne Limited ('M1'). The consideration was S$2.20 per share, or S$260.8 million in total (£86.6 million at the closing exchange rate on 27 October 2005), of which we received £44 million after deducting the minority interest. The profit on disposal was £70 million (£36 million after deducting the minority interest).

Corporate changes

We have previously maintained an ADR programme and listing on the New York Stock Exchange for US investors. Given the very small percentage of shares that were held and traded through the ADR programme, we concluded that its additional cost of administration outweighed its potential benefits. We therefore closed the programme in December 2005. For the same reasons, we are in the process of deregistering our securities with the SEC which we expect to complete in June 2006. This will ultimately remove our US reporting obligations.

Capital structure

Equity
At 31 March 2006 we had 2,421 million Ordinary Shares of 25 pence in issue (2005 – 2,394 million). Of these 125,940,339 (2005 – 115,259,057) were held as treasury stock by the Company or by the Employee Share Ownership Plan Trust. Using the closing share price at 31 March 2006, the approximate market capitalisation of the Group was £2,553 million. Other than issues to satisfy the vesting of awards under the Company's share schemes and the dividend reinvestment plan, which together totalled 26 million shares (2005 – 9 million shares), there were no other share issues.

Share buy-back programme
In November 2004, we launched a £250 million share buy-back programme to return surplus cash to shareholders. Shares repurchased are held as treasury shares. To date we have bought back 75 million shares at an average price of £1.23 and at a total cost of £92 million, of which £17 million was spent during this financial year. Following the acquisition of Energis and the top-up of the UK pension scheme, we have decided to discontinue the balance of the buy-back programme.

Debt financing
We manage our capital structure to ensure that adequate funding is in place at all times to support our businesses. We have previously raised funds through a variety of instruments.

	2005/06 £m	2004/05 £m
Loan from the European Investment Bank ('EIB') straight and convertible bonds	672	737
Loans and borrowings in subsidiary companies	83	85
Obligations under finance leases and other	29	2
Gross debt at 31 March	784	824[1]

[1] Gross debt at 1 April 2005.

The four main debt instruments still outstanding are three publicly quoted bonds and a loan from the EIB. These borrowings, amounting to £672 million at the year end (2005 – £737 million), have all been either borrowed or guaranteed by the Company. In addition, there are £83 million of borrowings in subsidiary companies (2005 – £85 million), of which £42 million has been guaranteed by the Company.

The Company debt is well spread in terms of maturity, the profile of cash redemptions being as follows:

2006 – £121 million	2012 – £184 million
2010 – £258 million	2019 – £180 million

The EIB Loan of £121 million (carrying value £106 million) matures in September 2006 and we expect to repay this together with a related currency swap of £15 million from existing cash resources. Repayment of the 2012 and 2019 bonds is shown net of bonds repurchased and held as treasury stock.

One of our debt instruments is a £258 million (carrying value of £202 million) Convertible Bond maturing in 2010. Conversion is at the option of bondholders at a share price of £1.45 (subject to adjustment for certain corporate actions or a change of control). Therefore, depending upon the performance of the share price before maturity, and the choices of bondholders, the convertible bond may be redeemed by the issue of shares rather than cash.

Given the maturity profile of our debt, and the substantial cash resources still available to the Company (see the cash section on page 35), we are satisfied that we can meet our working capital requirements for at least the next year. Consequently, we have no current intention to conduct any major funding activity. Given our strong cash position, we see no need to maintain committed facilities and hence we had no significant facilities during the year.

Debt covenants
None of the Company debt contains financial covenants. Some of the debt held in subsidiaries is subject to financial covenants based upon the accounts of the relevant subsidiary itself. These covenants are carefully monitored and we do not expect them to constrain our operations.

Credit ratings
Cable & Wireless' long-term credit ratings at 31 March 2006 are:

Standard & Poor's	BB-
Moody's	Ba3

Standard & Poor's reduced its credit rating from BB to BB- on 1 February 2006 in response to a market update by the Group on 31 January 2006. There has been no change in the Moody's rating during the year.

We maintain an ongoing dialogue with the two relevant credit rating agencies to keep them appraised of our financial performance.

Other loans and contractual obligations under leases
Our loans and contractual obligations under finance and operating leases are analysed in notes 25 and 36 to the financial statements.

Off-balance sheet arrangements
Operating leases
In the normal course of business, we enter into operating leases, relating to property, customer premises equipment and other operational commitments. Minimum lease terms range from one year to 50 years. The effect such obligations are expected to have on liquidity and cash flow in future periods is set out in the contractual obligations table in note 36 to the financial statements.

In addition, under certain property operating leases we could be required to make payments to lessors at the end of the lease to restore the condition of the properties.

Other commitments and contingent liabilities
Other commitments and contingent liabilities that have, or are reasonably likely to have, a current or future material effect on our financial condition, future performance or cash flows are set out in notes 36, 37 and 40 to the financial statements.

Group matters
Pensions

The Cable & Wireless Superannuation Fund (CWSF) had approximately 15,400 members in its defined benefit section at 31 March 2006; some 1,200 members remain in active employment, 9,300 members have deferred benefit entitlements and 4,900 members are drawing pension benefits. The defined benefit section was closed to new members in 1999. A defined contribution section was added for new employees in the UK in 1997. About 8,600 members participate in the defined contribution section of which some 2,500 remain in active employment. Nearly 200 ex-Energis employees joined the defined contribution section on 1 April 2006.

The defined benefit scheme is funded with assets held in a separate trustee-administered fund. It is subject to independent valuations at least every three years, on the basis of which the scheme actuary determines the rate of employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The most recent triennial funding valuation of the CWSF was made as at 31 March 2005. Discussions with the trustees and the scheme actuary resulted in us paying a £98 million contribution 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. Our ordinary contribution rate for 2005/06 including administration costs and an allowance for the pension protection fund levy, was 22.3% of 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 including 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 0.25% change in the assumed rate of return on scheme investments would have increased or decreased the funding required by around £86 million. A 0.25% change in the assumed rate of salary increases would have increased or decreased the funding required by £7 million.

The IAS 19 deficit for the CWSF at 31 March 2006 is £89 million (31 March 2005 – £176 million). 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 liabilities in the UK of £22.6 million (31 March 2005 – £20.2 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 (31 March 2005 – deficit £5 million).

Risk factors

We operate in a challenging environment and face a number of risks. Our financial condition or results of operations could be materially adversely affected should any of these risks arise.

1. We operate in an industry in which innovation can render our products and services uncompetitive or obsolete in a short time.
To mitigate this risk, we invest in new technologies such as the next generation network in the UK or local loop unbundling through Bulldog. However, these investments may prove to be unsuccessful or may themselves be superseded by newer technology.

2. Our operations depend crucially on complex networks and systems and on the ability to access similar networks belonging to others.
Failures in these networks or systems may mean that we cannot serve our customers, exposing us to potential claims and loss of those customers and to costs of repair or modification of the systems.

3. Changes in regulation and government policy or lack of appropriate enforcement of those regulations may result, for example, in changes to the range or price of services offered or may introduce competitors into the markets in which we operate.
Our ability to provide telecommunications services depends on receiving and maintaining government licences and authorisations. We believe that we have all licences material to the running of our business. It is possible that from time to time, as further products and services are deployed or changed, additional licences or authorisations will be required.

4. We may be required to sell our businesses at below market value or impair assets if licences and concessions to operate are withdrawn or not renewed.
A number of our International businesses operate under licences or concession agreements. These typically set out the basis of renewal and the terms for transfer of the business should renewal not occur. The terms of the transfer vary and may not provide for a transfer at market value.

We expect to renew our licences on normal commercial terms as they fall due. However, should a licence not be renewed (or be renewed on unattractive commercial terms) we may be forced to exit the business on unfavourable terms or to impair some or all of the assets of that business.

5. We may lose revenue if unlicensed operators are able to gain access to our network.
In certain markets where we operate, unlicensed operators may seek to gain access to our network unlawfully without paying for such access and/or usage. To the extent that our efforts to prevent the unlawful conduct are not wholly successful, we may lose revenue and our financial performance may be adversely impacted.

6. Mobile communications devices may pose health risks.
Scientific research on mobile telephone handsets and transmission facilities and health has been reviewed by a number of independent expert scientific panels. None of these panels has concluded that the use of mobile telephone handsets is harmful to health.

Nonetheless, increased speculation regarding health risks associated with mobile telephone handsets and transmission facilities or any subsequent substantiation of such risks could have a material adverse effect on our business.

7. The historical activities of our insurance subsidiary may result in material claims.
Pender is our Isle of Man domiciled captive insurance company. Since its establishment in 1990 it underwrote global insurances for both Cable & Wireless and, in later years, third party companies. It ceased to underwrite any new business from April 2003.

Pender purchased reinsurance for many of the risks it underwrote, including, from 2003, reinsurance via a telecommunications insurance industry mutual ('the Mutual'). Pender remains liable for all policies it underwrote in the first instance notwithstanding the reinsurances.

The significant key risks identified are as follows:

- failure of reinsurance (including reinsurances secured via the Mutual post-April 2003);
- deterioration in known claims; and
- notification of new claims under long tail 'losses occurring' liability policies.

If any of these risks materialise Pender may be subject to significant liabilities which its assets may not be sufficient to meet. Moreover, there can be no assurance that these arrangements will not have a material adverse effect on our financial condition.

8. Changes in the pension regulatory framework, volatility in the financial markets or a weakening of our financial strength may require us to provide further cash funding to our pension funds.
We currently maintain a number of defined benefit plans in the UK and overseas, which cover various categories of employees and retirees. The principal scheme is in the UK. We are obliged to make contributions to the schemes based on triennial actuarial valuations which are based on long-term assumptions. In the short-term, the actual experience of the schemes can vary significantly from the long-term assumptions and may result in significant additional contributions. Ongoing changes to the regulatory environment may also have an impact on funding requirements. A weakening of our financial strength may lead the Trustees and Actuary to seek further additional contributions or, in extremis, to determine that it is in the best interests of the members as a whole to wind up the scheme. If we are required to make significant contributions to fund the defined benefit plans, our financial position could be materially and adversely affected and the cash flow available for other uses may be significantly reduced.

9. Fluctuations in currency exchange rates in the countries where we operate may adversely affect our reported results and financial condition.
A significant percentage of our business is conducted outside the UK. We are thus exposed to movements in exchange rates in relation to foreign currency receipts and payments, dividend and other income from foreign subsidiaries, reported profits of foreign subsidiaries and the net asset carrying value of foreign investments particularly in respect of the £/US dollar exchange rate.

Group matters
Risk factors

We manage our exposure to movements in exchange rates on a net basis and, where appropriate, use forward foreign exchange contracts and other derivative and financial instruments to reduce the exposure.

To the extent that this hedging activity does not cover the exposure, then our results and financial condition may be negatively impacted by currency exchange rate movements.

10. Our withdrawal from the US domestic market may result in unforeseen claims against us.
Although we have taken measures to reduce our exposure to third party claims resulting from our withdrawal from the US domestic market through a Chapter 11 bankruptcy process, there remains a risk that we may be subject to claims from certain third party suppliers against guarantees and letters of credit given by us to the purchaser of the US business should that purchaser not be able to honour the related financial commitments.

In addition, there is no guarantee that we will not be the target of claims from third parties who believe they might have contractual or other rights enforceable directly against us.

Board and governance

42 Board of Directors
44 Directors' report
48 Corporate governance report
53 Report of the Audit committee
55 Directors' remuneration report
66 Statement of Directors' responsibilities

Board and governance
Board of Directors

As part of the restructuring of Cable & Wireless into two businesses, International and UK, with separate operating boards reporting to the main Cable and Wireless plc Board, the composition of the Board has been reviewed with the objective of creating a smaller body more aligned with its requirements under the new organisation. As a result, a number of directors have either retired or will retire by the conclusion of the Annual General Meeting in July 2006.

Chairman

Richard Lapthorne[N] (63)
Chairman; Chairman, Nominations Committee
Richard Lapthorne was appointed Chairman in January 2003. Prior to joining Cable & Wireless, from 1999 to May 2003, Richard was Chairman of Amersham International plc having joined its Board as a Non-executive Director in 1988. He was Finance Director of British Aerospace plc from July 1992 and Vice Chairman from April 1998 until his retirement in September 1999. Richard is Non-executive Chairman of Morse plc and the New Look Group and was Chairman of Arlington Securities from May to December 2005.

Executive Directors

The following are the ongoing Executive Directors of the Company:

Anthony (Tony) Rice (54)
Group Managing Director, Central and Finance Director
Tony Rice was appointed a Non-executive Director and Chairman of the Audit Committee in January 2003 and was a member of the Nominations Committee. He relinquished these roles on 30 March 2006 when he was appointed Group Managing Director, Central and Finance Director.

Tony was Chief Executive of Tunstall Holdings Ltd until its acquisition by Bridgepoint on 13 September 2005 and he continues as a Non-executive Director of that company. Tony is also a Non-executive Director of British Mediterranean Airways Limited and Help the Aged. Prior to joining Tunstall, Tony was Group Treasurer and then Group MD, Commercial Aircraft of British Aerospace plc and was also involved in the financing and flotation of Orange.

Harris Jones (44)
Group Managing Director, International
Harris Jones was appointed as Group Managing Director, International and Chief Executive of the International business on 1 April 2006. Previously he was Executive Director of the International business from December 2004.

Prior to joining Cable & Wireless, Harris was Chief Executive Officer of T-Mobile UK following its acquisition by Deutsche Telekom and has prior experience as a senior executive with Omnipoint Communications and Sprint Spectrum. Harris is a Non-executive Director of Caracal, Inc., USA.

John Pluthero (42)
Group Managing Director, UK
John Pluthero was appointed as Group Managing Director, UK and Executive Chairman, UK on 1 April 2006. Previously he was Executive Director of the UK business from November 2005.

From September 2002 until the acquisition by Cable & Wireless, John was Chief Executive of Energis. Previously, he was founder and Chief Executive Officer of Freeserve (now Orange), leading it to its July 1999 flotation on the London Stock Exchange and NASDAQ. Prior to this, John held various strategy and operations positions within the Dixons Group including Managing Director of Mastercare, Quality Director and Business Review Director.

George Battersby (59)
Executive Director, Human Resources
George Battersby was appointed as Executive Director of Human Resources in July 2004. He has held senior human resources positions in a number of FTSE 100 companies over the past 20 years and immediately prior to joining Cable & Wireless was Group Human Resources Director and a member of the Board of Amersham International plc. George is a Non-executive Director of SHL Group plc, a leading international HR consultancy, where he is Chairman of the Remuneration Committee and the Senior Independent Director.

The following Executive Directors will retire from the Board between the date of this report and the conclusion of the Annual General Meeting in July:

Robert (Rob) Rowley (56)
Executive Deputy Chairman
Rob Rowley was appointed a Non-executive Director in September 2002 and, following a restructuring of the Board, was appointed as Executive Deputy Chairman on 21 January 2003. Rob is a Non-executive Director of Liberty International plc and was a Non-executive Director and Chairman of the Audit Committee of Prudential plc until 18 May 2006. Rob will retire from the Board at the Annual General Meeting in July.

Charles Herlinger (50)
Chief Financial Officer
Charles Herlinger was appointed Chief Financial Officer in December 2003. From 1987 to 2003 he worked for the Siemens Group, most recently as Corporate Vice President and Group Controller. Charles will retire from the Board at the end of May 2006.

The following Executive Directors retired from the Board immediately following the year end:

Francesco Caio (48)
Francesco Caio was Chief Executive Officer until he retired on 1 April 2006.

The Right Honourable Lord Robertson of Port Ellen KT, GCMG (60)
Lord Robertson of Port Ellen was Executive Deputy Chairman throughout the year ended 31 March 2006. He retired on 1 April 2006 to focus on his role as Chairman of Cable & Wireless' International business.

Non-executive Directors

The following are the ongoing Non-executive Directors of the Company:

Simon Ball[A R] (46)

Non-executive Director

Simon Ball was appointed as a Non-executive Director on 1 May 2006. Simon is Group Finance Director for 3i Group plc, the FTSE 100 private equity and venture capital business, and has served on its main Board since April 2005. Prior to this, Simon held a series of senior finance and operational roles over 15 years at Dresdner Kleinwort Benson and Robert Fleming Group and, for two years, served as Director General, Finance for the UK Government's Department for Constitutional Affairs.

Clive Butler[A R] (59)

Non-executive Director

Clive Butler was appointed a Non-executive Director on 1 May 2005. Prior to joining Cable & Wireless, Clive was Corporate Development Director at Unilever having served on the main board since 1992. During that period he also undertook the roles of Personnel Director and Category Director for Unilever's Home and Personal Care division. Clive joined Unilever in 1970 and worked in a variety of marketing and general management roles, including positions in the USA, Zimbabwe and the Philippines, prior to his retirement in 2005. Clive will become the Senior Independent Director and a member of the Nominations Committee on Graham Howe's retirement in June.

Kate Nealon[A N R] (52)

Non-executive Director; Chairman, Remuneration Committee

Kate Nealon was appointed a Non-executive Director in January 2005 and became Chairman of the Remuneration Committee and a member of the Nominations Committee on 1 April 2006. She is a US-qualified lawyer and was Group Head of Legal and Compliance for Standard Chartered plc until 2004. Kate previously practised international banking and regulatory law in New York. She is a Non-executive Director of HBOS plc and Monitor (the independent regulator of the NHS Foundation Trust Hospitals) as well as being a senior associate of the Judge Business School at Cambridge University.

Kasper Rorsted[A N R] (44)

Non-executive Director; Chairman, Audit Committee

Kasper Rorsted was appointed a Non-executive Director in May 2003 and became Chairman of the Audit Committee and a member of the Nominations Committee on 30 March 2006. Kasper also became a member of the Remuneration committee on 1 April 2006. He is Executive Vice President at Henkel KGaA having previously been Senior Vice President and General Manager, Europe Middle East & Asia for Hewlett-Packard. Kasper has held various senior management positions with Compaq since 1995 and has previous experience with Oracle, Digital and Ericsson. Kasper is a Non-executive Director of Ecolab, Inc. USA.

Agnès Touraine[A R] (51)

Non-executive Director

Agnès Touraine was appointed a Non-executive Director in January 2005 and became a member of the Remuneration committee on 1 April 2006. Based in France, Agnès is Managing Partner of Act III Consultants having previously been Chairman and CEO of Vivendi Universal Publishing. She has held various senior executive positions with the Lagardère Group and began her career with McKinsey. Agnès is a Board member of Fondation de France and was a Non-executive Director of Lastminute.com until its acquisition by Travelocity in July 2005.

The following Non-executive Directors will retire from the Board between the date of this report and the conclusion of the Annual General Meeting in July:

Bernard Gray[A N R] (45)

Non-executive Director

Bernard Gray was appointed a Non-executive Director in January 2003 and was Chairman of the Remuneration Committee from January 2003 to 31 March 2006. Bernard was appointed as Chief Executive of TSL Education Limited in October 2005 having formerly been Chief Executive of CMP Information, the UK publishing and events division of United Business Media. Bernard will retire at the Annual General Meeting in July.

Graham Howe[A N R] (45)

Non-executive Director; Senior Independent Director

Graham Howe was appointed as a Non-executive Director in May 2003 and is the nominated Senior Independent Director. Graham was one of the founding directors of Orange and was its Deputy Chief Executive Officer and Chief Operating Officer until 2003 having previously been Finance Director. He is Chairman of Promethean Technologies Limited. Graham will retire in June.

Company Secretary

Nick Cooper (42)

Group General Counsel and Company Secretary

Nick Cooper was appointed Company Secretary on 17 January 2006.

[A] Denotes membership of Audit Committee
[N] Denotes membership of Nominations Committee
[R] Denotes membership of Remuneration Committee

Board and governance
Directors' report

The Directors present their annual report and audited financial statements for Cable and Wireless plc and the Cable & Wireless Group of companies for the year ended 31 March 2006.

Principal activities

The principal activities of the Group are set out on page 2.

On 31 January 2006 Cable & Wireless announced that, from 1 April 2006, it would divide its business into two operationally self-contained businesses: International and UK (including Bulldog) which reflects the recognition of differing characteristics in both these businesses. The central functions of Cable & Wireless have been reshaped to ensure the continuation of proper governance and control at the corporate centre.

Business review

A review of the performance of the Group's businesses: International, UK and Bulldog for the current year is set out on pages 14 to 16, 23 to 25 and 26 to 27 respectively.

Indications of likely developments of the Group's businesses are set out in the sections titled 'where we want to be' on pages 12, 20 and 21.

The key risks facing the Group are set out on pages 39 and 40.

Results and dividends

The Group's profit for the year ended 31 March 2006 (after taxation and minority interests) amounted to £79 million.

A final dividend of 3.1 pence per Ordinary Share is recommended for the year ended 31 March 2006. This, together with the interim dividend paid in January 2006 of 1.4 pence per Ordinary Share, makes the total for the year of 4.5 pence (2005 – 3.8 pence per Ordinary Share). Subject to approval by shareholders at the 2006 Annual General Meeting ('AGM'), the final dividend will be paid on 11 August 2006 to shareholders on the register at 16 June 2006.

The Company will once again offer a Scrip Dividend option for the final dividend payable on 11 August 2006. Full details are contained in the Scrip Dividend brochure which can be obtained from the Company's Registrar, from the Company Secretary or from the Company's website www.cw.com

Share capital

Details of changes to the Company's issued share capital during the year ended 31 March 2006 are set out in note 31 to the financial statements.

Acquisitions and disposals

Details of significant acquisitions and disposals during the year are set out on page 36.

Directors

The Directors during the year ended 31 March 2006, together with biographical notes, are shown on pages 42 and 43. All the Directors were in office throughout the financial year with the exception of Clive Butler, who was appointed on 1 May 2005 and John Pluthero, who was appointed on 14 November 2005. Subsequent to the year end, Simon Ball was appointed as a Non-executive Director on 1 May 2006.

On 31 January 2006, Cable & Wireless announced the transition to a new organisation structure through the creation of two business units, a reduction in the role of the corporate centre and consequently no Chief Executive role. As a result, from 1 April 2006, Francesco Caio stepped down from his role as Chief Executive Officer and three Group Managing Directors were appointed: Harris Jones, Group Managing Director, International; John Pluthero, Group Managing Director, UK; and Tony Rice, Group Managing Director, Central and Finance Director. All three Group Managing Directors report directly to the Chairman.

In accordance with the Company's Articles, any Director appointed since the last AGM is required to retire and seek election by the shareholders at the next following AGM. Accordingly, John Pluthero and Simon Ball, having been appointed as Directors since the 2005 AGM, will retire at the 2006 AGM and, being eligible, offer themselves for election. The unexpired portion of the service contract for John Pluthero is disclosed on page 58 of the Directors' remuneration report.

The Company's Articles also require all Directors to retire every third year from when last elected by shareholders. Kasper Rorsted will therefore seek re-election at the 2006 AGM.

The Company has provided an indemnity for the benefit of its Directors which is a qualifying third party indemnity provision for the purpose of the Companies Act 1985.

The Directors' responsibilities for the preparation of the financial statements and to the Company's auditors are set out on page 66.

Disclosable interests

The Directors have no interest in the Ordinary Shares of the Company's subsidiaries. The beneficial interests of the Directors and their immediate families in the Ordinary Shares of the Company are shown in the Directors' remuneration report, on page 60.

Acquisition of own shares

In accordance with approval obtained from shareholders, the Company repurchased 14,450,000 Ordinary Shares in the Company during the year ended 31 March 2006 for an aggregate cost of £17,432,998. This number of Ordinary Shares represents 0.6% of the Company's total issued share capital as at 31 March 2006. All Ordinary Shares purchased during the year ended 31 March 2006 are held in treasury. In total, as at 31 March 2006, 74,950,000 Ordinary Shares are held in treasury.

Related party transactions

Transactions with joint ventures and associated companies

All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services, network and access charges. There were no material transactions with joint ventures and associated companies during the year other than disclosed in note 39 to the consolidated financial statements.

The Group received £20 million (2005 – £14 million) dividends from associates and £20 million (2005 – £17 million) from joint ventures for the year ended 31 March 2006.

Transactions with Directors

Except as disclosed in the Directors' remuneration report, as of 31 May 2006, neither the Company or any of its subsidiaries was a party to any material transactions, or proposed transactions, in which any Director, any other Executive Officer, any spouse or child under 18 years of age of a Director or Executive Officer had or was to have a direct or indirect material interest.

During the years ended 31 March 2005 and 31 March 2006, and as of 31 May 2006, no Director nor any other Executive Officer, nor any associate of any Director or any other Executive Officer was indebted to the Company or any of its subsidiaries.

Substantial shareholdings

Except for the holdings of Ordinary Shares listed below, the Directors are not aware of any person or organisation holding 3% or more of the Ordinary Share capital of the Company as at 31 May 2006, the latest practicable date prior to the issue of this report. Comparative figures for 2005 are also given.

2006	Number of Cable & Wireless Ordinary Shares[1]	Percentage of Issued Ordinary Share capital
Shareholder		
The Trustees of the BT Pension Scheme	110,392,537	4.56
FMR Corp. & Fidelity International Limited	80,438,282	3.32
Barclays Bank plc	74,956,874	3.10
Goldman Sachs Group, Inc	75,084,209	3.10
Legal & General Investment Management Limited	73,223,270	3.02

[1] As notified to the Company

2005	Number of Cable & Wireless Ordinary Shares[1]	Percentage of Issued Ordinary Share capital
Shareholder		
The Trustees of the BT Pension Scheme	101,950,148	4.30
Legal & General Group plc	77,951,197	3.30

[1] As notified to the Company

Employees

Employment policies

Cable & Wireless' employment policies comply with local requirements and meet relevant standards for occupational health, safety and environment, business ethics, diversity, disability, performance management and employee relations.

In particular, applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

As well as being absolutely committed to providing a working environment in which the Group's people can both realise their own potential and contribute to business success, the Group's businesses work to ensure that no employee, job applicant, customer or supplier is unfairly or illegally discriminated against.

Employee consultation and relations

It is the quality, skill and commitment of the people who work for Cable & Wireless that allows the Group to deliver for its customers.

Good and open communication is central to driving commitment from the Group's employees and making them feel engaged in the Group's progress. As such, the Group has both formal and informal channels for consultation and communication. An example of this is the staff satisfaction survey conducted in the UK business – the results of which are shared openly around the business and used to drive continuous improvement and promote excellence.

Staff participate in the Group's performance through both share schemes and performance-related bonus arrangements.

Employee representation

In the UK the Group's employees are represented through the Employee Consultation Forum. Elsewhere, employee representation may be through works councils or trade unions, particularly for collective bargaining purposes.

All of the Group's employees are free to join employee representative bodies or trade unions but decisions on union recognition are taken at the local level.

Human rights

Cable & Wireless supports the Universal Declaration of Human Rights and the International Labour Organisation Core Conventions relating to freedom of association, the abolition of forced and child labour.

Environmental matters

Although the Board or its subcommittees consider environmental issues and identify and monitor environmental risks and opportunities, the Directors do not consider that such matters are significant to an understanding of the Group's performance for the year or position at year end and hence the Annual report focuses on the more significant operational issues.

Charitable and political donations

During the year ended 31 March 2006, the Group made donations of £2.5 million (2005 – £7.7 million) of which £200,000 (2005 – £1.7 million) was spent in the UK. More information about our support of the communities in which the Group operates is set out in the International and UK sections on pages 13 and 22 respectively.

Board and governance
Directors’ report

The charitable contribution in the financial year 2004/05 were unusually high as we made two $1 million one-off donations in response to the Asian Tsunami in December 2004 and to aid in the reconstruction of Cayman and Jamaica in the aftermath of Hurricane Ivan in September 2004.

In the UK we have refocused our charitable giving policy towards a community based focus with an emphasis on employee engagement with local based educational organisations. Our objective is to help reduce the digital divide in the communities where we live and work. Recent examples include the highly successful ICT Academy in Bracknell and our partnership with the educational charity WebPlay in Berkshire.

The Group does not make political donations and has no intention of making donations to what are generally regarded as political parties within the EU. As a precautionary measure and in light of the wide definitions of EU political organisations in The Political Parties, Elections and Referendums Act 2000 (the Act), a resolution to permit the Company to make political donations and incur political expenditure was passed at the 2004 AGM. The purpose of the resolution was to ensure that the Company did not unintentionally breach the Act. That resolution is valid for a period of four years from 22 July 2004 or until the date of the 2008 AGM, if earlier.

Payments to suppliers

In the UK, the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. Cable & Wireless seeks to treat all its suppliers fairly according to a standard, which deals specifically with the payment of suppliers.

The average number of days between the invoice date and the date of payment of invoices by the Company (not the Group) was 79 days (2005 – 56 days).

Annual general meeting (AGM)

The AGM will be held at 10.00am on Friday 21 July 2006 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of Meeting, together with a letter from the Chairman explaining the resolutions to be proposed, accompanies this report.

Auditor

KPMG Audit Plc has expressed its willingness to continue as auditor of the Company and resolutions proposing its re-appointment and to authorise the Directors to fix its remuneration will be proposed at the AGM.

Internal control and risk management

The Board is responsible for the Group’s system of internal control and for reviewing its effectiveness on an ongoing basis. The Board considers that the Group’s system of internal control is appropriately designed to manage, rather than eliminate, the risk of failure to achieve business objectives and provides reasonable, but not absolute, assurance against material misstatement or loss.

The concept of reasonable assurance recognises that the cost of control procedures should not exceed the expected benefits.

The Group’s management operates a risk management process, under which each business unit identifies key risks that could impede the achievement of their business objectives; these risks are reviewed by each business’ senior management team and passed up the organisation on a filter basis to assist the Group’s Executive Directors to monitor all significant risks. In addition the Audit Committee reviews a schedule of the Group’s risks, which covers significant operational, financial and strategic risks.

The Group’s Executive Directors also report to the Board, on behalf of management, significant changes in the Group’s business and the external environment in which it operates.

In addition, they provide the Board with monthly financial information, which includes key risk and performance indicators.

The Group’s key internal control and monitoring procedures include the following:

Financial reporting: There is a budgetary system with an annual budget approved by the Board. At each Board meeting monthly actual results are reviewed and reported against the budget and, when appropriate, revised forecasts.

Investment appraisal: The Group has clearly defined policies for capital expenditure. These include annual budgets and detailed appraisal and review processes for such expenditure.

Monitoring systems: The Group monitors its internal controls through a programme of internal audits. The Internal Audit function reports to the Audit Committee on its examination and evaluation of the effectiveness and adequacy of the Group’s systems of internal control.

Financial controls: The Group has dedicated resource to embed processes and controls across its businesses consistent with the standards acceptable to the Group. The Financial Controls Toolkit, which reinforces the standardisation of financial controls across the Group, has continued to be rolled out during the year.

The Group also operates a number of additional self-assessment exercises, which include monthly certification of compliance with key financial controls and an annual controls self-assessment; the latter exercise requires management to assess the effectiveness of their fundamental operating controls over all aspects of their operations, in addition to the financial controls covered by the Financial Controls Toolkit. The results of this exercise are utilised by Group Internal Audit in planning their work for the forthcoming year.

Additionally, finance and general management of operating units are required to sign a letter of representation to confirm that their financial reporting is based on sound data, that they are fully aware of their responsibility to operate internal control systems and that their results are properly stated in accordance with Group and statutory requirements.

The above procedures reflect the Group's commitment to ensuring it has policies in place that ensure high standards of integrity and transparency throughout its operation. Further, when these procedures detect unauthorised management practices, the Group is committed to the correction of such events. The Group is also committed to analysing its internal controls to make them more robust and further limit the risk of such incidents. The Board believes such action properly reflects the Group's commitment to financial discipline and integrity at all levels.

The responsibility for internal control procedures within joint ventures and associates rests, on the whole, with the senior management of these operations. Cable & Wireless monitors its investments and exerts influence through Board representation.

The Board has reviewed the effectiveness of internal control systems in operation during the financial year in accordance with the guidance set out in the Turnbull Report, through the processes set out above.

Under the US Sarbanes-Oxley Act of 2002, new and enhanced standards of corporate governance, and business and financial disclosure, apply to US public companies and non-US companies, including the Company, with securities registered in the United States. Where applicable the Group has developed policies and procedures to enable it to comply with the provisions of the Sarbanes-Oxley Act.

Going concern

After making enquiries the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the Financial Statements on pages 69 to 141.

By order of the Board of Directors
Nick Cooper
Company Secretary
31 May 2006

Board and governance
Corporate governance report

Cable and Wireless plc is listed on the London Stock Exchange and is therefore required to comply with the listing rules of the United Kingdom Listing Authority ('UKLA'), a division of the Financial Services Authority ('FSA'). The FSA requires UK listed companies to disclose whether they have complied with the provisions set out in section 1 of the UKLA's Combined Code on Corporate Governance (Combined Code) and, where the provisions have not been complied with, to provide an explanation. Companies are also required to explain how they have applied the principles set out in the Combined Code. Until 13 December 2005, the Company also maintained a secondary listing on the New York Stock Exchange and was therefore required to comply with many of the provisions of the Sarbanes-Oxley Act as well as the New York Stock Exchange's corporate governance rules.

The Statement of Directors' Responsibilities for preparing the financial statements is set out on page 66.

Compliance with the Combined Code

The Board is committed to the highest standards of corporate governance. The Corporate Governance statement contained herein, together with the Directors' remuneration report set out on pages 55 to 65, confirms that the Company was compliant with all the provisions of section 1 of the Combined Code throughout the year ended 31 March 2006 and to the date of this report except as follows:

A6 The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

No formal review of the Board as a whole or its Committees took place during the year, although a review of the performance of Executive Directors, including the Chief Executive Officer, and senior management team was undertaken in May 2005.

In addition, the Non-executive Directors of the Company met privately three times; once on their own; once with the Chairman and Lord Robertson of Port Ellen in attendance; and once with the Chairman, Lord Robertson of Port Ellen and the Chief Executive Officer present, to consider the performance of the Chairman and Executive management. The Chairman also held individual meetings with each of the Non-executive Directors at least once during the year.

During the financial year 2006/07, it is proposed that a formal Board evaluation will take place under the guidance of the new Senior Independent Director, Clive Butler.

C3.1 The Code provides that the board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

The Board considers that there is a sufficient breadth of financial expertise across the Committee and considers that, collectively, the members have the requisite skills and attributes to enable the Committee to properly discharge its responsibilities. The Board has determined not to identify any single member as having such experience.

D1.1 The Code provides that Non-executive Directors should be offered the opportunity to attend meetings with major shareholders and should expect to attend them if requested by major shareholders. The Senior Independent Director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

During the year under review, the majority of the Company's Non-executive Directors have not attended formal meetings with major shareholders. The Remuneration Committee Chairman communicated with the Company's 20 largest shareholders during the early part of the financial year in order to discuss proposed changes to the Company's remuneration policy (which were passed at the 2005 AGM in July). In addition, the Company's Chairman held meetings with a number of the Company's major shareholders to discuss and explain the new Group structure following the announcement on 31 January 2006.

Composition of the Board

During the year under review the Board comprised the Chairman, Richard Lapthorne, seven Executive Directors and seven Non-executive Directors. Francesco Caio was the Company's Chief Executive Officer during the financial year, however, following the Company's restructuring announcement on 31 January 2006, Francesco stepped down from this position on 1 April 2006 and the Chief Financial Officer, Charles Herlinger, will retire on 31 May 2006. Under the new structure, from 1 April 2006, the Group operates as two separate businesses; International led by Harris Jones and UK led by John Pluthero. Tony Rice, who became Group Managing Director, Central and Finance Director on 30 March 2006, has responsibility for the Group's central functions. Harris, John and Tony became Group Managing Directors in place of a Group Chief Executive Officer and they report directly to the Chairman. In addition, a number of changes to the Non-executive Directors were announced which will leave the Board comprising the Chairman, four Executive Directors and five Non-executive Directors after the AGM.

Graham Howe was appointed as the Company's Senior Independent Director in May 2003. Graham has indicated that he will retire from the Board in June 2006 and he will be succeeded as Senior Independent Director by Clive Butler. Clive is available to shareholders if they have concerns that contact through the normal channels of Chairman or Executive Directors has failed to resolve or for which such contact is inappropriate.

Non-executive Directors are appointed for an initial term of three years with the expectation that a further three year term will follow, subject to review by the Board. The initial three year term for Kasper Rorsted ended on 24 May 2006 and a further three year term has been agreed with him which will continue until May 2009, subject to any necessary re-appointment in general meeting.

The Board considers that all the Non-executive Directors who served during the year ended 31 March 2006 and up to the date of this report are independent. Each of the Non-executive Directors is of independent mind and character and actively contributes to the effective performance of the Board and its Committees. This combination of skills and expertise materially enhances the judgement and overall performance of the Board.

Full biographical details of the Directors are set out on pages 42 to 43.

Board meetings and attendance

The Board held ten scheduled meetings during the year concentrating on strategy and financial and business performance. Additional Board meetings may be called as required to deal with specific matters. During the year under review there were two additional Board meetings.

The Board requires all members to use their best endeavours to attend Board and Committee meetings and to devote sufficient time to the work of the Board to discharge their duties. A table setting out the attendance of Directors at scheduled Board and Committee meetings during the year (including those Directors appointed during the year) is given below:

	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nominations Committee meetings	
	Attended	Possible	Attended	Possible	Attended	Possible	Attended	Possible
Richard Lapthorne	10	10	–	–	–	–	1	1
Francesco Caio	10	10	–	–	–	–	1	1
George Battersby	10	10	–	–	–	–	–	–
Clive Butler	9	9	4	4	4	4	–	–
Bernard Gray	10	10	4	5	5	5	1	1
Charles Herlinger	10	10	–	–	–	–	–	–
Graham Howe	10	10	5	5	5	5	1	1
Harris Jones	10	10	–	–	–	–	–	–
Kate Nealon	10	10	5	5	5	5	–	–
John Pluthero	3	4	–	–	–	–	–	–
Tony Rice	10	10	5	5	1	1	1	1
Lord Robertson	10	10	–	–	–	–	–	–
Kasper Rorsted	9	10	5	5	–	–	–	–
Rob Rowley	10	10	–	–	–	–	–	–
Agnès Touraine	10	10	5	5	–	–	–	–

Matters reserved for the Board

The Board has a formal schedule of matters reserved to it for decision. A copy of the schedule is available on request from the Company Secretary and is published on the Company's website.

Matters reserved for the Board include:

- strategy and management;
- structure and capital;
- financial reporting and controls;
- internal controls;
- customer contracts and expenditure over a certain financial limit;
- Board membership and other senior management appointments;
- Director and senior executive remuneration;
- delegation of authority; and
- corporate governance.

During the year ended 31 March 2006, the Board delegated the responsibility for the day-to-day management of the Company to the Chief Executive Officer, Francesco Caio. The Chief Executive Officer was supported in this by the Executive Committee, which he chaired. From 1 April 2006, responsibility for the day-to-day management of the two businesses was delegated to Harris Jones (International business) and John Pluthero (UK business).

Responsibility for management of the central Group functions was delegated to Tony Rice. Separate operating boards in the International and UK businesses provide support for Harris and John.

Additionally, specific responsibilities have been delegated to the Audit, Remuneration and Nominations Committees.

The Board believes that good corporate governance and strong governance controls improve the performance of the business and enhance shareholder value. During the year ended 31 March 2006, the Board has:

- ensured compliance with legal, regulatory and corporate governance requirements;
- promoted and maintained good corporate citizenship and high standards of ethical behaviour by the Group's employees;
- provided the Chief Executive Officer with appropriate support to drive the performance of the Group;
- set and monitored challenging performance objectives and benchmarks for the Chief Executive Officer and the executive team;
- set an appropriate control environment within which executive management can operate;
- reviewed sub-committees of the Board covering remuneration, nominations and audit matters; and
- considered the appointment of a new Company Secretary.

Board and governance
Corporate governance report

In addition, the Board holds a strategy meeting once a year at which it considers the direction of the Group.

Information and training

The Board and the various committees, standing and non-standing, are provided with full and timely information prior to meetings, including detailed financial information. All Directors have access to the advice of the Company Secretary and, in addition, the Board has adopted a procedure whereby all Directors may, in the furtherance of their duties, take independent professional advice on any matter at the Company's expense.

The Chairman, in consultation with the Executive Directors and Company Secretary, sets agendas for Board meetings. Formal minutes recording decisions of all Board and Committee meetings are prepared and circulated to each Director as appropriate. If a Director objects to a particular proposal this will be recorded in the minutes of the Board or Committee meetings. During the year ended 31 March 2006, as for the previous year, there were no such objections.

Responsibility for ensuring that an appropriate induction is given to new Board members lies with the Chairman. The induction involves meetings with other Directors, senior management and key advisors. In addition, new Directors are provided with appropriate background materials covering the business, the financial performance of the Company and the legal and corporate governance environment. Directors further receive appropriate ongoing training, briefings and information to enable them to perform their roles both on the Board and its principal Committees. On request, the Company will arrange for its major shareholders to meet new Non-executive Directors.

Audit Committee

The purpose of the Audit Committee is to assist the Board in meeting its responsibilities in ensuring an effective system of internal control and compliance and accurate external financial reporting; and to assist management in conducting and reporting the effective risk management of the Company's and Group's activities.

The Audit Committee was chaired by Tony Rice from his appointment as a Non-executive Director until his appointment as Group Managing Director, Central and Finance Director on 30 March 2006. From this date Kasper Rorsted became Chairman of the Committee. All other independent Non-executive Directors are members of the Audit Committee. Biographical details on each can be found on page 43.

In addition, during the year under review the Company's Chairman, Richard Lapthorne, and all Executive Directors were invited to attend but were not members. The Group Director of Internal Audit, Group General Counsel and representatives of the external auditors also attend meetings by invitation. Other members of the management team attend as required.

The Audit Committee held five scheduled meetings during the year ended 31 March 2006. Two additional meetings were also held. Attendance at scheduled meetings is shown in the table on page 49.

A full report of the Audit Committee is given on page 53 and 54.

Remuneration Committee

The Remuneration Committee determines and recommends to the Board the framework or broad policy for the remuneration and long-term incentive arrangements of the Company's Chairman, Executive Directors and senior executive management. The Committee's full terms of reference are available from the Company Secretary and are published on the Company's website.

The Committee membership consists entirely of independent Non-executive Directors. During the year under review the Committee was chaired by Bernard Gray. The other members were Clive Butler (from 1 May 2005), Graham Howe, Kate Nealon and Tony Rice (to 1 May 2005). On 1 April 2006, membership of the committee was extended to include all Non-executive Directors with Simon Ball included on his appointment to the Board on 1 May 2006.

The Group Chairman, Executive Directors and Group Human Resources Director may be invited to attend meetings of the Committee, but do not participate in any matter which impacts upon their own remuneration arrangements. Representatives from the Company's remuneration consultants, New Bridge Street Consultants, attend meetings by invitation.

Five meetings are scheduled during the year although additional meetings may be held. During the year ended 31 March 2006, a total of nine meetings were held.

The Directors' remuneration report on pages 55 to 65 includes details on remuneration policy, practices and the remuneration of the Directors.

Nominations Committee

The purpose of the Committee is to review the composition of, and succession to, the Board and recommend to the Board appointments of Executive and Non-executive Directors following a formal and rigorous review process. This involves an ongoing assessment of the overall balance and performance of the Board and its individual members intended to ensure a strong executive and independent non-executive team, taking account of existing and proposed corporate governance requirements and emerging best practice. The Committee in particular considers the experience and skills of individuals who may be suitable as Directors. Members of the Committee abstain when matters affecting their own appointments are discussed.

The Committee's full terms of reference are available from the Company Secretary and are published on the Company's website.

The Nominations Committee is chaired by the Chairman, Richard Lapthorne, and during the year ended 31 March 2006, comprised the Group Chief Executive Officer, Francesco Caio, and three independent Non-executive Directors, being the chairmen of the Audit and Remuneration Committees and the Senior Independent Director.

Following the re-structuring announced on 31 January 2006, Francesco Caio resigned from the Committee on 31 March 2006 and will not be replaced. Membership going forward will therefore be limited to the Company Chairman, Richard Lapthorne, the Senior Independent Director and the Audit and Remuneration Committee Chairmen. Any of the Executive Directors may be invited to attend future Committee meetings as appropriate.

The Committee met once during the year under review.

Board performance evaluation
Under the direction and control of the Chairman, the Board considers its performance both as a group, as individual members and its various sub-committees. This involves regular discussions between the individual Board members and use of external support where necessary.

During the year, as part of the evaluation process, the independent Non-executive Directors met privately without the Chairman, as a group with the Chairman and Lord Robertson of Port Ellen, and similarly with the Chairman, Lord Robertson of Port Ellen and the Chief Executive Officer, to consider management performance and succession issues. The independent Non-executive Directors also appraised the Chairman's performance and reviewed the relationship between the Chairman and Chief Executive Officer to ensure that the relationship was working to promote the creation of shareholder value.

In May 2005, the Chief Executive Officer provided the Non-executive Directors with a review of the performance of the Executive Directors and his senior management team. The Chairman also reviewed the performance of the Chief Executive Officer.

In addition, the Chairman held individual meetings with each of the Non-executive Directors at least once during the year.

Notwithstanding the above, no formal review of the performance of the Board as a whole and its committees took place.

It is proposed that during the financial year 2006/07 a formal Board evaluation will take place under the guidance of the new Senior Independent Director, Clive Butler.

Statement from the independent Non-executive Directors

The independent Non-executive Directors met frequently during the year in addition to Board meetings to formally discuss governance issues – once with the Chairman and Chief Executive Officer present, three times with the Chairman present, and the remainder on their own. After the final meeting, Graham Howe, Senior Independent Director, provided feedback to the Board on the Independent Non-executive Directors' collective views of the following:

– The perceived quality of the relationship between the Chairman and the Chief Executive Officer;
– The degree of openness between the Chief Executive Officer and the Board;
– The visibility of checks and balances within the Executive Directors' team; and
– Whether all questions asked by the independent Non-executive Directors have been adequately addressed.

General comments
1. Going into last year, the strategic direction was clear with a desire to reach critical scale in the core UK business, a move towards next generation networks of which unbundling the local loop was a key part and the optimisation of the international portfolio. The acquisition of Energis was envisaged but had not yet been executed; Bulldog was a relatively new initiative with only limited unbundling having been carried out. The tools for providing the future for the UK business had, therefore, been designed but execution risks remained; particularly in completing the assembly of the strategic tools and in taking a firmer management grip of operational performance.

2. It was apparent at the beginning of the financial year that the UK business needed to strengthen its team and the Chief Executive Officer decided to take direct control of this business. There followed a significant period of uncertainty in the UK business as a result of a protracted negotiation process to acquire Energis coupled with a further three month delay whilst the transaction cleared regulatory hurdles. This extended timetable gave rise to operational and management issues and combined with deteriorating trading conditions contributed to a market update in late October 2005.

3. It became increasingly clear that the leadership structure of the Company needed reshaping to take it into the next phase in its recovery. In particular, it had become apparent that any Chief Executive Officer could become preoccupied with turning around the UK business – running the risk of not maximising the potential of the international portfolio. Therefore at the end of January the Company announced operational separation of the UK and International businesses with a Group Managing Director in charge of each reporting directly to the Chairman.

4. At the same time, the Company updated market forecasts for the UK for 2006/07 when it became clear that the then projected underlying earnings combined with the impact of the new UK management team's desire to radically reshape the UK business were not yet reflected in the financial targets already pencilled in by the market.

5. As a Board our duty is to make change where it is in the interests of shareholders. The changes made in the last quarter of the year were sometimes uncomfortable – particularly as the significant remodelling of the management systems including incentive arrangements began to gather momentum. In general, the relationship between the Chairman who led and drove this process and the independent Non-executive Directors was maintained at a very high quality.

Board and governance
Corporate governance report

Specific questions

The perceived quality of the relationship between the Chairman and the Chief Executive Officer

– The Chairman and the Chief Executive Officer continued to work together through a difficult transition phase, sharing with the Board the issues that they were addressing.
– They developed the view that a transition to a new structure was the best way to ensure effective implementation of the Company's strategy following the Energis acquisition.
– Once it became clear that the new team in the UK was ready to take the lead, the Chairman worked with the CEO to ensure a rapid and orderly transition to the new organisation.

The degree of openness between the Chief Executive Officer and the Board

– Although significant issues needed to be addressed throughout the year communications between the Board and the Chief Executive Officer were open and frank.

The visibility of checks and balances within the Executive Directors team

– The primary checks and balances had until now been between the Chairman and the Chief Executive Officer.
– During the year the Chief Executive Officer formed a Group executive committee so that checks and balances could be realised through the executive team. With hindsight, insufficient communication between the UK business and the executive team and the lack of balance amongst the participants impaired the ability of this committee to function as well as had been hoped.
– However, on the critical issue of UK earnings, the Board and executive management did act together to ensure proper and timely information was given to the market.

Whether all questions asked by the Non-Executive Directors have been adequately addressed

– Questions were answered in an honest and constructive manner.
– Although every effort was made to address the issue, the need to improve the understanding of the underlying performance of the UK prompted the Board to request an additional review of in year financials prior to the statement to the market on the 31 January 2006.

Overall it was a difficult year for the company, the acquisition of Energis was completed after some delay, Bulldog experienced start-up challenges and the operational separation of the UK and International businesses took place; all in difficult trading conditions. However many of the strategic and management tools are now in place and the execution risks are now being addressed.

Despite this period of change for the Company, through the significant efforts of the Board of Directors, its principal committees and the senior management team, the independent Non-executive Directors are satisfied that the appropriate corporate governance controls have been effective during the year ended 31 March 2006.

Board and governance
Report of the Audit Committee

Terms of reference

The objectives of the Audit Committee include assisting the Board in meeting its responsibilities in ensuring an effective system of internal control and compliance and accurate external financial reporting; and assisting management in conducting and reporting the effective risk management of the Company's and Group's activities.

In order to undertake this purpose, the Committee has terms of reference which are summarised below.

- to review and, where necessary, challenge the actions and judgements of management in relation to the preliminary, full year and interim financial statements before submission to the Board. Particular attention is paid to critical accounting policies and practices and any changes; clarity of disclosure; compliance with accounting standards, stock exchange and other legal and regulatory requirements;
- to review the Company's compliance with legal and regulatory requirements arising from its listing in London and, to 13 December 2005, New York;
- to review the Company's compliance with legal and regulatory requirements arising from its SEC registration;
- to review material complaints regarding accounting, internal controls and auditing raised by the Company's employees and generally monitor the Company's whistle blowing procedures;
- to review the internal audit programme and consider the effectiveness of the internal audit function; and
- to make recommendations to the Board on the appointment, re-appointment and removal of the Company's auditor, to approve the remuneration and terms of engagement of the external auditor and process of the approval of audit and non-audit services provided by the external auditor.

Full terms of reference are available on request from the Company Secretary and are published on the Company's website.

Meetings

The Audit Committee held five scheduled meetings during the year ended 31 March 2006. Two additional meetings were also held. Attendance at scheduled meetings is shown in the table on page 49.

Prior to each meeting, the Chairman of the Audit Committee meets with the Group Director of Internal Audit, Group Financial Controller and the external auditor without the presence of management. During the year under review the Chairman of the Audit Committee also held private meetings with the Chief Financial Officer and the external auditors before each Committee meeting. In addition, the entire Committee will meet (i) the external auditor without the presence of management and (ii) management without the presence of external auditor, at least annually.

Standing reports were received from the Chief Financial Officer, the external auditor, Group Director of Internal Audit and the Group General Counsel at each scheduled meeting.

In addition, during the year under review, the Committee considered and discussed the business set out below and made recommendations to the Board where appropriate:

- preliminary results and press release for the year ended 31 March 2005;
- the 2004/05 Annual report and accounts/Form 20-F together with the Directors' statement on compliance with Turnbull guidance on internal controls and risk management;
- interim results and press release for the six months ended 30 September 2005;
- corporate governance developments in UK and US arising from the revised Combined Code and the Sarbanes-Oxley Act 2002 including regular updates on the work being undertaken in connection with section 404 of the Sarbanes-Oxley Act;
- impact of International Financial Reporting Standards on the Group's results;
- delisting from New York Stock Exchange and deregistration of the Company's securities under the 1934 Securities Act;
- insurance cover;
- integration plan following the acquisition of Energis;
- treasury policies;
- review of the effectiveness of the internal and external auditors;
- security, health and safety; and
- significant contracts and outsource agreements.

Disclosure Committee

The Audit Committee is assisted by the Disclosure Committee, which is primarily responsible for identifying and considering disclosure control issues in connection with the preparation of all market releases containing material financial information.

Membership of the Disclosure Committee is limited to the Director of Investor Relations, Group Financial Controller, Group General Counsel, Director of External Affairs and Group Treasurer although other senior management and employees may be invited to attend where necessary. During the preparation of the Company's annual financial statements, the Disclosure Committee requests and obtains confirmatory statements from contributors prior to the document being approved by the Board.

Formal minutes are kept of Disclosure Committee meetings which are made available to the Board as a whole.

Internal audit

The Group monitors its internal controls through a programme of internal audits. The Internal Audit function is headed by the Group Director of Internal Audit who is supported by a team of auditors based in the UK and Jamaica. The Group's Internal Audit function has a formal charter approved by the Board that describes its purpose, authority and responsibility.

The function's annual audit plan is approved by the Group Audit Committee. Private meetings are also held between the Chairman of the Audit Committee and the Group Director of Internal Audit.

Board and governance
Report of the Audit Committee

External audit

KPMG Audit Plc has acted as auditor of the Company since 1991. The Audit Committee has established a policy which is intended to maintain the independence of the Company's auditor. The policy governs the provision of audit and non-audit services provided by the auditor and its associates to the Company and its subsidiaries. The policy clearly identifies permitted services and those which are prohibited from being provided by the auditor.

In addition, the policy clearly sets out the procedure to be followed for the approval of all audit and non-audit services; all engagements with an expected value in excess of £250,000 require the prior approval of the Chairman of the Audit Committee.

For the year ended 31 March 2006, fees for audit services of £3.9 million (including £1.1 million relating to the prior year) were approved by the Committee. During the year, fees for audit related regulatory reporting of £800,000 and non-audit work of £1.2 million were approved. The nature of the services provided is set out in note 6 to the consolidated financial statements.

Kasper Rorsted
Chairman, Audit Committee
31 May 2006

Board and governance
Directors' remuneration report

This report sets out the policy and disclosures in relation to Directors' remuneration. The remuneration report will be subject to an advisory vote at the AGM of the Company to be held on 21 July 2006 in accordance with the Directors' Remuneration Report Regulations 2002. Full details of the resolution is set out in the Notice of AGM.

Composition and terms of reference of the Remuneration Committee

The Remuneration Committee ('the Committee') makes recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and on the specific remuneration of the Chairman, Executive Directors and other senior executive management. During the year the Board approved all recommendations from the Remuneration Committee without amendment. The terms of reference for the Committee are obtainable from the Company's website or from the Company Secretary.

During the year ended 31 March 2006, the Committee comprised the independent Non-executive Directors, namely: Bernard Gray (Chairman), Graham Howe, Kate Nealon, Tony Rice (until 1 May 2005) and Clive Butler (from 1 May 2005).

With effect from April 2006, Kate Nealon took over from Bernard Gray as Chairman of the Remuneration Committee.

In forming their recommendations, the Committee received advice and information from the Chairman, the Chief Executive Officer, the Group HR Director and the Group Director of Performance and Reward. The Committee has appointed independent consultants, New Bridge Street Consultants LLP ('NBSC'), to provide advice on remuneration and share plans both for Executive Directors and the wider executive population. In addition they provide the Company with measurement of its relative total shareholder return ('TSR') performance. NBSC's terms of engagement are available on request from the Company Secretary.

The Chairman, Executive Directors and any officers attending a meeting abstain from any discussion or decision on their own remuneration.

Statement of remuneration policy

Remuneration philosophy

Cable & Wireless is an international company, operating in many countries around the world. Attracting, retaining and motivating high quality people is key to the Group's success. Remuneration arrangements are designed to enable the Group to maintain a competitive position in each country in a cost-effective way and are reviewed annually against best practice.

Cable & Wireless Group remuneration philosophy for Directors is based upon creating a strong link between performance and reward, underpinned by the following guiding principles:

- the reward package should be aligned to the organisational strategy;
- the reward structures should (where appropriate) reflect the different characteristics, and strategies of the two businesses – International and UK;
- total reward levels should reflect the markets in which the Group competes. The Group's competitive position is regularly monitored by independent analysis against comparator groups of companies selected on the basis of relevant size, business and geographic focus;
- fixed salaries and benefits should be set with reference to the mid-market level compared with similar types of company;
- the majority of total remuneration should only be receivable as a result of the Company achieving demanding performance targets;
- an appropriate mix of short and long-term incentives should be set so that Directors are incentivised to maximise performance over both the short and medium-term; and
- the remuneration structure for Directors should be cascaded down to other senior executives in a consistent manner.

Summary of Executive Directors' remuneration

As a result of the changes in the organisation and the creation of two discrete businesses, announced in January 2006, effective 1 April 2006, the Committee reviewed the current remuneration structure for the continuing directors. Several changes have already been made and a number are proposed as a result of this review. These changes have been discussed with leading shareholders and their representative bodies, who have been generally supportive.
In summary, these proposals (which are outlined more fully below) comprise:

- base salaries – adjusted to reflect levels of responsibilities in the new structure. The revised salaries were effective from 1 April 2006 and there is no intention for these salaries to be increased for a further three years.
- annual bonus – potential maximum opportunity set at 100% of salary for all Executive Directors. This represents a reduction from the current maximum (150% of salary) for John Pluthero and Harris Jones.
- long-term incentives – to encourage investment of their own funds in shares, restricted shares have been awarded on a matching basis to the Executive Directors' own investment in shares. In addition, it is proposed that Executive Directors will receive one-off long-term incentive awards in 2006 and there is no intention for them to receive any further long-term incentive awards for at least three years. These awards will be in the form of share options for Tony Rice and George Battersby and, subject to approval at the AGM, a new Cash Long-Term Incentive Plan for John Pluthero and Harris Jones.

Elements of remuneration

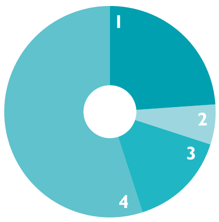
Executive Directors' remuneration comprises salary, pension and other benefits, annual bonus and long-term incentives.

The Committee believes that the majority of Executive Directors' potential remuneration should be performance related. The appropriate mix and level of performance related awards may vary from year-to-year and between each Executive Director according to the judgement of the Committee. The actual value delivered is dependent upon the achievement of stretching performance conditions.

Board and governance
Directors' remuneration report

The chart below illustrates the average proportion of Executive Directors' potential remuneration for 2006/07 that will be performance related.

Split of potential total remuneration



1. Salary
2. Pension and other benefits
3. Performance-related annual bonus
4. Performance-related long-term incentives

Figures reflect on-target payment potential under the annual bonus plan and the expected value of long-term incentive awards at the time of grant.

Base salary

Base salaries are reviewed by reference to the mid-market of comparator groups of companies selected on the basis of comparable size, geographic spread and business focus. Individual salary decisions take into account personal contribution and business performance. The salaries for George Battersby, Harris Jones and John Pluthero were increased from 1 April 2006, and it is intended that there will be no further increases for three years.

Accordingly, salaries for the forthcoming year will be:

George Battersby	£420,000
Harris Jones	£600,000
John Pluthero	£600,000
Tony Rice	£600,000

The retiring directors, Francesco Caio, Charles Herlinger and Rob Rowley, continue to receive their current salary with no increases.

Executive Directors' pensions are based only on their base salaries.

Annual bonus

Individual awards under the annual bonus scheme for 2006/07 will be based solely on financial performance and paid only in cash. There will be no compulsory or voluntary deferral of bonus into shares. The maximum bonus opportunity for all Executive Directors is 100% of salary. This presents a reduction from the 2005/06 maximum (150% of salary) for Harris Jones and John Pluthero. Target financial performance will continue to generate a bonus payment of 60% of maximum.

The financial measures and targets within the bonus plans are reviewed annually by the Committee and reflect the different operating environments.

The retiring directors, Francesco Caio, Charles Herlinger and Rob Rowley, will not receive a bonus for 2005/06 or participate in a bonus for 2006/07.

Long-term incentive awards

It is proposed that Executive Directors will receive one-off long-term incentive awards in 2006 and there is no intention for them to receive any further long-term incentive awards for three years.

The retiring directors, Francesco Caio, Charles Herlinger and Rob Rowley, will receive no new long-term incentive awards.

The awards will be granted in any of the following three forms:

Restricted share plan ('RSP')

In order to encourage executive investment in shares so as to align their interests with shareholders, George Battersby, John Pluthero and Tony Rice invested their own funds into Company shares and received a matching award of restricted shares with TSR performance conditions (see performance conditions for share-based awards on page 57). Harris Jones intends to make an investment once the Company comes out of the close period.

	Investment in Company shares (shares)	Maximum award of matching restricted shares
George Battersby	275,000	917,570 shares with performance conditions
John Pluthero	1,000,000	1 million shares with no performance conditions[1]
Tony Rice	2,000,000	1 million shares with no performance conditions[1] 2 million shares with performance conditions

[1] Part of his joining arrangements on becoming an executive.

Share option plan ('SOP')

Executive Directors with Central Group functions (George Battersby and Tony Rice) received a one-off award of share options with a face value of ten times base salary, which is the annual award limit under the plan. Tony Rice received his award on 30 March 2006 and George Battersby's award will be made before the AGM.

The vesting of share options granted under the SOP is subject to relative TSR performance conditions (see Performance conditions for share-based awards on page 57).

Cash Long-Term Incentive Plan ('Cash LTIP')

Subject to shareholder approval, Harris Jones and John Pluthero will participate in the new Cash LTIP plan. Full details of the proposed plan are outlined in the accompanying shareholders' circular.
In summary, this plan will create a reward pool for each of the two businesses over a four-year period. If a business grows by less than the hurdle rate (of at least 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.

75% of the reward pool will be payable to participants at the end of year three, and 100% payable (less payments made at end of year three) to all participants at the end of year four (2010).

Other plans
The Committee currently intends that no awards will be made under the Performance Share Plan or the Deferred Short-Term Incentive Plan in the next three years.

The Stock Appreciation Rights Plan is used to exactly replicate the plans described above but rewards are delivered as a cash equivalent. It is used in exceptional cases for countries in which tax or legal issues preclude the use of real shares or share options. No Executive Director has ever received awards under this plan.

Executive Directors are also eligible to participate in all-employee share schemes and savings plans applicable in their home countries. These include the Cable & Wireless Savings Related Share Options Scheme and the Cable & Wireless Share Purchase Plan – further details can be found in note 33 to the financial statements.

Performance conditions for share-based awards
TSR is the main performance measure used in share-based awards, as it provides an objective external measure of financial performance.

The Remuneration Committee believes that it is important to measure and reward relative performance against an appropriate set of companies. The Company's relative TSR performance is assessed against a comparator group comprising the FTSE Global Telecoms Sector Index ('FTSE GTSI'), which provides a global benchmark of independently selected industry peers.

TSR is share price growth adjusted for dividends and capital actions. TSR performance is averaged over a three-month period at the beginning and end of the performance period. This moderates the effect of short-term share price volatility.

Awards vest depending upon the Company's TSR ranking relative to the comparator group at the end of a single three-year performance period.

The following outlines the current vesting schedule for different share plans:

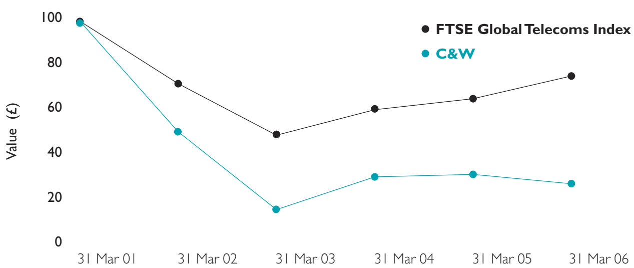
	Share option plan ('SOP')	Restricted shares plan ('RSP')
Below median	0%	0%
Median	33.33%	25%
Upper quartile	100%	100%

The vesting schedule for SOP is based on a sliding scale whereas for the RSP, vesting is on a staged basis.

In order for any share options or restricted shares (where performance conditions apply) to vest, the Committee must also be satisfied that the underlying financial performance of the Company warrants the release of the shares determined by the Company's TSR performance. Specific Committee decisions will be explained in future remuneration reports.

Performance graphs
The graph below shows the change in value of a hypothetical £100 holding in Cable & Wireless Ordinary Shares over five years against the FTSE GTSI. The FTSE GTSI is the comparator group against which relative performance is assessed under the SOP, and RSP (where performance conditions apply).

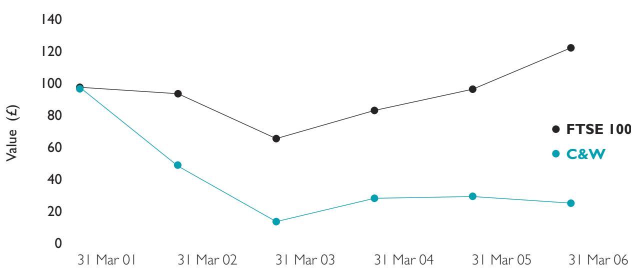
Total shareholder return *Source: Thomson Financial*



This graph looks at the value, by 31 March 2006, of £100 invested in Cable & Wireless on 31 March 2001 compared with the value of £100 invested in the FTSE Global Telecoms Index. The other points plotted are the values at intervening financial year-ends.

The graph below shows the change in value of a hypothetical £100 holding in the Company's Ordinary Shares over five years relative to a broad equity market index. The FTSE 100 index was considered by the Committee to be the most relevant index for this purpose as the Company is a constituent of the index and a five-year history is available.

Total shareholder return *Source: Thomson Financial*



This graph looks at the value, by 31 March 2006, of £100 invested in Cable & Wireless on 31 March 2001 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year-ends.

Dilution
The Committee ensures that at all times the number of new shares which may be issued under any share option or share-based plans, including all-employee plans, does not exceed the dilution limit of 10% of the Company's issued share capital over any ten year rolling period. As at 31 March 2006, 5.5% of the issued shared capital was available for issue under the Company's share-based plans.

Awards under the various share plans are funded by a mix of purchased and newly issued shares, as determined by the Committee. Newly issued shares are subject to the dilution limit outlined above. Purchased shares, which are held by the Cable & Wireless Employee Share Ownership Plan Trust, are subject to a limit of 5% of the issued Ordinary Share capital of the Company.

Directors' remuneration report

Pension and other benefits

Harris Jones, John Pluthero and Tony Rice all receive a cash allowance instead of being members of the pension scheme. George Battersby participated in the Cable & Wireless Lifetime Benefits Plan, a defined contribution scheme approved by the Inland Revenue for the last financial year. From 1 April 2006, George Battersby has decided to withdraw from the pension scheme and will receive a cash allowance in lieu of the employer pension contribution.

Charles Herlinger participated in the Cable & Wireless Lifetime Benefits Plan for the last financial year. Francesco Caio received a cash allowance instead of being a member of the pension scheme. Lord Robertson of Port Ellen and Rob Rowley did not receive any Company provided pension benefits for the last financial year.

Further details of the pension benefits earned in the year to 31 March 2006 can be found in the Directors' remuneration table on page 61.

The Executive Directors are eligible to participate in employee benefit programmes including life, disability and health insurance plans and, where appropriate, receive relocation expenses. The value of these benefits is included in the Directors' remuneration table on page 61.

Executive Directors' service contracts

The Committee's policy is that Executive Directors' service contracts should contain a maximum notice period of one year. However, a longer notice period may apply initially, where this is required to secure the services of executives in exceptional circumstances. In all cases the notice period will reduce to one year or less, after two years.

	Date of contract	Notice period
George Battersby	27 July 2004	One year
Harris Jones	29 November 2004	One year
John Pluthero	14 November 2005	One year
Tony Rice	30 March 2006	One year

Directors' service contracts continue until their normal retirement date.

The Executive Directors' contracts provide that, in the event of a change of control of the Company, if the executive's employment is adversely changed, then he will receive a payment equal to the notice period and a time pro-rated annual bonus.

The Executive Directors' service contracts contain no other provisions for compensation payable on early termination.

Francesco Caio's contract was dated 2 April 2003 and the notice period under contract was one year. Francesco stepped down from the role of Chief Executive Officer and from the Board of Directors on 1 April 2006 but will continue to support the Chairman in the transition to the new organisation structure until his departure on 30 June 2006. Francesco Caio will receive his contractural entitlement of one year's base salary and one year's pension contribution.

Charles Herlinger's contract was dated 26 July 2003 and will continue until his departure on 31 May 2006. The notice period under contract is one year. He will receive his contractual entitlement of one year's base salary and one year's pension contribution.

Rob Rowley's contract was dated 1 February 2003 and he will retire from the Board in July 2006. The notice period under contract was one year. He will receive one year's base salary.

Lord Robertson's contract was dated 1 February 2003 and he retired from the Board on 1 April 2006, although he remains in employment.

In the event of early termination, the Committee will, within legal constraints, determine the approach to be taken according to the circumstances of each individual case, taking full account of the departing Executive Director's obligation to mitigate loss. Except in cases of early termination for cause, the Committee will take into account the relevant Executive Director's current salary, notice period and contractual benefits when calculating any liability of the Company. The principal contractual benefits provided in addition to salary are pension and life insurance. Annual bonuses and long-term incentives are granted at the discretion of the Committee and therefore would be dealt with in accordance with the rules of the relevant schemes. A significant proportion of each Executive Director's total remuneration is subject to performance conditions and therefore will not be payable to the extent that the relevant targets are not met.

Chairman

The Chairman, Richard Lapthorne, has had his appointment extended for a further three years (to 10 January 2009). The appointment will be terminable by either party serving a year's notice. Richard Lapthorne receives an annual fee of £386,000, which is fixed for the three-year term.

The Chairman is committed to retaining at least 500,000 Ordinary Shares throughout his service as a Director.

If Richard Lapthorne's appointment is terminated by reason of death or by the Company, otherwise than by due notice or if there is a change of control, he or his personal representatives shall be entitled to an immediate payment equivalent to his fee for the balance of the period ending on the earliest date on which the appointment would have been terminated if the Company had given the requisite prior written notice, unless in the case of a change of control he remains a Chairman of the Company on similar terms.

Non-executive Directors

The Non-executive Directors do not have service contracts with the Company, but instead have letters of appointment. Their fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-executive Directors abstaining from any discussion or decision on their fees. Fee levels reflect the Directors' responsibilities, the committees on which they serve and the general market conditions for their services. Full details of the fees paid in the year ended 31 March 2006 are set out in the Directors' remuneration table and the associated notes on page 61. The Non-executive Directors do not receive any pension.

Base fees paid to each continuing Non-executive Director have been fixed for a three-year period from 1 March 2004 or date of appointment if later than 1 March 2004 at the following levels:

Simon Ball	£65,000
Clive Butler	£65,000
Kate Nealon	£75,000[1]
Kasper Rorsted	£90,000[2]
Agnès Touraine	£65,000

[1] Includes £10,000 for role as Chair of the Remuneration Committee
[2] Includes £25,000 for role as Chair of the Audit Committee

Kasper Rorsted has been appointed for a further three-year term commencing on 24 May 2006. Kate Nealon and Agnès Touraine were appointed for a three-year term commencing on 18 January 2005, Clive Butler was appointed for a three-year term on 1 May 2005 and Simon Ball was appointed for a three-year term on 1 May 2006.

After two three-year terms, the period may be extended on an annual basis at the invitation of the Chairman. Termination of the appointment may be earlier at the discretion of either party on one month's written notice.

Tony Rice became an Executive Director on 30 March 2006.

Bernard Gray will retire from the Board at the AGM in July 2006 and Graham Howe will retire from the Board in June 2006. Fees for retiring Non-executive Directors will continue at their current level until retirement.

In accordance with the terms of their initial appointments as Non-executive Directors, the following Directors agreed to acquire Ordinary Shares in the Company on 4 June 2004, 4 June 2005 and 4 June 2006, or as soon as practicable after each date, at a price of 103.5 pence per Ordinary Share:

Director	Number of Ordinary Shares
Bernard Gray	100,000
Graham Howe	100,000
Tony Rice	100,000
Kasper Rorsted	30,000

Tony Rice's obligation to acquire the final tranche of 100,000 Ordinary Shares ceased on his appointment as an Executive Director on 30 March 2006.

Kasper Rorsted will purchase 30,000 Ordinary Shares on 4 June 2006 or as soon as practicable thereafter.

Bernard Gray and Graham Howe will both retire from the Board in the coming two months.

The Non-executive Directors are expected to hold the purchased Ordinary Shares for a minimum period of three years from the date of purchase and to hold a minimum of 30,000 shares throughout their service as a Director. None of the benefits under the arrangement is pensionable. There is no intention to offer similar share purchase arrangements to Non-executive Directors in the future.

None of the Non-executive Directors are entitled to any compensation if their appointment is terminated.

External directorships

The Company allows Executive Directors to hold non-executive directorships and retain the fees received from those roles.

Details of directorships held and the annual fees received for the financial year 2005/06 are given below:

George Battersby	
Non-executive Director of SHL Group plc, Chairman of the Remuneration Committee and Senior Independent Director	**£25,000**
Harris Jones	
Non-executive Director of Caracal Inc	No fee
Tony Rice	
Non-executive Director of Tunstall Holdings Ltd	No fee[1]
Non-executive Director of British Med Airways Ltd	No fee[1]
Non-executive Director of Help the Aged	No fee[1]
Lord Roberston of Port Ellen	
Non-executive Director of Weir Group plc	**£32,000**
Non-executive Director of Smiths Group plc	**£45,000**
Non-executive Director of Western Ferries (Clyde) Ltd	**£3,000**
Rob Rowley	
Non-executive Director of Prudential plc, Chairman of the Audit Committee	**£90,000**
Non-executive Directorship of Liberty International plc	**£40,000**
Non-executive Directorship of Taylor Nelson Sofres plc and Senior Independent Director	**£31,847**

[1] Tony Rice's fees need only be shown for the period following his appointment as an Executive Director (30 March 2006) to the year end.

Board and governance
Directors' remuneration report

Directors' shareholdings

The beneficial interests of the Directors and their immediate families in the Ordinary Shares of the Company were as follows:

	As at 1 April 2005 (or date of appointment if later)	Shares acquired	As at 31 March 2006
Chairman			
Richard Lapthorne	2,600,000	–	2,600,000
Continuing Executive Directors			
George Battersby[1 2]	1,318	352,158	353,476
Harris Jones[1]	220,750	–	220,750
John Pluthero[1]	–	1,000,000	1,000,000
Tony Rice[1]	100,000	2,100,000	2,200,000
Lord Robertson of Port Ellen[1 2 3]	3,009	55,174	58,183
Continuing Non-executive Directors			
Clive Butler	–	–	–
Kate Nealon	–	9,923	9,923
Kasper Rorsted	30,000	30,000	60,000
Agnès Touraine	–	–	–
Retiring Executive Directors			
Francesco Caio[1 2]	425,299	175,484	600,783
Charles Herlinger[1 2]	31,401	44,469	75,870
Rob Rowley[1 2]	497,370	11,373	508,743
Retiring Non-executive Directors			
Bernard Gray	100,000	100,000	200,000
Graham Howe	100,000	100,000	200,000

[1] As potential beneficiaries from outstanding awards, which may be satisfied by shares held by the Cable & Wireless Employee Share Ownership Plan Trust, George Battersby, Francesco Caio, Charles Herlinger, Harris Jones, John Pluthero, Tony Rice, Lord Robertson of Port Ellen and Rob Rowley are deemed, by the Companies Act 1985, to have an interest in all of the Ordinary Shares held by the Trust, which at 31 March 2006, amounted to 50,990,339 shares.

[2] Included in the shares acquired during the year are shares purchased under the Deferred STIP and any dividends received on the purchased shares which are converted into additional shares.

[3] Lord Robertson of Port Ellen retired from the Board on 1 April 2006. However, he continues as Non-executive Chairman of the International business.

Between 31 March 2006 and 19 May 2006, Rob Rowley acquired an additional 237 Ordinary Shares as part of his monthly contribution to the Cable & Wireless Share Purchase Plan.

Directors' remuneration

The following sections of the Directors' remuneration report have been subject to audit.

Name of Director	Salary and fees £	Bonuses £	Other benefits[3] £	Pension cash allowance[4] £	Total 2006 £	Total 2005 £	Employer pension contribution 2006[4] £	Employer pension contribution 2005[4] £
Chairman								
Richard Lapthorne	386,000	–	16,165	–	402,165	396,520	–	–
Continuing Executive Directors								
George Battersby	350,000	–	18,223	45,500	413,723	564,229	42,000	32,136
Harris Jones[5]	500,000	669,800	493,591	125,000	1,788,391	466,161	–	–
John Pluthero (from 14 November 2005)	191,288	66,667	6,843	47,822	312,620	–	–	–
Tony Rice[1]	93,696[1]	–	738	1,087	95,521	90,000	–	–
Lord Robertson of Port Ellen[8]	250,000	–	12,978	–	262,978	421,601	–	–
Continuing Non-executive Directors								
Clive Butler (since 1 May 2005)	59,583	–	–	–	59,583	–	–	–
Kate Nealon	65,000	–	738	–	65,738	13,412	–	–
Kasper Rorsted	65,000	–	5,979	–	70,979	66,824	–	–
Agnès Touraine	65,000	–	6,549	–	71,549	13,412	–	–
Sub-totals	2,025,567	736,467	561,804	219,409	3,543,247	2,032,159	42,000	32,136
Retiring Directors								
Francesco Caio[6 9]	700,000	–	293,401	175,000	1,168,401	1,924,907	–	–
Bernard Gray	75,000	–	–	–	75,000	76,204	–	–
Charles Herlinger[7 9]	400,000	–	173,213	56,000	629,213	1,184,487	44,000	44,012
Graham Howe	75,000	–	738	–	75,738	65,000	–	–
Rob Rowley[9]	250,000	–	22,714	–	272,714	452,684	–	–
Totals	3,525,567	736,467	1,051,870	450,409	5,764,313	5,735,441	86,000	76,148

Notes

1. This amount includes Non-executive Director fees for the period up to 30 March 2006 and Executive Director salary from 30 March 2006.

2. The aggregate emoluments of the Directors, which include employer pension contributions were £5,850,313 (2005 – £6,562,353 including amounts for Directors who left office in 2004/05). Ongoing costs for salaries/fees for the Board in 2006/07 will be £2,966,000 and salary/fees for 2005/06 were £3,525,567.

3. In compliance with the Companies Act 1985, Other benefits includes the reimbursement of costs associated with accommodation, relocation, including schooling, and the value of benefits in kind relating to Company provided life assurance, professional advice, chauffeur travel and accommodation.

4. Employer pension contributions list the Company contributions paid into the Cable & Wireless Lifetime Benefits Plan. Company pension contributions that would otherwise have breached the Inland Revenue's funding limit have instead been paid to the Director as an annual cash allowance. An amount of £14.5 million (2005 – £12.5 million) is included in Retirement benefit obligations to cover the cost of former Directors' pension entitlements.

5. Harris Jones received reimbursement in respect of relocation, accommodation and schooling related expenses.

6. Francesco Caio was reimbursed for accommodation costs and personal travel expenses.

7. Charles Herlinger was reimbursed for relocation and moving related expenses during the financial year as specified in his contract of employment.

8. Lord Robertson of Port Ellen retired from the Board on 1 April 2006. However, he continues as Non-executive Chairman of the International business.

9. Francesco Caio and Charles Herlinger will receive their contractual entitlement of one year's salary and one year's pension contribution, in relation to early termination. Rob Rowley will receive one year's base salary. Details of actual payments will be published in the 2007 Annual report.

Directors' share options

Name of Executive Director	Scheme	Grant date	Date from which first exercisable	Date of expiry of option	Exercise price (pence)	Shares under option at 1 April 2005 (or date of appointment if later)	Granted between 1 April 2005 and 31 March 2006	Shares under option at 31 March 2006 (or date of leaving if earlier)
Continuing Executive Directors								
George Battersby	SOP Approved	3/8/04	3/8/07	2/8/11	108	27,777	–	**27,777**
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	783,223	–	**783,223**
	SOP Unapproved	25/8/05	25/8/08	24/8/12	153.9	–	568,551	**568,551**
						811,000	568,551	**1,379,551**
Harris Jones	SOP Approved	1/12/04	1/12/07	30/11/11	113.55	26,420	–	**26,420**
	SOP Unapproved	1/12/04	1/12/07	30/11/11	113.55	1,734,918	–	**1,734,918**
	SOP Unapproved	25/8/05	25/8/08	24/8/12	153.9	–	812,215	**812,215**
						1,761,338	812,215	**2,573,553**
John Pluthero	SOP Approved	3/3/06	3/3/09	2/3/13	107.4	–	27,932	**27,932**
(from 14 November 2005)	SOP Unapproved	3/3/06	3/3/09	2/3/13	107.4	–	1,135,941	**1,135,941**
						–	1,163,873	**1,163,873**
Tony Rice	SOP Approved	30/3/06	30/3/09	29/3/13	1.105	–	27,260	**27,260**
(from 30 March 2006)	SOP Unapproved	30/3/06	30/3/09	29/3/13	1.105	–	5,424,807	**5,424,807**
						–	5,452,067	**5,452,067**
Lord Robertson of Port Ellen[6]	SOP Approved	6/2/04	6/2/07	5/2/11	143.25	20,942	–	**20,942**
	SOP Unapproved	6/2/04	6/2/07	5/2/11	143.25	537,522	–	**537,522**
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	463,000	–	**463,000**
	SOP Unapproved	25/8/05	25/8/08	24/8/12	153.9	–	406,107	**406,107**
						1,021,464	406,107	**1,427,571**
Retiring Executive Directors[7]								
Francesco Caio	SOP Approved	26/6/03	26/6/06	25/6/10	103.7	28,929	–	**28,929**
	SOP Unapproved	26/6/03	26/6/06	25/6/10	103.7	2,671,167	–	**2,671,167**
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	1,946,000	–	**1,946,000**
	SOP Unapproved	25/8/05	25/8/08	24/8/12	153.9	–	1,364,522	**1,364,522**
	SAYE	4/7/03	1/9/06	28/2/07	89	10,393	–	**10,393**
						4,656,489	1,364,522	**6,021,011**
Charles Herlinger	SOP Approved	15/12/03	15/12/06	14/12/10	135.7	22,107	–	**22,107**
	SOP Unapproved	15/12/03	15/12/06	14/12/10	135.7	1,156,964	–	**1,156,964**
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	927,000	–	**927,000**
	SOP Unapproved	25/8/05	25/8/08	24/8/12	153.9	–	649,772	**649,772**
	SAYE	30/6/04	1/9/07	29/2/08	102.6	9,186	–	**9,186**
						2,115,257	649,772	**2,765,029**
Rob Rowley	SOP Approved	26/6/03	26/6/06	25/6/10	103.7	28,929	–	**28,929**
	SOP Unapproved	26/6/03	26/6/06	25/6/10	103.7	935,391	–	**935,391**
	SOP Unapproved	3/8/04	3/8/07	2/8/11	108	579,000	–	**579,000**
	SOP Unapproved	25/8/05	25/8/08	24/8/12	153.9	–	406,107	**406,107**
	SAYE	4/7/03	1/9/08	28/2/09	89	17,893	–	**17,893**
						1,561,213	406,107	**1,967,320**

Notes

1. SOP Approved and Unapproved – Inland Revenue approved and unapproved grants respectively made under the Share Option Plan (see pages 56 to 57 for details). The vesting of options awarded under the SOP is subject to relative TSR performance conditions. Full vesting occurs only if the Company's TSR performance ranks at or above the upper quartile of a comparator group comprising FTSE Global Telecoms companies. For median ranking, 33.33% of the award vests. A sliding scale operates between median and upper quartile, and nothing vests for TSR performance below the median. For awards granted after May 2004, performance will be measured over a single three year performance period. For earlier grants, performance is able to be re-tested until the fifth anniversary of the grant.

2. SAYE – Cable & Wireless Save As You Earn share option scheme. These options are not subject to performance conditions because this is an all-employee scheme governed by specific tax legislation.

3. Nil price was paid by Directors for the award of the options listed in the table above.

4. The closing mid-market price of an Ordinary Share on 31 March 2006 was 109.25 pence. The highest closing mid-market price of an Ordinary Share during the year was 164.75 pence and lowest closing mid-market price was 97.50 pence.

5. No Directors had any gains on the exercise of share options in the years ended 31 March 2005 or 31 March 2006.

6. Lord Robertson of Port Ellen retired from the Board on 1 April 2006. However, he continues as Non-executive Chairman of the International business.

7. For all retiring directors, share options awarded prior to July 2004 will vest in full. For share options awarded after this date the share options will be time pro rated up to the termination date and will continue to be subject to TSR performance conditions up to the end of the performance period.

Directors' Deferred Short-Term Incentive Plan ('STIP'), Performance Share and Restricted Share Plan Awards

Name of Executive Director	Scheme	Award date	Vesting date	Grant price of award (pence)	Shares under award at 1 April 2005 (or date of appointment if later)	Shares awarded between 1 April 2005 and 31 March 2006	Shares under award at 31 March 2006 (or date of cessation if earlier)
Continuing Executive Directors							
George Battersby	Deferred STIP (matching shares)	30/9/05	1/10/08	146.3	–	258,373[1]	**258,373**
	Deferred STIP (matching dividend shares)	27/1/06	1/10/08	114.8	–	3,046	**3,046**
	Performance Share Awards	25/8/05	30/6/08	153.9	–	113,710[9]	**113,710**
	Performance Share Awards (dividend shares)	27/1/06	30/6/08	114.8	–	1,340[9]	**1,340**
	Restricted Shares	30/3/06	29/3/09	108.98	–	917,570[2]	**917,570**
					–	1,294,039	**1,294,039**
Harris Jones	Restricted Share Plan (matching shares)	1/12/04	1/12/07	113	220,750[3]	–	**220,750**
	Performance Share Awards	1/12/04	1/12/07	113	441,500[4]	–	**441,500**
	Performance Share Awards	25/8/05	30/6/08	153.9	–	162,443[9]	**162,443**
	Performance Share Awards (dividend shares)	27/1/06	30/6/08	114.8	–	1,915[9]	**1,915**
					662,250	164,358	**826,608**
John Pluthero (From 14 November 2005)	Restricted Shares	3/3/06	3/3/09	107.5	–	1,000,000[5]	**1,000,000**
	Performance Share Awards	3/3/06	2/3/09	107.5	–	232,774[9]	**232,774**
					–	1,232,774	**1,232,774**
Tony Rice (From 30 March 2006)	Restricted Shares	30/3/06	29/3/09	108.98	–	1,000,000[6]	**1,000,000**
	Restricted Shares	30/3/06	29/3/09	108.98	–	2,000,000[6]	**2,000,000**
					–	3,000,000	**3,000,000**
Lord Robertson of Port Ellen[7]	Deferred STIP (matching shares)	17/8/04	25/6/07	105.75	5,792[1]	–	**5,792**
	Deferred STIP (matching dividend shares)	13/8/04	25/6/07	102.25	169	–	**169**
	Deferred STIP (matching dividend shares)	11/2/05	25/6/07	130	58	–	**58**
	Deferred STIP (matching dividend shares)	11/8/05	25/6/07	161.25	–	104	**104**
	Deferred STIP (matching dividend shares)	27/1/06	25/6/07	114.8	–	68	**68**
	Deferred STIP (matching shares)	30/9/05	1/10/08	146.3	–	184,552[1]	**184,552**
	Deferred STIP (matching dividend shares)	27/1/06	1/10/08	114.8	–	2,176	**2,176**
	Performance Share Awards	25/8/05	30/6/08	153.9	–	81,221[9]	**81,221**
	Performance Share Awards (dividend shares)	27/1/06	30/6/08	114.8	–	957[9]	**957**
					6,019	269,078	**275,097**

Board and governance

Board and governance
Directors' remuneration report

Name of Executive Director	Scheme	Award date	Vesting date	Grant price of award (pence)	Shares under award at 1 April 2005 (or date of appointment if later)	Shares awarded between 1 April 2005 and 31 March 200	Shares under award at 31 March 2006 (or date of cessation if earlier)
Retiring Executive Directors[8]							
Francesco Caio	Restricted Share Plan	4/6/03	4/6/06	97.75	383,632	–	383,632
	Deferred STIP (matching shares)	17/8/04	25/6/07	105.75	80,182[1]	–	80,182
	Deferred STIP (matching dividend shares)	13/8/04	25/6/07	102.25	2,340	–	2,340
	Deferred STIP (matching dividend shares)	11/2/05	25/6/07	130	812	–	812
	Deferred STIP (matching dividend shares)	11/8/05	25/6/07	161.25	–	1,450	1,450
	Deferred STIP (matching dividend shares)	27/1/06	25/6/07	114.8	–	945	945
	Deferred STIP (matching shares)	30/9/05	1/10/08	146.3	–	583,732[1]	583,732
	Deferred STIP (matching dividend shares)	27/1/06	1/10/08	114.8	–	6,883	6,883
	Performance Share Awards	25/8/05	30/6/08	153.9	–	227,420[9]	227,420
	Performance Share Awards (dividend shares)	27/1/06	30/6/08	114.8	–	2,681[9]	2,681
					466,966	823,111	1,290,077
Charles Herlinger	Restricted Share Plan	15/12/03	1/12/06	135.7	250,000	–	250,000
	Deferred STIP (matching shares)	17/8/04	25/6/07	105.75	57,944[1]	–	57,944
	Deferred STIP (matching dividend shares)	13/8/04	25/6/07	102.25	1,691	–	1,691
	Deferred STIP (matching dividend shares)	11/2/05	25/6/07	130	586	–	586
	Deferred STIP (matching dividend shares)	11/8/05	25/6/07	161.25	–	1,048	1,048
	Deferred STIP (matching dividend shares)	27/1/06	25/6/07	114.8	–	683	683
	Deferred STIP (matching shares)	30/9/05	1/10/08	146.3	–	145,818[1]	145,818
	Deferred STIP (matching dividend shares)	27/1/06	1/10/08	114.8	–	1,719	1,719
	Performance Share Awards	25/8/05	30/6/08	153.9	–	129,954[9]	129,954
	Performance Share Awards (dividend shares)	27/1/06	30/6/08	114.8	–	1,532[9]	1,532
					310,221	280,754	590,975
Rob Rowley	Restricted Share Plan	4/6/03	4/6/06	97.75	383,632	–	383,632
	Deferred STIP (matching shares)	17/8/04	25/6/07	105.75	115,104[1]	–	115,104
	Deferred STIP (matching dividend shares)	13/8/04	25/6/07	102.25	3,360	–	3,360
	Deferred STIP (matching dividend shares)	11/2/05	25/6/07	130	1,166	–	1,166
	Deferred STIP (matching dividend shares)	11/8/05	25/6/07	161.25	–	2,082	2,082
	Deferred STIP (matching dividend shares)	27/1/06	25/6/07	114.8	–	1,357	1,357
	Deferred STIP (matching shares)	30/9/05	1/10/08	146.3	–	27,804[1]	27,804
	Deferred STIP (matching dividend shares)	27/1/06	1/10/08	114.8	–	327	327
	Performance Share Awards	25/8/05	30/6/08	153.9	–	81,221[9]	81,221
	Performance Share Awards (dividend shares)	27/1/06	30/6/08	114.8	–	957[9]	957
					503,262	113,748	617,010

Notes

1. These Deferred STIP matching awards will be delivered by the Company to the executive on the third anniversary of grant if the executive is still an employee of the Company, if the executive has retained beneficial ownership of the required number of Ordinary Shares and if the Company's TSR performance against a comparator group of FTSE Global Telecoms companies has been at least upper quartile. The matching shares are based on one matching share for two purchased shares for median TSR performance, rising to two matching shares for one purchased share for performance at upper quartile or above. No matching shares are awarded for below median performance. A dividend award supplement also operates on the Plan. Dividends that would have been paid on purchased shares and the actual award of matching shares during the performance period are re-invested in additional shares.

2. Subject to George Battersby remaining an employee of the Company and retaining beneficial ownership until 29 March 2009 of the 275,000 Ordinary Shares he acquired on 30 March 2006, the Company will deliver these restricted shares to him. Performance conditions apply to these shares and full vesting will occur only if the TSR performance of the Company meets or exceeds the upper quartile measured against the constituents of the FTSE Global Telecoms Sector Index.

3. Subject to Harris Jones remaining an employee of the Company and retaining beneficial ownership until 1 December 2007 of the 220,750 Ordinary Shares he acquired on 1 December 2004, the Company will deliver these restricted shares to him. No performance conditions are attached to this award, as it was part of the terms felt to be necessary to secure his employment with the Company.

4. These performance share awards will be delivered by the Company to Harris Jones on the third anniversary of grant if he is still an employee of the Company, if he has retained beneficial ownership of the 220,750 Ordinary Shares he acquired on 1 December 2004 and if the Company's TSR performance against a comparator group of FTSE Global Telecoms companies has been at least upper quartile. If TSR performance has been median, 25% of the shares will be delivered, for performance between median and upper quartile, shares will be delivered on a pro-rata basis. No shares will be delivered for below median performance.

5. Subject to John Pluthero remaining an employee of the Company and retaining beneficial ownership until 3 March 2009 of the 1,000,000 Ordinary Shares he acquired on 3 March 2006, the Company will deliver these restricted shares to him.

6. Subject to Tony Rice remaining an employee of the Company and retaining beneficial ownership until 29 March 2009 of the 1,000,000 Ordinary Shares he acquired on 30 March 2006, the Company will deliver these 1,000,000 restricted shares to him. In addition a further 2,000,000 restricted shares were awarded to him. Performance conditions apply to these shares and full vesting will occur only if the TSR performance of the Company meets or exceeds the upper quartile measured against the constituents of the FTSE GTSI.

7. Lord Robertson of Port Ellen retired from the Board on 1 April 2006. However, he continues as Non-executive Chairman of the International business.

8. For all retiring directors, with the exception of Restricted Shares awarded prior to July 2004, shares awarded will be time pro-rated up to the termination date and will continue to be subject to TSR performance conditions up to the end of the performance period.

9. These Performance Share awards will be delivered by the Company to the executive on the third anniversary of grant if the executive is still an employee and full vesting of the performance shares, and any associated dividend re-investment shares, occurs only of the TSR performance of the Company meets or exceeds the upper quartile when compared against the constituents of the FTSE GTSI during the performance period. Where TSR meets the median, 33% of the performance shares vest and a sliding scale operates between median and upper quartile. No performance shares vest for TSR performance below the median.

On behalf of the Board
Kate Nealon
Chairman, Remuneration Committee
31 May 2006

Statement of Directors' responsibilities in respect of the preparation of the financial statements

These are the Group's first consolidated financial statements prepared in accordance with IFRS.

The Directors are responsible for preparing the Annual report and the Group and Company financial statements in accordance with applicable law and regulations.

UK Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the European Union (EU) and have elected to prepare the parent company financial statements in accordance with UK accounting standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– for the Group financial statements state whether they have been prepared in accordance with IFRS as adopted by the EU;
– for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or the Company will continue in business.

The Directors are also responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate Governance statement that comply with that law and those regulations.

A copy of the financial statements of the Company is posted on the Cable and Wireless plc website (www.cw.com). The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that they have complied with the above requirements in preparing the financial statements, and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and the Directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Consolidated financial statements

68 Independent auditor's report
69 Consolidated income statement
70 Consolidated balance sheet
71 Consolidated statement of recognised income and expenses
72 Consolidated cash flow statement
73 Notes to the financial statements

Independent auditor's report to the members of Cable and Wireless plc

We have audited the consolidated financial statements of Cable and Wireless plc for the year ended 31 March 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Cable and Wireless plc for the year ended 31 March 2006 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the Annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 66.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the consolidated financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual report and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

– the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
– the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
– the information given in the Directors' report is consistent with the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
31 May 2006

Consolidated income statement

For the year ended 31 March 2006

	Note	2005/06 Pre-exceptional items £m	2005/06 Exceptional items £m	2005/06 Total £m	2004/05 Pre-exceptional items £m	2004/05 Exceptional items £m	2004/05 Total £m
Continuing operations							
Revenue	5	3,230	–	3,230	2,948	–	2,948
Operating costs before depreciation and amortisation	6	(2,819)	(21)	(2,840)	(2,524)	(143)	(2,667)
Amortisation	14, 16	(46)	(60)	(106)	(20)	–	(20)
Depreciation	14, 17	(228)	(177)	(405)	(170)	(8)	(178)
Group operating profit/(loss)		137	(258)	(121)	234	(151)	83
Share of post-tax profit of associates and joint ventures	18	52	2	54	48	–	48
Total operating profit/(loss)		189	(256)	(67)	282	(151)	131
Gains and losses on sale of non-current assets	8	2	81	83	5	(8)	(3)
Other income	9	7	78	85	5	–	5
Interest income	10	80	–	80	102	–	102
Interest expense	10	(69)	–	(69)	(68)	–	(68)
Profit/(loss) before income tax		209	(97)	112	326	(159)	167
Income tax (expense)/credit	11	(29)	2	(27)	(64)	89	25
Profit/(loss) for the year from continuing operations		180	(95)	85	262	(70)	192
Discontinued operations							
Profit for the year from discontinued operations	12	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
Minority interest		62	34	96	63	(3)	60
		182	(7)	175	284	70	354
Earnings per share attributable to the equity holders of the Company during the year (pence/share)	13						
– basic				3.5p			12.7p
– diluted				3.4p			12.1p
(Losses)/earnings per share from continuing operations attributable to the equity holders of the Company during the year (pence/share)	13						
– 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/share)	13						
– basic				3.9p			7.0p
– diluted				3.6p			6.4p

The notes on pages 73 to 141 are an integral part of these financial statements.

Further detail on exceptional items is set out in the relevant notes.

Consolidated balance sheet

As at 31 March 2006

	Note	31 March 2006 £m	31 March 2005 £m
ASSETS			
Non-current assets			
Intangible assets	16	**682**	206
Property, plant and equipment	17	**1,489**	1,268
Investments in associates and joint ventures	18	**176**	245
Trade investments	19	**–**	33
Available for sale assets	19	**15**	–
Deferred tax asset	28	**17**	29
Retirement benefit asset	30	**41**	26
Other receivables	20	**43**	43
		2,463	1,850
Current assets			
Inventories	21	**31**	26
Trade investments	19	**–**	80
Financial assets at fair value through income statement	19	**39**	–
Trade and other receivables	20	**944**	805
Tax asset		**2**	–
Cash and cash equivalents	22	**1,127**	2,021
		2,143	2,932
Assets held for sale	23	**105**	18
		2,248	2,950
Total assets		**4,711**	4,800
Current liabilities			
Trade and other payables	24	**1,381**	1,293
Current tax liabilities		**123**	158
Loans and obligations under finance leases	25	**143**	23
Derivative financial instruments	26	**15**	–
Provisions for other liabilities and charges	29	**89**	279
		1,751	1,753
Liabilities associated with assets held for sale	23	**–**	4
		1,751	1,757
Net current assets		**497**	1,193
Non-current liabilities			
Loans and obligations under finance leases	25	**641**	801
Deferred tax liabilities	28	**51**	49
Provisions for liabilities and charges	29	**193**	188
Retirement benefit obligations	30	**143**	227
		1,028	1,265
Net assets		**1,932**	1,778
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	31	**605**	599
Share premium	32	**24**	8
Reserves	32	**961**	876
		1,590	1,483
Minority interest	34	**342**	295
Total equity		**1,932**	1,778

The notes on pages 73 to 141 are an integral part of these financial statements.

These financial statements on pages 69 to 141 were approved by the Board of Directors on 31 May 2006 and signed on its behalf by:

Richard Lapthorne – Chairman **Charles Herlinger – Chief Financial Officer**

Consolidated statement of recognised income and expenses

For the year ended 31 March 2006

	Note	2005/06 £m	2004/05 £m
Actuarial (losses)/gains in the value of defined benefit retirement plans	30	(9)	76
Exchange differences on translation of investments recycled to income statement on sale		–	(2)
Exchange differences on translation of foreign operations		68	(38)
Fair value gains on available for sale assets	19	10	–
Fair value gains on available for sale assets recycled to income statement on sale		(70)	–
Tax on items taken directly to or transferred from equity		(2)	(3)
Total income and expense recognised directly in equity		(3)	33
Profit for the financial year		175	354
Total recognised income and expense for the year		172	387
Effect of adoption of IAS 32 and 39 on 1 April 2005 on:			
Fair value reserve		32	–
Retained earnings		13	–
Minority interest		31	–
		76	–
		248	387
Attributable to:			
– equity holders of the Company		133	328
– minority interest		115	59
		248	387

The notes on pages 73 to 141 are an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 March 2006

	Note	2005/06 £m	2004/05 £m
Cash flows from operating activities			
Cash generated from continuing operations	35	100	279
Cash generated from discontinued operations	35	3	28
Income taxes paid		(47)	(60)
Net cash from operating activities		56	247
Cash flows from investing activities			
Continuing operations			
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)
Disposal of Credit Linked Notes		40	50
Proceeds on disposal of associates and joint ventures		1	–
Acquisition of associates and joint ventures		(1)	(7)
Acquisition of shareholdings in subsidiaries (net of cash received)	38	(610)	(77)
Net cash from continuing operations		(732)	(252)
Discontinued operations			
Proceeds on disposal of trade investments		–	17
Proceeds on disposal of subsidiaries	12	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 flow before financing		(649)	106
Cash flows from financing activities			
Continuing operations			
Dividends paid to shareholders		(80)	(97)
Dividends paid to minority interests		(59)	(27)
Repayments of borrowings		(46)	(82)
Loan to minority interest	8	(43)	–
Interest paid		(61)	(67)
Proceeds from borrowings		38	1
Purchase of treasury shares		(17)	(74)
Proceeds on issue of ordinary share capital		11	6
Net cash used in continuing operations		(257)	(340)
Discontinued operations		–	(4)
Net cash used in financing activities		(257)	(344)
Net decrease in cash and cash equivalents		(906)	(238)
Cash and cash equivalents at 1 April		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 31 March	22	1,127	2,021

The notes on pages 73 to 141 are an integral part of these Financial Statements.

Notes to the consolidated financial statements
For the year ended 31 March 2006

1 General information
Cable and Wireless plc ('the Company') and its subsidiaries (together 'Cable & Wireless' or 'the Group') is an international telecommunications company, incorporated and domiciled in the UK. It operates through two standalone businesses – International and UK.

The International business operates integrated telecommunications companies in 33 countries offering mobile, broadband, domestic and international fixed line services to residential and business customers, with principal operations in the Caribbean, Panama, Macau, Monaco and the Channel Islands.

The UK business provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia, and consumer and small business broadband services in the UK through Bulldog.

2 Summary of significant accounting policies
2.1 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 and therefore these financial statements comply with IFRS. These are the Group's first consolidated financial statements prepared 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 note 42.

The financial statements are presented in sterling, rounded to the nearest million. They are prepared on the historical cost basis except for those financial instruments held for trading (which includes derivatives) or classified as available for sale or as fair value through the income statement.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the coming year are discussed in note 3.

The accounting policies set out below have been applied consistently, to the extent required by IFRS 1 (see note 2.2 below), 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.

The accounting policies have been applied consistently by Group entities.

2.2 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 measured in accordance with IFRS. Except where noted below, IFRS recognition and measurement principles were applied retrospectively.

The impact of transition from UK GAAP to IFRS on the Group's shareholders' funds as at 1 April 2004 and 31 March 2005, and on the Group's income statement for the year ended 31 March 2005 is discussed in note 42.

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 set out in note 43.

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.

2.3 Early adoption of IFRS
As permitted by IFRS 5 *Non-current assets held for sale and discontinued operations*, the Group has applied the standard to assets held for sale and discontinued operations occurring from its date of transition to IFRS as the necessary valuation information was available to do so.

In 2004 the IASB issued an amendment to IAS 19 *Employee benefits*, giving an option to recognise actuarial gains and losses in full, outside the income statement, in a statement of changes in equity. This amendment applies to financial statement periods beginning after 1 January 2006. However, as permitted by the amendment, the Group has elected to adopt this amendment early and has applied the new option in these financial statements for both the current and comparative periods.

2.4 Basis of consolidation
The consolidated financial statements comprise a consolidation of the accounts of the Company and its subsidiaries and include the Group's share of the results and net assets of its joint ventures and associates. The accounts of the Group's main trading subsidiaries, joint ventures and associates are made up to 31 March.

(a) Subsidiaries
Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the Group effectively takes control. They are de-consolidated from the date that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates and joint ventures
Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for by the equity method of accounting and are initially recognised at cost, in accordance with IAS 31 *Interests in Joint Ventures*. The Group's investment in joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest or participation, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest or participation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segmental reporting

The Group operates in a number of geographical and business segments. The primary reporting segmentation is by business segment as the Directors consider that this is the most appropriate distinction between the source and nature of risks and returns associated with its activities.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Revenues and expenses are allocated to business segments based on the type of service to which they relate. Assets, liabilities and capital expenditure are allocated to particular business segments if they substantially relate to a single identifiable segment. Assets and capital expenditure that relate to a range of services falling under different business segments are reported as unallocated.

Revenues are allocated to geographical segments based on the location where the telecommunication services are delivered. Assets, liabilities and capital expenditure are allocated to geographical segments based on their location.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into sterling as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at rates closely approximating the rate at the date of the transactions; and
(iii) all resulting exchange differences are recognised as a separate component of equity.

There are no material Group entities operating in a hyperinflationary economy.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to shareholders' equity. Cumulative translation differences at the date of transition have been set to zero, as permitted by IFRS 1.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

Where net investments are matched in whole or in part by foreign currency borrowings and the hedge is effective, the exchange differences arising on the retranslation of such borrowings are also recorded as movements on the Group's translation reserves and any excess taken to the income statement.

Notes to the consolidated financial statements

For the year ended 31 March 2006

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment includes labour and overhead costs arising directly from the construction or acquisition of an item of property, plant and equipment.

The estimated costs of dismantling and removing the asset and restoring the site on which it is located are included in the cost of property, plant and equipment. The corresponding obligation is recognised as a provision under IAS 37 *Provisions, contingent liabilities and contingent assets.*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other subsequent costs (primarily repairs and maintenance) are charged to the income statement during the financial period in which they are incurred.

Interest costs of borrowings made specifically to finance separately identifiable major capital projects incurred up to the time that those projects are ready for service are also capitalised as part of the cost of assets when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

Depreciation is not provided on freehold land or projects under construction. On other property, plant and equipment, depreciation is provided on the difference between the cost of an item and its estimated residual value, in equal annual instalments over the estimated useful lives of the assets as follows:

	Lives
Cables	up to 20 years
Network equipment	3 to 25 years
Ducting	40 years
Freehold buildings	40 years
Leasehold buildings	up to 40 years or term of lease if less

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Surpluses and deficits on disposals of property, plant and equipment are determined by reference to sale proceeds and net book values. These are recognised in the income statement.

Engineering spares held for use by the Group over a period exceeding one year are included in 'Assets under construction' and are stated at cost, including appropriate allocation of labour and overheads. Provision is made for deterioration and obsolescence. The cost is determined on a weighted average basis.

2.8 Investments

As permitted by IFRS 1, the Directors have elected not to apply IAS 32 and IAS 39 to the comparative figures. For the year ended 31 March 2005, the Group has recognised its financial investments as previously accounted for under UK GAAP.

(a) From 1 April 2004 to 31 March 2005

Listed and unlisted securities are carried at purchase price net of any diminution in value that is expected to be permanent. Any diminution in value is charged in the income statement.

(b) From 1 April 2005

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, originated loans and receivables, held-to-maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. The basis of determining fair values are set out in note 2.12(b).

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within a year of the balance sheet date.

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than a year after the balance sheet date; these are classified as non-current assets. Receivables are included in trade and other receivables in the balance sheet.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Available for sale financial assets
Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within a year of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (or for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Trade and other receivables

(a) From 1 April 2004 to 31 March 2005
Trade and other receivables are carried at the original invoice amount to customers less provision made for doubtful receivables based on a periodic review of all outstanding amounts. Bad debts are written off through the income statement when identified.

(b) From 1 April 2005
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, joint venture or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures is included in investments in joint ventures. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Notes to the consolidated financial statements
For the year ended 31 March 2006

(b) Software and licences
Costs that are directly associated with the purchase and implementation of identifiable and unique software products by the Group are recognised as intangible assets.

Expenditures that enhance and extend the benefits of computer software programmes beyond their original specifications and lives are recognised as a capital improvement and added to the original cost of the software.

Intangible assets are amortised over their respective lives. The useful lives of licences (including concessions to provide telecommunication services) are determined based on the terms of the underlying agreements including renewal periods if there is evidence to support renewal by the Group without significant cost. Intangible assets are stated at cost less amortisation on a straight line basis over the following periods:

	Lives
Licences	25 years or less if the licence term is shorter
Software	3–5 years
Other	3–5 years

2.11 Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. All other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment reviews involve management making assumptions and estimates, which are highly judgmental and susceptible to change. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The expected cash flows generated by the assets are discounted using asset specific discount rates which reflect the risks associated with the groups of assets. These risks vary with the nature and the location of the cash generating units.

2.12 Financial instruments
As permitted by IFRS 1, the Directors have elected not to apply IAS 32 and IAS 39 for the financial year ended 31 March 2005. The Group has continued to adopt UK GAAP in the accounting for and disclosure of financial instruments for the year ended 31 March 2005. From 1 April 2005, IAS 32 and IAS 39 have been applied.

(a) From 1 April 2004 to 31 March 2005
Swaps and forward rate agreements
The net interest paid or received under any interest rate and cross currency swaps and forward rate agreements ('FRAs') is recorded on an accruals basis and included within net financing cost in the income statement. The notional amounts of interest rate swaps and FRAs are not recorded on the balance sheet. Cross currency swaps are used to hedge the initial draw down and final repayment of certain foreign currency denominated debt, and the related foreign currency interest flows.

Forward exchange contracts
Forward exchange contracts are carried on the balance sheet at the difference between the amounts of the payable and receivable currency revalued at the closing exchange rate. The interest differential, being the difference between the contract rate and the spot rate on the date of entering into the forward exchange contract, is charged to the income statement as interest over the life of the contract.

Exchange gains and losses
Exchange gains and losses on revaluation and maturity of any forward exchange contracts and cross currency swaps are treated according to the underlying exposure they hedge:

- for any contracts that hedge firm third party commitments, the exchange gains and losses are recognised in the income statement in the same period as the underlying transaction;
- for any contracts over underlying currency assets or liabilities, the exchange gains and losses are offset against the equal and opposite exchange gains or losses arising on the retranslation of the underlying assets or liabilities;
- for any contracts taken out to hedge overseas equity investments, the exchange gains and losses are taken to reserves to offset against the exchange differences arising on the retranslation of the net assets of the investments on consolidation; and
- for any contracts that hedge general trading flows, the exchange gains or losses are taken to the income statement in the period in which they arise.

Where the underlying exposure changes, or ceases to exist, the contract would be terminated and the exchange gain or loss arising taken to the income statement.

(b) From 1 April 2005
Derivative financial instruments and associated gains or losses are recognised as balance sheet items and recognised gains or losses respectively.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
– hedges of highly probable forecast transactions (cash flow hedges); or
– hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, network assets) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Fair value estimation
The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

2.13 Borrowings

(a) From 1 April 2004 to 31 March 2005

Borrowings are recognised initially at the proceeds received from the borrowing agreement, net of any related issue costs. Those issue costs are amortised into the income statement over the life of the instrument using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least a year after the balance sheet date.

(b) From 1 April 2005

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Where the terms of a borrowing arrangement contain a separable embedded derivative, the initial values of the debt component and the derivative component(s) are determined using the appropriate fair value calculations. The liability portion is recorded on an amortised cost basis until extinguished on conversion or maturity of the bonds. If the conversion option is a derivative it is accounted for as such. Where the conversion option is considered to be equity, it is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least a year after the balance sheet date.

2.14 Inventories

Materials and consumables are stated at cost less any provision for obsolescence. Inventories held for resale are stated at the lower of cost and net realisable value which is the estimated selling price in the ordinary course of business, less selling expenses. When necessary, provision is made for obsolete and slow moving inventories.

The cost of inventory held for resale comprises acquisition costs and associated expenses determined on a weighted average basis.

2.15 Cash and cash equivalents

Cash and cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and bank, short-term deposits, marketable securities and overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the issue proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.17 Leases

Property leases comprising a lease of land and a lease of buildings within a single contract are split into the two component parts. Each component part is then tested to determine whether the lease is a finance or operating lease and treated accordingly.

Lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other long-term payables. These payments are split between capital and interest elements using the annuity method. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

All other leases are classified as operating leases. Payments made under operating leases, net of lease incentives or premiums received, are charged to the income statement on a straight line basis over the period of the lease.

Lessor

Assets leased out under finance leases or contractual arrangements similar in substance to finance leases are derecognised at the inception of the lease. Lease receivables are recorded at an amount equal to the sum of the present value of the minimum lease payments and any unguaranteed residual value. The difference between the gross receivable and the present value of the lease payments is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight line basis over the lease term.

2.18 Assets held for sale

Assets classified as assets held for sale are stated at the lower of carrying amount and recoverable value, defined as market value less costs of disposal, as their value will be recovered principally through the sale transaction rather than through continuing usage.

The Group adopted IFRS 5 *Non-current assets held for sale and discontinued operations* from 1 April 2004 in accordance with the standard's provisions. Assets or disposal groups held for sale at 31 March 2006 have been separately disclosed as current assets and liabilities on the face of the balance sheet. Income and expenditure related to these assets, or those disposed of during the year, including gains or losses on their disposal, have been presented as a single line in the income statement.

Measurement differences arising between the carrying amount and fair value less cost of disposal are treated as impairment charges but separately disclosed.

2.19 Employee benefits

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions to defined contribution schemes if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The asset and liability recognised in the balance sheet in respect of defined benefit pension plans are the present values of the defined benefit obligations at the balance sheet date less the fair value of plan assets. Defined benefit obligations for each scheme are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group recognises actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in the period in which they occur directly in the statement of recognised income and expenses.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are dealt with in the same way as for defined benefit pension schemes. Independent qualified actuaries value these obligations annually.

Notes to the consolidated financial statements

For the year ended 31 March 2006

Share-based compensation

The Group operates various equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, which excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in estimates about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Where continuing employees withdraw from share-based compensation plans the remaining charge is recognised immediately.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than a year after balance sheet date are discounted to present value.

Bonus plans

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates that have been enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except where the difference arises from:

– the initial recognition of goodwill; or
– the initial recognition of an asset or liability in a transaction other than a business combination, affecting neither accounting nor taxable profit.

Deferred tax is calculated using tax rates that are expected to apply to the period when the temporary differences reverse, based on rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.21 Provisions

These comprise liabilities of uncertain timing or amount. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Property provisions are recognised for unavoidable lease payments representing the difference between the rentals due and any income expected to be derived from the vacant properties being sub-let. Redundancy provisions, relating to both continuing and discontinued operations, comprise employee termination payments. Legal provisions comprise legal fees and expected settlement costs.

Provisions are presented in the balance sheet at the present value of the estimated future outflows expected to be required to settle the obligation. The discount rate is the pre-tax rate reflecting the assessment of the settlement date. Provision charges and reversals are recognised in the income statement as operating costs. Discount unwinding is recognised as part of interest expense.

2.22 Revenue recognition

Group revenue, which excludes discounts, value added tax and similar sales taxes, represents the amount receivable in respect of services provided to customers and is accounted for on the accruals basis. It includes sales to joint ventures and associated companies but does not include sales by joint ventures and associated companies or sales between Group companies. Revenue is recognised only when payment is probable.

Revenue from services is recognised as the services are provided. In respect of services invoiced in advance, amounts are deferred until provision of the service.

Amounts payable by and to other telecommunications operators are recognised as services are provided. Charges are negotiated separately and are subject to continual review. Revenue generated through the provision of these services is accounted for gross of any amounts payable to other telecommunications operators for interconnect fees.

Mobile revenue comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, the provision of other mobile telecommunications services, including data services and information provision and turnover from the sale of equipment, including handsets.

Mobile monthly access charges are invoiced and recorded as part of a periodic billing cycle. Airtime, either from contract customers as part of the invoiced amount or from prepaid customers through the sale of prepaid top-up cards, is recorded in the period in which the customer uses the service. Unbilled revenue resulting from mobile services provided to contract customers from the billing cycle date to the end of each period is accrued. Unearned monthly access charges relating to periods after each accounting period are deferred.

The Group earns revenue from the transmission of content on its network originated by third-party providers. The Group assesses whether revenue should be recorded gross as principal or net as agent, based on the features of such arrangements including the following indicators:

– whether the Group holds itself out as an agent;
– establishment of the price;
– provision of customer remedies;
– performance of part of the service; and
– assumption of credit risk.

Revenue from sales of telecommunication equipment is recognised upon delivery to the customer.

The total consideration on arrangements with multiple revenue-generating activities (generally the sale of telecom equipment and ongoing service) is allocated to those components that are capable of operating independently based on the fair value of the components. Revenue from the sale of the telecom equipment and services is recognised on the basis set out above.

Revenue arising from the provision of other services, including maintenance contracts, is recognised evenly over the periods in which the service is provided.

2.23 Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income is included within Other income.

2.24 Exceptional items

Exceptional items are material items which derive from individual events that fall within the ordinary activities of the Group that are identified as exceptional items by virtue of their size, nature or incidence.

Notes to the consolidated financial statements
For the year ended 31 March 2006

2.25 New IFRS standards and interpretations not yet applied

During 2005, the IASB and IFRIC issued additional standards and interpretations, which are effective for periods starting after the date of these financial statements. The following standards and interpretations have yet to be adopted by the Group:

International Financial Reporting Standards (IFRS/IAS)

IFRS 1	Amendment relating to IFRS 6
IFRS 4	Amendment to IAS 39 and IFRS 4 – Financial guarantee contracts
IFRS 6	Exploration for and evaluation of mineral assets
IFRS 6	Amendment relating to IFRS 6
IFRS 7	Financial instruments: disclosures
IAS 1	Amendment to IAS 1 – Presentation of financial statements: capital disclosures
IAS 39	Fair value option
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial guarantee contracts

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
IFRIC 7	Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives

The Group will apply the above standards, excluding IFRIC 8 and 9, in its financial statements for the year ending 31 March 2007 and subsequent periods. IFRIC 8 and 9 will be applied in financial statements for periods ending 31 March 2008 or later.

The amendments to IAS 39 and IFRS 4 dealing with financial guarantee contracts may have an effect on the Group's financial statements but any such impact has not yet been quantified. The Group anticipates that the adoption of the other standards and interpretations listed above will not have a material effect on its results or financial position.

3 Critical accounting estimates and judgements

In the preparation of the consolidated financial statements, a number of estimates and assumptions have been made relating to the reporting of results of operations and the financial condition of the Group. Results may differ significantly from those estimates under different assumptions and conditions. The Directors consider that the following discussion addresses the Group's most critical accounting policies, which are those that are most important to the presentation of its consolidated financial condition and results. These particular policies require subjective and complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

3.1 Valuation of assets for purchase accounting

The cost of acquired companies is allocated to tangible and other identifiable intangible assets and liabilities acquired by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. Any value assigned to the identifiable assets is determined by reference to an active market, independent appraisal, or estimated by our management based on cash flow projections which include estimates and judgements regarding expectations for the economic useful lives of the products and technology acquired. In the latter situation, where appropriate, third party valuation specialists are involved. Goodwill is allocated to the cash generating units to which it relates.

3.2 Depreciation of property, plant and equipment

The Group assigns useful lives and residual values to property, plant and equipment based on periodic studies of actual asset lives and the intended use for those assets. Changes in circumstances such as technological advances, prospective economic utilisation and physical condition of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Where the Group determines that the useful life of property and equipment should be shortened or residual value reduced, it depreciates the net book value in excess of the residual value over the revised remaining useful life, thereby increasing depreciation expense. Any change in asset lives or residual value would be reflected in the Group's financial statements when the change in estimate is determined.

3.3 Impairment of property, plant and equipment and intangible assets

The Directors assess the impairment of property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or otherwise as required by accounting standards. Factors that are considered important and which could trigger an impairment review include the following:

- obsolescence or physical damage;
- significant changes in technology and regulatory environments;
- significant under-performance relative to expected historical or projected future operating results;
- significant changes in the use of its assets or the strategy for its overall business;
- significant negative industry or economic trends; and
- significant decline in its stock price for a sustained period and its market capitalisation relative to net book value.

In addition, the Directors test goodwill, which is not amortised, at least annually for impairment.

The identification of impairment indicators, the estimation of future cash flows and the determination of the recoverable amount for assets or cash generating units requires significant judgement concerning the identification and validation of impairment indicators, the timing and amount of expected cash flows and applicable discount rates.

The Group determines any impairment by comparing the carrying values of each of the Group's cash generating units to their recoverable amounts which is the higher of net realisable value and the value in use. Net realisable value represents market value in an active market less cost to sell. Value in use is determined by discounting future cash flows arising from the asset (or the cash generating unit to which it refers). Future cash flows are determined with reference to the Group's own projections using discount rates which represent the estimated weighted average cost of capital for the respective businesses. The approach, assumptions and results of the impairment test are set out in note 14.

3.4 Revenue recognition

Revenue, which excludes discounts, value added tax or other sales taxes, represents the amount receivable in respect of services provided to customers and is accounted for on the accruals basis to match revenue with the provision of service. Revenue is recognised monthly as services are provided. Revenue in respect of services invoiced in advance is deferred and recognised on provision of the service. Revenue in respect of unbilled services is accrued.

Judgement is required in assessing the application of these principles and the specific guidance in respect of Group revenues, including the presentation of revenue as principal or as agent in respect of income received from transmission of content provided by third parties.

3.5 Interconnection with other operators and similar supply arrangements
As part of the normal course of business, the Group interconnects with other telecommunications operators. In certain instances it uses estimates to determine the amount of income receivable from or payments to these other operators. The prices at which these services are charged are sometimes regulated and may be subject to retrospective adjustment. Estimates are used in assessing the likely impact of these adjustments.

In a similar way, the Group enters into supply arrangements. In certain instances it uses estimates of price or usage to determine the expense charged in any period. These estimates are periodically adjusted to reflect actual pricing or usage as such information becomes available or is agreed with suppliers.

Credits and charges on adjustments to both interconnect and other supply arrangements are taken to operating profit in the period in which the adjustments are made.

3.6 Impairment of receivables and provision for bad and doubtful debts
The allowance for impairment of receivables (at 31 March 2006) or provision for bad or doubtful debts (at 31 March 2005) reflects estimates of losses arising from the failure or inability of the Group's customers to make required payments. The allowance/provision is based on the ageing of customer accounts, customer credit worthiness and the Group's historical write-off experience. Changes to the allowance/provision may be required if the financial condition of its customers improves or deteriorates. An improvement in financial condition may result in lower actual write-offs. Historically, changes to the estimate of losses have not been material to the Group's financial position and results.

3.7 Taxation
The tax charge is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a formal resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material income statement and/or cash flow variances.

The resolution of issues is not always within the control of Cable & Wireless and it is often dependent on the efficiency of the administrative and legal processes in the relevant tax jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the tax charge in the income statement and tax payments.

3.8 Recognition of deferred tax assets
The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

3.9 Provisions
A provision is recognised when there is a present (legal or constructive) obligation in respect of a past event as explained in the accounting policy in note 2.21. Judgement is required to quantify such amounts.

3.10 Pensions
The Group provides several defined benefit pension schemes for its employees. The asset and liability recognised in the balance sheet in respect of defined benefit pension plans are the present values of the defined benefit obligations at the balance sheet date less the fair value of plan assets. The expected cost of providing these defined benefit pensions will depend on an assessment of such factors as:

– the life expectancy of the members;
– the length of service;
– the rate of salary progression;
– the rate of return earned on assets in the future;
– the rate used to discount future pension liabilities; and
– future inflation rates.

The assumptions used by Cable & Wireless are set out in note 30 and are estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice but are comparable to the median estimates in this regard used by other FTSE 100 companies. Changes to these assumptions could materially impact the size of the defined benefit schemes' deficits and assets disclosed in note 30.

3.11 Fair value estimation

The basis of determining fair values is set out in note 2.12. Where market values are not available fair values are based on valuation methodologies which require inputs and forecasts to be made. Judgement is required in determining the appropriate assumptions underlying those inputs and forecasts.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Segment information

Primary reporting format – business segments

Cable & Wireless is an international telecommunications service provider. During the year Cable & Wireless operated three primary business segments:

- International business;
- UK corporate business; and
- Bulldog.

The International business operates integrated telecommunications companies in 33 countries offering mobile, broadband, domestic and international fixed line services to residential and business customers, with principal operations in the Caribbean, Panama, Macau, Monaco and the Channel Islands.

The UK corporate business provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia.

Bulldog Communications Limited ('Bulldog') provides consumer and small business telephony and broadband services in the UK. From 1 April 2006 Bulldog became part of the UK corporate business.

Continuing operations

The segment results for the year ended 31 March 2006 and 31 March 2005 are presented below:

2006	International business £m	UK corporate business £m	Bulldog £m	Other[1] and eliminations £m	Total £m
Continuing operations					
Revenue	1,212	2,028	33	(43)	3,230
Pre-exceptional operating costs	(937)	(2,002)	(153)	(1)	(3,093)
Exceptional operating costs	(20)	(245)	–	7	(258)
Group operating profit/(loss)	255	(219)	(120)	(37)	(121)
Share of post-tax profit of associates and joint ventures	60	(6)	–	–	54
Total operating profit/(loss)	315	(225)	(120)	(37)	(67)
Other income					168
Net finance costs					11
Profit before income tax					112
Tax					(27)
Net profit					85

[1] Other includes Central revenues and expenses.

2005	International business £m	UK corporate business £m	Bulldog £m	Other[1] and eliminations £m	Total £m
Continuing operations					
Revenue	1,124	1,835	11	(22)	2,948
Pre-exceptional operating costs	(863)	(1,761)	(41)	(49)	(2,714)
Exceptional operating costs	(22)	(99)	–	(30)	(151)
Group operating profit/(loss)	239	(25)	(30)	(101)	83
Share of post-tax profit of associates and joint ventures	56	(8)	–	–	48
Total operating profit/(loss)	295	(33)	(30)	(101)	131
Other income					2
Net finance costs					34
Profit before income tax					167
Tax					25
Net profit					192

[1] Other includes Central revenues and expenses.

Inter segment sales are not significant but are charged at arm's length prices.

The segment assets and liabilities, capital expenditure and other items as at 31 March 2006 and 31 March 2005 and for the year ended on these dates are:

Year ended 31 March 2006	International business £m	UK corporate business £m	Bulldog £m	Other[1] and eliminations £m	Total £m
Continuing operations					
Segment assets	1,809	1,629	138	959	4,535
Associates and joint ventures	186	(10)	–	–	176
Total assets	1,995	1,619	138	959	4,711
Total liabilities	(366)	(965)	(48)	(1,400)	(2,779)
Capital expenditure	142	207	70	(3)	416
Acquisitions	2	608	–	–	610
Depreciation and amortisation	(142)	(123)	(15)	6	(274)
Impairment charge	–	(237)	–	–	(237)
Movement on provisions	(20)	(8)	–	2	(26)

[1] Other includes Central and non-operating assets and liabilities.

Year ended 31 March 2005	International business £m	UK corporate business £m	Bulldog £m	Other[1] and eliminations £m	Total £m
Continuing operations					
Segment assets	1,733	919	81	1,804	4,537
Associates and joint ventures	245	–	–	–	245
Total assets	1,978	919	81	1,804	4,782
Total liabilities	(428)	(911)	(29)	(1,650)	(3,018)
Capital expenditure	171	155	40	8	374
Acquisitions	55	3	19	–	77
Depreciation and amortisation	(126)	(61)	(2)	(1)	(190)
Impairment charge	(3)	(5)	–	–	(8)
Movement on provisions	(39)	(92)	–	(75)	(206)

[1] Other includes Central and non-operating assets and liabilities.

The £237 million impairment charge against assets in the UK corporate business 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. The impairment has been recorded as an exceptional item within Operating expenses in the income statement.

During 2005, the Group recorded an impairment charge of £8 million in respect of network assets. The impairment has been recorded as an exceptional item within Operating expenses in the income statement.

The basis of calculation of the impairment is set out in note 14.

Segment assets include goodwill related to the acquisitions of Energis arising in the year ended 31 March 2006 and Monaco Telecom SAM ('Monaco Telecom') and Bulldog recognised in the year ended 31 March 2005.

Goodwill of £384 million relating to Energis is included in the UK corporate business segment. Goodwill of £29 million (2005 – £39 million) relating to Monaco Telecom is included in the International segment and the £20 million (2005 – £20 million) relating to Bulldog is included in the Bulldog segment.

Other and eliminations includes assets and liabilities held centrally by the Group, primarily cash and borrowings, and other non-operating items including tax balances.

Notes to the consolidated financial statements

For the year ended 31 March 2006

Discontinued operations

Details of those businesses categorised as discontinued are set out in note 12. The segment results of the discontinued operations for the year ended 31 March 2006 and 31 March 2005 are presented below:

2006	International business £m	UK business £m	Other £m	Total £m
Discontinued operations				
Revenue	5	–	–	5
Operating costs	(3)	–	–	(3)
Group operating profit	2	–	–	2
Reversal of unutilised provisions	–	–	68	68
Profit on disposal of discontinued operations	17	3	–	20
Profit before income tax	19	3	68	90
Tax				–
Net profit				90

2005	International business £m	UK business £m	Other £m	Total £m
Discontinued operations				
Revenue	13	207	–	220
Operating costs	(9)	(189)	–	(198)
Exceptional operating costs	–	(2)	–	(2)
Group operating profit	4	16	–	20
Reversal of unutilised provisions	–	–	22	22
Profit on disposal of discontinued operations	3	38	–	41
Proceeds from US exit	–	–	66	66
Other non-operating income	–	16	–	16
Net finance costs	–	(1)	–	(1)
Profit before income tax	7	69	88	164
Tax				(2)
Net profit				162

Other includes amounts recognised in respect of previously discontinued operations not included in the current segments. These are primarily transactions arising from the Group's exit from its former US operations in prior years. The UK segment includes Spain and Japan.

The segment assets and liabilities, capital expenditure and other items as at 31 March 2006 and for the year ended on this date are £1 million segment assets and £1 million total liabilities relating to the mobile and fixed line telecommunications businesses in Sakhalin (the 'Sakhalin Operations') which is part of the International business segment. Movement of provisions was a release of £68 million in the other segment.

The segment assets and liabilities, capital expenditure and other items as at 31 March 2005 and for the year ended on this date are:

2005	International business £m	UK corporate business £m	Other[1] £m	Total £m
Discontinued operations				
Segment assets	10	8	–	18
Total liabilities	(2)	(2)	–	(4)
Capital expenditure	3	10	–	13
Depreciation and amortisation	–	(1)	–	(1)
Movement on provisions	–	–	22	22

[1] Other includes corporate and non-operating assets.

Discontinued operations represent those businesses discontinued and disposed of or held for sale at the year end. There were no discontinued operations held for sale at the year end.

In 2005 the assets and liabilities included within the UK represent the business in Spain. The assets and liabilities within International represent the Sakhalin Operations. Both these businesses were identified as held for sale at 31 March 2005. These businesses were disposed of during 2006. Refer to note 12 for further information.

Secondary reporting format – geographical segments

Cable & Wireless is an international telecommunications company with continuing operations in six geographical segments: UK (including the United Kingdom, Europe, US and Asia), Caribbean, Panama, Macau, Monaco and Rest of the World.

The segment results for the year ended 31 March 2006 and 31 March 2005 are presented below:

2006	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	UK £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Revenue	564	284	136	124	104	2,040	(22)	3,230
Operating costs	(440)	(214)	(99)	(105)	(79)	(2,134)	(22)	(3,093)
Exceptional operating costs	(16)	–	–	(3)	(1)	(245)	7	(258)
Group operating profit/(loss)	108	70	37	16	24	(339)	(37)	(121)
Share of post-tax profit of associates and joint ventures	11	–	–	5	44	(6)	–	54
Total operating profit/(loss)	119	70	37	21	68	(345)	(37)	(67)
Other income								168
Net finance costs								11
Profit before income tax								112
Tax								(27)
Net profit								85

[1] Other includes Central revenue and expense.

2005	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	UK £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Revenue	550	257	117	100	100	1,843	(19)	2,948
Operating costs	(442)	(182)	(82)	(84)	(73)	(1,799)	(52)	(2,714)
Exceptional operating costs	(21)	–	–	–	(1)	(99)	(30)	(151)
Group operating profit/(loss)	87	75	35	16	26	(55)	(101)	83
Share of post-tax profit of associates and joint ventures	14	–	–	1	41	(8)	–	48
Total operating profit/(loss)	101	75	35	17	67	(63)	(101)	131
Losses on sale of non-current assets								(3)
Net finance costs and other income								39
Profit before income tax								167
Tax								25
Net profit								192

[1] Other includes Central revenue and expense.

The segment assets and liabilities, capital expenditure and other items as at 31 March 2006 and 31 March 2005 and for the year ended on these dates are:

2006	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	UK £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Segment assets	808	376	128	237	260	1,767	959	4,535
Associates	127	–	–	7	52	(10)	–	176
Total assets	935	376	128	244	312	1,757	959	4,711
Total liabilities	(169)	(63)	(26)	(80)	(28)	(1,013)	(1,400)	(2,779)
Capital expenditure	78	25	11	10	18	277	(3)	416
Acquisitions	–	–	–	–	2	608	–	610
Depreciation and amortisation	(63)	(35)	(16)	(13)	(15)	(138)	6	(274)
Impairment charge	–	–	–	–	–	(237)	–	(237)
Movement on provisions	(18)	–	–	(2)	–	(8)	2	(26)

[1] Other includes Central and non-operating assets.

Notes to the consolidated financial statements

For the year ended 31 March 2006

2005	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	UK £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Segment assets	787	396	104	289	157	1,000	1,804	4,537
Associates	118	–	–	1	126	–	–	245
Total assets	905	396	104	290	283	1,000	1,804	4,782
Total liabilities	(208)	(60)	(22)	(107)	(31)	(940)	(1,650)	(3,018)
Capital expenditure	104	44	14	3	6	195	8	374
Acquisitions	–	–	–	55	–	22	–	77
Depreciation and amortisation	(58)	(31)	(15)	(11)	(11)	(63)	(1)	(190)
Impairment charge	(3)	–	–	–	–	(5)	–	(8)
Movement on provisions	(4)	–	–	(35)	–	(92)	(75)	(206)

[1] Other includes Central and non-operating assets.

Revenue is based on the location where the telecommunication services were delivered. It does not follow necessarily that the international telecommunication traffic transiting the Group's networks originates in that location. The Group does not have access to information on the original source or ultimate destination of international telecommunication traffic.

The £237 million impairment charge against assets in the UK corporate business 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. The impairment has been recorded as an exceptional item within Operating expenses in the income statement.

During 2005, the Group recorded an impairment charge of £8 million in respect of network assets. The impairment has been recorded within Operating expenses in the income statement. Of the charge, £5 million was included in the results of the UK segment. The remaining £3 million was reflected in the results of the Caribbean segment.

The basis of calculation of the impairment is set out in note 14.

Segment assets include goodwill related to the acquisitions of Energis arising in the year ended 31 March 2006 and Monaco Telecom and Bulldog recognised in the year ended 31 March 2005.

Goodwill of £384 million relating to Energis is included in the UK segment. Goodwill of £29 million (2005 – £39 million) relating to Monaco is included in the Monaco segment and the £20 million (2005 – £20 million) relating to Bulldog is included in the UK segment.

Other and eliminations includes assets and liabilities held centrally by the Group, primarily cash and borrowings, and other non-operating items including tax balances.

Discontinued operations

	2005/06			2004/05		
	ROW £m	UK £m	Total £m	ROW £m	UK £m	Total £m
Discontinued operations						
Revenue	5	–	5	13	207	220
Total segment assets	1	–	1	10	8	18
Capital expenditure	–	–	–	3	10	13

5 Revenue

	Note	2005/06 £m	2004/05 £m
Continuing operations			
Sales of telecommunication services and related operations		3,145	2,890
Sales of telecom equipment and accessories		85	58
		3,230	2,948
Revenue from discontinued operations	12	5	220
Total revenue		3,235	3,168

6 Operating costs

The split of the operating costs incurred by the Group, in accordance with the nature of cost is presented below:

	2005/06			2004/05		
	Pre-exceptional £m	Exceptional £m	Total £m	Pre-exceptional £m	Exceptional £m	Total £m
Outpayments	1,350	–	1,350	1,099	–	1,099
Employee and other staff expenses	527	34	561	527	70	597
Operating lease rentals						
– networks	62	–	62	66	–	66
– property	38	–	38	40	–	40
– plant and equipment	3	–	3	3	–	3
Other administrative costs	261	12	273	270	–	270
Foreign exchange losses	(8)	–	(8)	(7)	–	(7)
Other network maintenance costs	226	1	227	188	8	196
Property taxes and utility costs	83	(7)	76	70	56	126
Cost of equipment sold	274	–	274	256	–	256
Other operating expenses	3	(19)	(16)	12	9	21
	2,819	21	2,840	2,524	143	2,667
Amortisation and impairment of intangible assets	46	60	106	20	–	20
Depreciation and impairment of property, plant and equipment	228	177	405	170	8	178
Total operating costs	3,093	258	3,351	2,714	151	2,865

Operating costs are stated net of credits or charges arising from the establishment or release of accruals. The nature of telecommunications industry is such that estimates are often required to be made in relation to customer or supplier commitments, the final outcome of which may not be known for some time. As issues arise or are resolved, accruals are created or released as appropriate – the net impact of this is included in operating costs within the relevant line item. The nature of the industry and of these items is such that the amount of the credits or charges vary from year to year.

	Note	2005/06 £m	2004/05 £m
Exceptional items			
Staff costs	(i)	34	68
Hurricane related charges	(ii)	6	17
Other costs	(iii)	(12)	4
Property costs	(iv)	(7)	54
		21	143
Asset impairment	(v)	237	8
Total exceptional operating costs		258	151

(i) Staff costs principally relate to redundancy costs arising from the restructuring of the Group's operations in continuing businesses. International business £9 million (2005 – £2 million), UK business £14 million (2005 – £57 million) and Corporate £11 million (2005 – £9 million).

(ii) Hurricane Ivan adversely affected the Group's operations in the Caribbean. As a result, exceptional restoration costs of £6 million (2005 – £12 million) were incurred in rectifying damage caused to the network. In 2005 the hurricane related exceptional restoration costs also included employee costs £2 million, property costs £2 million and £1 million of other costs.

(iii) Other costs include £4 million of restructuring costs and £2 million of other costs in the International business, Energis integration costs of £8 million, £5 million provided to a joint venture to assist with Tsunami related restoration costs and £2 million corporate restructuring costs. These were offset by provision releases of £33 million.

In 2005 other costs included charges of £11 million relating to onerous network costs in the UK corporate business and other restructuring charges in the UK corporate business of £8 million, partially offset by provision releases of £15 million relating to a joint venture operation.

(iv) Property costs include provision releases relating to prior period restructuring provisions in the UK corporate business of £6 million and centrally of £1 million. In 2005 the property costs related to the restructuring of Group operations being £32 million in the UK corporate business and £22 million elsewhere.

(v) An impairment charge of £237 million has been recognised relating to property, plant and equipment (£177 million) and intangible assets (£60 million) arising in the UK corporate business. In 2005 an impairment charge of £3 million was recognised relating to property, plant and equipment that were damaged by the hurricane and tsunami. In addition, as a consequence of the restructuring in the Group's European operations, an impairment charge of £5 million was recognised in respect of property, plant and equipment. Refer to note 14 for further information on the impairments.

Notes to the consolidated financial statements

For the year ended 31 March 2006

Auditor's remuneration

The remuneration of the auditor and its associates in respect of audit services provided to the Group during the year was £3.9 million including £1.1 million relating to the prior year (2005 – £3.2 million including £300,000 relating to 2004). The audit remuneration in respect of prior years resulted from additional audit work in the Cayman Islands following Hurricane Ivan and additional work to comply with SEC disclosures. Regulatory reporting fees principally related to compliance with IFRS and the review of interim financial statements. The remuneration of the auditor and its associates in respect of non-audit services to the Company and its UK subsidiaries during the year was £900,000 (2005 – £900,000) and to overseas subsidiaries £300,000 (2005 – £600,000) as summarised below:

	2005/06 £m	2004/05 £m
Audit services		
Statutory audit services	2.8	2.9
Audit services in respect of prior years	1.1	0.3
Audit-related regulatory reporting	0.8	1.4
	4.7	4.6
Further assurance services	0.2	0.2
Tax services – Compliance	0.5	1.0
Tax services – Advisory services	0.2	0.2
Other services	0.3	0.1
	5.9	6.1

7 Employee and key management personnel expenses

Costs of employees of the Group excluding temporary and contract staff

	Note	2005/06 £m	2004/05 £m
Wages and salaries		434	503
Social securities costs		41	44
Share-based payments	33	14	10
Pension costs			
– defined benefit plans	30	6	19
– defined contribution plans	30	9	12
		504	588
Less: Staff costs capitalised		(18)	(51)
Staff costs		486	537

Average number of employees

The average monthly number of persons, including Executive Directors employed by the Group in continuing operations during the year was:

	2005/06	2004/05
International business		
– Caribbean	4,083	4,149
– Panama	1,825	1,894
– Macau	960	908
– Monaco	477	434
– Rest of the World	700	887
Total International business	8,045	8,272
UK corporate business	5,604	5,224
Bulldog	511	223
Other	165	329
Continuing operations	14,325	14,048
Discontinued operations (pro-rated)	–	647
	14,325	14,695

Key management's remuneration

Included in staff costs are key management expenses, including £6 million (2005 – £4 million) aggregate Directors' emoluments, as follows:

	2005/06 £m	2004/05 £m
Salaries and short-term employment benefits	9	9
Termination and relocation benefits	3	2
Share-based payments	4	3
	16	14

Directors' remuneration is disclosed in the Directors' remuneration report on page 61.

8 Gains and losses on sale of non-current assets

	2005/06			2004/05		
	Pre-exceptional £m	Exceptional £m	Total £m	Pre-exceptional £m	Exceptional £m	Total £m
Gains and losses on sale of non-current assets	2	81	83	5	(8)	(3)

Gains less losses on disposals of non-current assets before exceptional items amount to £2 million (2005 – £5 million). These gains and losses arise on the sale of businesses that do not meet the definition of a discontinued operation, investments or fixed assets. The tax charge attributable is £ nil (2005 – £ nil) and the minority interest share is £ nil (2005 – £1 million).

Exceptional gains on disposals of non-current assets total £81 million (2005 – £8 million loss). This is made up of £70 million gains on the sale of the Group's stake in MobileOne and £11 million on the sale of Coventry College, the Group's training centre. In 2004/05 the loss of £8 million is attributable to the disposal of operations. The tax charge attributable is £ nil (2005 – £ nil) and the minority interest share is £34 million (2005 – £ nil). The cash proceeds on disposal of MobileOne were £87 million, of which £43 million is attributed to the minority interest. This was loaned to the minority interest during the year.

9 Other income

	2005/06			2004/05		
	Pre-exceptional £m	Exceptional £m	Total £m	Pre-exceptional £m	Exceptional £m	Total £m
Other income	7	78	85	5	–	5

Pre-exceptional other income of £7 million (2005 – £5 million) primarily relates to dividends from investments.

Exceptional other income of £78 million (2005 – £ nil) comprises £6 million of insurance receipts in respect of Hurricane Ivan and £72 million resulting from the resolution of claims and other matters in respect of Pender Insurance Limited ('Pender'), the Group's insurance subsidiary.

10 Interest income and expense

	2005/06 £m	2004/05 £m
Interest income		
Interest on cash and deposits	80	102
Interest expense and similar charges		
Interest on bank loans	(9)	(9)
Interest on other loans	(58)	(60)
Finance charges on leases	(2)	–
Unwinding of provision discount	(3)	(1)
	(72)	(70)
Less: Interest capitalised	3	2
Total interest expense and similar charges	(69)	(68)

Tax relief of £ nil is available on interest capitalised in the year ended 31 March 2006 (2005 – £ nil). Interest has been capitalised at a rate of 9% (2005 – 6%).

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 March 2006

11 Income tax expense/(credit)

	2005/06 £m	2004/05 £m
Current tax expense		
UK tax at 30%	35	4
Double tax relief	(35)	(4)
	–	–
Overseas tax	48	49
Adjustments relating to prior years	(34)	(96)
Total current tax expense/(credit)	14	(47)
Deferred tax expense		
Origination and reversal of temporary differences	8	10
Effect of change in tax rates	(1)	(2)
	7	8
Adjustments relating to prior years	6	16
Total deferred tax charge	13	24
Total tax expense/(credit)	27	(23)
Continuing operations	27	(25)
Discontinued operations	–	2
	27	(23)

The £48 million (2005 – £49 million) overseas tax expense is net of a £2 million credit (2005 – £4 million credit) in respect of the exceptional operating costs included in note 6.

The 2005 £96 million overseas tax credit relating to prior years includes an exceptional release of £85 million in respect of settlement and clarification of various long-standing overseas tax items at less than their expected cost.

The Group's effective tax rate differs from the UK statutory tax rate as follows:

	2005/06 %	2004/05 %
UK statutory tax rate	30.0	30.0
Effect of overseas tax rates	(19.6)	(5.0)
Effect of accounting for associates	(2.0)	(1.4)
Effect of intra-group dividends less double tax relief	6.5	8.6
Effect of income not taxable/disallowed expenditure	(2.0)	10.0
Effect of other temporary differences	0.5	(0.1)
Effect of changes in unrecognised deferred tax assets	14.3	(25.3)
Adjustments relating to prior years	(14.3)	(23.9)
Effective tax rate	13.4	(7.1)

12 Discontinued operations

There were no businesses classified to discontinued operations during the current year. The amounts being reflected in the discontinued operations for the current year represent business classified as discontinued in the previous years.

Businesses	Disposal date	Gain on disposal £m
2006		
Cable & Wireless SLU ('C&W Spain')	8 April 2005	3
The Sakhalin Operations	13 July 2005	17
		20
2005		
C&W Japan	17 February 2005	38

The profit for the 2005/06 year from discontinued operations includes the results of C&W Spain and the Sakhalin Operations up to the dates of disposal of £2 million as well as the gain of £20 million on their disposal and the reversal of £68 million unutilised provisions relating primarily to US operations discontinued in a prior financial year.

The profit for the 2004/05 year from discontinued operations included the results of C&W Japan up until the date of disposal of £16 million and the results of the Sakhalin Operations and C&W Spain of £4 million. Profits from discontinued operations also include the following items:
– profit of £38 million on the disposal of C&W Japan.
– profit of £16 million arising from the disposal of certain investments held by C&W Japan, before its disposal by the Group;
– cash proceeds of £66 million arising from the Chapter 11 process of the US operations which were discontinued during the previous financial year and a reversal of unutilised provisions of £22 million; and
– deferred consideration of £3 million received on the disposal of the Group's Yemen operation, which was sold in a prior year.

		2005/06			2004/05		
	Note	Pre-exceptional £m	Exceptional £m	Total £m	Pre-exceptional £m	Exceptional £m	Total £m
Revenue	5	5	–	5	220	–	220
Operating expenses		(3)	–	(3)	(197)	(2)	(199)
Depreciation		–	–	–	(1)	–	(1)
Operating profit/(loss)		2	–	2	22	(2)	20
Gain on disposals of discontinued operations		–	20	20	–	38	38
Profit on disposal of investments		–	–	–	–	16	16
Proceeds from US exit		–	–	–	–	66	66
Reversal of unutilised provisions		–	68	68	–	22	22
Deferred consideration received from disposal of Yemen operations		–	–	–	3	–	3
Profit before finance cost and tax		2	88	90	25	140	165
Net financing cost		–	–	–	(1)	–	(1)
Profit before income tax		2	88	90	24	140	164
Income tax expense	11	–	–	–	(2)	–	(2)
Profit for the year from discontinued operations		2	88	90	22	140	162

In 2005/06 C&W Spain and Sakhalin Operations contributed £27 million to net cash from investing activities.

In 2004/05 C&W Japan contributed £2 million to net cash from operating activities and £6 million inflow from investing activities.

The aggregate assets and liabilities at the disposal dates were the following:

	2005/06 Spain and Sakhalin Carrying amount £m	2004/05 Japan Carrying amount £m
Property, plant and equipment	5	43
Current assets	11	56
Trade and other payables	(3)	(55)
Non-current liabilities	–	(24)
Cumulative foreign currency translation reserve	–	3
Net assets	13	23
Minority interests	(3)	(2)
Net assets disposed	10	21
Total disposal consideration received	30	62
Cash and cash equivalents disposed of	(3)	(14)
Transaction costs	–	(3)
Net cash inflow on disposal of discontinued operations	27	45

In 2005 the Group also received cash inflows from the disposal of its Yemen operations (£7 million) and from the Chapter 11 bankruptcy process of its US operations (£44 million).

Notes to the consolidated financial statements

For the year ended 31 March 2006

13 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)[1]	3.4p	12.1p
Continuing operations		
(Loss)/profit 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 per share from continuing operations (p/share)	(0.4)p	5.7p
Diluted earnings per share from continuing operations (p/share)[2]	(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 Group believes 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 5.2 pence (2005 – 9.5 pence) 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

[1] In determining the diluted earnings per share, we have excluded the convertible loan stock because it is anti-dilutive in 2006.

[2] In determining the diluted earnings per share for continuing operations, we have excluded the share options and the convertible loan stock because both are anti-dilutive in 2006.

14 Impairment review

Cable & Wireless assesses the impairment of property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or otherwise as required by accounting standards. Factors that are considered important, which could trigger an impairment review, are set out in note 3.3.

Non-current assets

Year ended 31 March 2006

The UK corporate business comprises two cash generating units ('CGUs') – Energis acquired during the year and the legacy Cable & Wireless UK business. As the performance and cash flows are separately identifiable in this year, these are treated as separate CGUs for the purpose of impairment review as permitted by IAS 36.

The change in focus and strategy of the UK corporate business and the recent performance of the legacy C&W UK corporate business triggered a review of the carrying value of that legacy business' assets.

A number of these assets are of continuing strategic value to the combined business and have a market value in excess of their carrying value. These include the core network, the investment in the Next Generation Network ('NGN') and certain properties.

The impaired assets relate primarily to technologies that are becoming obsolete as customers move towards IP network solutions, support customers falling outside the UK corporate business' future strategy or are duplicated as the business combines with Energis. A discounted cash flow analysis using the business' approved business plan reflecting a negative growth rate of 1% (as these businesses migrate to the NGN) and a discount rate of 10.6% indicates that the carrying value of these remaining assets should be written off, which is reflected in the impairment charge of £237 million.

The Group reviewed the carrying values of its interests in joint ventures at the end of the year. An impairment totalling £4 million has been considered appropriate being £3 million in a Chinese joint venture, CITIC Cable & Wireless Broadband, and £1 million in a Solomon Islands joint venture, Solomon Telecom Company Limited.

Year ended 31 March 2005

The Group was in the process of restructuring its European operations (part of the UK Group segment) to focus on the Carrier business. As a consequence of this restructuring, a general review was undertaken of the carrying value of the network assets within the European geography. The European geography, which excludes the main UK corporate business, the Group's remaining operations in the US and Asia and Bulldog, was treated as a single cash generating unit (reflecting the basis on which the business is managed). The recoverable amount of the network assets was determined by reference to the value in use. An impairment charge of £5 million was identified.

Value in use was determined by discounting to present value the future cash flows obtainable as a result of the continued use of the cash generating unit's property, plant and equipment.

Future cash flows were determined with reference to the Group's three-year management projections. Cash flows beyond this forecasting period were extrapolated using an estimated long-term growth rate of 2.5%. This growth rate is in line with the long-term growth rate projections for the countries in which the cash generating unit operates. Future cash flows were discounted by a rate of 15%, which represents the estimated weighted average cost of capital for the cash generating unit.

In the first half of 2005, Hurricane Ivan caused damage to certain network assets in the Group's operations in the Caribbean. As a consequence, specific network assets that had been recorded within the Plant and equipment asset class within property, plant and equipment were identified as damaged beyond repair and were written off. The total value of this specific impairment was £3 million.

Goodwill

During the year the Group acquired a controlling interest in Chelys Limited, the parent company of Energis (2005 – controlling interests in Monaco Telecom and Bulldog). Goodwill of £384 million (2005 – £36 million and £20 million, respectively), arose on this acquisition. As required by IFRS 3, impairment tests of this goodwill were performed as at 31 March 2006. In performing these tests, the recoverable amount of goodwill was determined by reference to the value in use of continuing to operate these businesses. Assumptions relating to the significant elements of goodwill are:

Energis

Energis represents a single cash generating unit for impairment purposes therefore all goodwill has been allocated to that unit.

The Directors consider that the purchase price of Chelys Limited continues to represent the fair value less costs to sell of the business and therefore no impairment is necessary.

Monaco Telecom

Three cash generating units were identified for the purposes of assessing the carrying value of Monaco Telecom's network assets, namely, domestic business, cable television business and the international business. Goodwill has been allocated to this group of cash generating units as permitted by IAS 36.

The value in use was determined for each cash generating unit by discounting future cash flows (based on management's three-year projections extrapolated at long-term growth rates of between 0% and 2.5%) at discount rates of between 8% and 40% (dependent on the risk adjusted cost of capital of different parts of the business). The key assumptions in the calculation of value in use relate to revenue growth, operating margin and the level of maintenance capital expenditure required to maintain the network at its current level. Monaco Telecom operates under an exclusive concession in Monaco and management's forecasts were based on historical experience for the business. No impairment was considered necessary.

15 Dividends declared and paid

	2005/06 £m	2004/05 £m
Final dividend in respect of the prior year	60	73
Interim dividend in respect of the current year	32	27
Total dividend paid	92	100

During the year ended 31 March 2006 the Group declared and paid a final dividend of 2.6 pence per share (2005 – 2.1 pence per share but paid with the interim dividend for the 2003/04 year of 1.05 pence per share) in respect of the year ended 31 March 2005. The Group has also declared and paid an interim dividend of 1.4 pence per share (2005 – 1.2 pence per share) in respect of the year ended 31 March 2006.

The Directors have proposed a final dividend of 3.1 pence per share (2005 – 2.6 pence per share), totalling £75 million (2005 – £60 million) for approval by shareholders at the AGM to be held on 21 July 2006 in respect of the year ended 31 March 2006. These financial statements do not reflect the proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 March 2007.

The number of shareholders electing to take all or part of their dividends in shares varies from dividend to dividend. 13,644 shareholders (2005 – 14,076 shareholders) owning 528 million shares (2005 – 106 million shares) elected to take the interim dividend wholly or partly in shares. 13,795 shareholders (2005 – 13,488 shareholders) owning 180 million shares (2005 – 68 million shares) elected to take the final dividend wholly or partly in shares. The total shares were issued with a value of £12 million (2005 – £3 million). The Cable & Wireless Employee Share Ownership Plan Trust waived its right to dividends on the shares held in the trust.

16 Intangible assets

	Goodwill £m	Software £m	Licences and concessions £m	Customer contracts and relationships £m	Other £m	Total £m
Cost						
At 1 April 2004	–	650	–	–	32	682
Business combinations	56	1	66	–	14	137
Acquired	–	43	–	–	–	43
Disposals	–	(84)	–	–	(30)	(114)
Exchange adjustments	3	(2)	–	–	–	1
At 1 April 2005	59	608	66	–	16	749
Business combinations	384	16	3	132	–	535
Reassessment of previous business combinations (note 38 (b))	(8)	–	–	–	–	(8)
Acquired	–	26	5	–	5	36
Transfers from property, plant and equipment	–	21	–	–	–	21
Disposals	–	(2)	–	–	–	(2)
Exchange adjustments	(2)	3	–	–	–	1
At 31 March 2006	**433**	**672**	**74**	**132**	**21**	**1,332**
Amortisation and impairment						
At 1 April 2004	–	607	–	–	31	638
Charge for the year	–	14	3	–	3	20
Disposals	–	(84)	–	–	(30)	(114)
Exchange adjustments	–	(1)	–	–	–	(1)
At 1 April 2005	–	536	3	–	4	543
Charge for the year	–	32	4	5	5	46
Impairment	–	60	–	–	–	60
Exchange adjustments	–	1	–	–	–	1
At 31 March 2006	**–**	**629**	**7**	**5**	**9**	**650**
Net book value						
At 31 March 2006	**433**	**43**	**67**	**127**	**12**	**682**
At 31 March 2005	59	72	63	–	12	206

The goodwill recognised during the year relates to the acquisition of Energis (£384 million). In 2005 the goodwill recognised was £36 million from the Monaco Telecom and £20 million from Bulldog. Disclosure of these business combinations is set out in note 38.

Intangible assets recognised in the business acquisitions made during the current and previous year represent:

Acquisition	Intangible asset	Useful life	Amortisation method
2006			
Energis	Customer contracts and relationships	4–15 years	Straight line
Energis	Software	3 years	Straight line
Atlas	Customer contracts and relationships	6 years	Straight line
2005			
Monaco	Concession licence	18.6 years	Straight line
Monaco	International managed service contracts	1–5 years	Straight line
Bulldog	Brand name	4 years	Straight line
XM Mobile	Intellectual property	5 years	Straight line

Monaco Telecom has been awarded a concession agreement by the principality of Monaco. This concession agreement gives Monaco Telecom a monopoly over fixed line, mobile and Cable TV until 2023. The carrying amount of this concession asset at 31 March 2006 is £61 million (2005 – £62 million) and the remaining amortisation period is 16.8 years.

As at 31 March 2006, the Group carried out an asset impairment review (as disclosed in note 14). An impairment charge of £60 million (2005 – £ nil) was recognised in relation to intangible assets included in the balance sheet as at 31 March 2006.

Other than goodwill, there are no intangible assets with an indefinite life.

Notes to the consolidated financial statements

For the year ended 31 March 2006

17 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost				
At 1 April 2004	509	6,068	406	6,983
Additions	2	67	275	344
Business combinations	–	32	–	32
Disposals	(55)	(467)	(13)	(535)
Transfers	4	410	(414)	–
Transfer to held for sale assets	–	(13)	–	(13)
Exchange differences	(7)	(45)	(7)	(59)
At 31 March 2005	453	6,052	247	6,752
Additions	9	77	294	380
Business combinations	25	172	41	238
Disposals	(17)	(24)	(8)	(49)
Transfers	53	175	(228)	–
Transfers to intangibles	–	–	(21)	(21)
Exchange differences	10	118	8	136
At 31 March 2006	**533**	**6,570**	**333**	**7,436**
Depreciation				
At 1 April 2004	283	5,403	154	5,840
Charge for the year	13	157	–	170
Impairment	–	6	2	8
Disposals	(26)	(446)	(12)	(484)
Transfers	–	144	(144)	–
Transfer to held for sale assets	–	(8)	–	(8)
Exchange differences	(2)	(40)	–	(42)
At 31 March 2005	268	5,216	–	5,484
Charge for the year	15	213	–	228
Impairment	49	76	52	177
Disposals	(9)	(22)	–	(31)
Transfers	17	(17)	–	–
Exchange differences	5	84	–	89
At 31 March 2006	**345**	**5,550**	**52**	**5,947**
Net book value				
At 31 March 2006	**188**	**1,020**	**281**	**1,489**
At 31 March 2005	185	836	247	1,268

Included in the cost of plant and equipment at 31 March 2006 is £16 million (2005 – £6 million) relating to assets held under finance leases. Accumulated depreciation on these assets is £4 million (2005 – £1 million).

Additions during the year include interest and own work capitalised during the construction period of certain assets of £3 million (2005 – £2 million) and £45 million (2005 – £51 million) respectively.

As at 31 March 2006, the Group carried out an asset impairment review (as disclosed in note 14). An impairment charge of £177 million (2005 – £8 million) was recognised in relation to property, plant and equipment included in the balance sheet as at 31 March 2006. The £52 million of projects under construction impaired during the year primarily relates to consultancy, IT projects and capitalised labour.

Certain items identified as being fully written down at 1 April 2004, the date of transition to IFRS, have been included in cost at £ nil.

18 Investments in associates and joint ventures

	Interest in associates £m	Interest in joint ventures £m	Total £m
Gross book value			
At 1 April 2004			
– Cost/valuation	21	54	75
– Equity loans	1	–	1
– Share of post-acquisition reserves	55	148	203
	77	202	279
Investment during the year			
– Net assets	–	14	14
Share of after tax profit	26	22	48
Dividends	(14)	(17)	(31)
Disposals	–	(9)	(9)
Exchange differences	(3)	(7)	(10)
At 31 March 2005	86	205	291
At 1 April 2005			
– Cost/valuation	21	59	80
– Equity loans	1	–	1
– Share of post-acquisition reserves	64	146	210
	86	205	291
Investment during the year			
– Net assets	6	7	13
Share of after tax profit	25	29	54
Dividends	(20)	(20)	(40)
Disposals	–	(1)	(1)
Transfer to non-current assets and disposal groups held for sale	(105)	–	(105)
Exchange differences	8	6	14
At 31 March 2006	–	226	226
Impairment provision			
At 1 April 2004	(4)	(42)	(46)
Impairment charge	–	–	–
At 31 March 2005	(4)	(42)	(46)
Impairment charge	–	(4)	(4)
At 31 March 2006	(4)	(46)	(50)
Net book value			
At 31 March 2006	(4)	180	176
At 31 March 2005	82	163	245

Consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 March 2006

Investments in associates and joint ventures are stated using the equity method of accounting. The investment is comprised of the cost of the investment together with Group's share of post acquisition profits or losses less any impairments. The Group's aggregated interest in its associates and joint ventures is presented below:

	31 March 2006 £m	31 March 2005 £m
Associates		
Non current assets	–	51
Current assets	–	50
Non current liabilities	(5)	(2)
Current liabilities	–	(18)
Share of net assets	(5)	81
Loan to associates	1	1
	(4)	82
Revenue	63	60
Operating costs	(40)	(36)
Operating profits	23	24
Net interest income	2	2
Share of profits before tax	25	26
Taxation charge	–	–
Dividends paid to Group companies	(20)	(14)
Share of retained profits	5	12

	31 March 2006 £m	31 March 2005 £m
Joint ventures		
Non current assets	225	157
Current assets	104	72
Non current liabilities	(92)	(17)
Current liabilities	(57)	(49)
Share of net assets	180	163
Revenue	199	151
Operating costs	(165)	(121)
Operating profits	34	30
Net interest financing costs	(1)	(1)
Share of profits before tax	33	29
Taxation charge	(4)	(7)
Dividends paid to Group companies	(20)	(17)
Share of retained profits	9	5

There are no significant restrictions on associates' or joint ventures' ability to transfer funds to the Group.

The associates and joint ventures have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interest in joint ventures and associates.

The Group's associates and joint ventures have not discontinued any operations during the year ended 31 March 2006 (2005 – nil).

19 Investments

At 1 April 2005, the Group adopted the International Accounting Standards relating to financial instruments; IAS 32 and IAS 39. We have applied the exemption given in IFRS 1 which permits non-application of these standards to the comparative figures. Therefore part (a) of this note discloses the current year investments under IFRS. Part (b) gives the comparative period under the Group's previous GAAP (UK GAAP).

(a) Investments

	Fair value through income statement £m	Available for sale £m	Total £m
At 31 March 2005			
Transferred from trade investments	78	27	105
IAS 39 remeasurement	–	63	63
At 1 April 2005	78	90	168
Disposals	(40)	(15)	(55)
Fair value gain to income statement	1	–	1
Fair value gain to equity	–	10	10
Recycling of fair value changes to income statement	–	(70)	(70)
At 31 March 2006	**39**	**15**	**54**
Less			
Current portion	39	–	39
Non-current portion	–	15	15

Year end financial investments comprise the following:

	31 March 2006 £m
Listed securities	
UK Government Gilts	**15**
Unlisted securities	
Credit Linked Notes	**39**

The Group disposed of its holding in MobileOne Limited during the year. The unlisted investments are not considered to be financial assets and are included in non-current receivables.

The Credit Linked Notes were issued by two AA-rated banks and are aligned with the Company's 2012 bond. These transactions have a similar economic effect to repurchasing the bonds for the period of the investment. In return for the Company receiving interest on the Credit Linked Notes, at rates similar to those payable on the underlying bond, the final redemption to be received by the Company would be less than face value if a 'credit event', as defined in the terms of the notes, occurs in respect of Cable and Wireless plc.

Reflecting the terms of the underlying bond, credit events in the notes are as follows:

– Bankruptcy;
– Failure to make any payment due under any of its debt obligations, after expiration of any grace period and subject to a threshold of £25 million; and
– Restructuring of any of its debt subject to a threshold of £25 million.

If a credit event should take place, the counterparties to the Credit Linked Notes are entitled to deliver to Cable and Wireless plc its own bonds or debt obligations with a face value equivalent to that of the Credit Linked Notes, or a cash amount equal to the market value thereof.

(b)(i) Non-current trade investments

	£m
Cost	
At 1 April 2004	94
Business combinations	2
Additions	2
Disposals	(42)
Exchange differences	(1)
At 31 March 2005	55
Provisions and amounts written off	
At 31 March 2005	22
Trade investments at 31 March 2005	33

Year end financial investments comprise the following:

	31 March 2005 £m
Listed securities	
MobileOne Limited	15
UK Government Gilts	12
Unlisted securities	
Other	6

(b)(ii) Current trade investments

	31 March 2005 £m
Cost	
At 1 April 2004	50
Additions – Credit Linked Notes	80
Disposals – Credit Linked Notes	(50)
At 31 March 2005	80

A provision of £2 million reflecting a temporary reduction in value was held at 31 March 2005.

20 Trade and other receivables

	31 March 2006 £m	31 March 2005 £m
Trade receivables	661	677
Other debtors	145	128
Prepayments and accrued income	248	128
Taxation and social security receivables	5	4
Lease receivables	1	1
Amounts owed by associates and joint ventures	8	4
Total gross amounts	1,068	942
Less provision against receivables	81	94
Total trade and other receivables	987	848
Non-current portion	43	43
Current portion of trade and other receivables	944	805

Concentrations of credit risks with respect to trade receivables are small as the Group customer base is large and unrelated.

The provision comprises £81 million (2005 – £94 million) related to trade receivables. An impairment charge of £19 million (2005 – bad debt provision charge of £24 million) incurred in the normal course of business is recognised as pre-exceptional in the income statement for the year ended 31 March 2006.

All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services, network and access charges. There were no material transactions with joint ventures and associated companies during the year.

On 1 April 2005, the Group adopted the International Accounting Standards relating to financial instruments; IAS 32 and IAS 39. We have applied the exemption given in IFRS 1 which permits non-application of these standards to the comparative figures. Accordingly, trade receivables at 31 March 2006 are measured at amortised cost using the effective interest method, while comparative period disclosures remain under the Group's previous GAAP.

There is no material difference between the carrying value and fair value of receivables at 31 March 2006.

21 Inventory

Inventories are presented net of a provision of £13 million (2005 – £10 million) against slowing moving or obsolete items.

The cost of consumables and accessories held for sale included in operating costs is £274 million (2005 – £256 million). During the year, the Group recorded additional inventory provisions of a net £3 million (2005 – £1 million).

Inventories of the Group are not pledged as security or collateral against any of the Group's borrowings.

22 Cash and cash equivalents

Cash and cash equivalents typically include bank deposits, money market funds, commercial paper and government securities. These deposits generally have short maturities not exceeding one year.

	31 March 2006 £m	31 March 2005 £m
Cash in bank and hand	371	125
Short-term bank deposits	756	1,896
	1,127	2,021

Short-term bank deposits include money market and fixed income instruments, which can be readily converted to cash at short notice. The effective interest rate on short-term bank deposits is 4.6% (2005 – 4.7%). These deposits have an average maturity of 71 days (2005 – 145 days).

Included within cash and cash equivalents at the end of the year is an amount of £17 million (2005 – £30 million) held by the Group's insurance subsidiary, Pender. This amount is pledged against potential future claims arising from insurance written in prior years. As such, it is not readily available for the general purposes of the Group.

Due to the lack of foreign exchange reserves, the Group cannot generally remit earnings from its Seychelles subsidiary. As such, cash totalling £60 million (2005 – £55 million) held by this subsidiary has been excluded from the Group balance.

Included within short-term deposits is £33 million (2005 – £42 million) which is pledged as cash collateral against bank loans and guarantees.

23 Non-current assets and disposal groups held for sale

At the end of the year the Group's interest in Bahrain Telecommunications Company BSC ('Batelco') had been identified as non-current assets and disposal groups held for sale (2005 – C&W Spain and the Sakhalin Operations). The Group announced on 22 February 2006 its intention to dispose of its 20% interest in Batelco. The assets and liabilities of these businesses are carried in the balance sheet at the lower of carrying value or expected proceeds less disposal costs as set out below:

	2005/06 £m	2004/05 £m
Non-current assets held for sale		
Investments in associates	105	–
Total non-current assets held for sale	105	–
Assets of disposal groups held for sale		
Property, plant and equipment	–	5
Other current assets	–	13
Total assets of disposal groups held for sale	–	18
Total assets held for sale	105	18
Liabilities directly associated with disposal groups held for sale		
Trade and other payables	–	4
	–	4

The above assets and liabilities represent those which the Group is committed to dispose of at 31 March 2006, and were available for immediate sale at that date. The market value of non-current assets, for which there are published price quotations, is £335 million (2005 – £386 million), which relates to the market value of the Group's interest in Batelco.

The disposal groups C&W Spain and the Sakhalin Operations were sold during the year ended 31 March 2006. The proceeds and gain on disposal are disclosed in Note 12.

Notes to the consolidated financial statements

For the year ended 31 March 2006

24 Trade and other payables

	31 March 2006 £m	31 March 2005 £m
Trade payables	475	430
Payments received on account	4	4
Other taxation and social security	61	38
Other creditors	142	189
Accruals	501	568
Deferred income	198	64
	1,381	1,293
Less non-current portion	–	–
Trade and other payables – current portion	1,381	1,293

On 1 April 2005, the Group adopted the International Accounting Standards relating to financial instruments: IAS 32 and IAS 39. We have applied the exemption given in IFRS 1 which permits non-application of these standards to the comparative figures. Accordingly, March 2006 trade payables are measured at amortised cost using the effective interest method, while comparative period disclosures remain under the Group's previous GAAP.

There is no material difference between the carrying value and fair value of trade and other payables at 31 March 2006.

25 Loans and obligations under finance leases

On 1 April 2005, the Group adopted the International Accounting Standards relating to financial instruments: IAS 32 and IAS 39. One impact of this adoption has been to reduce the principal value of the convertible bond as at 1 April 2005 by £60 million and to recognise a derivative liability of £47 million. We have applied the exemption given n IFRS 1 which permits non-application of these standards to the comparative figures. Therefore, the current year (2006) disclosures below have been prepared under IFRS (applying IAS 32 and IAS 39), but the comparative year (2005) disclosures have been prepared under the Group's previous GAAP (UK GAAP).

	31 March 2006 £m	31 March 2005 £m
Loans and bonds		
4% convertible unsecured bond due end 2010	202	252
Sterling repayable at various dates up to 2019	364	379
US dollars repayable at various dates up to 2038	82	84
Euro loan repayable in 2006	106	106
Other currencies repayable at various dates up to 2017	1	1
	755	822
Less current portion	(134)	(22)
Non-current portion of loans and convertible bonds	621	800
Finance lease payables		
Obligations under finance leases	29	2
Less current portion	(9)	(1)
Non-current portion of obligations under finance leases	20	1
Total non-current portion of loans and obligations under finance leases	641	801
Total current portion of loans and obligations under finance leases	143	23

Other than a portion of the £33 million (2005 – £42 million) of cash held as collateral against certain bank loans the Group's borrowings are not secured.

The Articles of Association of the Company permit borrowing up to two and a half times the capital and reserves of the Group.

The payment profile of loans and obligations is:

	31 March 2006 £m	31 March 2005 £m
Loans and bonds		
Due in less than one year	134	22
Due in more than one year but not more than two years	11	142
Due in more than two years but not more than five years	228	29
Due in more than five years	382	629
Total loans and convertible bonds	755	822
Finance leases – minimum lease payments		
Due in less than one year	11	1
Due in more than one year but not more than two years	11	1
Due in more than two years but not more than five years	12	–
Total obligations under finance leases	34	2
Less future finance charges on finance leases	(5)	–
Present value of finance lease liabilities	29	2

The present value of net finance lease liabilities is as follows:

	31 March 2006 £m	31 March 2005 £m
Due in less than one year	9	1
Due in more than one year but not more than two years	9	1
Due in more than two years but not more than five years	11	–
Due in more than five years	–	–
Present value of finance lease liabilities	29	2

Interest is payable on loans and obligations falling due after more than five years at rates of between 5.25% and 8.75%.

Convertible unsecured bond

On 16 July 2003, £257,714,000 4% convertible unsecured bonds were issued at par. Each bond entitles the holder to convert the conversion amount of such bond into fully paid Ordinary Shares of 25 pence each at the rate of 457.930 Ordinary Shares for each £1,000 held at an initial conversion price of £1.45 per Ordinary Share at any time prior to 9 July 2010. Full conversion of the bonds would result in an additional 177,733,748 shares being issued. The bond also has a take-over protection clause, which adjusts the share conversion price, pro-rated over the life of the bond, in the event of a change of control. Also, after 16 July 2007, if Cable & Wireless' share price exceeds an amount calculated in accordance with the terms and conditions for a specified number of days, Cable & Wireless has the right to give not less than 30 days' and not more than 90 days' notice that it will redeem all unconverted bonds still outstanding on a given date at par plus accrued interest. If the bonds have not been converted, purchased and cancelled or redeemed by 16 July 2010 they will be redeemed at par on that date.

Prior to 1 April 2005, the finance costs charged in the profit and loss accounts comprise the aggregate of the coupon and the proportion of issue costs that relate to the financial year.

On the adoption of IAS 32 and IAS 39 at 1 April 2005 the fair value of the liability component and the equity conversion component was determined as at the date of issue of the bond. The fair value of the liability component, included in long-term borrowings, was calculated using an interest rate of 10.7% for an equivalent non-convertible bond. At 1 April 2005, the debt element was reduced by £60 million primarily reflecting the unamortised value of the conversion option. The debt element is accounted for on an amortised cost basis. The conversion option and takeover protection feature were marked to market at 1 April 2005 and recognised on balance sheet giving rise to a derivative liability of £62 million. As at this date, the derivative elements were carried on a fair value basis with changes in value being taken to the income statement. This was required by IAS 39 because, when originally issued, the convertible bonds included a cash settlement option whereby the Company had the right to settle part of any conversion with cash rather than shares. Subsequent to 1 April 2005 this cash settlement option was removed and the conversion option reclassified as a component of equity hence it is no longer revalued through the income statement.

The convertible bond is recognised on the balance sheet as follows:

	£m
Face value of convertible bond issued on 16 July 2003	258
Issue costs	(6)
Equity conversion component on initial recognition	(75)
Previous year's amortisation of the liability component	15
Liability component on 1 April 2005	192
Interest expense	20
Interest paid	(10)
Liability component at 31 March 2006	202

Interest expense on the bond is calculated on the effective yield basis by applying the effective interest rate (10.7%) for an equivalent non-convertible bond to the liability component of the convertible bond. The cash coupon paid on the convertible bond is unchanged at 4% per annum.

Sterling loans

The Group has the following sterling loans:

(a) £200 million listed bond due in 2012 with a balance at 31 March 2006, net of costs, of £184 million (2005 – £184 million). Interest is payable at 8.75% per annum annually. During the year ended 31 March 2005, the Group repurchased but did not cancel £16 million of this bond at an average price of 101.625 pence.

(b) £200 million listed bond due in 2019 with a balance at 31 March 2006, net of costs, of £180 million (2005 – £180 million). Interest is payable at 8.625% per annum annually. During the year ended 31 March 2005, the Group repurchased but did not cancel £19.9 million of bond at an average price of 99.83 pence.

US dollar loans

Various US dollar based loans of approximately £82 million (2005 – £84 million) held by various subsidiaries across the Group. Interest on these loans ranges between 3% and 7.8%. The loans are repayable over a period up to 2038.

Euro loans

(a) European Investment Bank Loan with a balance at 31 March 2006, net of costs, of £106 million (2005 – £106 million). This loan bears interest at LIBOR minus 0.15% and interest is payable quarterly.

26 Derivative financial instruments

Derivative financial investments are recorded in the consolidated balance sheet of Cable & Wireless from 1 April 2005, the date of adoption of IAS 39. The fair value of the Group's derivative financial investments is presented below.

	31 March 2006 £m
Liabilities – current	
Cross currency swaps	15

Cross currency swaps

The Group has a Euro denominated loan (the 'Loan') and a related euro-sterling cross currency swap (the 'Swap') with terms matching those of the Loan. Under UK GAAP, the Loan and Swap were accounted for as if they were a single loan denominated in sterling. Under IFRS the components have been separated. The Loan has been translated at the closing rate at 31 March 2006 giving rise to a reduction in the balance of £15 million. The Swap was marked to market at the same date and recognised on balance sheet giving rise to a derivative liability of £15 million. The Group has not applied hedge accounting to the Loan and Swap. Both the Loan and Swap are revalued at each balance sheet date. Gains and losses on the instruments (which will materially offset each other) are recognised in the income statement.

Forward currency purchases

The Group has a forward exchange contract matching US$44 million deposits held as cash collateral against certain bank guarantees. The Group has not applied hedge accounting to the deposits and the forward exchange contract. Both the deposits and forward exchange contract are revalued at each balance sheet date. Gains and losses on the instruments (which will materially offset each other) are recognised in the income statement.

27 Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's loans and obligations under finance leases.

Market values obtained from third parties have been used to determine the fair value of cross currency swaps, the convertible bond, Euro loan, sterling repayable and the US dollar loan. All other financial liabilities have a short maturity in which case the carrying amount has been used.

	Carrying amount 31 March 2006 £m	Fair value 31 March 2006 £m
Financial liabilities		
Convertible bond	202	228
Sterling repayable at various dates up to 2019	364	371
US dollars repayable at various dates up to 2038	82	82
Euro loan repayable in 2006	106	106
Other currencies repayable at various dates up to 2017	1	1
Obligations under finance leases	29	29
Cross currency swap	15	15

At 31 March 2006, the effective interest rates at the balance sheet date were as follows:

	Currency	Interest rate %
4% convertible unsecured bond due end 2010	£	10.7
Sterling repayable at various dates up to 2019	£	8.7
US dollars repayable at various dates up to 2038	US$	Floating
Other currencies repayable at various dates up to 2017	Other	Floating
Short-term loans and overdrafts	Other	Floating
Obligations under finance leases	£	9.2

The carrying amounts of the Group's cash and short-term investments and loans and borrowings are denominated in the following currencies:

	31 March 2006 financial assets £m	31 March 2006 financial liabilities £m
Sterling	783	581
US dollar	115	82
Euro	114	106
Other currencies	115	1
	1,127	770

Notes to the consolidated financial statements

For the year ended 31 March 2006

28 Deferred tax

The movements in deferred tax and liabilities during the year are as follows:

	Capital allowances on non-current assets £m	Tax losses £m	Pensions £m	Other £m	Balance sheet offset £m	Total £m
Deferred tax assets	21	–	2	6	–	29
Deferred tax liabilities	(42)	–	(5)	(2)	–	(49)
At 1 April 2005	(21)	–	(3)	4	–	(20)
Profit and loss charge	(17)	12	(5)	(3)	–	(13)
Tax charged to equity	–	–	(2)	–	–	(2)
Exchange adjustments	(1)	1	–	1	–	1
At 31 March 2006	(39)	13	(10)	2	–	(34)
Deferred tax assets	17	13	1	7	(21)	17
Deferred tax liabilities	(56)	–	(11)	(5)	21	(51)
At 31 March 2006	(39)	13	(10)	2	–	(34)

Deferred tax assets have not been recognised in respect of the following temporary differences:

	Capital allowances on non-current assets £m	Tax losses £m	Pensions £m	Other £m	Total £m
At 1 April 2005	1,841	12,058	295	158	14,352
At 31 March 2006	3,666	12,330	121	91	16,208

Tax losses of £17 million (2005 – £ nil) expire within one year, £16 million (2005 – £ nil) expire within three years, £48 million (2005 – £65 million) expire within five years, £19 million (2005 – £ nil) expire within ten years and £64 million (2005 – £15 million) expire after more than ten years. Other deferred tax assets are not subject to expiry.

The £12,330 million (2005 – £12,058 million) losses principally arise in overseas holding companies in which the opportunity to realise benefits therefrom is considered remote.

Deferred tax is not provided on unremitted earnings of subsidiaries, joint ventures and associates where the Group controls the timing of remittance and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of unremitted earnings on which no provision has been made is £2,829 million (2005 – £2,713 million).

29 Provisions for liabilities and charges

	Property £m	Redundancy costs £m	Network and asset retirement obligations £m	Other £m	Total £m
At 1 April 2004	151	27	127	63	368
Charged to income statement					
– additional provision	54	68	26	80	228
– amounts used	(66)	(30)	(18)	–	(114)
– unused amounts reversed	(20)	(6)	(25)	7	(44)
Acquisitions	–	–	–	27	27
Discount adjustment	–	–	1	–	1
Exchange adjustments	–	–	1	–	1
At 31 March 2005	119	59	112	177	467
Less 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
Exchange adjustments	–	–	–	–	–
At 31 March 2006	**55**	**36**	**91**	**100**	**282**
Less 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 used 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 2006. Agreement had been reached with the local employee representatives that specified the number of staff involved and quantified the total amounts payable to those made redundant. The provision is expected to be used within one year.

Network and asset retirement obligations
Provision has been made for the best estimate of the unavoidable costs associated with redundant network capacity. The provision is expected to be used 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. This provision is expected to be used 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, amounts relating to specific claims held against the Group's insurance subsidiary Pender and amounts relating to acquisitions and disposals of Group companies and investments. The reversal of unused amounts reflect the resolution of claims and other risks during the year.

30 Retirement benefits obligations

The Company and its principal subsidiaries operate pension and other retirement schemes, which cover the majority of employees in the Group. These schemes include both defined benefit schemes, where retirement benefits are based on the employee's remuneration and length of service, and defined contribution schemes, where retirement benefits reflect the accumulated value of agreed contributions paid by, and in respect of, employees. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the schemes.

Defined contribution schemes
The pension cost for the year for the defined contribution schemes was £9 million (2005 – £12 million).

Notes to the consolidated financial statements

For the year ended 31 March 2006

Defined benefit schemes

UK main scheme – funding valuation

The latest triennial actuarial valuation was carried out by Watson Wyatt Limited as at 31 March 2005. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.7% and that future increases in pensionable earnings would be 3.7% per annum; investments held in respect of pensions before they become payable would average 6.6% annual rate of return; investments held in respect of pensions after they become payable would average 5.25% annual rate of return; and pensions would increase at an annual rate of 3% for fixed guarantee pensions and 2.7% for inflation related pensions.

As at 31 March 2005 the mid-market value of the assets of the defined benefit section of the scheme was £1,610 million and the value of the assets represented approximately 95% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2005 on an ongoing basis and allowing for projected increases in pensionable earnings.

The latest generally adopted mortality tables were used for the funding valuation, adjusted to reflect the scheme's actual experience, and including 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 increase or decrease in the life expectancy assumptions would have increased or decreased the scheme liabilities by around £40 million. A 0.25% change in the assumed rate of return on scheme investments would have increased or decreased the funding required by around £86 million. A 0.25% change in the assumed rate of salary increases would have increased or decreased the funding required by around £7 million.

The actuarial valuation showed that based on long-term financial assumptions the contribution rate required to meet future benefit accrual was 25% of pensionable earnings (20.3% employer's and 4.7% employee's). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be based on the position at 31 March 2008. The terms of the Cable & Wireless Superannuation Fund Trust Deed also allow the Trustees or the Company to call for a valuation at any time. The future service contribution rate does not include an allowance for administration expense or the Pension Protection Fund (PPF) levy. Contributions to meet these costs are reviewed annually. From 1 April 2005 contributions equal to 2% of pensionable earnings have been paid to cover the administration costs and PPF levy. Employers therefore paid a total contribution rate of 22.3% in 2005/06, or £13.4 million.

The actuarial valuation revealed that the deficit at 31 March 2005 was £81 million in the defined benefit section on the basis of the funding assumptions adopted by the actuary. The £98 million contribution made to the scheme by Cable & Wireless on 31 March 2006 was calculated on the basis of the £81 million deficit at 31 March 2005, together with the investment returns that would have been made during the year to 31 March 2006 had the contribution been made at the valuation date, and the back-dating of the increased employers' contribution rate to the valuation date. As a result of the £98 million contribution the scheme is fully funded on an ongoing basis, based on the 2005 valuation.

The Occupational Pension Schemes (scheme funding) Regulations 2005 did not apply to the 31 March 2005 valuation, but will apply to future funding valuations.

IAS 19 valuation

The actuarial valuations of the major defined benefit schemes and medical plans operated by the Group have been updated to 31 March 2006 by qualified independent actuaries for all subsidiaries. Watson Wyatt Limited prepared the valuation for the UK main scheme and unfunded schemes, and reviewed the actuarial valuations prepared for subsidiaries. The main financial assumptions applied in the valuations and an analysis of schemes' assets are as follows. Other schemes include unfunded liabilities in the UK relating to pension provisions for former Directors and other senior employees in respect to their earnings in excess of the previous Inland Revenue salary cap. Also included are the Group's overseas schemes in Macau, Jamaica, Barbados, Guernsey, Hong Kong, Ireland and the US.

	UK main scheme		Other	
Year ended 31 March 2006	Assets £m	Assumption %	Assets £m	Assumption %
Inflation assumption		2.8		4.4
Salary increases		3.3		6.3
Pension increases		2.8-3.0		3.0
Discount rate		4.9		7.5
Long-term expected rate of return on plan assets				
– Equities	995	7.5	83	8.2
– Bonds and gilts	715	4.5	39	5.4
– Property	131	6.0	31	6.9
– Cash/Other	137	4.3	83	5.2
	1,978		236	

Year ended 31 March 2005	UK main scheme Assets £m	UK main scheme Assumption %	Other Assets £m	Other Assumption %
Inflation assumption		2.7		3.9
Salary increases		3.2		5.9
Pension increases		2.7-3.0		2.9
Discount rate		5.4		7.2
Long-term expected rate of return on plan assets				
– Equities	877	8.0	75	8.3
– Bonds and gilts	539	4.9	52	6.2
– Property	92	6.5	24	5.2
– Other	103	4.0	64	4.6
	1,611		215	

The UK main scheme assumptions used by the actuaries are best estimates from a range of possible actuarial assumptions, which may not necessarily be borne out in practice. The assumptions shown above for Other represent a weighted average of the assumptions used for the individual schemes.

The assumptions are more conservative than those used to prepare the 2005 funding valuation for the UK main scheme.

The overall expected rate of return for each pension scheme is a weighted average of the expected asset return for each asset class. The expected asset return for each asset class has been set as a best estimate of the long-term return that will be achieved for the particular asset class in the country in question having regard to investment yields on the measurement date.

The UK main defined benefit scheme is closed to new entrants and under the projected unit method, all else remaining constant, for closed schemes the current service cost will increase as the members of the scheme approach retirement.

The assets and liabilities of the defined benefit schemes operated by the Group are presented below:

	31 March 2006			31 March 2005		
	UK main scheme £m	Other £m	Total £m	UK main scheme £m	Other £m	Total £m
Total fair value of plan assets	1,978	236	2,214	1,611	215	1,826
Present value of funded obligations	(2,067)	(200)	(2,267)	(1,787)	(175)	(1,962)
Excess of liabilities of funded obligations	(89)	36	(53)	(176)	40	(136)
Present value of unfunded obligations	–	(38)	(38)	–	(31)	(31)
Effect of asset ceiling	–	(11)	(11)	–	(34)	(34)
Net deficit in defined benefit schemes	(89)	(13)	(102)	(176)	(25)	(201)
Retirement benefit obligations	(89)	(54)	(143)	(176)	(51)	(227)
Retirement benefit assets	–	41	41	–	26	26

Included within this liability is an amount of £15 million (2005 – £13 million) to cover the cost of former Directors' pension entitlements.

The amounts recognised in the income statement are as follows:

	31 March 2006			31 March 2005		
	UK main scheme £m	Other £m	Total £m	UK main scheme £m	Other £m	Total £m
Current service cost	16	5	21	20	6	26
Interest cost	95	14	109	94	13	107
Expected return on plan assets	(105)	(19)	(124)	(97)	(16)	(113)
Losses/gains on curtailment or settlement	–	–	–	1	(2)	(1)
Total expense	6	–	6	18	1	19

The defined benefit expense has been included in employee benefit expenses (note 7).

The actual return on plan assets was £330 million (2005 – £171 million).

Notes to the consolidated financial statements

For the year ended 31 March 2006

Net actuarial losses amounting to £32 million (2005 – actuarial gain £85 million) have been recognised directly in equity and are presented in the statement of recognised income and expenses. In addition a gain of £23 million (2005 – loss of £9 million) has been recognised in the statement of recognised income and expenses due to the change in the effect of the asset ceiling. The total amount recognised in the statement of recognised income and expenses in the current financial year and cumulatively to 31 March 2006 is an expense of £9 million (2005 – income £76 million) and income of £67 million (2005 – £76 million) respectively.

Changes in the present value of the defined benefit obligations are as follows:

	UK main scheme £m	Other £m	Total £m
Obligation at 1 April 2004	(1,758)	(207)	(1,965)
Service cost	(20)	(6)	(26)
Interest cost	(94)	(13)	(107)
Actuarial gains/(losses) recognised in equity	36	(9)	27
Employee contributions	(4)	(2)	(6)
Liabilities extinguished due to divestiture	–	9	9
Settlement/curtailments	(1)	2	1
Exchange differences on foreign plans	–	4	4
Benefits paid	54	16	70
Obligation at 31 March 2005	(1,787)	(206)	(1,993)
Service cost	(16)	(5)	(21)
Interest cost	(95)	(14)	(109)
Actuarial losses recognised in equity	(224)	(14)	(238)
Employee contributions	(3)	(2)	(5)
Exchange differences on foreign plans	–	(6)	(6)
Benefits paid	58	9	67
Obligation at 31 March 2006	**(2,067)**	**(238)**	**(2,305)**

Changes in the fair value of defined benefit assets are as follows:

	UK main scheme £m	Other £m	Total £m
Fair value of assets as at 1 April 2004	1,406	192	1,598
Expected return	97	16	113
Actuarial gains recognised in equity	43	15	58
Contributions by employer	115	12	127
Employee contributions	4	2	6
Exchange differences on foreign plans	–	(6)	(6)
Benefits paid	(54)	(16)	(70)
Fair value of assets as at 31 March 2005	1,611	215	1,826
Expected return	105	19	124
Actuarial gains recognised in equity	206	–	206
Contributions by employer	111	4	115
Employee contributions	3	2	5
Exchange differences on foreign plans	–	5	5
Benefits paid	(58)	(9)	(67)
Fair value of assets as at 31 March 2006	**1,978**	**236**	**2,214**

Experience gains for the period:

	31 March 2006		31 March 2005	
Year ended 31 March	UK main scheme £m	Other £m	UK main scheme £m	Other £m
Defined benefit obligation	**(2,067)**	**(238)**	(1,787)	(206)
Plan assets	**1,978**	**236**	1,611	215
(Deficit)/surplus excluding the effects of the asset ceiling	**(89)**	**(2)**	(176)	9
Experience (loss)/gain on plan liabilities	**(15)**	**(14)**	36	(9)
Experience gain adjustments on plan assets	**206**	**–**	43	15

The best estimate of contributions for the following year is:

	2006/07		
	UK £m	Other £m	Total £m
Employer contributions excluding one-off contributions	12	2	14
Employee contributions	3	1	4

31 Share capital

	31 March 2006 £m	31 March 2005 £m
Authorised		
2006 and 2005 – 3,500,000,000 Ordinary Shares of 25p each	875	875
Issued, called up and fully paid	605	599
2006 – 2,421,046,668 Ordinary Shares of 25p each		
(2005 – 2,394,822,240 Ordinary Shares of 25p each)		

	Number of shares	£m
Issued, called up and fully paid		
At 1 April 2004	2,385,467,990	596
Allotted under share options scheme	6,328,947	2
Allotted under scrip dividends	3,025,303	1
At 31 March 2005	2,394,822,240	599
Allotted under share options scheme	16,731,953	4
Allotted under scrip dividends	9,492,475	2
At 31 March 2006	2,421,046,668	605

The aggregate nominal value of the shares allotted in the year was £6.6 million (2005 – £2.3 million). The Company repurchased 14.45 million shares (2005 – 60.5 million shares), representing 0.6% (2005 – 2.53%) of issued share capital at 31 March 2006, during the year for consideration of £17.4 million (2005 – £75 million). None of these shares were cancelled as at 31 March 2006. The nominal value and market value of treasury shares held at 31 March 2006 was £18.7 million (2005 – £15 million) and £81.9 million (2005 – £78.2 million), respectively. In accordance with the Company's Articles of Association, each share (other than those held in treasury) entitles the holder to one vote at General Meetings of Cable & Wireless. The Company's shareholders can declare dividends by passing an ordinary resolution, but the payment cannot exceed the amount recommended by the directors.

Allotments of Ordinary Shares of 25p each were made during the year in respect of the following:

	31 March 2006		31 March 2005	
	Number of allotted shares	Gross consideration received £	Number of allotted shares	Gross consideration received £
Savings Related Share Option Scheme	8,699,598	3,574,305	1,499,690	678,675
Global Savings Related Share Option Scheme	2,463,200	1,221,971	408,757	305,970
Share Option Plan – Approved	78,495	90,001	28,929	29,999
Share Option Plan – Unapproved	5,490,660	5,908,034	4,391,571	4,558,778
Scrip dividends	9,492,475	–[1]	3,025,303	–[1]
Total	26,224,428	10,794,311	9,354,250	5,573,422

[1] Scrip dividends with a cash equivalent value of £12,156,491 (2005 – £3,368,237) were issued during the year. This represents a non-cash transaction.

Consolidated financial statements

32 Share premium and other reserves

	Share premium £m	Treasury shares £m	Special reserve £m	Other reserves £m	Fair value reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 April 2004	2	(152)	1,745	105	–	–	(986)	714
Premium on shares issued during the year	6	–	(9)	–	–	–	9	6
Own shares purchased	–	(75)	–	–	–	–	–	(75)
ESOP Trust shares issued to satisfy share awards	–	3	–	–	–	–	(3)	–
Profit for the year	–	–	–	–	–	–	294	294
Fair value adjustment on sale of investment	–	–	–	–	–	–	(2)	(2)
Actuarial gains recognised – net of deferred taxation	–	–	–	–	–	–	73	73
Foreign currency translation reserves	–	–	–	–	–	(39)	–	(39)
Recycled translation reserves on disposal of subsidiary	–	–	–	–	–	3	–	3
Share-based payment costs	–	–	–	–	–	–	10	10
Dividends	–	–	–	–	–	–	(100)	(100)
At 31 March 2005	8	(224)	1,736	105	–	(36)	(705)	884
Adoption of IAS 32/39	–	–	–	–	32	–	13	45
Premium on shares issued during the year	16	–	(22)	–	–	–	22	16
Own shares purchased	–	(17)	–	–	–	–	–	(17)
ESOP Trust shares issued to satisfy share awards	–	10	–	–	–	–	(10)	–
Conversion element of convertible bond transferred to equity	–	–	–	47	–	–	–	47
Profit for the year	–	–	–	–	–	–	79	79
Fair value gain on available for sale assets	–	–	–	–	7	–	–	7
Fair value gain on available for sale assets recycled to income statement	–	–	–	–	(36)	–	–	(36)
Actuarial gains recognised – net of deferred taxation	–	–	–	–	–	–	(10)	(10)
Foreign currency translation reserves	–	–	–	–	–	48	–	48
Share-based payment costs	–	–	–	–	–	–	14	14
Dividends	–	–	–	–	–	–	(92)	(92)
At 31 March 2006	24	(231)	1,714	152	3	12	(689)	985

Treasury shares
Treasury shares relate to shares held in the Company directly or indirectly by the Group and include those shares held by the Group's Employee Share Ownership Plan Trust (ESOP Trust).

Special reserve
The special reserve relates to the cancellation of share premium account approved by the Company at the 2003 AGM and confirmed by the Court in February 2004. It is reduced from time to time by the amount of any increase in the paid up share capital and share premium account of the Company after 20 February 2004 resulting from the issue of new shares for cash or other new consideration or upon a capitalisation of distributable reserves. The special reserve will not be treated as realised profits of the Company until any debt or claim against the Company outstanding as at 20 February 2004 has been repaid or remedied.

Foreign currency translation reserve
The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than that of the Company.

Other reserves
Other reserves include a capital redemption reserve of £105 million (2005 – £105 million) and an equity reserve of £47 million (2005 – £ nil) resulting from the transfer of the conversion element of the Group's convertible bond from derivative financial instruments to equity.

33 Share-based payments

Share option schemes

The share option schemes operating as at 31 March 2006 or having options outstanding as at this date, are as follows:

Cable & Wireless Savings related share option scheme and Cable & Wireless Global savings related share option scheme

Under the Cable & Wireless Savings related share option scheme ('SAYE scheme'), UK employees can enter a savings contract with a bank to save regular monthly sums of between £5 and £250 for a period of either three, five or seven years. At the end of the savings contract, the participant receives interest from the bank on their savings. The savings and the interest may then be used to exercise an option over Ordinary Shares of the Company, which are issued at a discount of 20% to the market value of the Company's Ordinary Shares at the date of grant. The Company has extended the SAYE scheme to its overseas employees by the Cable & Wireless Global savings related share option scheme ('GSAYE scheme'). The GSAYE scheme is offered in various of the Group's territories (excluding the UK) and it operates along similar lines to the SAYE scheme with local variations to accommodate local legal and tax consideration.

The SAYE was last offered in June 2004 and GSAYE was last offered in December 2004.

Cable & Wireless Revenue approved share option scheme and Cable & Wireless Senior employees' share option scheme

Prior to July 2001, Cable & Wireless granted share options under the Cable & Wireless Senior employees' share option scheme ('SESOS') and the Cable & Wireless Revenue approved share option scheme ('RESOS'). Options awarded under these plans between June 1999 and July 2001 are subject to performance conditions based on Cable & Wireless' TSR performance relative to the FTSE 100 Index, underpinned by real growth in EBITDA and turnover. TSR is share price growth adjusted for dividends and capital actions. TSR performance is averaged over a three-month period at the beginning and end of the performance period. This moderates the effect of short-term share price volatility. For full vesting, Cable & Wireless' TSR must achieve at least upper quartile level against the FTSE 100 between the third and fifth anniversaries of the date of grant. Half vesting applies for TSR at the median level, with a sliding scale between median and upper quartile. If the performance conditions are not met by the fifth anniversary of the date of grant, the options lapse. As at the date of this report, none of these options have achieved their performance conditions.

Options granted under RESOS and SESOS before June 1999 became exercisable if growth in Company's published earnings per share (excluding exceptional items) measured over any period of three consecutive financial years, commencing not earlier than the financial year in which the option was granted, exceeded by not less than 6% of the percentage growth of the Retail Price Index over the same three-year period. All such options became exercisable in full.

No further grants will be made under the RESOS and SESOS plans.

Cable & Wireless Share option plan (approved and unapproved)

The level of any share option award is determined by the Remuneration Committee each year by reference to total remuneration within a market peer group, subject to an overriding annual limit of ten times salary for Executive Directors.

The vesting of share options awarded to the Executive Directors and to all employees outside the US is subject to relative TSR performance conditions. For options granted before May 2004, full vesting occurs only if the TSR performance of the Company meets or exceeds the upper quartile between the third and fifth anniversaries of the date of grant. Where TSR performance meets the median, 50% of the initial award vests. A sliding scale operates between median and upper quartile, and nothing vests for TSR performance below the median. If performance conditions have not been met by the fifth anniversary of the date of grant, the options lapse. For options granted from May 2004, the re-testing of performance conditions for share options granted from that date will cease. If performance conditions for these options have not been met by the third anniversary of the date of grant the option lapses. For options granted from June 2005, 33.33% of options vest where TSR performance meets the median and if the Remuneration Committee is satisfied that the underlying financial performance of the group warrants the release of the shares.

Performance conditions are applied in determining the level of awards to employees in the US, but do not normally apply to the vesting of such awards. In addition, 25% of awards to employees in the US vest on the first anniversary of the date of the grant with a further 25% on each subsequent anniversary. These terms reflect normal practice in the US.

The Cable & Wireless Employee Share Ownership Plan Trust

The Cable & Wireless ESOP Trust is a discretionary trust, which has been funded by loans from the Company to acquire shares in Cable and Wireless plc. At 31 March 2006 the Trust holds 50,990,339 shares with a cost of £139 million and a market value of £56 million.

The costs of running the Trust are included in the profit and loss account as they accrue. The Trustees of the plan may notionally allocate Ordinary Shares in the Company annually to Executive Directors or other senior executives and other key staff. Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the Performance share plan, the Restricted share plan, the Deferred short-term incentive plan and the Share option plan, details of which are given below. The shares will be provided from existing Ordinary Shares in issue acquired by the Trustees. Surplus shares may be held to satisfy future awards. The Trust has waived its rights to dividends. At 31 March 2006, there were 2,069,870 shares under contingent awards in relation to the Performance share plan, 19,070,363 shares under restricted share awards in relation to the

Restricted share plan, 245,636 shares under the Deferred bonus plan, 1,752,339 shares under the Deferred short-term incentive plan, 280,392 shares under the Stock appreciation rights plan, and 24,557,918 shares under options in relation to the Share option plan.

Other equity instrument awards

Deferred short-term incentive plan ('Deferred STIP')

The Deferred STIP is designed to encourage participants to invest in shares to align their interests more closely with those of shareholders. Under this plan any bonus deferred is used to purchase shares in the Company, which are held in trust for three years before being released to the participant.

Participants may also be awarded up to two matching shares for every one purchased share based on the relative TSR performance of the Company measured over a three-year period (see Performance conditions for share-based awards). A dividend award supplement also operates on the Deferred STIP. Dividends that would have been paid on the purchased shares and the actual award of matching shares during the performance period are reinvested in additional shares.

For the 2005/06 financial year, Executive Directors were able to elect to pay up to two-thirds of any net annual bonus and senior executives could elect to pay up to one-third of any net bonus into the Deferred STIP. Conditional matching shares were awarded on a gross basis i.e. for every £100 of net bonus invested in the Deferred STIP, participants have the potential to receive matching shares with a face value on grant of £333.

Deferred bonus scheme

Executive Directors and selected senior executives were able voluntarily to defer between 10% and 50% of their post-tax senior management bonus to purchase shares in the Company, which will be held in Trust. Half of the purchased shares will be held in Trust for a two-year deferral period and the remaining half will be held in Trust for a three-year deferral period. Participants will be awarded matching shares when the purchased shares vest at the end of the deferral periods.

No award has been made under the deferred bonus scheme since June 2004.

Performance share plan ('PSP')

Under the PSP, Executive Directors and other senior executives can receive awards of performance shares at nil cost.

The plan rules limit the value of shares that can be granted to an individual in any year to 100% of salary.

The vesting of performance shares is subject to relative TSR performance conditions (see Performance conditions for share based awards). A dividend award supplement operates on the PSP. Dividends that would have been paid on the performance shares, which vest, will be regarded as having been re-invested in additional shares.

Restricted share plan ('RSP')

The RSP provides for awards of restricted shares to executives and selected employees below the Executive Directors, primarily as a retention or a recruitment tool to compensate for the forfeiture of long-term incentive arrangements when transferring to the Company. 50% of any restricted shares awarded under this plan vest after one year with the remaining 50% vesting after three years.

During the year, the restricted share plan was also used to award matching shares with performance conditions to Executive Directors who invested their own funds into Company shares. Attainment of these matching shares is dependent on the Executive continuing to hold the invested shares and on meeting the required TSR performance conditions. 100% of any shares awarded under this plan vest after three years.

Performance conditions for share based awards

TSR is the main performance measure used in the share option plan, the Deferred STIP and the PSP as it provides an objective external measure of financial performance.

The Remuneration Committee considers that it is important to measure and reward relative performance against an appropriate set of companies. The Company's relative TSR performance is assessed against a comparator group comprising the FTSE Global Telecoms Sector Index ('FTSE GTSI'), which provides a global benchmark of independently selected industry peers.

Awards vest depending upon the Company's TSR ranking relative to the comparator group at the end of a single three-year performance period.

Cash-based awards

Stock appreciation rights plan ('SARs')

The SARs is used to exactly replicate the plans described above but rewards are delivered as a cash equivalent. It is used in exceptional cases for countries in which tax or legal issues preclude the use of real shares or share options.

Other schemes

Cable & Wireless share purchase plan

The Company also offers its employees who are chargeable to income tax, under Section 15 Income Tax (Earnings and Pensions) Act 2003, the Cable & Wireless share purchase plan ('the Plan') which is a Revenue approved share incentive plan. Under the Plan, employees can contribute up to a value of £1,500 or 10% of salary each tax year (whichever is the lower), to buy partnership shares in the Company. Shares are held in a UK resident trust and can be withdrawn from the trust at any time, but there may be pay as you earn taxation and national insurance contributions payable in such events if the shares have not been held in the trust for five years. Dividends on the partnership shares are reinvested in additional Dividend Shares.

Share options

Options are exercised on a regular basis throughout the year. Options exercised during the year ended 31 March 2006 resulted in 18.7 million shares (31 March 2005 – 6.3 million shares) being issued at the average exercise price of 69p each (31 March 2005 – 88p each). The related market weighted average share price at the time of the exercise was 125p per share (31 March 2005 – 117p per share).

Movements in the number of share options outstanding and their related weighted average exercise prices are presented below:

	Average exercise prices (p/share)	Options (thousands)
At 1 April 2004	253.94	176,444
Granted	109.59	26,151
Forfeited	357.44	58,864
Exercised	88.05	6,255
Expired	524.46	1,729
At 31 March 2005	204.25	135,747
Exercisable	458.99	38,121
At 31 March 2005	204.25	135,747
Granted	130.86	14,184
Forfeited	221.51	15,692
Exercised	68.67	18,702
Expired	577.68	14,215
At 31 March 2006	**164.41**	**101,322**
Exercisable	289.10	32,964

Share options outstanding at the end of the year have the following exercise prices:

	31 March 2006			31 March 2005		
Range of exercise prices (p)	Number of options outstanding at 31 March 2006	Weighted average exercise price	Weighted average remaining life (rounded to nearest year)[1]	Number of options outstanding at 31 March 2005	Weighted average exercise price	Weighted average remaining life (rounded to nearest year)[1]
0-49p	12,148,661	36.96	2	17,188,037	36.96	3
50-99p	6,119,340	89.52	2	8,128,182	89.44	3
100-149p	47,486,732	109.82	5	54,717,034	109.53	6
150-199p	6,734,696	155.09	6	7,960,563	160.27	2
200-249p	7,863,845	204.40	3	11,266,255	204.44	4
250-299p	335,157	274.64	2	1,273,461	272.37	2
300-349p	18,258,827	339.88	2	23,917,292	339.94	3
350-399p	610,847	359.10	2	1,102,359	356.26	4
400-449p	124,183	420.50	0	430,841	416.78	1
450-499p	156,113	470.66	2	342,922	470.64	3
500-549p	5,469	548.50	2	23,562	542.97	1
550-599p	424,024	553.62	1	466,417	553.68	2
600-1250p	1,058,789	863.54	3	8,590,666	943.19	3

[1] Weighted average remaining life relates to legal life of options not expected life.

The weighted average fair value, at measurement date, of the 14 million (2005 – 26 million) options granted during the year ended 31 March 2006 was 34.41 pence (2005 – 30.17 pence). The Company computes the fair value of its share option awards using the Black-Scholes-Merton formula model for the Savings related and Global savings related share option schemes and the Monte Carlo pricing model for the share option plans (Approved, Unapproved and US).

Notes to the consolidated financial statements
For the year ended 31 March 2006

The following assumptions were used in the fair value exercise as at 31 March 2006 for the options granted during 2006:

	31 March 2006		31 March 2005	
	Monte Carlo	Black Scholes	Monte Carlo	Black Scholes
Weighted average share price	128.83	–	109.18p	122.32p
Weighted average exercise price	130.86	–	111.2p	98.14p
Dividend yield	3.4%-3.9%	–	3.6%	3.6%
Expected volatility	27.9%-39.6%	–	39.4%-47.4%	32.9%-47.7%
Risk-free interest rates	4.1%-4.4%	–	4.6%-5.1%	4.4%-5.1%
Expected lives of the options	4	–	4	3-7

The expected volatility was determined based on the statistical analysis of daily shares prices over a historical period equal to the expected lives of the options.

During 2002 and 2003, significant restructuring was carried out at Cable & Wireless and the Directors consider the share price volatility over that period is unrepresentative of future volatility. Accordingly, for the purposes of calculating historical volatility and share price correlations Cable & Wireless' share price movements from 1 August 2002 to 31 December 2003 have been replaced with a 'synthetic stock'.

This synthetic stock takes as a starting point the share price of Cable & Wireless on 31 July 2002. The daily share price movements then track the average daily share price movements of six companies from the FTSE GTSI from that time until 31 December 2003. From 31 December 2003 onwards the daily share price movements track the actual daily share price movements of Cable & Wireless. The companies used to derive this synthetic share price were selected as those whose daily share price returns were most closely correlated with those of Cable & Wireless prior to and immediately after the synthetic period.

The synthetic Cable & Wireless share price was not used other than for calculating share price volatility and share price correlations. Share price correlations and volatilities were calculated using daily return data for Cable & Wireless (including the synthetic data for the relevant period) and, where relevant, other comparator companies.

Performance and other market conditions attached to awards were reflected in the calculation of fair value as part of the Monte Carlo simulations.

Other awards

Awards granted during 2006

Award	Shares	Weighted average fair value	Features incorporated in schemes
DSTIP	1,361,186	119.00	TSR conditions
RSP	17,694,393	118.52	–
PSP	2,102,358	56.41	TSR conditions

Awards granted during 2005

Award	Shares	Weighted average fair value	Features incorporated in schemes
DSTIP	461,806	73.95	TSR conditions
DBS	848,706	127.00	–
RSP	721,950	106.21	–
RSP matching performance shares	706,400	54.96	TSR conditions

No share-based payment arrangements were modified during the period.

The total expense relating to share-based payments which are all equity settled transactions was £14 million (2005 – £11 million). As the Group has taken advantage of the transitional provisions of IFRS 2, the charge only includes grants made after 7 November 2002 that had not vested by 1 January 2005.

34 Minority interests

	£m
Balance brought forward at 1 April 2004	202
New acquisitions	64
Share of total recognised income and expenditure for the year	59
Dividends paid	(28)
Disposals	(2)
Balance as at 31 March 2005	295
Share of total recognised income and expenditure for the year	115
Dividends paid	(59)
Disposals	(9)
Balance as at 31 March 2006	342

35 Cash flows from operating activities

Reconciliation of net profit to net cash inflow from operating activities:

	Note	2005/06 £m	2004/05 £m
Continuing operations			
Profit for the year from continuing operations		85	192
Adjustments for:			
Tax expense/(credit)		27	(25)
Depreciation	17	228	170
Amortisation	16	46	20
Impairment	14	237	8
(Gains) and losses on sale of non-current assets	8	(83)	3
Other income		(7)	(5)
Interest and similar income	10	(80)	(102)
Interest and similar charges	10	69	68
(Decrease)/increase in provisions			
– Operating activities		(135)	95
– Non-operating activities		(34)	–
Share-based payments		14	10
Defined benefit pension expense		6	19
Defined benefit pension contributions (includes pension top-up of £98 million (2005 – £100 million))		(115)	(127)
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 disposal of subsidiaries)			
Increase in inventories		(4)	5
Decrease in trade and other receivables		8	116
Decrease in payables		(108)	(120)
Cash generated from continuing operations		100	279
Discontinued operations			
Profit for the year from discontinued operations		90	162
Adjustment for			
Tax expense	12	–	2
Depreciation	12	–	1
Profit on disposal of investments		–	(16)
Profit on disposal of property, plant and equipment		(4)	–
Interest and similar charges	12	–	1
Profit on sale of operations		(20)	(130)
Decrease in provisions		(64)	–
Changes in working capital		1	8
Cash generated from discontinued operations		3	28
Cash generated from operations		103	307

Notes to the consolidated financial statements

For the year ended 31 March 2006

36 Commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	31 March 2006 £m	31 March 2005 £m
Property, plant and equipment	77	71
Other	–	13
Total capital commitments	77	84

In addition to the capital commitments above, the Group has a number of operating commitments arising in the ordinary course of the Group's business. The most significant of these relate to network operating and maintenance costs. In the event of default of another party, the Group may be liable to additional contributions under the terms of the agreements.

Of the above, £33 million (2005 – £28 million) relates to the Group's share of the capital commitments of its joint ventures and associates.

The Group leases land and buildings and networks under various lease agreements. The leases have varying terms, escalations, clauses and renewal rights.

The operating lease expenditure related to the year ended 31 March 2006 is disclosed in note 6. The future aggregate minimum lease payments under operating leases are:

	31 March 2006 £m	31 March 2005 £m
No later than one year	97	89
Later than one year but not later than five years	206	203
Later than five years	128	150
Total minimum operating lease payments	431	442

37 Guarantees

Guarantees at the end of the financial year for which no provision has been made in the financial statements are as follows:

	31 March 2006 £m	31 March 2005 £m
Trading guarantees	184	178
Other guarantees	61	65
Total guarantees	245	243

Trading guarantees principally comprise performance bonds or contracts issued in the normal course of business guaranteeing the Group will meet its obligations to complete projects in accordance with the contractual terms and conditions. The guarantees also enable the customer to obtain repayment of any advance payment in the event of the relevant subsidiary failing to carry out its contractual obligations in full. Some of these guarantees are uncapped.

Other guarantees include guarantees in respect of financial obligations of subsidiary undertakings principally in respect of leases, borrowings and letters of credit.

The nature of contracts includes projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

Pender, the Group's Isle of Man insurance subsidiary, has written policies in favour of the Group and third parties. Potentially significant insurance claims have been made against Pender under certain of these third party policies, which have also given rise to uncertainties and disputes with reinsurers. Legal proceedings continue against Pender and the Company in respect of certain insurance claims as set out in note 40.

Other matters

In addition the Company has, as is considered standard practice in such agreements, given guarantees and indemnities in relation to a number of disposals of subsidiary undertakings in prior years. Generally, liability has been capped at no more than the value of the sales proceeds, although some uncapped indemnities have been given.

In relation to the sale of CWC ConsumerCo in May 2000, the Company gave a number of standard warranties and indemnities. There is no time limit or cap that applies generally, the Company also gives warranties and indemnities in relation to certain agreements including facility sharing agreements. Some of these agreements do not contain liability caps.

38 Business combinations

The acquisitions made during the year are summarised below:

	Note	2005/06 Energis £m	2005/06 Atlas £m	2005/06 Total £m	2004/05 Monaco Telecom SA £m	2004/05 Bulldog/ XM Mobile £m	2004/05 Total £m
Consideration paid		705	2	707	114	25	139
Goodwill arising on acquisitions	16	384	–	384	36	20	56
Fair value of net assets acquired		321	2	323	78	5	83
Cash outflows on acquisitions		705	2	707	112	23	135
Less: cash acquired in subsidiaries		(97)	–	(97)	(57)	(1)	(58)
Cash outflow on acquisitions		608	2	610	55	22	77

Details of these are presented below:

(a) 2005/06 Acquisition of Energis

On 11 November 2005, Cable & Wireless purchased the entire share capital of Chelys Limited, the parent company of the Energis Group ('Energis'), for a total consideration of £705 million. The consideration was made up of £675 million debt repayment, £15 million to acquire the share capital of Chelys Limited and £15 million of direct costs incurred to acquire Energis.

As part of the Energis acquisition, Cable & Wireless agreed to pay contingent consideration of between nil and a maximum of £80 million. The amount of contingent consideration is tied to the Company's share price and may be satisfied, at the Company's option, in either cash or shares of the Company. Payments will be based on a ratio of £1.25 million for every one penny by which the maximum three month volume weighted average Cable & Wireless share price in the third year following completion exceeds the reference price of 135 pence. Any payments would begin in March 2008, would be payable once a month until December 2008 and will be based upon Cable & Wireless' volume weighted average share price for the three months prior to any relevant payment date.

The terms and conditions of the contingent consideration include anti-dilution mechanisms similar to those in the 4% convertible bond issued by Cable & Wireless (due 2010). In addition, in the event of a change of control of Cable & Wireless, or in the event of its shares ceasing to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities, a sum calculated in accordance with the terms of the contingent consideration will be payable in cash within ten business days.

Energis contributed £266 million to revenues and £35 million to EBITDA from the date of acquisition. If the acquisition had occurred on 1 April 2005 the contribution to Group revenue would have been £709 million and the contribution to EBITDA would have been £93 million.

Net assets and acquired goodwill are:

	Note	Energis acquisition £m
Purchase consideration:		
– Cash paid		690
– Contingent consideration		–
– Direct costs related to acquisitions		15
Fair value of assets acquired		(321)
Goodwill	16	384

The Directors have assessed the fair values of the assets and liabilities as follows:

	Book value £m	Alignment of accounting policy £m	Revaluations £m	Fair value £m
Software	–	19	–	19
Customer contracts and relationships	–	–	130	130
Property, plant and equipment	402	(28)	(136)	238
Trade and other receivables	124	6	–	130
Cash and cash equivalents	97	–	–	97
Trade and other payables	(250)	–	(9)	(259)
Provisions for other liabilities and charges	(13)	(21)	–	(34)
Total	360	(24)	(15)	321

	£m
Purchase cost settled in cash	705
Cash and cash equivalents in acquired subsidiary	(97)
Cash outflow on acquisition	608

The acquiree's carrying amounts were recorded under UK GAAP.

Goodwill arising on the acquisition of Energis includes expected synergies resulting from the integration into the existing UK corporate business, workforce valuations and other intangible assets that do not meet the recognition criteria set out in IAS 38 *Intangible assets*. Cash and cash equivalents is stated net of amounts paid in respect of Energis' management incentive plan.

(b) Reassessment of Monaco acquisition

Cable & Wireless purchased the Monaco Telecom business in the financial year 2004/05, when the transaction was recorded at provisional values. A reassessment of the fair values at the date of acquisition was performed during the current financial year, within one year of the acquisition date.

The adjustment to the goodwill balance is as follows:

	£m
Goodwill on acquisition	36
Exchange rate adjustment	3
Carrying value of goodwill at 31 March 2005	39
Reassessment of fair value adjustments	(8)
Exchange rate adjustment	(2)
Carrying value of goodwill at 31 March 2006	29

(c) 2004/05 Acquisition of Monaco Telecom SA

On 18 June 2004 Cable & Wireless purchased a 55% beneficial stake in Monaco Telecom for a total consideration of €162 million (£108 million).

In its last audited financial year to 31 December 2003, prepared under Monegasque GAAP, Monaco Telecom made a profit after tax and minority interests of £12 million. From that date to the date of acquisition Monaco Telecom made a profit after tax and minority interests of £7 million.

Monaco Telecom contributed £13 million to the Group's net operating cash flows, £1 million outflow for return on investment and servicing of finance, £5 million outflow for capital expenditure and £1 million outflow for repayment of debts, £10 million inflow of liquid resources and a decrease in cash of £2 million.

Monaco Telecom contributed £100 million to revenues and £17 million to profit before tax from the date of acquisition. Disclosure of the contribution Monaco Telecom would have made to Group revenue and net profit had it been also acquired on 1 April 2004 is impracticable; Monaco Telecom prepares its local accounts in Monegasque GAAP and does not have revenue and net profit numbers in an IFRS comparable format for the period prior to acquisition.

Net assets acquired and goodwill are:

	Note	Monaco Telecom SA acquisition £m
Purchase consideration:		
– Cash paid		108
– Deferred consideration		2
– Direct costs related to acquisitions		4
Fair value of assets acquired		(78)
Goodwill	16	36

The assets and liabilities arising from acquisition were:

	Acquiree's carrying amount £m	Fair value £m
Cash and cash equivalents	57	57
Property, plant and equipment	25	28
Concession agreements	–	65
International managed service contracts	–	10
Trade investments	2	2
Trade and other receivables	80	82
Inventories	1	1
Trade and other payables	(78)	(80)
Provisions for other liabilities and charges	(36)	(23)
Net assets	51	142
Minority interests		(64)
Net assets acquired		78
Purchase cost		114
Less deferred consideration		(2)
Purchase settled in cash		112
Cash and cash equivalents in acquired subsidiary		(57)
Cash outflow on acquisition		55

Acquiree's carrying amounts were recorded under Monegasque GAAP. No reconciliation to IFRS is available.

Goodwill arising on the Monaco acquisition includes transaction costs and other intangible assets that do not meet the recognition criteria set out in IAS 38 *Intangible assets*.

(d) Other acquisitions
Bulldog and XM Mobile were acquired on 28 May 2004 and 9 September 2004, respectively.

Cable & Wireless paid £19.5 million in respect of the acquisition of 100% of Bulldog and £1.5 million in respect of the acquisition of 100% of XM Mobile BV. A further £2 million of purchase consideration has been accrued in respect of the XM Mobile acquisition. This is contingent on certain operational and financial conditions being met in the period to 31 December 2007. Bulldog and XM Mobile contributed revenues of £11 million and net loss of £27 million from the date of acquisition. If the acquisitions had occurred on 1 April 2004 the contribution to Group revenue would have been £12 million and the contribution to net profit would have been a loss of £28 million.

Net assets acquired and goodwill are:

	Note	Other acquisitions £m
Purchase consideration:		
– Cash paid		21
– Accrued purchase consideration		2
– Direct costs related to acquisitions		2
Fair value of assets acquired		(5)
Goodwill	16	20

Consolidated financial statements

The assets and liabilities arising from acquisition were:

	Acquiree's carrying amount £m	Fair value £m
Cash and cash equivalents	1	1
Property, plant and equipment	4	4
Trade and other receivables	1	1
Trade and other payments	(6)	(6)
Intangible assets (brand)	–	1
Intangible assets (intellectual property)	–	4
Net assets acquired	–	5
Purchase cost		25
Less deferred consideration		(2)
Purchase settled in cash	–	23
Cash and cash equivalents in acquired subsidiaries	–	(1)
Cash outflow on acquisition	–	22

Goodwill of £20 million arising on the Bulldog acquisition includes transaction costs and other intangible assets that do not meet the recognition criteria set out in IAS 38.

39 Related party transactions

Transactions with joint ventures and associates

All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services, network and access charges. There were no material trade transactions with joint ventures and associated companies during the year.

The Group made a payment of £5 million to Dhivehi Raajjeyge Gulhun Private Limited, an associate, towards the restoration cost incurred as a result of the Tsunami.

The Group received £20 million (2005 – £14 million) dividends from associates and £20 million (2005 – £17 million) from joint ventures for the year ended 31 March 2006 as set out in note 18.

Amounts owed by joint ventures and associates in respect of trading balances are set out in note 20.

Cable & Wireless has an interest free loan of £1 million (2005 – £1 million) with Quantum Communications Limited, an associate of the Group, as set out in note 18.

Transactions with key management personnel

There were no material transactions with key management personnel, including loans advanced to Directors or other key managers, except for those relating to remuneration, disclosed in notes 7 and 33, and shareholdings.

Transactions with other related parties

There are no controlling shareholders of the Group.

There were no material transactions with Directors, except for those relating to remuneration and shareholdings.

There have been no material transactions with the shareholders of the Company. Other than the parties disclosed above, the Group has no other material related parties.

40 Legal proceedings

Arbitration between AT&T Corp, Alascom Inc, Cable and Wireless plc and Japan Telecom

On 28 January 2005, AT&T Corp and Alascom, Inc. ('Claimants') filed a Request for Arbitration before the ICC against the Company and Japan Telecom ('Respondents') relating to the Respondents' alleged duties as Founding Signatories and Maintenance Authorities under the Construction and Maintenance Agreement for the North Pacific Cable System ('NPC'). The Claimants allege breach of contract and breaches of fiduciary duty against the Respondents in connection with alleged overcharging of operations and maintenance fees by PT Cable Inc., a now bankrupt former Founding Signatory of NPC. The complaint is for US$23,867,909 in damages plus interest (US$16 million through to 31 December 2005) and punitive damages. The Company's US Counsel has advised that, in their opinion, all of the Claimants' claims are weak. A hearing date is yet to be set.

Pender Insurance Limited

Australia-Japan Cable Limited ('AJC'), a policyholder of Pender has brought proceedings in London against Pender and Cable & Wireless. AJC claims that it is entitled to insurance cover for loss of revenue following damage caused to an undersea cable by a cargo vessel. It also claims that, if it does not have such cover, Pender or the Group is liable for its losses because of representations made to AJC that it was entitled to such insurance cover. The claim is for US$130 million (£75 million). Pender and the Group have been advised by legal counsel that the claim is unmeritorious and accordingly are defending it vigorously. The trial is set for 3 July 2006 and is estimated to last four weeks. Certain of Pender's re-insurers of the AJC risk have instituted proceedings seeking a declaration that they are entitled to avoid their obligations. Pender is also vigorously defending these proceedings.

In February 2006 a settlement was reached of the suit commenced by Cable and Wireless plc and Pender on 30 March 2004 against five companies and six individuals (five of whom were former Cable & Wireless employees), the terms of which are confidential. As part of that settlement Pender has also resolved all outstanding issues with QBE International Insurance Limited and others.

Claim against the Minister of Finance and Economy, Panama

On 16 December 2002, a complaint was filed by two Panamanian lawyers exercising a public action at the Third Chamber of the Supreme Court of Justice of Panama questioning the validity of the Operating Agreement executed between Cable and Wireless (CALA Management Services) Limited ('Cable & Wireless CALA') and INTEL, SA (now Cable & Wireless Panama, SA ('C&W Panama') as part of the privatisation agreements, which they claim violated the law governing, and rules of, Public Bid No. 06 96 won by Cable and Wireless plc for the purchase of 49% of the shares of C&W Panama. Complaints filed at the Third Chamber of the Supreme Court of Justice must be filed against the public officer who enacted the relevant regulation or act. This complaint was filed against the Minister of Finance and Economy in Panama specifically alleging that the Operating Agreement was null and void *ab initio*, on the grounds that it had not been published in the Official Gazette in Panama.

The Operating Agreement enables C&W Panama to use the technical and management know-how of Cable & Wireless CALA to fulfil more effectively its obligations under the concession granted to it by the Government of Panama to install, operate and exploit telecommunication services in Panama. C&W Panama, due to its close interest in the outcome of the complaint, requested recognition by the Court and permission to participate in the proceedings. The Court agreed to this.

On 21 March 2003, the Court permitted the claim to proceed. C&W Panama filed an appeal against the admission of the claim to proceed, however the Court confirmed its decision to permit the claim to proceed on 17 March 2004.

During the bid process, and as required by the Bid rules of Public Bid No. 06 96, the Administration's Attorney General provided an opinion to the Minister of Economy and Finance stating that the Share Purchase Agreement and the Operating Agreement were legal and valid. Then, at the request of the Court, and within the complaint process, the Administration's Attorney General opined that the Concession Contract, the Share Purchase Agreement, and the Operating Agreement complied with all the requirements established by the law and by the rules of Public Bid No. 06 96. The contract was also countersigned by the Comptroller General of the Republic acting with due authorisation.

On 1 April 2005, C&W Panama tendered its response to the claim and submitted evidence for consideration by the Court. The plaintiff has requested, on two occasions, that the effect of the Operating Agreement be suspended temporarily, an issue which the Court, in both instances rejected. On 7 September 2005, the submission of evidence before the Court was completed and both parties filed their closing arguments. The Court's ruling is still pending to be issued.

Panamanian counsel considers this claim to be without merit and none of Cable and Wireless plc, C&W Panama or Cable & Wireless CALA is party to the complaint. If the complaint were to be successful, the concession under which C&W Panama operates would not be affected. However, the Operating Agreement could be declared null and void and then the complainants could file a complaint against Cable & Wireless CALA requiring the return of all management fees collected under the agreement since its execution on 20 May 1997. This would amount to approximately £60 million.

Notes to the consolidated financial statements
For the year ended 31 March 2006

Telecarrier Inc. vs. C&W Panama
On 5 May 2004, Telecarrier Inc. ('Telecarrier'), a new telecommunications operator, lodged a claim in the Sixth Circuit Civil Court of Panama alleging non-compliance by C&W Panama with the Interconnection Agreement between the parties in connection with the invoicing and collection process. Telecarrier requested the Court to order the continued provision of a pre-determined billing and charging process and to prevent C&W Panama from using an alternative process. They also claimed US$18 million (£10 million) damages and costs.

On 9 September 2004, C&W Panama submitted a defence to the claim and on 30 December 2004, the parties presented a petition for suspension of the process for a period of 45 days to allow them to negotiate with each other. In a resolution dated 30 December 2004, the Court admitted the petition and negotiations with the plaintiff were initiated. Negotiations between C&W Panama and Telecarrier concluded and no agreement was reached. The Court re-opened proceedings on 13 May 2005.

In a separate action, on 25 August 2004, C&W Panama lodged a claim against Telecarrier in the Seventeenth Circuit Civil Court of Panama claiming unjustified enrichment by Telecarrier through the use of C&W Panama's fixed telephone network to allow the rerouting of traffic for internet public use. C&W Panama is claiming US$14 million (£8 million).

The claim was admitted by the Court on 2 September 2004. On 23 December 2004, the parties agreed to suspend the process for a period of 30 days to allow for a period of negotiation – a move endorsed by the Court on 23 December 2004. Negotiations between C&W Panama and Telecarrier concluded and no agreement was reached. The proceedings are pending the submission of evidence before the Court.

On 25 August 2005, Telecarrier petitioned the Court to join the unjust enrichment claim brought by C&W Panama with its non-compliance claim against C&W Panama discussed above. The Court ruled in favour of the two cases being joined and a ruling on what evidence is admissible is still pending.

Arbitration between Mrs. Beatriz Anguizola de Arosemena, on behalf of The Nation and C&W Panama
On 21 December 2004 Mrs. Beatriz Anguizola de Arosemena, on behalf of the Panamanian Government, filed a request for arbitration against C&W Panama demanding that it return to The Nation monies collected for telephone services rendered to the National Assembly, the Judicial Branch and the Attorney General's Office, when, it is alleged these should have been provided for free under a state franchise. The amount claimed is approximately US$11.6 million (£7 million).

The arbitration process is currently suspended following a writ of unconstitutionality filed by C&W Panama on 2 February 2005 to the Supreme Court for a ruling of unconstitutionality against the resolution issued by the Ministry of Economy and Finance which invested Mrs. Beatriz Anguizola with the authority to file suit against C&W Panama on behalf of the Nation.

C&W Panama have been advised that if the writ of unconstitutionality is rejected by the Supreme Court, then the arbitration process would resume.

Universal Telecom & Energy vs. C&W Panama
Universal Telecom & Energy ('Universal') lodged a claim against C&W Panama on 10 February 2005 in the Thirteenth Circuit Civil Court alleging C&W Panama breached a contract between them for Universal to make an inventory of C&W Panama's ducts. Universal alleges that C&W Panama did not deliver the materials necessary to complete the work and that therefore the work had to be stopped. The amount claimed is approx US$12.6 million (£7 million), of which US$10 million (£6 million) is claimed as moral damages, although the contract is worth approx US$800,000 (£460,000).

On 7 April 2005 C&W Panama answered the complaint and submitted a separate petition requesting the court to declare the action *res judicata* ('cosa juzgada'), on the basis that the parties had previously entered into an extrajudicial transaction (out of court settlement) on 9 May 2003 which settled the issues covered in the subsequent lawsuit filed by Universal. C&W Panama is waiting for a decree from the Court in response to this petition, and for the Court to make a pronouncement as to the admission of evidence, counter-evidence and objections to the same.

TechLink Services Corporation vs. C&W Panama
TechLink Services Corporation ('TechLink') brought a petition against C&W Panama that one contract between the parties be terminated and that another be declared null and void. TechLink also claimed damages of approx US$10.9 million (£6 million) in respect of a third contract and US$1.5 million (£800,000) for moral damages. Judgment was found in favour of C&W Panama on 15 July 2005 by the First Circuit Civil Court. TechLink has appealed this judgment and C&W Panama is vigorously defending the appeal. The parties are waiting for the appeal decision of the First Superior Tribunal.

Galaxy Communications Corp. vs. C&W Panama
On 2 February 2006 Galaxy Communications Corp. ('GCC') filed a claim against C&W Panama alleging that C&W Panama has committed monopolistic practices and has abused its dominant market position by denying GCC interconnection to its network. GCC is seeking punitive damages of approx US$135 million (£78 million). C&W Panama filed its response on 17 April 2006. C&W Panama believe the case to be without merit and will be strongly defending the case. At this stage GCC have not filed any evidence to support their allegations.

Per Second Billing case

On 28 July 2005, the Regulator of Public Services issued a Resolution ordering C&W Panama to retroactively refund to customers of basic local, national and international telecommunications services an initial minimum call charge which had been levied between February 2003 and May 2005. C&W Panama has filed a motion for reconsideration with the Regulator on the basis that C&W Panama does not have an obligation to refund these amounts to its customers and the Regulator has no jurisdiction to make decisions imposing compensation payments. In addition, C&W Panama filed a Warning of Illegality with the Supreme Court of Panama, arguing that the rule invoked by the Regulator to impose this obligation on Cable & Wireless Panama should be declared illegal. The Regulator cannot decide on the motion for reconsideration presented by C&W Panama until after the Supreme Court reaches a decision on the Warning of Illegality.

Other litigation

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

41 Licences and concessions

In a number of countries the Group hold licences or concessions to operate. These licences take a variety of forms and their terms, rights and obligations vary significantly. The Group assumes that it will renew licences as they expire as it has done in the past. Were renewal not to occur, in most cases the business or its assets would be transferred to the new operator or government at market value or net book value. In a small number of locations, transfer is at a value below carrying value; in these places the Group monitors closely the likelihood of licence renewal in order to ensure that should a licence not be renewed, the business' assets have been written down to their recoverable value at the point of transfer.

There were no significant changes to the terms of the Group's licenses in the year.

42 First time adoption of IFRS

Cable & Wireless reported under UK GAAP in its published financial statements for the year ended 31 March 2005. The Group is required by EU regulation to prepare consolidated financial statements under IFRS for periods commencing after 1 January 2005. As such, IFRS applies for the first time in Cable & Wireless' consolidated financial statements for the year ending 31 March 2006.

As a SEC registrant the Group would normally be required to present two year's comparative information. However, the terms of an accommodation granted by the SEC permit first time adopters of IFRS to present only one year's IFRS comparatives in the year of adoption. Consequently, the Group's date of transition to IFRS is 1 April 2004.

As permitted by IFRS 1, the Directors have elected not to apply IAS 32 and IAS 39 prior to 31 March 2005. Accordingly, the comparative information in the Financial Statements reflects the Group continuing to account for and disclose financial instruments in accordance with FRS 4 *Capital instruments* and FRS 13 *Derivatives and other financial instruments: disclosures*. The Group has also elected not to apply IFRS 4 *Insurance contracts* prior to 31 March 2005.

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.

As permitted by IFRS 5 *Non-current assets held for sale and discontinued operations*, the group has applied the standard to assets held for sale and discontinued operations occurring from its date of transition to IFRS as the necessary valuation information was available to do so.

In 2004 the IASB issued an amendment to IAS 19 *Employee benefits*, giving an option to recognise actuarial gains and losses in full, outside the income statement, in a statement of changes in equity. This amendment applies to financial statement periods beginning after 1 January 2006. However, as permitted by the amendment, the Group has elected to adopt this amendment early and has applied the new option in these financial statements for both the current and comparative periods.

Notes to the consolidated financial statements

For the year ended 31 March 2006

Property, plant and equipment that has been fully written down has been included in cost at its nil net book value. The cost and accumulated depreciation of all other property, plant and equipment has been recognised on transition.

Profit and loss reconciliation

As required by IFRS 1, the Group has prepared reconciliations between the profit recorded under UK GAAP and IFRS for the year ended 31 March 2005, being the last year reported under UK GAAP.

Income statement for the year ended 31 March 2005

	UK GAAP year ended 31 March 2005 £m	IFRS adjustment £m	IFRS year ended 31 March 2005 £m
Continuing operations			
Revenue	3,002	(54)	2,948
Operating costs before depreciation and amortisation	(2,676)	9	(2,667)
Depreciation	(199)	21	(178)
Amortisation	(7)	(13)	(20)
Group operating profit/(loss)	120	(37)	83
Share of post-tax profit of associates and joint ventures	33	15	48
Total operating profit/(loss)	153	(22)	131
Net finance costs and other income	36	–	36
Profit before income tax	189	(22)	167
Income tax (expense)/credit	22	3	25
Profit/(loss) for the year from continuing operations	211	(19)	192
Discontinued operations			
Profit for the year from discontinued operations	166	(4)	162
Profit for the year	377	(23)	354
Attributable to:			
Equity holders of the Company	301	(7)	294
Minority interest	76	(16)	60
	377	(23)	354

An analysis of the IFRS adjustments is given below:

Reconciliation of profit between UK GAAP and IFRS

	Note	Year ended 31 March 2005 £m
As reported under UK GAAP		377
Deconsolidation of Maldives business	(a)	(17)
Employee benefits	(b)	2
Intangible assets	(c)	1
Share-based payments	(d)	(8)
Income taxes	(e)	2
Recycling of foreign exchange losses on disposal	(f)	(3)
As restated under IFRS		354
Continuing operations		192
Discontinued operations		162
		354

Equity reconciliation

The Group has prepared reconciliations between the shareholders' equity recorded under UK GAAP and IFRS as at 1 April 2004, the date of transition to IFRS, and 31 March 2005, the date of the last UK GAAP accounts.

Balance sheet in IFRS format:

	31 March 2005			Date of transition		
	UK GAAP 31 March 2005 £m	IFRS adjustment £m	IFRS 31 March 2005 £m	UK GAAP 1 April 2004 £m	IFRS adjustment £m	IFRS 1 April 2004 £m
Assets						
Non-current assets						
Property, plant and equipment	1,379	(111)	1,268	1,214	(71)	1,143
Intangible assets	91	115	206	(9)	53	44
Investments in associates and joint ventures	208	37	245	208	31	239
Trade investments	33	–	33	58	2	60
Taxation recoverable	14	(14)	–	30	(15)	15
Deferred tax asset	25	4	29	28	7	35
Retirement benefit asset	202	(176)	26	103	(76)	27
Trade and other receivables	43	–	43	27	1	28
	1,995	(145)	1,850	1,659	(68)	1,591
Current assets						
Inventories	35	(9)	26	38	(9)	29
Taxation recoverable	–	–	–	7	(2)	5
Trade investments	82	(2)	80	49	–	49
Trade and other receivables	816	(11)	805	868	(4)	864
Cash and cash equivalents	2,072	(51)	2,021	2,305	(35)	2,270
	3,005	(73)	2,932	3,267	(50)	3,217
Assets held for sale	–	18	18	–	–	–
	3,005	(55)	2,950	3,267	(50)	3,217
Total assets	5,000	(200)	4,800	4,926	(118)	4,808
Current liabilities						
Trade and other payables	1,353	(60)	1,293	1,290	(1)	1,289
Current tax liabilities	158	–	158	271	(1)	270
Loans and obligations under finance leases	23	–	23	44	–	44
Dividend payable	–	–	–	73	(73)	–
Provisions for other liabilities and charges	279	–	279	–	–	–
	1,813	(60)	1,753	1,678	(75)	1,603
Liabilities associated with assets held for sale	–	4	4	–	–	–
	1,813	(56)	1,757	1,678	(75)	1,603
Net current assets	1,192	1	1,193	1,589	25	1,614
Non-current liabilities						
Loans and obligations under finance leases	801	–	801	875	(1)	874
Trade and other payables	–	–	–	–	1	1
Deferred tax liabilities	43	6	49	25	4	29
Provisions for liabilities and charges	184	4	188	368	–	368
Retirement benefit obligations	22	205	227	28	393	421
	1,050	215	1,265	1,296	397	1,693
Net assets	2,137	(359)	1,778	1,952	(440)	1,512
EQUITY						
Capital and reserves attributable to the Company's equity shareholders						
Share capital	599	–	599	596	–	596
Share premium	8	–	8	2	–	2
Reserves	1,211	(335)	876	1,105	(393)	712
	1,818	(335)	1,483	1,703	(393)	1,310
Minority interest	319	(24)	295	249	(47)	202
Total Equity	2,137	(359)	1,778	1,952	(440)	1,512

An analysis of the adjustments is given below:

Reconciliation of shareholders' equity between UK GAAP and IFRS

	Note	31 March 2005 £m	1 April 2004 £m
As reported under UK GAAP		1,818	1,703
Employee benefits	(b)	(395)	(480)
Intangible assets	(c)	10	9
Dividends payable	(g)	60	73
Income taxes	(e)	(8)	(5)
Other		(2)	10
As restated under IFRS		1,483	1,310

(a) Deconsolidation of Dhiraagu

Under UK GAAP, the Group accounts for its 45% shareholding in Dhivehi Raajjeyge Gulhun Private Limited ('Dhiraagu'), the Group's Maldivian business, as a subsidiary. The revenue, operating profit and financing costs of Dhiraagu were consolidated in full in the income statement with a corresponding allocation to minority interest. IAS 27 *Consolidated and separate financial statements* defines a subsidiary as an entity that is controlled by another entity. The IFRS basis of determining control differs from that of UK GAAP; consequently, under IFRS, the Group considers this investment to be a joint venture. Under UK GAAP, the assets and liabilities of Dhiraagu were fully consolidated in the balance sheet with a minority interest calculated. The IFRS consolidated balance sheets at 1 April 2004 and 31 March 2005 reflect only the Group's interest in Dhiraagu.

(b) Employee benefits

The Group has elected, in accordance with IAS 19 *Employee benefits,* to adopt a policy of accounting for defined benefit employee retirement schemes through full recognition of the schemes' surpluses (or deficit) on the balance sheet at each year end. Actuarial gains and losses are included in the statement of recognised income and expenditure ('SORIE').

This is similar to the approach required by the UK standard FRS 17 *Retirement benefits* for which the Group has previously provided transitional disclosure information. In addition, the prepayment under SSAP 24 *Accounting for pension costs* was also reversed, further reducing net assets.

The deferred tax impact of employee benefits is disclosed within the tax figure.

Under UK GAAP, in line with common practice, the Group did not account for holiday pay accruals unless legally obliged to make cash settlement. IAS 19 explicitly requires appropriate provision to be made for the cost of holiday entitlements not taken at the balance sheet date.

(c) Intangible assets

IFRS allows companies to elect not to apply IFRS 3 retrospectively to business combinations which occurred before the date of transition to IFRS. The Group has elected to take advantage of this exemption. Negative goodwill has been credited to reserves on transition at 1 April 2004 as IFRS 3 does not allow negative goodwill to be carried on the balance sheet.

The recognition criteria for intangible assets other than goodwill differ between UK GAAP and IFRS. In general, a greater number of intangible assets are recognised under IFRS 3. During the year ended 31 March 2005, the Group acquired three businesses: Monaco Telecom, Bulldog and XM Mobile. Under IFRS 3 a number of intangible assets were identified with a consequent reduction in the amount of goodwill recognised.

Under UK GAAP, goodwill was amortised over its expected useful life, and is tested for impairment in specific circumstances. IFRS 3 requires that goodwill is not amortised but is reviewed on an annual basis for impairment.

(d) Share-based payments

Under UK GAAP share based awards were accounted for on an intrinsic basis. In addition, no charges apply to the Group's SAYE schemes.

Under IFRS 2, an expense is recognised in the income statement for grants of equity instruments in relation to employee options and performance share schemes including SAYE schemes. The expense recognised is based on the fair value of the shares or options at the date of grant and is recognised over the vesting period of the scheme.

IFRS 1 permits a company to apply IFRS 2 only to grants of equity settled share-based awards granted after 7 November 2002 that have not vested by the later of the date of transition to IFRS and 1 January 2005. The Group has taken advantage of this exemption. The Group has used the Monte Carlo pricing model and Black-Scholes Merton formula, as appropriate, for the purposes of computing fair values under IFRS 2.

(e) Income taxes

Under UK GAAP deferred tax was provided on timing differences. IAS 12 *Income Tax* requires deferred tax to be provided on temporary differences rather than just timing differences, with the exception of: unremitted earnings of subsidiaries, associates and joint ventures where the Group controls the timing of the remittances and it is probable that the associated temporary differences will not reverse in the foreseeable future; and differences arising from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction other than a business combination affecting neither accounting nor taxable profit. Under IFRS, the Group's share of the tax charge or its associates is not included in the tax charge, but instead deducted from its share of pre-tax profits.

(f) Recycling of foreign exchange losses on disposal of a subsidiary

IAS 21 *The effects of changes in foreign exchange rates* requires cumulative translation differences arising from translation of foreign operations to be recorded in equity and then recycled as a gain or loss on disposal when the operation is sold. IFRS 1 permits entities an exemption from IAS 21; cumulative translation differences up to the date of transition are not recycled. However, from this date onwards, translation differences are recorded in accordance with IAS 21.

The Group has taken advantage of this exemption and, as such, the cumulative translation differences at the date of transition have been set to zero. Translation differences from 1 April 2004 in respect of the Group's Japanese operations, which were disposed of during the current year, have been included in the calculation of profit on disposal. There is no effect on shareholders' equity.

(g) Dividends payable

Under UK GAAP, dividends relating to the current year but declared after the balance sheet date were recognised as a liability at the year end. Under IAS 10 *Events after the balance sheet date,* such dividends are not permitted to be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37 *Provisions, contingent liabilities and contingent assets*. As a result, the dividends declared after the balance sheet date and accrued in the balance sheet as at 1 April 2004 and 31 March 2005 are reversed.

Notes to the consolidated financial statements
For the year ended 31 March 2006

43 Impact of the adoption of IAS 32, IAS 39 and IFRS 4

Impact of IAS 32 and IAS 39 adoption

The Group adopted IAS 32 and IAS 39 from 1 April 2005 as permitted by IFRS 1. The impact of the adoption of the new standard on the net assets as at 31 March 2005 is presented below:

	Note	IFRS 31 March 2005 £m	Effect of IAS 32/39 adoption £m	IFRS 1 April 2005 £m
Assets				
Non-current assets				
Property, plant and equipment		1,268	–	1,268
Intangible assets		206	–	206
Investments in associates and joint ventures		245	–	245
Trade investments	(i)	33	(33)	–
Available for sale financial assets	(i)	–	90	90
Deferred tax asset		29	–	29
Retirement benefit asset		26	–	26
Trade and other receivables		43	6	49
		1,850	63	1,913
Current assets				
Inventories		26	–	26
Trade investments	(ii)	80	(80)	–
Available for sale financial assets	(ii)	–	78	78
Trade and other receivables		805	–	805
Cash and cash equivalents		2,021	–	2,021
		2,932	(2)	2,930
Assets held for sale		18	–	18
		2,950	(2)	2,948
Total assets		4,800	61	4,861
Current liabilities				
Trade and other payables	(ii)	1,293	(2)	1,291
Current tax liabilities		158	–	158
Loans and obligations under finance leases		23	–	23
Provisions for other liabilities and charges		279	–	279
		1,753	(2)	1,751
Liabilities associated with assets held for sale		4	–	4
		1,757	(2)	1,755
Net current assets		1,193	–	1,193
Non-current liabilities				
Loans and obligations under finance leases	(iii, iv)	801	(75)	726
Derivative financial instruments	(iii, iv)	–	62	62
Deferred tax liabilities		49	–	49
Provisions for liabilities and charges		188	–	188
Retirement benefit obligations		227	–	227
		1,265	(13)	1,252
Net assets		1,778	76	1,854

(i) Certain non-current listed investments, with a carrying value of £27 million and classified as trade investments under UK GAAP, have been reclassified as available for sale financial instruments with a fair value of £90 million. The Group's share of the fair value gain (£32 million) has been recognised in equity and the minority's share in minority interest. The remaining items classified as trade investments under UK GAAP have been classified as trade and other receivables. Items classified as available for sale are revalued at each balance sheet date with changes in value recognised in reserves. The net amount held in reserves is taken to the income statement on disposal of the asset.

(ii) Certain current investments, with a carrying value of £78 million and classified as current asset investments under UK GAAP, have been reclassified as current available for sale financial instruments with a fair value of £78 million.

(iii) The Group has a Euro denominated loan (the 'Loan') and a related euro-sterling cross currency swap (the 'Swap') with terms matching those of the Loan. Under UK GAAP, the Loan and Swap were accounted for as if they were a single loan denominated in sterling. Under IFRS the components have been separated. The Loan has been translated at the closing rate at 31 March 2005 giving rise to a reduction in the balance of £15 million. The Swap was marked to market at the same date and recognised on balance sheet giving rise to a derivative liability of £15 million. The Group has not applied hedge accounting to the Loan and Swap. Both the Loan and Swap are revalued at each balance sheet date. Gains and losses on the instruments (which will materially offset each other) are recognised in the income statement.

(iv) The terms and conditions of the Group's Convertible debt instrument result in a recognition and measurement basis that is different from the basis applied under UK GAAP. The debt agreement provides for the conversion of the debt into Ordinary Shares of Cable and Wireless plc at a predetermined fixed rate. The conversion is at the option of the bondholders and exercisable at any time prior to 9 July 2010. The bond also has a takeover protection clause, which adjusts the share conversion factor, over a period of time, until settlement or conversion of the bond. The Group has the option to settle the entire bond in cash (although this option was removed in April 2005). The takeover protection terms and the cash settlement option are considered to be derivative features that are required to be accounted for separately from the debt element of the bond.

The liability component and the derivative features are separated and measured in accordance with the requirements of IAS 32 and IAS 39. At 1 April 2005, the debt element was reduced by £60 million primarily reflecting the unamortised value of the conversion option. The debt element is accounted for on an amortised cost basis. The conversion option and takeover protection feature were marked to market at 1 April 2005 and recognised on balance sheet giving rise to a derivative liability of £47 million. The derivative elements are carried on a fair value basis with changes in value being taken to the income statement. Subsequent to 1 April 2005 the cash settlement option in respect of the conversion option was removed and the conversion option reclassified as a component of equity.

No deferred tax impact has been booked as a consequence of the above adjustments as there are unrecognised tax losses available to offset any additional liability.

Impact of IFRS 4 adoption

The adjustments relating to the implementation of IFRS 4 are restricted solely to the reclassification of elements of certain current receivables, payables and provisions to more properly reflect their insurance based nature. These reclassifications do not affect net assets and, where material, will be reflected in the notes to the financial statements.

44 Subsidiaries, joint ventures and associates

	Local currency	Issued Share Capital (million)	Ownership: Direct	Ownership: Via subsidiaries	Class of shares	Country of incorporation	Area of operation
Cable & Wireless UK	£	3,033	–	100%	Ordinary	England	UK
Cable & Wireless Jamaica Ltd	J$	16,817	–	82%	Ordinary	Jamaica	Jamaica
Cable & Wireless Panama, SA[1]	Balboa	316	–	49%	Ordinary	Panama	Panama
Companhia de Telecomunicacoes de Macau, SARL[2]	Pataca	150	–	51%	Ordinary	Macau	Macau and China
Cable & Wireless (Barbados) Ltd	B$	72	–	81%	Ordinary	Barbados	Barbados
Cable and Wireless (West Indies) Ltd	£	5	–	100%	Ordinary	England	Caribbean
Monaco Telecom SAM[3 4]	Euro	2	–	49%	Ordinary	Monaco	Monaco
Bulldog Communications Ltd	£	2	–	100%	Ordinary	England	UK
Chelys Limited (Energis)	£	14	–	100%	Ordinary	England	UK
Joint ventures							
Telecommunications Services of Trinidad and Tobago Ltd[3]	T$	283	–	49%	Ordinary	Trinidad and Tobago	Trinidad and Tobago
Dhivehi Raajjeyge Gulhun Private Ltd[2]	Rufiya	190	–	45%	Ordinary	Maldives	Maldives
Associates							
Bahrain Telecommunications Company BSC[2]	Dinar	100	20%	–	Ordinary	Bahrain	Bahrain

1 The Group regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.
2 This company has a financial year end of 31 December due to the requirements of the shareholders' agreement.
3 This company is audited by a firm other than KPMG and its international member firms.
4 The Group holds an economic interest of 55% in Monaco Telecom SAM.

Consolidated financial statements

On 18 June 2004 Cable & Wireless acquired 55% of Monaco Telecom, a Monaco based telecommunication service provider, from Vivendi Universal.

Simultaneously with the acquisition, Cable & Wireless transferred legal ownership of 6% of the shares of Monaco Telecom to an unrelated third party. Cable & Wireless contractually retained voting and economic rights in the shares as part of the arrangement. In addition, the 6% interest is subject to certain put and call options that, together with the retained voting and economic rights, provide full management control of Monaco Telecom to Cable & Wireless.

Cable & Wireless has also entered into a shareholders' agreement with the Principality of Monaco, which contains, among other provisions, a prohibition on either Cable & Wireless or the Principality (subject to certain limited exceptions) selling their shares in Monaco Telecom for five years, mutual pre-emption rights on transfer of shares and certain other limited rights in favour of the Principality. The Principality has a put option entitling it to put its 45% shareholding in Monaco Telecom to Cable & Wireless at certain times after 1 January 2008. The exercise price under the put option is fair market value, taking into account the nature of the minority stake in Monaco Telecom.

The Group comprises a large number of companies and it is not practical to include all of them in this list. The list therefore only includes those companies whose results or financial position, in the opinion of the Directors, principally affects the figures shown in the financial statements.

Full details of all subsidiary undertakings, joint ventures, associates and trade investments will be attached to the Company's Annual Return, to be filed with the Registrar of Companies in England and Wales.

45 Financial risk management

Treasury policy

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

Day-to-day management of treasury activities is delegated to the Finance Director and the Group Treasurer, within specified financial limits for each type of transaction and counterparty.

To the extent that subsidiary operating companies undertake treasury transactions, these are governed by Group policies and delegated authorities. Material subsidiary positions are monitored by the Group treasury function. Where appropriate, transactions are reported to the Board. All subsidiaries are required to report details of their cash, debt and hedging positions to Group treasury on a monthly basis.

The key responsibilities of the treasury function include funding, investment of surplus cash and the management of interest rate and foreign currency risk. The majority of the Group's funding and cash resources are managed centrally.

Wherever possible individual companies in the Group are funded in, and operate in, their functional currency.

Cable & Wireless only uses derivatives and financial instruments including forward foreign exchange contracts, interest rate swaps, cross currency swaps and options in the management of its foreign currency and interest rate exposures in accordance with strategies agreed from time to time by the Treasury Management Committee (comprising of the Finance Director, Group Treasurer and other senior financial managers as required) and subject to policies approved by the Board. Derivatives are not used for trading or speculative purposes and all derivative transactions and positions are monitored and reported to the Board on a monthly basis.

Exchange rate risk

Cable & Wireless trades in many countries and much of its revenue is generated in US dollars or currencies linked to the US dollar.

The Group is exposed to movements in exchange rates in relation to foreign currency payments, dividend income from foreign subsidiaries, reported profits of foreign subsidiaries and the net asset carrying value of foreign investments.

Where appropriate the Group manages its exposure to movements in exchange rates on a net basis and uses forward foreign exchange contracts and other derivative and financial instruments to reduce the exposures created where currencies do not naturally offset in the short term. Where it is deemed appropriate the Group will undertake hedges to minimise the exposure to individual transactions that create significant foreign exchange exposures for the Group. In addition, overseas subsidiaries are generally financed in their domestic currency to minimise the impact of translation of foreign currency denominated borrowings.

As at 31 March 2006, the Group had in place foreign exchange contracts amounting to £31 million, being primarily the sale of US$54 million against sterling.

The reported profits of the Group are translated at average rates of exchange ruling during the year. Overseas earnings are predominately in US dollars or currencies linked to the US dollar. In broad terms, based on the 2005/06 mix of profits, the impact of a unilateral 1% weakening of sterling would have been to increase the operating profit before exceptional items by approximately £2 million. The Group does not undertake profit translation hedging activities.

As part of the overall policy of managing the exposure arising from foreign exchange movements relating to the net carrying value of overseas investments, the Group may, from time to time, elect to match certain foreign currency liabilities against the carrying value of foreign investments. Currently there are no external foreign currency liabilities matched against the carrying value of foreign investments.

The Group currently does not undertake any hedges of long-term currency trading flows.

Interest rate risk
The Group is exposed to movements of interest rates on its debt and surplus cash balances. The treasury function may seek to reduce volatility by fixing a proportion of this interest rate exposure whilst taking account of prevailing market conditions as appropriate. There were no derivatives in place as at 31 March 2006.

A reduction in interest rates would have an unfavourable impact upon the fair value of the Group's fixed rate debt. However, no debt is held for trading purposes and it is intended that it will be kept in place until maturity, hence the exposure to fair value loss has not been modelled.

Credit risk
Cash deposits and other financial instruments give rise to credit risk, which represents the loss that would be recognised if a counterparty failed to perform as contracted. The counterparties to all but a small proportion of the Group's financial instruments are entities rated A1 short-term and/or AA- long-term by Standard and Poor's (or equivalent by Moody's and/or Fitch). The credit rating of these counterparties is monitored on an ongoing basis. The types of instrument used for investment of funds are prescribed in Group treasury policies approved by the Board with limits on the exposure to any one counterparty.

Liquidity risk
At 31 March 2006, Cable & Wireless had cash, current asset investment and short-term deposits of £1,166 million. This amount included £50 million of cash pledged against liabilities, some contingent. The surplus cash is a significant component of the Group's overall liquidity and capital resources.

Approximately 73% of the Group's cash is held centrally and is predominantly invested in short-term bank deposits and AAA-rated money market funds.

During 2004/05 the Group purchased £80 million of Credit Linked Notes issued by AA-rated banks and referenced to the Company's £200 million bond, which matures in 2012. This transaction has a similar economic effect to repurchasing the bonds for the period of the investment. During 2005/06, £40 million of these Credit Linked Notes were sold at par. The Company considers that the remaining £39 million, at fair value, of Credit Linked Notes could be realised for cash in the short term and hence are liquid assets. Further information on these transactions is given in note 19.

Certain foreign subsidiaries operate in jurisdictions, which restrict the ability to repatriate cash to the parent company. £60 million of cash held in restricted jurisdictions is not included in gross cash at 31 March 2006.

46 Financial instruments – comparative disclosures

The Group has taken advantage of the exemption in IFRS 1 in preparing these financial statements and has elected not to apply IAS 32 and IAS 39 until 1 April 2005. Consequently, the Group has applied the UK standard FRS 13 in the comparative year. The disclosures below are those required by FRS 13 in respect of the year ended 31 March 2005. The main adjustments that would be made to comply with IAS 32 and IAS 39 are similar in nature and size to those presented in note 43.

Interest rate management

The interest rate profile of the financial liabilities of the Group at 31 March 2005, after taking account of interest rate swaps and cross currency interest rate swaps, is set out in the table below:

	Floating rate £m	Fixed rate £m	Total £m
Sterling	121	617	738
US$	25	60	85
Other	–	1	1
	146	678	824

The floating rate financial liabilities comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from one week to six months by reference to LIBOR for sterling and US dollar borrowings.

The weighted average interest rates for the fixed rate financial liabilities of the Group at 31 March 2005, together with the periods for which the rates were fixed, are set out in the table below:

	Weighted average interest rate %	Weighted average period for which the interest rate is fixed (months)
Sterling	6.8	102
US$	5.4	73
Other	10.0	22
	6.7	98

The interest and other similar income rate profile of the financial assets of the Group at 31 March 2005, is set out in the table below:

	Floating rate £m	Non interest bearing £m	Total £m
Sterling	1,860	–	1,860
US$	139	1	140
Euro	86	–	86
HK$	1	15	16
Other	34	4	38
	2,120	20	2,140

The floating rate financial assets principally comprise cash and short-term deposits. The financial assets include £6 million cash held as part of the £18 million assets held for sale. Of the total, approximately 86% is held by the Group's central treasury operations as sterling and US dollar cash deposits with short-term maturities based on LIBOR and maturities ranging between one month and a year. During the year, the Group also purchased £80 million of Credit Linked Notes with a maturity of 2012. Refer to note 19 for further details.

At 31 March 2005, the Group does not have any significant financial assets earning a fixed return. The non-interest bearing financial assets are held in a trade investment.

Exchange risk management

The following table shows the Group's currency exposures at 31 March 2005 on currency transactions that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved.

Functional currency of the operating company	Net foreign currency monetary assets/(liabilities) in £m US$	Sterling	Euro	Other	Total
Sterling	33	–	(2)	(5)	26
HK$	–	–	–	2	2
Euro	5	–	–	–	5
Other	6	6	4	1	17
	44	6	2	(2)	50

The amounts shown in the table above take into account the effect of any cross currency swaps, forward exchange contracts and other derivatives entered into to manage these currency exposures.

Maturity of financial liabilities

The maturity profiles of the Group's financial liabilities, as listed in the fair value table below are disclosed in note 25.

Fair value

The estimated fair values of the Group's financial instruments are summarised below:

	31 March 2005 Carrying amount £m	Estimated fair value £m
Primary financial instruments held or issued to finance the Group's operations		
Trade investments	20	83
Cash	135	135
Short-term deposits	1,979	1,979
Cash held as part of held for sale assets	6	6
Loans and obligations under finance leases due within one year	(23)	(23)
Convertible bonds	(252)	(277)
Other loans and obligations due after more than one year	(549)	(582)
Derivative financial instruments held to manage interest rate and currency exposure		
Cross currency swap liabilities	(15)	(15)

Trade investments

Trade investments above are detailed in note 19. The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

Cash at bank and in hand, short-term deposits and short-term borrowings

The carrying value approximates to fair value either because of the short maturity of the instruments or because the interest rate on investments is reset after periods not greater than six months.

Convertible bonds and other long-term debt

The fair value is based on quoted market prices or, where these are not available, on the quoted market prices of comparable debt issued by other companies.

Forward rate agreements, interest rate and cross currency swaps

The fair value of forward rate agreements, interest rate and cross currency swaps is the estimated amount which the Group would expect to pay or receive were it to terminate the swaps at the balance sheet date. This takes into consideration current interest rates, current exchange rates and the current creditworthiness of the counterparties. The nominal value of swaps at 31 March 2005 was £121 million. There are no unrecognised gains and losses at 31 March 2005.

Forward exchange contracts

The value of these contracts is the estimated amount, which the Group would expect to pay or receive on the termination of the contracts. This takes into consideration current interest rates and current exchange rates. At 31 March 2005 the Group had £29 million of such contracts outstanding.

Individual financial statements of Cable and Wireless plc

144 Independent auditor's report

145 Balance sheet

146 Reconciliation of movements in equity shareholders' funds for the Company

147 Notes to the financial statements

Independent auditor's report to the members of Cable and Wireless plc

We have audited the parent company financial statements of Cable and Wireless plc for the year ended 31 March 2006 which comprise Company balance sheet, reconciliation of movements in shareholders' funds for the Company and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the consolidated financial statements of Cable and Wireless plc for the year ended 31 March 2006.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual report, the Directors' remuneration report and the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 66.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Annual report that is cross referenced from the Business review section of the Directors' report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

– the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;
– the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
– the information given in the Directors' report is consistent with the parent company financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
31 May 2006

Company balance sheet

As at 31 March 2006

	Note	31 March 2006 £m	Restated 31 March 2005 £m
Fixed assets			
Tangible assets	6	12	11
Fixed asset investments			
Investments in subsidiaries	7	21,342	20,412
Investments in joint ventures and associates	7	25	19
Loans to joint ventures and associates	7	1	1
Available for sale assets	9	15	–
		21,395	20,443
Current assets			
Debtors			
– due within one year	8	66	148
– due after more than one year	8	3	1
		69	149
Financial assets at fair value through profit and loss account	9	39	–
Available for sale financial assets	9	655	–
Current assets, investments and short-term deposits	9	–	1,819
Cash at bank and in hand		162	11
		925	1,979
Current liabilities			
Creditors	10	(227)	(272)
Loans	11	(106)	–
Derivative financial instruments	12	(15)	–
Creditors: amounts falling due within one year		(348)	(272)
Net current assets		577	1,707
Total assets less current liabilities		21,972	22,150
Creditors: amounts falling due after more than one year			
Creditors	10	(18,349)	(18,382)
Convertible debt	11	(202)	(252)
Loans	12	(184)	(304)
		(18,735)	(18,938)
Provisions for liabilities and charges	14	(87)	(164)
Retirement benefit obligations	17	(23)	(20)
		(18,845)	(19,122)
Net assets		3,127	3,028
Capital and reserves			
Called up share capital	15	605	599
Share premium account	16	24	8
Reserves	16	2,498	2,421
Equity shareholders' funds		3,127	3,028

The accompanying notes on pages 147 to 164 are an integral part of the financial statements of the Company.

The financial statements of the Company on pages 145 to 164 were approved by the Board of Directors on 31 May 2006 and signed on its behalf by:

Richard Lapthorne – Chairman **Charles Herlinger – Chief Financial Officer**

Reconciliation of movements in equity shareholders' funds for the Company

For the year ended 31 March 2006

	2005/06 £m	Restated 2004/05 £m
Profit for the financial year	120	112
Dividends – interim	(32)	(27)
– final	(60)	(73)
Profit for the year carried forward	**28**	12
Adoption of FRS 25/26	14	–
Other recognised gains relating to the year	2	–
Actuarial loss in the value of defined benefit retirement plans	(2)	–
New share capital issued	22	9
Purchase of own shares	(17)	(75)
Share-based payments	5	5
Conversion element of convertible bond transferred to equity	47	–
Increase/(decrease) in equity shareholders' funds	**99**	(49)
Opening equity shareholders' funds (prior year adjusted)	3,028	3,077
Closing equity shareholders' funds	**3,127**	3,028

Opening equity shareholders' funds were originally £3,109 million before deducting a prior year adjustment of £81 million (2004/05 – £3,107 million before deducting a prior year adjustment of £30 million) relating to the adoption of FRS 17, FRS 20 and FRS 21 (see note 1.2).

The accompanying notes on pages 147 to 164 are an integral part of the financial statements of the Company.

Notes to the financial statements
For the year ended 31 March 2006

1 Statement of accounting policies

1.1 Basis of preparation

The Company's financial statements have been prepared in accordance with accounting standards applicable under generally accepted accounting principles in the UK and the provisions of the Companies Act, and on the historical cost basis where appropriate, except for the revaluation of investments in subsidiaries.

These financial statements set out the position of the Company and not Cable & Wireless Group (the 'Group') which it heads.

1.2 New accounting standards

The following Accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements except as noted below.

The Company has adopted FRS 17 *Retirement benefits*, FRS 20 *Accounting for share-based payments*, FRS 21 *Events after the balance sheet date*, FRS 22 *Earnings per share* (not applicable to the Company), FRS 23 *The effects of changes in foreign exchange rates*, FRS 24 *Financial reporting in hyperinflationary economies*, FRS 25 *Financial instruments: Disclosure and presentation*, FRS 26 *Financial instruments: Measurement*. The comparative figures have been restated where applicable.

The adoption of FRS 17 resulted in a prior year adjustment of £141 million reducing opening equity shareholders' funds (2004 – £103 million).

The adoption of FRS 20 resulted in a charge in the years ended 31 March 2005 and 31 March 2006 in respect of share based payments of £5 million and £5 million respectively. There was no impact on the opening balance sheet.

The adoption of FRS 21 changed the timing of the recognition of dividends from the period to which the dividend related to the point at which the dividend becomes payable. A prior year adjustment of £60 million has been reflected in the opening balance sheet at 1 April 2005 (2004 – £73 million).

The adoption of FRS 23 and FRS 24 has no impact on these financial statements.

The adoption of FRS 25 and FRS 26 requires substantial additional disclosures and the reclassification and re-measurement of certain of the Company's assets and liabilities. As permitted under the transitional arrangements for the implementation of these standards, the Company has adopted FRS 25 and FRS 26 from 1 April 2005. A reconciliation of the balance sheet at 31 March 2005 to 1 April 2005 is set out in note 20.

1.3 Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

FRS 18 *Accounting policies* requires that a description of the impact of any change in estimation techniques should be provided where the change has a material impact on the reported results for the period.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. The cost of fixed assets includes directly attributable labour and overhead costs. Interest incurred up to the time that separately identifiable major capital projects are ready for service is also capitalised as part of the cost of assets. Where the Company has a legal or constructive obligation to dismantle and remove its assets and restore the relevant sites, a provision is made for the estimated costs of the asset retirement obligation. The present value of the asset retirement obligation is capitalised as part of the initial cost of the asset.

Depreciation is not provided on freehold land or projects under construction. On other tangible fixed assets, depreciation is provided on the difference between the cost of tangible fixed assets and the estimated residual value, in equal annual instalments over the estimated useful lives of the assets. Depreciation commences when the assets are ready for use. These lives are:

	Lives
Plant and equipment	3 to 10 years
Freehold buildings	40 years
Leasehold land and buildings	up to 40 years or term of lease if less

Profits and losses on disposals of tangible fixed assets are determined by reference to sale proceeds and net book values.

Notes to the financial statements
For the year ended 31 March 2006

1.5 Asset impairment
Intangible and tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Where an impairment indicator is identified, the carrying value of the income-generating unit is compared with its recoverable amount. Where the recoverable amount is less than the carrying value an impairment is recognised.

1.6 Investments in subsidiaries, joint ventures and associates
Investments in subsidiaries are included in the balance sheet at valuation. Investments in joint ventures and associates are included in the balance sheet at cost.

1.7 Financial investments
(a) From 1 April 2004 to 31 March 2005
Listed and unlisted securities are carried at purchase price net of any diminution in value that is expected to be permanent. Any diminution in value is charged to profit.

(b) From 1 April 2005
The Company classifies its investments into the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit and loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within one year of the balance sheet date.

Originated loans and receivables
Originated loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than one year after the balance sheet date; these are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

Available for sale financial assets
Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within one year of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit and loss' category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains and losses from investment securities. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

1.8 Tax

The charge for tax is based on the result for the year and takes into account tax deferred due to timing differences between the treatment of certain items for tax and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets are regarded as recoverable to the extent that on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences that have arisen but not reversed at the balance sheet date.

1.9 Pensions

The Company is a member of the Group's defined benefit pension scheme but is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Company's profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Company also operates an unfunded pension plan to cover the costs of former Directors' and other senior employees' pension entitlements. Provision is made in the Company's financial statements for the expected costs of meeting the associated liabilities.

Costs in respect of the Company's defined contribution pension schemes are charged to the profit and loss account on an accruals basis as contributions become payable.

1.10 Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares.

1.11 Borrowings

(a) From 1 April 2004 to 31 March 2005

Borrowings are recognised initially at the proceeds received from the borrowing agreement, net of any related issue costs. Those issue costs are amortised into the profit and loss account over the life of the instrument using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

(b) From 1 April 2005

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Where the terms of a borrowing arrangement contain a separable embedded derivative, the initial values of the debt component and the derivative component(s) are determined using the appropriate fair value calculations. The liability portion is recorded on an amortised cost basis until extinguished on conversion or maturity of the bonds. If the conversion option is a derivative it is accounted for as such. Where the conversion option is considered to be equity, it is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

1.12 Trade and other receivables

(a) From 1 April 2004 to 31 March 2005

Trade and other receivables are carried at the original invoice amount to customers less provision made for doubtful receivables based on a periodic review of all outstanding amounts. Bad debts are written off through the profit and loss account when identified.

(b) From 1 April 2005

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

1.13 Financial instruments

(a) From 1 April 2004 to 31 March 2005

Swaps and forward rate agreements

The net interest paid or received under any interest rate and cross currency swaps and forward rate agreements ('FRAs') is recorded on an accruals basis and included within net financing cost in the profit and loss account. The notional amounts of interest rate swaps and FRAs are not recorded on the balance sheet. Cross currency swaps are used to hedge the initial draw down and final repayment of certain foreign currency denominated debt, and the related foreign currency interest flows.

Forward exchange contracts

Forward exchange contracts are carried on the balance sheet at the difference between the amounts of the payable and receivable currency revalued at the closing exchange rate. The interest differential, being the difference between the contract rate and the spot rate on the date of entering into the forward exchange contract, is charged to the profit and loss account as interest over the life of the contract.

Exchange gains and losses

Exchange gains and losses on revaluation and maturity of any forward exchange contracts and cross currency swaps are treated according to the underlying exposure they hedge:

– for any contracts that hedge firm third party commitments the exchange gains and losses are recognised in the profit and loss account in the same period as the underlying transaction;
– for any contracts over underlying currency assets or liabilities the exchange gains and losses are offset against the equal and opposite exchange gains or losses arising on the retranslation of the underlying assets or liabilities;
– for any contracts taken out to hedge overseas equity investments the exchange gains and losses are taken to reserves to offset against the exchange differences arising on the retranslation of the net assets of the investments on consolidation; and
– for any contracts that hedge general trading flows the exchange gains or losses are taken to the profit and loss account in the period in which they arise. Where the underlying exposure changes, or ceases to exist, the contract would be terminated and the exchange gain or loss arising taken to the profit and loss account.

(b) From 1 April 2005

Derivative financial instruments and associated gains and losses are recognised as balance sheet items and recognised gains/losses respectively. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

– hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
– hedges of highly probable forecast transactions (cash flow hedges); or
– hedges of net investments in foreign operations.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, network) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed of.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

Fair value estimation
The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

1.14 Employee Share Ownership Plan ('ESOP') and purchase of own shares by the Company
The financial statements of the Company include the assets and related liabilities of the Group's Employee Share Ownership Plan Trust ('the Trust'), which holds shares for the Group's ESOP. Under the requirements of UITF 38 *Accounting for ESOP trusts* the shares held by the Trust are stated at cost and deducted from shareholders' funds.

Shares purchased by the Company are held as treasury shares at cost and deducted from shareholders' funds until they are cancelled, sold for cash or transferred out of treasury pursuant to an employees' share scheme. Treasury shares do not carry voting rights and no dividends will be paid on these shares.

2 Company's profit and loss account and cash flow statement
The Company has taken advantage of the exemption contained in s230 of the Companies Act 1985 and has not presented its own profit and loss account. The profit for the year of the Company amounted to £120 million (2005 – £112 million after £40 million of prior year adjustments resulting from the application of new accounting standards).

The Company has taken advantage of the exemption contained in FRS 1 (revised) and has not presented its own cash flow statement, as its cash flows are included in the consolidated cash flow of the Group, set out on page 72.

3 Remuneration of directors
Information covering Directors' remuneration, interests in shares, share options and pension benefits is set out in the Directors' remuneration report on pages 55 to 65.

Notes to the financial statements

For the year ended 31 March 2006

4 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, was as follows:

	2005/06	2004/05
Average number of persons employed by the Company	287	556

Costs for the year	2005/06 £m	2004/05 £m
Wages and salaries	24	44
Share-based payments	5	5
Social securities costs	2	3
Other pension costs	42	44
	73	96

5 Employee share schemes

The details of share option schemes and other share-based plans are disclosed in note 33 to the consolidated financial statements. The cost of such options and awards is borne by participating businesses and the Company has borne its charge as set out in the table above.

Movements in the number of share options outstanding and their related weighted average exercise prices are presented below:

	31 March 2006		31 March 2005	
	Weighted average exercise price (p)	Number of options '000	Weighted average exercise price (p)	Number of options '000
Outstanding at the start of the period	139.35	28,114	196.49	22,708
Granted in the period	127.25	10,233	110.14	11,956
Forfeited in the period	122.68	(226)	127.67	(640)
Exercised in the period	101.85	(3,449)	97.94	(414)
Lapsed in the period	209.65	(3,122)	316.33	(5,496)
Outstanding at the end of the period	132.69	31,550	139.35	28,114
Exercisable at the end of the period	287.61	2,997	462.56	1,916

The Company has applied the requirement of FRS 20 and has elected to adopt the exemption to apply FRS 20 only to awards made after 7 November 2002.

6 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Projects under construction £m	Total £m
Cost				
At 1 April 2005	2	79	3	84
Additions	–	1	3	4
Disposals	–	(51)	(1)	(52)
Transfers	–	1	(1)	–
At 31 March 2006	2	30	4	36
Depreciation				
At 1 April 2005	1	72	–	73
Charge for the year	–	2	–	2
Disposals	–	(51)	–	(51)
At 31 March 2006	1	23	–	24
Net book value				
At 31 March 2006	1	7	4	12
At 31 March 2005	1	7	3	11

	2005/06 £m	2004/05 £m
Land and buildings at net book value		
Freeholds	1	1

7 Fixed asset investments

	Joint ventures and associates £m	Subsidiary undertakings £m	Total £m
Cost/valuation			
At 1 April 2005	24	16,272	16,296
Additions	7	58	65
Disposals	–	(16)	(16)
At 31 March 2006	**31**	**16,314**	**16,345**
Loans			
At 1 April 2005	1	13,457	13,458
Additions	–	949	949
Loans repaid and transferred	–	(62)	(62)
At 31 March 2006	**1**	**14,344**	**14,345**
Provisions and amounts written off			
At 1 April 2005	(5)	(9,317)	(9,322)
Increase in year	(1)	–	(1)
Disposals	–	1	1
At 31 March 2006	**(6)**	**(9,316)**	**(9,322)**
Net book value			
At 31 March 2006	**26**	**21,342**	**21,368**
At 31 March 2005	20	20,412	20,432

On 11 November 2005, the Company purchased the entire share capital of Chelys Limited, the parent company of the Energis Group ('Energis'), for a total consideration of £705 million. The consideration was made up of £675 million debt repayment, £15 million to acquire the share capital of Chelys Limited and £15 million of direct costs incurred to acquire Energis.

As part of the Energis acquisition, the Company agreed to pay contingent consideration of between nil and a maximum of £80 million. The amount of contingent consideration is tied to the Company's share price and may be satisfied, at the Company's option, in either cash or shares of the Company. Payments will be based on a ratio of £1.25 million for every one penny by which the maximum three month volume weighted average Cable & Wireless share price in the third year following completion exceeds the reference price of 135 pence. Any payments would begin in March 2008, would be payable once a month until December 2008 and will be based upon Cable & Wireless' volume weighted average share price for the three months prior to any relevant payment date.

The terms and conditions of the contingent consideration include anti-dilution mechanisms similar to those in the 4% convertible bond issued by Cable & Wireless (due 2010). In addition, in the event of a change of control of the Group, or in the event of its shares ceasing to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities, a sum calculated in accordance with the terms of the contingent consideration will be payable in cash within ten business days.

On 11 December 2005, the entire shareholding in Chelys Limited was sold to another Group company at no gain or loss.

	Joint ventures and associates	
	2005/06 £m	2004/05 £m
Investments at net book value		
Listed shares	**23**	17
Unlisted shares	**2**	2
Loans	**1**	1
	26	20

The market value of the Company's holdings in listed shares of joint ventures and associates was £335 million (2005 – £386 million). A list of the Company's significant subsidiary undertakings, joint ventures and associates is disclosed in note 19.

8 Debtors

	2005/06 £m	2004/05 £m
Amounts falling due within one year		
Trade debtors	3	2
Amounts owed by subsidiary undertakings	41	93
Amounts owed by joint ventures and associates	4	5
Other taxation and social security	5	–
Other debtors	6	19
Prepayments and accrued income	7	29
	66	148
Amounts falling due after more than one year		
Other debtors	3	–
Prepayments and accrued income	–	1
	3	1
Total debtors	69	149

The fair value of all debtors is not materially different to their carrying value.

9 Investments

At 1 April 2005, the Company adopted FRS 25 and 26 relating to financial instruments. We have applied the exemption given which permits non-application of these standards to the comparative figures. Part (a) of this note discloses the current year investments under FRS 25 and 26. Part (b) gives the comparative period under the previous standards.

(a) Investments

	Fair value through profit and loss £m	Available for sale £m
At 31 March 2005	–	–
Transferred from trade investments	78	1,739
FRS 25 and 26 remeasurement	–	1
At 1 April 2005	78	1,740
Net disposals	(40)	(1,072)
Fair value gain to profit and loss	1	–
Fair value gain to equity	–	2
At 31 March 2006	39	670
Less		
Current portion	39	655
Non-current portion	–	15

Year end financial investments comprise the following:

	31 March 2006 £m
Listed securities	
UK Government Gilts	15
Unlisted securities	
Credit Linked Notes	39
Short-term deposits	655

The Credit Linked Notes were issued by two AA-rated banks and are aligned with the Company's 2012 bond. These transactions have a similar economic effect to repurchasing the bonds for the period of the investment. In return for the Company receiving interest on the Credit Linked Notes at rates similar to those payable on the underlying bond, the final redemption to be received by the Company would be less than face value if a 'credit event' as defined in the terms of the notes occurs in respect of Cable and Wireless plc.

Reflecting the terms of the underlying bond, credit events in the Credit Linked Notes are as follows:

– Bankruptcy;
– Failure to make any payment due under any of its debt obligations, after expiration of any grace period and subject to a threshold of £25 million; and
– Restructuring of any of its debt subject to a threshold of £25 million.

If a credit event should take place, the counterparties to the Credit Linked Notes are entitled to deliver to Cable and Wireless plc its own bonds or debt obligations with a face value equivalent to that of the Credit Linked Notes, or a cash amount equal to the market value thereof.

(b) Current asset investments and short-term deposits
As at 31 March 2005 the Company held current asset investments and short-term deposits of £1,819 million including £12 million of UK Government Gilts and £80 million of Credit Linked Notes. A provision of £2 million, reflecting a temporary reduction in value, was held at 31 March 2005.

10 Creditors

	2005/06 £m	2004/05 £m
Amounts falling due within one year		
Trade creditors	3	3
Amounts owed to subsidiary undertakings	45	31
Other taxation and social security	102	119
Other creditors	47	75
Accruals and deferred income	30	44
	227	272

	2005/06 £m	2004/05 £m
Amounts falling due after more than one year		
Amounts owed to subsidiary undertakings	18,349	18,382

The Articles of Association of the Company permit borrowing up to two and a half times the capital and reserves of the Group.

There is no material difference between the carrying value and fair value of creditors at 31 March 2006.

11 Convertible debt and loans

On 1 April 2005, the Company adopted FRS 25 and 26 relating to financial instruments. The liability component and the derivative features on the Company's convertible bond are separated and measured in accordance with the requirements of FRS 25 and FRS 26. An impact of this adoption has been to reduce the principal value of the convertible bond as at 1 April 2005 by £60 million and recognise a derivative liability of £47 million. We have applied the exemption which permits non-application of these standards to the comparative figures. The current year disclosures below have been prepared under FRS 25 and 26.

	Note	31 March 2006 £m	31 March 2005 £m
4% convertible unsecured bond due end 2010	(a)	202	252
Sterling loan due in 2012	(b)	184	183
Euro loan due in 2006	(c)	106	121
Derivative financial instrument	12	15	–
		507	556
Less current portion		(121)	–
Non-current portion of loans and convertible bonds		386	556

Individual financial statements

Notes to the financial statements

For the year ended 31 March 2006

The payment profile of loans and obligations is:

	31 March 2006 £m	31 March 2005 £m
Due in less than one year	121	–
Due in more than one year but not more than two years	–	121
Due in more than two years but not more than five years	202	–
Due in more than five years	184	435
Total loans and convertible bonds	507	556

(a) Convertible unsecured bond

On 16 July 2003 £257,714,000 4% convertible unsecured bonds were issued at par. Subject to Cable & Wireless' right to make a cash alternative election, each bond entitles the holder to: i) convert the bond into fully paid Ordinary Shares of 25 pence each at the rate of 457.930 Ordinary Shares for each £1,000 held at an initial conversion price of £1.45 per Ordinary Share; and ii) to have redeemed the cash settled amount of such bond in accordance with the terms and conditions (representing 231.724 Ordinary Shares for each £1,000 held at the initial conversion price of £1.45 per Ordinary Share), at any time prior to 9 July 2010. Full conversion of the bonds would result in an additional 177,733,748 shares being issued. In April 2005, the terms of the bond were amended to remove Cable & Wireless' right to make a cash alternative election.

After 16 July 2007, if Cable & Wireless' share price exceeds an amount calculated in accordance with the terms and conditions for a specified number of days, Cable & Wireless has the right to give not less than 30 days and not more than 90 days notice that it will redeem all unconverted bonds still outstanding on a given date at par plus accrued interest. If the bonds have not been converted, purchased and cancelled or redeemed by 16 July 2010, they will be redeemed at par on that date.

The finance costs charged in the profit and loss accounts comprise the aggregate of the coupon and the proportion of issue costs that relate to the financial year.

On the adoption of FRS 25 and FRS 26 the fair value of the liability component and the equity conversion component was determined on the issue of the bond. The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate of 10.7% for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity net of deferred income taxes.

The convertible bond is recognised on the balance sheet as follows:

	£m
Face value of convertible bond issued on 16 July 2003	258
Issue costs	(6)
Equity conversion component on initial recognition	(75)
Previous years' amortisation of the liability component	15
Liability component on 1 April 2005	192
Interest expense	20
Interest paid	(10)
Liability component at 31 March 2006	202

Interest expense on the bond is calculated on the effective yield basis by applying the effective interest rate 10.7% for an equivalent non convertible bond to the liability component of the convertible bond.

(b) Sterling loan

The Sterling loan consists of a £200 million listed bond due in 2012 with a balance at 31 March 2006, net of costs, of £184 million. Interest is payable at 8.75% per annum annually. During 2004/05 the Company repurchased but did not cancel £16 million of this bond at an average price of 101.625p.

(c) Euro loan

European Investment Bank loan with a balance at 31 March 2006, net of costs, of £106 million. This loan bears interest at LIBOR minus 0.15% and interest is payable quarterly.

12 Derivative financial instruments

Derivative financial investments are recorded in the balance sheet of the Company from 1 April 2005, the date of adoption of FRS 25 and FRS 26. The fair value of the Company's derivative financial instruments is presented below.

	31 March 2006 £m
Liabilities – current	
Cross currency swaps	15

Cross currency swaps

The Company has a Euro denominated loan (the 'Loan') and a related euro-sterling cross currency swap (the 'Swap') with terms matching those of the Loan. Prior to 1 April 2005 the Loan and Swap were accounted for as if they were a single loan denominated in sterling. Under FRS 25 and FRS 26 the Loan has been translated at the closing rate at 31 March 2006, giving rise to a reduction in the balance of £15 million. The Swap was marked to market at the same date and recognised on balance sheet giving rise to a derivative liability of £15 million. The Company has not applied hedge accounting to the Loan and Swap. Both the Loan and Swap are revalued at each balance sheet date. Gains and losses on the instruments (which will materially offset each other) are recognised in the profit and loss account.

Forward currency purchases

The Company has a forward exchange contract matching US$44 million deposits held as cash collateral against certain bank guarantees. The Company has not applied hedge accounting to the deposits and the forward exchange contract. Both the deposits and forward exchange contract are revalued at each balance sheet date. Gains and losses on the instruments (which will materially offset each other) are recognised in the profit and loss account.

13 Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements at other than fair values.

Market values obtained from third parties have been used to determine the fair value of cross currency swaps, the convertible bond, Euro loan, sterling repayable and the US dollar loan. All other financial liabilities have a short maturity in which case the carrying amount has been used.

	Carrying amount 31 March 2006 £m	Fair value 31 March 2006 £m
Financial liabilities		
Convertible bond	202	231
Sterling repayable due in 2012	184	189
Euro loan repayable in 2006	106	106
Cross currency swap	15	15
	507	541

At 31 March 2006, the effective interest rates at the balance sheet date were as follows:

	Currency	Interest rate %
4% convertible unsecured bond due end 2010	£	10.7
Sterling repayable due in 2012	£	8.7

The carrying amounts of the Company's cash and short-term investments and loans and borrowings are denominated in the following currencies:

	31 March 2006 financial assets £m	31 March 2006 financial liabilities £m
Sterling	790	401
US dollar	39	–
Euro	27	106
	856	507

Notes to the financial statements

For the year ended 31 March 2006

14 Provisions for liabilities and charges

	Note	At 1 April 2005 £m	Additions £m	Releases £m	Amounts used £m	At 31 March 2006 £m
Deferred taxation	(i)	1	–	(1)	–	**–**
Redundancy	(ii)	9	12	–	(11)	**10**
Property	(iii)	31	5	(20)	(11)	**5**
Network	(iv)	10	–	(8)	–	**2**
Other	(v)	113	15	(30)	(28)	**70**
		164	32	(59)	(50)	**87**

(i) Deferred taxation
No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, joint ventures and associates. Due to the availability of losses and other reliefs, no tax is expected to be payable on them in the foreseeable future.

As at 31 March 2006, the Company had unrecognised deferred tax timing differences in the UK relating to capital allowances of £13 million (2005 – £13 million), losses of £31 million (2005 – £31 million) and other timing differences of £94 million (2005 – £153 million).

(ii) Redundancy
Provisions have been made for the cost of redundancies announced during the year. These are expected to be utilised within one year.

(iii) 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.

(iv) Network
Provision has been made for the best estimate of the unavoidable costs associated with redundant network capacity. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

(v) Other
Other provisions include amounts relating to the disposal of the previously discontinued US businesses, amounts relating to specific claims held against the Group's insurance subsidiary Pender, and amounts relating to acquisitions and disposals of Group companies and investments. The reversal of unused amounts reflect the resolution of claims and other risks during the year.

15 Called up share capital

	2005/06 £m	2004/05 £m
Authorised		
3,500,000,000 Ordinary Shares of 25p each	875	875
(2005 – 3,500,000,000 Ordinary Shares of 25p each)		
Allotted, called up and fully paid		
2,421,046,668 Ordinary Shares of 25p each	605	599
(2005 – 2,394,822,240 Ordinary Shares of 25p each)		

Purchases and allotments of Ordinary Shares of 25p each were made during the year in respect of the following:

	Number of shares allotted	Gross consideration received £
Savings Related Share Option Scheme	8,699,598	3,574,305
Global Savings Related Share Option Scheme	2,463,200	1,221,971
Share Option Plan – Approved	78,495	90,001
Share Option Plan – Unapproved	5,490,660	5,908,034
Scrip dividends[a]	9,492,475	–[1]
Total	26,224,428	10,794,311

[1] Scrip dividends with a cash equivalent value of £12.1 million (2005 – £3.4 million) were issued during the year. This represents a non-cash transaction.

16 Reserves

	Share premium £m	Treasury shares £m	Special reserve £m	Other reserves £m	Fair value reserve £m	Profit and loss account £m	Total £m
At 1 April 2005	8	(224)	1,736	105	–	885	2,510
Prior year adjustment	–	–	–	–	–	(81)	(81)
At 1 April 2005 (restated)	8	(224)	1,736	105	–	804	2,429
Adoption of FRS 25/26	–	–	–	–	1	13	14
Own shares purchased	–	(17)	–	–	–	–	(17)
Premium on shares issued	16	–	(22)	–	–	22	16
Conversion element of convertible bond transferred to equity	–	–	–	47	–	–	47
Profit for the year retained	–	–	–	–	–	120	120
Fair value gains on available for sale assets	–	–	–	–	2	–	2
Actuarial loss recognised	–	–	–	–	–	(2)	(2)
ESOP trust shares issued to satisfy share awards	–	10	–	–	–	(10)	–
Share-based payment costs	–	–	–	–	–	5	5
Dividends	–	–	–	–	–	(92)	(92)
At 31 March 2006	**24**	**(231)**	**1,714**	**152**	**3**	**860**	**2,522**

The aggregate nominal value of the shares allotted in the year was £6.6 million (2005 – £2.3 million). The Company repurchased 14.45 million shares, representing 0.6% of issued share capital at 31 March 2006, during the year for consideration of £17.4 million. None of these shares were cancelled as at 31 March 2006. The nominal value and market value of Treasury shares held by the company at 31 March 2006 was £18.7 million and £81.9 million, (2005 – £15 million and £78.2 million) respectively. Also included in Treasury shares are 50,990,339 (2005 – 54,759,057) shares acquired by the Cable & Wireless ESOP Trust (the Trust) for consideration of £139 million (2005 – £149 million). The nominal value and market value of the Trust's shares held at 31 March 2006 was £12.7 million and £55.7 million (2005 – £13.7 million and £70.8 million) respectively. All shares in the Trust are held to satisfy the Company's obligation in respect of share options granted.

The special reserve relates to the cancellation of share premium account approved at the 2003 AGM and confirmed by the Court in February 2004. It will be reduced from time to time by the amount of any increase in the paid up share capital and share premium account after 20 February 2004 resulting from the issue of new shares for cash or other new consideration. The special reserve will not be treated as realised profits until any debt or claim outstanding as at 20 February 2004 has been repaid or remedied.

Other reserves includes £105 million (2005 – £105 million) capital redemption reserve and £47 million (2005 – £ nil) relating to the transfer of the convertible element of the convertible bond to equity.

17 Pension scheme

The Company is a member of a group-wide pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 *Retirement benefits*; the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out as at 31 March 2005 and was updated for FRS 17 purposes to 31 March 2006 by a qualified external independent actuary. The contribution for the year was £110.8 million (2005 – £115.7 million). It has been agreed that an employer contribution rate of 22.3% (2005 – 20%) of pensionable pay will apply from 1 April 2005. Further details of the scheme are set out on page 114.

The Company also operates unfunded pension plans to cover the costs of former Directors' and other senior employees' pension entitlements. Provision is made in the Company's financial statements for the expected costs of meeting the associated liabilities and is disclosed as the Retirement benefit obligation on the Company's Balance Sheet.

The major assumptions used in this valuation were:

	2005/06	2004/05
Inflation assumption	2.8%	2.7%
Rate of increase in salaries	3.3%	3.2%
Rate of increase in pensions in payment and deferred pensions	2.8 or 3.0%	2.7 or 3.0%
Discount rate applied to scheme liabilities	4.9%	5.4%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets and liabilities

The fair value of the scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

At 31 March	Unfunded value 2006 £m	Unfunded value 2005 £m	Funded value 2006 £m	Funded value 2005 £m
Equities	–	–	997	879
Bonds and gilts	–	–	715	539
Property	–	–	133	94
Cash	–	–	137	103
Total market value of assets	–	–	1,982	1,615
Present value of scheme liabilities	(23)	(20)	(2,059)	(1,775)
Deficit in the scheme – pension liability	(23)	(20)	(77)	(160)
Related deferred tax liability/asset	–	–	–	–
Net pension liability	(23)	(20)	(77)	(160)

Long-term rate of return

	2005/06	2004/05
Equities	7.5%	8.0%
Bonds and gilts	4.5%	4.9%
Property	6.0%	6.5%
Cash	4.3%	4.0%

Movement in deficit during the year

	Unfunded 2005/06 £m	Unfunded 2004/05 £m	Funded 2005/06 £m	Funded 2004/05 £m
Deficit in scheme at beginning of year	20	20	160	336
Current service cost	–	–	17	20
Contributions paid	–	(1)	(111)	(116)
Curtailment cost	–	–	–	1
Other finance (income)/cost	1	1	(11)	(3)
Actuarial (gain)/loss	2	–	22	(78)
Deficit in the scheme at the end of the year	23	20	77	160

18 Related party transactions

Under FRS 8 *Related party disclosures*, the Company is exempt from the requirement to disclose transactions with entities that are part of the Cable & Wireless Group, or investees of the Group qualifying as related parties, as all of the Company's voting rights are controlled within the Group.

Transactions with joint ventures and associates

All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services, network and access charges. There were no material trade transactions with joint ventures and associated companies during the year.

The Company has an interest free loan of £1 million (2005 – £1 million) with Quantum Communications Limited, an associate of the Group. This loan is still outstanding at 31 March 2006.

The Company received £20 million (2005 – £14 million) dividends from associates and £2 million (2005 – £3 million) from joint ventures for the year ended 31 March 2006.

Amounts owed by joint ventures and associates are set out in note 8.

Transactions with other related parties

There are no controlling shareholders of the Company.

There were no material transactions with Directors, except for those relating to remuneration and shareholdings.

There have been no material transactions with the shareholders of the Company. Other than the parties disclosed above, the Company has no other material related parties.

Notes to the financial statements

For the year ended 31 March 2006

19 Subsidiaries, joint ventures and associates

	Local currency	Issued share capital (million)	Ownership Direct	Ownership Via subsidiaries	Class of shares	Country of incorporation	Area of operation
Cable & Wireless UK	£	3,033	–	100%	Ordinary	England	UK
Cable & Wireless Jamaica Ltd	J$	16,817	–	82%	Ordinary	Jamaica	Jamaica
Cable & Wireless Panama, SA[1]	Balboa	316	–	49%	Ordinary	Panama	Panama
Companhia de Telecomunicacoes de Macau, SARL[2]	Pataca	150	–	51%	Ordinary	Macau	Macau and China
Cable & Wireless (Barbados) Ltd	B$	72	–	81%	Ordinary	Barbados	Barbados
Cable and Wireless (West Indies) Ltd	£	5	–	100%	Ordinary	England	Caribbean
Monaco Telecom SAM[3 4]	Euro	2	–	49%	Ordinary	Monaco	Monaco
Bulldog Communications Ltd	£	2	–	100%	Ordinary	England	UK
Chelys Limited (Energis)	£	14	–	100%	Ordinary	England	UK
Dhivehi Raajjeyge Gulhun Private Ltd[2]	Rufiya	190	–	45%	Ordinary	Maldives	Maldives
Joint ventures							
Telecommunications Services of Trinidad and Tobago Ltd[3]	T$	283	–	49%	Ordinary	Trinidad and Tobago	Trinidad and Tobago
Associates							
Bahrain Telecommunications Company BSC[2]	Dinar	100	20%	–	Ordinary	Bahrain	Bahrain

1 The Company regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.
2 This company had a financial year end of 31 December due to the requirements of the shareholders' agreement.
3 This company is audited by a firm other than KPMG and its International member firms.
4 The Company holds an economic interest of 55% in Monaco Telecom via a subsidiary.

The list above only includes those companies whose results or financial position, in the opinion of the Directors, principally affects the figures shown in the financial statements.

On 18 June 2004 Cable & Wireless acquired 55% of Monaco Telecom, a Monaco based telecommunication service provider, from Vivendi Universal.

Simultaneously with the acquisition, Cable & Wireless transferred legal ownership of 6% of the shares of Monaco Telecom to an unrelated third party. Cable & Wireless contractually retained voting and economic rights in the shares as part of the arrangement. In addition, the 6% interest is subject to certain put and call options that, together with the retained voting and economic rights, provide full management control of Monaco Telecom to Cable & Wireless.

Cable & Wireless has also entered into a shareholders' agreement with the Principality of Monaco, which contains, among other provisions, a prohibition on either Cable & Wireless or the Principality (subject to certain limited exceptions) selling their shares in Monaco Telecom for five years, mutual pre-emption rights on transfer of shares and certain other limited rights in favour of the Principality. The Principality has a put option entitling it to put its 45% shareholding in Monaco Telecom to Cable & Wireless at certain times after 1 January 2008. The exercise price under the put option is fair market value, taking into account the nature of the minority stake in Monaco Telecom.

Full details of all subsidiary undertakings, joint ventures, associates and trade investments will be attached to the Company's Annual Return, to be filed with the Registrar of Companies in England and Wales.

20 Impact of FRS 25/FRS 26 adoption

The Company adopted FRS 25 and FRS 26 from 1 April 2005 as permitted by the standards. The impact of the adoption of the new standard on the net assets as at 31 March 2005 is presented below.

	Note	Pre-FRS 25/26 31 March 2005 £m	Effect of FRS 25/26 adoption £m	1 April 2005 £m
Fixed assets				
Tangible assets		11	–	11
Investments in subsidiaries		20,412	–	20,412
Investments in joint ventures and associates		19	–	19
Loans to joint ventures and associates		1	–	1
Available for sale assets	(i)	–	13	13
		20,443	13	20,456
Current assets				
Debtors		149	–	149
Trade investments	(i)	1,819	(1,819)	–
Available for sale investments	(i)	–	1,727	1,727
Fair value through profit and loss account	(i)	–	78	78
Cash at bank and in hand		11	–	11
		1,979	(14)	1,965
Creditors: amounts falling due within one year	(i)	(272)	2	(270)
Net current assets		1,707	(12)	1,695
Total assets less current liabilities		22,150	1	22,151
Creditors: amounts falling due after one year				
Convertible debt	(ii)	(252)	60	(192)
Other loans	(iii)	(121)	15	(106)
Derivative financial instruments	(ii, iii)	–	(62)	(62)
Other creditors		(18,565)	–	(18,565)
		(18,938)	13	(18,925)
Provisions for liabilities and charges		(164)	–	(164)
Retirement benefit obligations		(20)	–	(20)
		(19,122)	13	(19,109)
Net assets		3,028	14	3,042

(i) Certain current investments, with a carrying value of £1,819 million and classified as trade investments prior to the adoption of FRS 25 and FRS 26, have been reclassified as non-current available for sale financial instruments with a fair value of £1,727 million and current fair value investments through profit and loss account with a fair value of £78 million.

(ii) The terms and conditions of the Company's Convertible debt instrument result in a recognition and measurement basis that is different from the basis applied prior to the adoption of FRS 25 and FRS 26. The debt agreement provides for the conversion of the debt into Ordinary Shares of Cable and Wireless plc at a predetermined fixed rate. The conversion is at the option of the bondholders and exercisable at any time prior to 9 July 2010. The bond also has a takeover protection clause, which adjusts the share conversion factor, over a period of time, until settlement or conversion of the bond. The Company has the option to settle the entire bond in cash (although this option was removed in April 2005). The takeover protection terms and the cash settlement option are considered to be derivative features that are required to be accounted for separately from the debt element of the bond.

The liability component and the derivative features are separated and measured in accordance with the requirements of FRS 25 and FRS 26. At 1 April 2005, the debt element was reduced by £60 million primarily reflecting the unamortised value of the conversion option. The debt element is accounted for on an amortised cost basis. The conversion option and takeover protection feature were marked to market at 1 April 2005 and recognised on balance sheet giving rise to a derivative liability of £47 million. The derivative elements are carried on a fair value basis with changes in value being taken to the profit and loss account. Subsequent to 1 April 2005 the cash settlement option in respect of the conversion option was removed and the conversion option reclassified as a component of equity.

Notes to the financial statements

For the year ended 31 March 2006

(iii) The Company has a Euro denominated loan (the 'Loan') and a related euro-sterling cross currency swap (the 'Swap') with terms matching those of the Loan. Under FRS 25 and FRS 26 the Loan has been translated at the closing rate at 1 April 2005, giving rise to a reduction in the balance of £15 million. The Swap was marked to market at the same date and recognised on balance sheet giving rise to a derivative liability of £15 million. The Company has not applied hedge accounting to the Loan and Swap. Both the Loan and Swap are revalued at each balance sheet date. Gains and losses on the instruments (which will materially offset each other) are recognised in the profit and loss account.

No deferred tax impact has been booked as a consequence of the above adjustments as there are unrecognised tax losses available to offset any additional liability.

21 Auditor's remuneration

The remuneration of the auditor in respect of audit services provided to the Company during the year was £1.0 million including £400,000 relating to the prior year (2005 – £2.2 million including £200,000 relating to 2004). Audit remuneration in respect of prior years resulted from additional work to comply with SEC disclosures. Regulatory reporting fees of £800,000 (2005 – £1.4 million) principally related to compliance with IFRS and the review of interim statements. Remuneration for non-audit services to the Company during the year was £100,000 (2005 – nil).

22 Commitments

The Company had no capital commitments at the end of the financial year or previous year.

23 Guarantees

Guarantees given by the Company at the end of the financial year for which no provision has been made in the financial statements are as follows:

	31 March 2006 £m	31 March 2005 £m
Trading guarantees	184	170
Other guarantees	310	347
Total guarantees	494	517

Trading guarantees principally comprise performance bonds or contracts issued in the normal course of business, guaranteeing the Group company will meet its obligations to complete projects in accordance with the contractual terms and conditions. The guarantees also enable the customer to obtain repayment of any advance payment in the event of the relevant subsidiary failing to carry out its contractual obligations in full. Some of these guarantees are uncapped.

Other guarantees comprise guarantees for financial obligations of the Company and its subsidiary undertakings in respect of borrowings, leases and letters of credit.

The nature of contracts includes projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

Pender Insurance Limited ('Pender'), the Group's Isle of Man insurance subsidiary, has written policies in favour of the Group and third parties. Potentially significant insurance claims have been made against Pender under certain of these third party policies, which have also given rise to uncertainties and disputes with reinsurers. Legal proceedings have been initiated against Pender and the Company in respect of certain insurance claims.

Other matters

In addition the Company has, as is considered standard practice in such agreements, given guarantees and indemnities in relation to a number of disposals of subsidiary undertakings in prior years. Generally, liability has been capped at no more than the value of the sales proceeds, although some uncapped indemnities have been given.

In relation to the sale of CWC ConsumerCo in May 2000, the Company gave a number of standard warranties and indemnities. There is no time limit or cap that applies generally, the Company also gives warranties and indemnities in relation to certain agreements including facility sharing agreements. Some of these agreements do not contain liability caps.

Shareholder information

166 Shareholder information
168 Glossary of terms

Shareholder information

Trading market

The principal trading market for the Ordinary Shares is the London Stock Exchange on which 8,568,253,866 Ordinary Shares were traded during the period from 1 April 2005 to 31 March 2006. As at 31 March 2006, the Company had a market capitalisation of approximately £2,553 million.

The table below sets forth, for the fiscal quarters indicated, the high and low middle market quotations for the Ordinary Shares on the London Stock Exchange as reported on its Daily Official List.

	Pence Per Ordinary Share	
	High	Low
Year ended 31 March 2002	531.5	207.0
Year ended 31 March 2003	223.0	41.0
Year ended 31 March 2004	153.5	71.0
Year ended 31 March 2005	133.5	96.5
Year ended 31 March 2006	**164.8**	**97.5**
Year ended 31 March 2005		
First quarter	133.5	115.8
Second quarter	125.3	96.5
Third quarter	119.8	97.8
Fourth quarter	113.3	112.8
Year ended 31 March 2006		
First quarter	**149.0**	**118.0**
Second quarter	**164.8**	**142.5**
Third quarter	**143.5**	**107.0**
Fourth quarter	**128.5**	**97.5**

	Pence Per Ordinary Share	
	High	Low
October 2005	**143.5**	**107.0**
November 2005	**126.5**	**114.8**
December 2005	**120.3**	**116.3**
January 2006	**128.5**	**102.3**
February 2006	**110.0**	**97.5**
March 2006	**112.8**	**105.3**

Distribution and classification of ordinary shareholdings

Analysis by balance level as at 31 March 2006.

At 31 March 2006	Number of Accounts	% of total	Number of Shares	% of total
Up to 1,000 shares	81,897	67.4	36	1.5
1,001 – 10,000	36,962	30.4	91	3.8
10,001 – 100,000	1,915	1.6	45	1.9
100,001 – 1,000,000	444	0.4	158	6.5
1,000,001 and over	259	0.2	2,091	86.3
Total	**121,477**	**100**	**2,421**	**100**
Individuals	112,564	92.7	141	5.8
Corporate bodies	1,105	0.9	275	11.4
Banks/nominee companies/ insurance companies/ pension funds	7,808	6.4	2,005	82.8
Total	**121,477**	**100**	**2,421**	**100**

At 31 May 2006, the Company had 119,756 shareholders of record.

Dividends

The table below sets out the sterling amounts of interim, final and total gross dividends paid per Ordinary Share.

There are currently no UK governmental restrictions on dividend payments to non-UK shareholders applicable to the Company.

Year ended 31 March	Pence per Ordinary Share			
	Interim	Special	Final	Total
2002	1.50	11.50[a]	3.50	16.50
2003	1.60	–	–	1.60
2004	1.05[b]	–	2.10[b]	3.15
2005	1.16	–	2.64	3.80
2006	**1.40**	**–**	**3.10**	**4.50**

[a] Paid at the same time as the interim dividend.
[b] Paid together as a full year dividend.

The Board has not adopted a formal dividend policy. The increase in the 2005/06 dividend reflects the increased visibility the move to the execution phase of the turnaround plan gives us.

A 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).

Registrar

The Company's share register is administered by Lloyds TSB Registrars. All queries about your shareholding should be addressed to:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA
Telephone 0870 600 3975 (UK shareholders)
+44 1903 502 541 (overseas shareholders)

Shareholders can view up-to-date information about their own shareholding by viewing Shareview (www.shareview.co.uk). Shareholders registered with Shareview can elect to receive shareholder communications in electronic form.

Scrip dividend scheme

A scrip dividend alternative will be available for the final dividend payable on 11 August 2006. Full details on the scrip dividend can be found in the Scrip Dividend brochure which is available from the Company's Registrar at the address above, from the Company Secretary or from the Company's website (www.cw.com).

Financial calendar

Ex-dividend date	14 June 2006
Record date	16 June 2006
Last date for election to join scrip dividend	14 July 2006
AGM	21 July 2006
Payment of final dividend	11 August 2006
Announcement of interim results 2006	8 November 2006

ShareGift

If you have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the charity ShareGift (registered charity 1052686), which collects unwanted shares until there are enough to sell and uses the proceeds to support a wide range of UK charities. Over £7 million has been donated to charity in this way since ShareGift was formed 10 years ago. The relevant share transfer forms may be obtained from ShareGift, the Company Secretary's Office or the Investor Relations section of the Company's website. Further information about ShareGift is available from their website (www.sharegift.org) or by contacting them directly on +44 (0)20 7337 0501.

Investor Relations

Enquiries may be directed to:

Director, Investor Relations
The Point
37 North Wharf Road
London
W2 1LA

or email: investor-relations.c&wplc@cw.com

Company Secretary and Registered Office

Mr Nick Cooper is the Company Secretary.

The Company's Registered Office and address for correspondence is:

Lakeside House
Cain Road
Bracknell
Berkshire
RG12 1XL
Tel: +44 (0)1908 845 000

Electronic communication

As an alternative to receiving documents through the post, Cable & Wireless offers shareholders the option to elect to receive communications from the Company electronically. To make use of this facility, please register at www.shareview.com following the onscreen instructions.

Documents on display

Shareholders can view the Register of Interests of Directors (and their families) in the share capital of the Company, together with service contracts of Executive Directors and letters of appointment of Non-executive Directors at the Company's registered office.

Shareholders may also obtain copies of the Company's Memorandum and Articles of Association at the Company's registered office.

Shareholder information
Glossary of terms

Terms used in this Annual report	Brief description of meaning
Access/internet access	Broadband or dial-up connections used by customers to access the internet.
Accounts	Financial statements.
ADSL	Asymmetric Digital Subscriber Line – a technology supporting faster transfer for received data (downstream) and slower transfer for sent data (upstream).
Alternative network provider	Providers who rely on the use of the incumbent's network and interconnect their own network with it.
ARPU	Average revenue per user.
Backbone	High capacity network linking networks of lower capacity like LANs.
Bandwidth	Network capacity.
Broadband	Transmits data at higher speeds (bits per second) than dial-up.
Bundling	Multiple services or products 'bundled' together instead of offered separately.
Called-up share capital	Ordinary Shares, issued and fully paid.
Carrier services	Part of the business dealing with other telecoms providers across the globe.
Central	The Group's corporate centre.
Company	Cable and Wireless plc.
Connectivity	Providing customers with access to the internet.
Constant currency	Calculated by retranslating prior year local currency amounts at current year average rates and comparing against current year local currency at the current year average. This eliminates impact of foreign exchange movement year on year.
Data services	Services transmitting data via fixed line, IP or mobile platforms.
Dial-up	Internet access using a standard telephone line (also known as Narrowband).
Digital	Sound, text or video coded into binary form to enable more effective transmission.
DSL	Digital Subscriber Line or technology allowing the delivery of broadband to customers via standard copper telephone lines by digitising and compressing the transmissions.
EPS	Earnings per share.
Exchange	Building, usually owned by the incumbent service provider, which houses network equipment.
Fibre optic	Use of glass fibres to transmit digital information through laser light pulses. Fibre optic lines offer more capacity than copper telephone lines.
Frame relay	Legacy data product allowing broadband transmission – has an additional layer of intelligence and functionality beyond leased lines.
GAAP	Generally Accepted Accounting Policies.
Group	Cable & Wireless plc and its subsidiaries.

Terms used in this Annual report	Brief description of meaning
GSM	Global System for Mobile communications or a digital mobile platform allowing the transmission of voice and data as well as global roaming.
Hosting	Service providing a facility or location for customers to set up servers and equipment or house websites.
IAS	International Accounting Standards.
IASB	International Accounting Standards Board.
IFRIC	International Financial Reporting Interpretations Committee.
IFRS	International Financial Reporting Standards.
Incumbent	Sole telecommunications provider in a one provider market – or the original telecommunications provider in a competitive market.
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	Internet-based network used to provide companies with an internal communications system linking employees in different offices worldwide.
IRU	Indefeasible Rights of Use or the right to use a cable fibre or wavelength exclusively for a fixed period of time.
LAN	Local Area Network or a network covering only a short distance (usually less than 1 km) – normally confined to one building or site.
Leased line	Legacy data service that delivers data from point-to-point on a dedicated line.
Legacy platform	Existing communications and transmissions infrastructure underpinning the majority of telecoms operators' networks and usually comprising copper wire or fibre networks.
Liberalised markets/ liberalisation	Previously restricted markets previously that are now open to competition.
Local loop	Telecommunications connection from the local exchange to the customer premises.
LLU	Local loop unbundling – the process of installing DSL equipment in rented space within an incumbent operator's local exchange to allow independent control of the local loop.
Managed firewall	Service where customer firewalls are managed by Cable & Wireless. A firewall is a system of hardware and software designed to prevent unauthorised access to a private network.
Mbps	Megabits per second – used to measure rates of data transfer.
Mobile services	Delivery of voice and data services to mobile handsets via wireless technologies.
Mobile transit traffic	Telecommunications traffic across the network between mobile operators who don't have a direct connection with each other.
Network costs	Include bandwidth purchase, operation and maintenance of equipment, operation of software and cables, wayleaves, customer acquisition costs, cost of goods sold, licences and associated royalties paid to government.
NGN	Next Generation Network – Cable & Wireless' all IP-based network.
Nodes	Connecting points on a network.
Ofcom	Independent regulator and competition authority for the UK communications industries – covers television, radio, telecommunications and wireless communications services.

Shareholder information
Glossary of terms

Terms used in this Annual report	Brief description of meaning
Openreach	A new part of BT, created to deliver installation and maintenance services on behalf of the UK's telephone and internet service providers.
Outpayments	Payments to other network operators to carry traffic for Cable & Wireless' customers.
PSTN	Public Switched Telephone Network – the international telephone system based on copper wires and carrying analogue voice data.
Resellers	Businesses buying capacity from network operators and selling it on to provide communications services to consumers.
SMS	Short Messaging Service – text message transmission between mobile handsets.
Switched voice	Telecoms services provided over the PSTN.
TDMA	Time Division Multiple Access or digital mobile technology that assigns a specific audio frequency to each user to deliver mobile voice and data.
Traditional services	Voice and data services delivered via the fixed line or switched networks.
UK	United Kingdom. The UK geographic segment includes both the UK business and Bulldog.
UK business	Includes the UK corporate business and Bulldog. The UK corporate business includes operations in the UK, Europe, Asia and the US.
VoIP	Voice over Internet Protocol – service providing enhanced functionality, like the delivery of voice, video and data, with the reliability and features associated with switched voice networks.
VPN	Virtual Private Network – corporate network provided to a customer using elements of a switched network.

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