REQUEST TO ESTABLISH DOCKET
(PLEASE TYPE)

Date MAY 1, 1996

Docket No 960550-TI

1. Division Name/Staff Name COMMUNICATIONS/STAVANJA
2. OPR
3. OCR
4. Suggested Docket Title PETITION FOR WAIVER OF requirement for CUSTOMER DEPOSIT BOND BY CABLE & WIRELESS, ~~INCORPORATED~~.

5. Suggested Docket Mailing List (attach separate sheet if necessary)

   A. Provide NAMES ONLY for regulated companies or ACRONYMS ONLY regulated industries, as shown in Rule 25-22.104, F.A.C.
   B. Provide COMPLETE name and address for all others. (Match representatives to clients.)

   1. Parties and their representatives (if any)

CABLE & WIRELESS, INC~~ORPORATED~~

   2. Interested Persons and their representatives (if any)

6. Check one:

XX Documentation is attached.

___ Documentation will be provided with the recommendation.

I:\PSC\RAR\WP\ESTDKT.

PSC/RAR 10 (Revised 01/96)

DOCUMENT NUMBER-DATE

04885 MAY-1 96

FPSC-RECORDS/REPORTING

DUPLICATE

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Petition of Cable & Wireless, Inc., for a Waiver of Customer Deposit Bond Requirement.	) DOCKET NO 960550 TI
	) FILE DATE

PETITION FOR WAIVER

OF CUSTOMER DEPOSIT BOND REQUIREMENT

Cable & Wireless, Inc. ("CWI"), pursuant to Rules 25-22.036 and 25-24.490 of the Florida Administrative Code, hereby petitions the Florida Public Service Commission ("Commission"), for a waiver of the customer deposit bond requirement. In support of its Petition, CWI provides the following information:

1. The name, address and telephone number of the Company are:

   Cable & Wireless, Inc.
   8219 Leesburg Pike
   Vienna, Virginia 22182
   (703) 790-5300

2. All correspondence related to this Petition should be directed to:

   Rachel J. Rothstein, Senior Regulatory Counsel
   Cable & Wireless, Inc.
   8219 Leesburg Pike
   Vienna, VA 22182
   (703) 734-4439

3. CWI, a Washington, D.C. corporation, is a worldwide long distance telecommunications company providing voice and data communications services to business customers. Pursuant to authority granted by the FCC and state public utility

commissions, CWI currently originates international, interstate and intrastate telecommunications services from 50 states CWI has been providing telecommunications services in Florida since 1987 pursuant to the authority granted in Order No 17250 (FL PSC Docket No. 861549-TI, issued March 5, 1987) to provide interexchange services and in Order No PSC-95-0744-FOF-TA (Docket No 950500-TA, issued June 21, 1995) for alternative access vendor services Since obtaining its first Florida certification, CWI has undergone unprecedented growth, primarily due to increasing traffic volume

4 As a general Company policy, at times CWI collects cash deposits to assure payment from customers who do not indicate sufficient credit worthiness CWI would like to extend this practice to Florida and hereby requests the waiver of the customer deposit bond requirement, pursuant to the Rule 25-24 490 (3), Florida Administrative Code The Rule allows interexchange companie to collect cash deposits and grants the Commission authority to waive the bond requirement

> (a) minor interexchange company may require a deposit as a condition of service and may collect advance payments for more than one month of service if it maintains on file with the Commission a bond covering its current balance of deposits and advance payments (for more than one month's service) A company may apply to the Commission for a waiver of the bond requirement by demonstrating that it possesses the financial resources and income to provide assurance of continued operation under its certificate over the long term

5 CWI has achieved strong financial results since initiating service in Florida in 1987 CWI reported robust revenue growth for the last few years Total revenues for 1995 were $672 million, an increase of sixteen percent over the prior year Revenues in 1994 increased fourteen percent from 1993 This increase in revenues was essentially due to a

strong growth in traffic for 1995; switched network traffic increased fifteen percent over the prior year. This growth in minutes of use represents increases in all market segments - international and domestic. Attached as Exhibit A is a copy of Cable & Wireless PLC ("CWPLC") Sec. Report 20-F. CWI is a subsidiary of CWPLC. As these financial statements demonstrate, CWPLC is a robust and healthy company, possessing sufficient financial resources to ensure CWI's continued operation in the Florida telecommunications marketplace. Also attached as Exhibit B is a copy of CWI's 1995 Report to Customers. As the Exhibit demonstrates, CWI had revenues for the year ending 3/31/95 of $672 million, and operating profit of $6.1 million. CWI's financial alone demonstrate that it possesses sufficient resources to ensure CWI's continued viability.

WHEREFORE, CWI respectfully requests that the Commission grants CWI's Petition for a waiver of customer deposit bond requirement.

Respectfully submitted,

CABLE & WIRELESS, INC

Rachel J Rothstein

Rachel J Rothstein
Senior Regulatory Counsel
8219 Leesburg Pike
Vienna, VA 22182
703-734-4439 (VOICE)
703-442-8891 (FAX)

Dated 4/ /96

EXHIBIT A

SEC REPORT 20-F OF CWPLC

NOT ABLE TO COPY
Document's EXHIBIT - IS IN
ORIGINAL FILE IN RAR.

CABLE & WIRELESS

1995

Cable and Wireless plc

annual report

on form 20-F

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

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

or

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

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

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

ENGLAND AND WALES

None

None

PART II

PART III

PART IV

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

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

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

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

CABLE AND WIRELESS PUBLIC LIMITED COMPANY

ENGLAND AND WALES

None

None

TABLE OF CONTENTS

GLOSSARY

"ACT"	Advance Corporation Tax
"ADC"	Access Deficit Contribution
"ADRs"	The American Depositary Receipts evidencing ADSs
"ADSs"	The American Depositary Shares, each of which represents three Ordinary Shares
"Agreement in Principle"	The Agreement announced on June 3, 1992 between the Hong Kong Government and the Group regarding a replacement for the Scheme of Control and the future regulation of Hong Kong Telephone and HKTI
"BARTEL"	The Barbados Telephone Company Limited
"Basic Law"	The Basic Law of the Hong Kong Special Administrative Region of the PRC, which was adopted by the National People's Congress of the PRC on April 4, 1990
"BCE"	Bell Canada Enterprises, Inc
"BET"	Barbados External Telecommunications Limited
"BT"	British Telecommunications plc
"CIS"	Commonwealth of Independent States
"CITIC"	China International Trust & Investment Corporation Holdings (Hong Kong) Limited, a wholly-owned subsidiary of China International Trust and Investment Corporation (Holdings)
"Company"	Cable and Wireless plc
"CTM"	Companhia de Telecomunicações de Macau
"CWFE"	Cable and Wireless (Far East) Limited, a wholly owned subsidiary of the Company
"CWI"	Cable & Wireless, Inc., a wholly-owned subsidiary of the Company
"CWML"	Cable and Wireless (Marine) Limited, a wholly owned subsidiary of the Company
"CWWI"	Cable and Wireless (West Indies) Limited, a wholly-owned subsidiary of the Company

"Director General"	The Director General of Telecommunications of the U.K., head of Oftel
"FCC"	Federal Communications Commission
"Federation"	The Company and its affiliated companies
"Fiber optic"	The use of special glass fibers to transmit laser light pulses, giving the "on" and "off" signals of digital information
"FSI"	The Financial Secretary Incorporated, a corporation sole incorporated in Hong Kong being the person for the time being performing the duties of the office of Financial Secretary of Hong Kong Government
"FTNS License"	The "Fixed Telecommunications Network Services License" is the standard license issued by the Telecommunications Authority under powers granted by the Telecommunications Ordinance, to operators of fixed line telecommunications networks in Hong Kong
"FTNS Licensees"	Companies granted FTNS Licenses other than Hong Kong Telephone
"*Global Digital Highway*™ service"	The Group's fiber optic based network linking the world's main financial and commercial centers
"Governor in Council"	The Governor of Hong Kong acting after consultation with the Executive Council
"Group" or "Cable & Wireless Group"	The Company and its subsidiaries
"HKT Enterprises"	Hong Kong Telecom Enterprises Limited, a wholly owned subsidiary of Hong Kong Telecom
"HKT P&S"	Hong Kong Telecom Products & Services Limited, a wholly owned subsidiary of Hong Kong Telecom
"HKTI"	Hong Kong Telecom International Limited, a wholly owned subsidiary of Hong Kong Telecom
"HKTI License"	The license dated October 1, 1981, as amended, granted by the Governor in Council to HKTI pursuant to the terms of the Telecommunication Ordinance

"HKTI Regulatory Agreement"	An agreement dated December 3, 198[illegible] among CWH, the Company, FSL, the Hong Kong Government, HKTI and Hong Kong Telecom relating to HKTI
"HM Government"	The Government of the UK
"Hong Kong SAR"	The Hong Kong Special Administrative Region of the PRC, which the Joint Declaration provides shall be established on July 1, 1997
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Telecom"	Hong Kong Telecommunications Limited, a subsidiary of the Company
"Hong Kong Telecom Group"	Hong Kong Telecom and its subsidiary and associated companies including Hong Kong Telephone, HKTI and the Non-Franchised Companies
"Hong Kong Telephone"	Hong Kong Telephone Company Limited, a wholly-owned subsidiary of Hong Kong Telecom
"Hong Kong Telephone Franchise"	The rights granted to Hong Kong Telephone by the Telephone Ordinance to supply and operate public telephone communications within Hong Kong, which rights came to an end on June 30, 1995
"Hong Kong Telephone License"	The FTNS License dated June 29, 1995 granted by the Telecommunications Authority to Hong Kong Telephone
"IDC"	International Digital Communications Inc
"IDD"	International Direct Dialing, which allows a caller to key in a number in another country and be connected automatically
"INTELSAT"	International Telecommunications Satellite Organization
"ISDN"	Integrated Services Digital Network
"ITU"	The International Telecommunications Union
"IVPN"	Integrated Virtual Private Networks
"Jamintel"	Jamaica International Telecommunications Limited, a wholly-owned subsidiary of TOJ

"Joint Declaration"	The Joint Declaration of HM Government and the Government of the PRC on the Question of Hong Kong, as ratified by those Governments in May 1985, including its annexes
"Joint Liaison Group"	The Sino-British Joint Liaison Group was established in 1985 and its functions are to conduct consultations on the implementation of the Joint Declaration, to discuss matters relating to the smooth transfer of government in 1997, and to exchange information and conduct consultations on such subjects as may be agreed by the two sides. Discussions include all franchises and major contracts of the Hong Kong Government extending beyond 1997
"TJC"	The Jamaica Telephone Company Limited, a wholly-owned subsidiary of TOJ
"KDD"	Kokusai Denshin Denwa Co., Limited
"London Stock Exchange"	The International Stock Exchange of the UK and Republic of Ireland Limited
"Mercury"	Mercury Communications Limited, an 80%-owned subsidiary of the Company
"Mercury Personal Communications"	A partnership ultimately owned in equal parts by the Company and US West, Inc
"MMC"	The Monopolies and Mergers Commission of the UK
"Non-Franchised Companies"	Telecom CSL, HKT Enterprises, HKT P&S, HKT Pacific and Computasia Limited, being subsidiary companies of Hong Kong Telecom which are not subject to the Hong Kong Telephone License or the HKTI License
"Noon Buying Rate"	The noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on the date specified
"OFTA"	The Office of the Telecommunications Authority in Hong Kong set up to administer the Telecommunications Amendment Ordinance
"Oftel"	The Office of Telecommunications in the UK. This is the independent regulatory body set up under the Telecommunications Act which has responsibility for the enforcement and monitoring, and where appropriate initiating modification, of telecommunications licenses in the UK

"Ordinary Shares"	Ordinary shares of 25p each in the capital of the Company
"PCN"	Personal Communications Network
"PMRS"	Public Mobile Radio Telephone System operated in Hong Kong by Telecom CSL and three other licensed operators
"PRC"	The People's Republic of China
"PSTN"	Public Switched Telephone Network
"PTO"	Public Telecommunications Operator
"Secretary of State"	The Secretary of State for Trade and Industry of the UK
"SEPON"	SEPON Limited, a subsidiary of the London Stock Exchange which acts as a nominee for market makers and other persons trading in the market and whose transactions are in the course of registration through the exchange's TALISMAN settlement system
"Special Share"	The one Special Rights Preference Share of £1 in the capital of the Company held by HM Government
"Telecom CSL"	Hong Kong Telecom CSL Limited, a wholly-owned subsidiary of Hong Kong Telecom
"Telecommunication Amendment Ordinance"	The Telecommunication (Amendment) Ordinance 1993 of Hong Kong the provisions of which came into effect on June 4, 1993
"Telecommunication Ordinance"	The Telecommunication Ordinance (Chapter 106 of the Laws of Hong Kong) as amended, inter alia, by the Telecommunication (Amendment) Ordinance
"Telecommunications Act"	The Telecommunications Act 1984 of the UK
"Telecommunications Authority"	The public officer appointed by the Governor of Hong Kong under the Telecommunications Ordinance for the purposes of that Ordinance
"Telephone Amendment Ordinance 1995"	The Telephone (Amendment) Ordinance 1995, the provisions of which came into effect on July 1, 1995
"Telephone Amendment Ordinance"	The Telephone (Amendment) Ordinance 1993 of Hong Kong, the provisions of which came into effect on June 4, 1993

"Telephone Ordinance"	The Telephone Ordinance (Chapter 269 of the Laws of Hong Kong) as amended
"TOJ"	Telecommunications of Jamaica Limited, a subsidiary of the Company
"UK GAAP"	Generally accepted accounting principles in the UK
"US GAAP"	Generally accepted accounting principles in the United States
"USO"	Universal Service Obligation
"VSAT"	Very Small Aperture Terminal
"Wireless Telegraphy Act"	The Wireless Telegraphy Act 1949 of the UK

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

EXCHANGE RATES

The Company publishes its consolidated financial statements in pounds sterling. In this Annual Report references to "£" and "p" are to pounds sterling and to pence, respectively, references to "$" or "US dollars" are to US dollars, and references to "HK$" are to Hong Kong dollars. This Annual Report contains translations of certain pound sterling amounts into US dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the pound sterling amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated. Unless otherwise indicated, such US dollar amounts have been translated from pounds sterling at an exchange rate of £1.00 to $1.62, the Noon Buying Rate on March 31, 1995.

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

Year ended March 31	Average (1)	High	Low	Period End
1991	1.84	2.00	1.63	1.78
1992	1.74	1.88	1.60	1.74
1993	1.69	2.00	1.41	1.51
1994	1.50	1.59	1.46	1.49
1995	1.56	1.64	1.51	1.62

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

On September 8, 1995, the Noon Buying Rate was £1.00 to $1.55.

A substantial portion of the Group's assets, operating revenue and operating expenses are denominated in currencies other than the pound sterling. For a discussion of the effect of exchange rate movements on the results of operations of the Group see "Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 1 – DESCRIPTION OF BUSINESS

THE COMPANY

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

The Company was formed in 1929 through the merger of UK companies that had pioneered international submarine cable telegraph communications and radio communications. Following World War II, the Company became wholly owned by HM Government. Subsequently, through public offerings commencing in 1981, HM Government sold its entire interest in the Company with the exception of the Special Share. Certain matters, including the alteration of particular Articles of Association of the Company (including the Article that prevents a person from holding 15% or more of the Company's voting shares or exercising the votes in respect thereof), require the prior written consent of the holder of the Special Share. See "Exchange Controls and Other Limitations Affecting Security Holders".

The Group provides to its customers worldwide telecommunications services using facilities that incorporate increasingly advanced technology, such as digital electronics and fiber optic cables. The Group continues to expand its telecommunications network, including participating in new transatlantic and transpacific digital fiber optic cables and other transmission facilities, developing alliances with other telecommunications companies and providing services to new markets. See "Description of Business – Competition". Digital systems, unlike analog systems, permit a whole range of voice, data, text and video applications to be transmitted simultaneously on the same network.

The Group and its associated companies generally operate under licenses issued by national governments or through ownership interests in local operating companies. From time to time licenses are renegotiated, renewed or expire. During the last five years, some six licenses expired and were renewed or were extended. See "Description of Business – Regulatory Framework – General".

In November 1993 a new initiative called Federal Development was introduced with an aim to draw maximum competitive advantage from the combined knowledge and skills of Group members.

Federal Development's work falls into 2 areas:

(i) to stimulate and coordinate new capabilities in areas that will be important in the future either to the Company's internal operations or to products and services required by the market; and

(ii) to share the knowledge that already exists in the Federation to ensure that the same capabilities are not reinvented in different parts of the world and that resources are used most efficiently.

The period since Federal Development's formation has seen new partnerships and programs designed to further these aims. See "Description of Business—Other Asia, North America, Hong Kong".

Other Federal Development programs are pulling together the Group's total expertise in Asynchronous Transfer Mode ("ATM"), operational support systems in wireless local loop, messaging and video [illegible] technology. Work also continues on intelligent networking as a Group-wide approach to rapid [illegible] development that is increasingly becoming a key factor in competitive markets.

Federal Development also considers developments that could influence the Cable & Wireless Group's direction in the next 5 to 10 years. The presence of Cable & Wireless Innovations, Inc. in Silicon Valley, California permits work with leading edge US corporations that are defining the newly converg[illegible] markets of telecommunications, computing and content. Cable & Wireless Innovations, Inc. is staffed by Group personnel from all over the world on 6-month secondments so that they can return to their businesses with a view of the future.

The following tables set out, by geographic region, the percentage of operating revenue (before deducting inter-regional revenue), operating income (before deducting corporate and business development costs) and assets of the Cable & Wireless Group represented by each geographic region for the three years ended March 31, 1995. See Note 4 of Notes to Consolidated Financial Statements.

Operating revenue	Year ended March 31		
	1993	1994	1995
Hong Kong	42.6	41.8	[illegible]
Other Asia	[illegible]	1.8	[illegible]
United Kingdom	31.4	30.9	[illegible]
Other Europe	1.0	[illegible]	0.9
Caribbean	9.6	10.1	9.6
North America	8.7	8.2	8.1
Rest of the World	5.4	4.8	[illegible]
	100.0%	100.0%	100.0%

Operating income	Year ended March 31		
	1993	1994	1995
Hong Kong	67.9	64.1	[illegible]
Other Asia	2.0	[illegible]	[illegible]
United Kingdom	[illegible]	[illegible]	[illegible]
Other Europe	[illegible]	(2.0)	(1.8)
Caribbean	12.8	13.0	14.2
North America	2.1	2.2	[illegible]
Rest of the World	(7.8)	[illegible]	[illegible]
	100.0%	100.0	100.0%

Assets	At March 31		
	1993	1994	1995
Hong Kong	31.4	31.2	34.1
Other Asia	1.5	1.8	1.7
United Kingdom	40.4	42.3	42.0
Other Europe	1.1	2.5	3.1
Caribbean	13.5	11.1	11.0
North America	3.2	2.8	2.9
Rest of the World	8.9	8.2	5.2
	100.0%	100.0%	100.0%

HONG KONG

Historically, the largest part of the Cable & Wireless Group's business has been centered in Far East Asia, and Hong Kong is where its principal operations in that region are located.

The following table sets out, for the three years ended March 31, 1995, the Group's operating revenue (including inter-regional revenue) from Hong Kong by category of service together with each category's percentage of total revenue.

	Year ended March 31					
	1993		1994		1995	
	(in millions except percentages)					
Public telecommunications						
International telephone services	£1,036.1	62.8%	£1,300.7	62.5%	£1,360.5	60.6%
Domestic telephone services	220.3	13.4	281.4	13.5	306.0	13.6
Other telecommunications services	232.6	14.1	306.8	14.8	370.4	16.6
Other						
Equipment sales and rental	108.9	6.6	136.0	6.5	150.5	6.7
Cable ships and contracts	51.9	3.1	55.8	2.7	56.7	2.5
TOTAL	£1,649.8	100.0%	£2,080.7	100.0%	£2,244.1	100.0%

Hong Kong Telecommunications Limited

As of March 31, 1995, the Company directly or indirectly owned 57.5% of the outstanding shares of Hong Kong Telecom, which is the holding company of the Hong Kong Telecom Group, Hong Kong's major telecommunications undertaking. As of the same date, CITIC and certain of its affiliates held [illegible] shares, representing about 12.9% of Hong Kong Telecom's issued share capital. The remainder of Hong Kong Telecom's issued share capital is held by institutions and individuals in Hong Kong and elsewhere.

The Company has agreed with the Hong Kong Government that it will maintain its direct and indirect holding of Hong Kong Telecom shares above 50% of the issued and outstanding voting shares. See "Description of Business — Regulatory Framework — Hong Kong — Special Regulatory Regime Affecting HKTI — HKTI Regulatory Agreement".

The principal operating subsidiaries of the Hong Kong Telecom Group are Hong Kong Telephone and HKTI. Hong Kong Telephone provides local telecommunication services under the non-exclusive Hong Kong Telephone License which expires on June 28, 2010 and HKTI has exclusive rights under the HKTI License, which expires on September 30, 2006, to provide Hong Kong's international public telephone and telex facilities and services and international facsimile and data transmission facilities. The Hong Kong Telecom Group provides other services and products. These products and services include telephones, facsimile machines, personal computers, PABXs and business telephone systems, and services such as mobile radio telephone, data processing and computer services and both local and international facsimile and data transmission services.

Information on Hong Kong

With effect from July 1, 1997, the exercise of sovereignty over Hong Kong will be transferred from HM Government to the Central People's Government of the PRC. On that date, Hong Kong will become a Special Administrative Region ("SAR") of the PRC. The agreement between the Governments of the U.K. and the PRC with respect to this transfer is embodied in the Joint Declaration. The Joint Declaration provides that the Hong Kong SAR shall be directly under the authority of the Central People's Government of the PRC, shall enjoy a high degree of autonomy except in foreign and defense affairs, and shall be vested with executive, legislative and independent judicial power. The Joint Declaration also provides that the current social and economic systems in Hong Kong shall remain unchanged for a period of 50 years after June 30, 1997 and that Hong Kong shall retain the status of an international financial center.

The Joint Declaration provides that the basic policies of the PRC regarding Hong Kong and the elaboration of these policies in the Joint Declaration will be stipulated by the National People's Congress of the PRC in the Basic Law. The Basic Law was finalized in February 1990 and adopted by the National People's Congress on April 4, 1990. Published opinions differ as to the extent to which certain portions of the Basic Law are consistent with the provisions of the Joint Declaration. It is not clear how future developments in Hong Kong and the PRC may affect the implementation of the Basic Law after the transfer of sovereignty in 1997.

Hong Kong Telecom's principal properties and operations are, and are likely to remain, located in Hong Kong and as such are subject to the laws of Hong Kong in force at the relevant time. Neither the Joint Declaration nor the Basic Law makes any specific reference to the regulatory framework applicable to the Hong Kong Telecom Group after 1997, although it is acknowledged that Hong Kong Telephone license matters must be submitted to the Hong Kong Joint Liaison Group after June 1995. For further information, readers are directed to the text of the Joint Declaration, which was filed as an Exhibit to Hong Kong Telecom's Annual Report on Form 20-F for the year ended March 31, 1989 (File No. 1-10119), and the Basic Law, which is filed as an Exhibit to Hong Kong Telecom's Annual Report on Form 20-F for the year ended March 31, 1990.

Statistics published recently by the Hong Kong Government indicate that Hong Kong's real gross domestic product grew by 5.5% in calendar year 1994 (as compared with 5.9% in 1993, 5.0% in 1992, and 3.9% in 1991). During the same year, Hong Kong's Consumer Price Index rose by an average of 8.5% (as compared with 8.5% in 1993, 9.4% in 1992 and 12.0% in 1991).

Hong Kong Telephone Company Limited

Under the Hong Kong Telephone Franchise, Hong Kong Telephone had the exclusive right to provide the local public telephone facilities and telephone services in Hong Kong until June 30, 1995. On June 29, 1995, Hong Kong Telephone was granted a non-exclusive FTNS License for a period of 15 years. Under that license, Hong Kong Telephone provides local telecommunication services including telephone, facsimile and data transmission facilities and services. The Group intends to implement fully interactive multimedia services in due course and has completed technical and commercial trials of a video-on-demand service. The introduction of a commercial video-on-demand service is planned for the middle of 1996. The provision of a cable television service after 1996 is also under review subject to the receipt of an appropriate license. On June 30, 1995 Hong Kong Telephone applied to the Telecommunications Authority for a license to provide a Cordless Access Service ("CAS"). This service will enable customers to use a single handset, which is both lightweight and inexpensive, both as a cordless telephone in the home and, in conjunction with base station installations in public areas, as a telephone with low mobility capability.

The charges of Hong Kong Telephone for services provided under the Hong Kong Telephone Franchise are subject to regulation by the Hong Kong Government. See "Description of Business — Regulatory Framework — Hong Kong", which describes the regulatory framework in Hong Kong.

Network and Equipment

Hong Kong Telephone has some 3.15 million telephone lines in operation serving Hong Kong's population of approximately 6.0 million. It operates one of the most modern telecommunications networks in the world, including a comprehensive fiber optic network, with approximately 89 million meters of fiber contained in approximately 2,497 kilometers of cable. Over 85% of calls made in Hong Kong make use of the fiber optic network. Digitalization of the network was completed in July 1993; all transmission links for exchange junctions are now digital and all exchange equipment incorporates digital technology.

The total number of telephone lines in service has more than trebled since 1977, from approximately 900,000 to over 3.15 million in 1995 representing an annual compound growth rate of about 6.2%. Growth in the total number of telephone lines in service is expected to continue during the year ending March 31, 1996. The percentage of business lines increased from approximately 23% of the total number of telephone lines in service in 1977 to approximately 39% in 1995.

The number of telephone lines in Hong Kong with IDD facility has increased significantly in recent years, from 31% in 1989 to almost 68% in 1995, reflecting the continuing growth in international voice communications. Growth in the number of telephone lines with IDD facility is expected to continue during the year ending March 31, 1996. See "Description of Business — Hong Kong — HKTI — International Telephone Services".

Hong Kong Telephone's digital network, incorporating integrated digital exchanges linked by fiber optic cables, is capable of accommodating a wide range of customer services using voice, data and text applications including video services. The continuing modernization has created a fully digital capability, supporting a wide range of services including ISDN.

The installation of digital switching equipment has also facilitated the introduction of enhanced customer calling features such as the "Starline Service", which includes features such as call forwarding, conference calling, call waiting, abbreviated dialing and IDD security. Other services include Duplex ringing (two distinct numbers with different ringing tones on one telephone line) and *Homefax™* which provides enhanced facsimile services in the home.

The Hong Kong Telephone network also carries a wide range of telecommunications services licensed by the Hong Kong Government, many of which are provided by companies outside the Hong Kong Telecom Group. For example, PMRS, Telepoint or CT2 services, numerous paging systems and a number of electronic mail systems and financial information services are all customers of Hong Kong Telephone. See "Description of Business — Hong Kong — Non-Franchised Companies" and "— Competition".

Local and International Telephone Service

Over 33% of Hong Kong Telephone's revenue is derived from the provision of local telephone services in Hong Kong. Revenue from the local telephone service includes charges for installation and rental of various types of exchange lines, customer facilities and non-voice services, such as *Datapak™* and *Faxline 100™*. No charges are made by Hong Kong Telephone for local telephone calls, except in the case of public payphones and interconnect charges for services provided by other parties which connect with the Hong Kong Telephone network. No call charges are made for local facsimile transmissions. Following implementation of the Agreement in Principle and the Telephone (Amendment) Ordinance, Hong Kong Telephone has had average increases in certain of its local charges of 4.9% effective August 1, 1993, 3.04% effective August 1, 1994 and 4.92% effective August 1, 1995. See "Description of Business — Regulatory Framework — Hong Kong".

International telephone services in Hong Kong are provided by HKTI. HKTI provides the international exchange and transmission facilities which are connected to local networks operated by Hong Kong Telephone, PMRS, FTNS Licensees and, when licensed, operators of PCN services. See "Description of Business — HKTI". Revenue from the provision of the international telephone service is derived from charges for IDD calls, operator assisted overseas calls and other services related to overseas calls. From this revenue HKTI pays a delivery fee to Hong Kong Telephone, PMRS, and FTNS Licensees in accordance with the formula established pursuant to the Agreement in Principle and will next be reviewed in 1996 for implementation on August 1, 1996. See "Description of Business — HKTI — International Telephone Service" and "Description of Business — Regulatory Framework" and "

Agreement in Principle on Future Regulation". The Telecommunications Authority has stated that it does not intend to seek further to reduce HKTI's tariffs as it expects further price pressure to be exerted on IDD charges by competition for the local origination and delivery of such services.

Leased Circuits

Hong Kong Telephone supplies private local telecommunications circuits, approximately 16% of which are leased by HKTI on arm's length terms primarily for the provision of Hong Kong's local telex service, and the balance of which are leased to customers such as banks which have a requirement for private network telecommunications facilities. These circuits are reserved exclusively for use by the customer. Hong Kong Telephone also provides local links for private international telecommunications circuits leased by HKTI to its customers.

Datapak and Other Services

Data transmission facilities allow data or facsimile calls to be made from any exchange line of Hong Kong Telephone's network. Hong Kong Telephone also provides *Datapak*, a public data network which supplies high integrity data transmission facilities for computers. Customers include banks, which use the network for their automatic teller machines, and the Royal Hong Kong Jockey Club, which uses it for some of its off-course betting facilities. An international service, *Datapak International*™, is available to more than 90 countries, including the US, Japan and many European countries. Customers who are not directly connected to *Datapak* can nevertheless obtain "dial up" access to that network through the public telephone network for both local and international data transmissions. *Faxline 100* provides special features to customers who have facsimile machines. These features include an on-line diagnostic service which enables customers to test the quality of their facsimile machine's operation, a facsimile directory in both printed and operator inquiry form, operator assistance with international facsimile calls, and access to information which can be received on facsimile machines.

HKTI

Under the HKTI License, HKTI has the exclusive right until September 30, 2006 to provide, subject to certain non-material exceptions, Hong Kong's international telecommunications facilities and voice services and local and international telex and telegram services. HKTI pays a royalty to the Hong Kong Government which is currently fixed at 9% of the net receipts of HKTI (determined as set out in the HKTI License) derived from its provision of the exclusively licensed services, except for receipts derived from telecommunications services which neither originate from, nor terminate in, but merely transit, Hong Kong. The rate of royalty was subject to review in certain circumstances with effect from October 1, 1995 and is so subject every five years thereafter. See "Description of Business — Regulatory Framework — Hong Kong — Special Regulatory Regime Affecting HKTI — HKTI License" and "— Competition."

International Telecommunications Facilities

HKTI has proprietary interests, and access to extensive capacity, in submarine cables throughout Southeast Asia and the Pacific region. HKTI continues to develop its international submarine cable network through the acquisition of interests and capacity in overseas cable systems and construction of new cables landing in Hong Kong. As of March 31, 1995 these investments amounted, in present value terms, to approximately HK$2,880 million. A number of new optical fiber cable systems are planned to be constructed within the next two years, with investment by HKTI as well as a number of other overseas telecommunications administrations. HKTI's investment in these new cables is expected to equal approximately HK$1,500 million over the three years to March 31, 1998.

Satellite communications facilities are provided through sixteen satellite dishes located at HKTI's earth station complex in Hong Kong and geostationary satellites located over the Pacific and Indian Oceans. The satellite capacity is rented from INTELSAT, a cooperative organization owned by or on behalf of representatives appointed by some 131 member countries, and from Asia Satellite Telecommunications Company Limited, a private company in which the Company is a shareholder.

It is anticipated that a further two satellite dishes will be brought into operation in the period to March 1996.

International Telephone Services

Revenue derived from international telephone traffic (other than traffic which is automatically switched and neither originates from, nor terminates in, but merely transits Hong Kong) is allocated between HKTI, Hong Kong Telephone, PMRS and other local fixed telecommunication networks. Hong Kong Telephone, PMRS and FTNS Licensees receive a share of international revenue called a delivery fee. For PMRS and FTNS Licensees this delivery fee is equivalent to the delivery fee received by Hong Kong Telephone less an ADC to reflect the fact that other local networks do not provide a universal service. The value of the ADC will be reviewed every year and the method of determining the ADC will be reviewed every three years by the Telecommunications Authority. The Telecommunications Authority has indicated its belief that the current ADC should be converted into a Universal Service Contribution which, in the view of the Telecommunications Authority, more appropriately matches the USO of Hong Kong Telephone. On August 1, 1993, 1994 and 1995 HKTI reduced its charges for IDD services by an average of 8%, 2% and 2%, respectively.

Voice Communications, Facsimile and Data Transmissions

Approximately 82% of outgoing international telephone traffic from Hong Kong (including voice, facsimile and data communications), in terms of minutes, in the year ended March 31, 1995 was to the following eight destinations: PRC, U.S., Taiwan, Canada, Japan, U.K., Macau and Singapore.

The volume of outgoing telephone traffic to the PRC continues to grow, increasing at an average compound rate of some 29% over the three years ended March 31, 1995. In the year ended March 31, 1995 the annual growth rate was 18% which is less than the increase for the year ended March 31, 1994 (30%) and for the year ended March 31, 1993 (40%). The slowdown in the traffic growth was due to the dampening effect of macroeconomic controls implemented within the PRC by the PRC.

Revenue derived from calls to and from international destinations is a function mainly of the [illegible] of calls, the different rates charged to customers with respect to all destinations and the rates negotiated with overseas telecommunications administrations, as well as on other factors such as whether the traffic is IDD or operator assisted. Therefore, the percentage of total revenue derived from calls to any one particular destination does not necessarily correlate with the percentage of outgoing minutes [illegible] international traffic to that destination. For example, while outgoing short haul traffic to the PRC (including voice, facsimile and data communications) accounted for 50% of all outgoing minutes of international traffic from Hong Kong for the year ended March 31, 1995, the total revenue derived from short haul traffic to and from the PRC amounted to 34% of the total of such revenue to and from all destinations.

International facsimile and data communications are transmitted through HKTI's international circuits connected to the Hong Kong telephone network. International facsimile and data traffic both into and out of Hong Kong has shown considerable growth over the five years ended March 31, 1995. Hong Kong Telecom believes that facsimile communications represent the major part of this growth.

Telex and Telegram

Telex was introduced in Hong Kong in 1959. Revenue from telex decreased by 12% in the year ended March 31, 1993, by 10% in the year ended March 31, 1994 and by 15.1% in the year ended March 31, 1995. Hong Kong Telecom believes that the reduction in the use of the telex network is principally the result of the increased use of facsimile and data communications, and that the decline in revenue derived from telex traffic will continue to be more than matched by increased revenue from facsimile and data traffic. HKTI handles a large number of telegrams each day, particularly those sent between the PRC and Hong Kong. However, the contribution of the local and international telex and telegram services to total revenue is not significant.

Leased Circuits

HKTI leases private international telecommunications circuits to customers who have a demand for private telecommunications facilities, particularly banks, stockbrokers and multinational corporations, many of which have an international network of leased circuits. HKTI also offers related network management services, including restoration and back up facilities and cost control.

A number of countries in Southeast Asia and the Pacific region are seeking to attract telecommunications business from large corporations, some of which have selected Hong Kong as the hub and management center for their international private telecommunications networks, many using HKTI's network management services. Hong Kong Telecom believes that HKTI's success in this business has been mainly attributable to high quality service, close attention to individual customer requirements and price competitiveness. HKTI is using advances in satellite and submarine cable technology to improve further the quality of service.

At the request of the Hong Kong Government, HKTI permits its private international telecommunications circuits to be leased by organizations that may offer customers a range of value added telecommunications services over such circuits, with no requirement for bilateral agreements for reciprocal service with the country of destination. The range of permitted services has been extended to include certain managed data network services and value added voice services (to the extent not covered by HKTI's exclusive license). See "Description of Business — Regulatory Framework — Hong Kong — Special Regulatory Regime Affecting HKTI" and "— Competition".

At March 31, 1995, HKTI had 3,616 privately leased international telecommunications [illegible] representing a 57% annual compound growth rate in circuit capacity for the five years then ended.

NON-FRANCHISED COMPANIES

The Non-Franchised Companies provide a wide range of telecommunications products and services without the benefit of the exclusive rights granted by the HKTI License, or any other exclusive rights granted by the Hong Kong Government. These companies are not required to pay royalties to the Hong Kong Government.

The operations of Telecom CSL, one of the Non-Franchised Companies, are presently conducted through the three Business Units described below. It is the intention to reorganize these Business Units and the centrally provided services within Telecom CSL (including finance and human resources) over the final quarter of 1995. Telecom CSL will continue to own and operate all mobile and paging businesses described below as the Mobile Business Unit. Those businesses described below as the Telecom Systems and Products and the Services Business Units will be transferred to HKT P&S and HKT Pacific respectively. These companies are wholly owned subsidiaries of HKT Enterprises which is itself a wholly owned subsidiary of Hong Kong Telecom. All centrally provided services, including finance, marketing and human resources have been amalgamated with similar services provided to the rest of the Group. This change in structure will enable a more focused approach to the mobile business in Hong Kong and the development of mobile business opportunities in Asia.

Mobile. The Mobile Unit is primarily engaged in providing cellular mobile radio telephone and paging services. The unit operates two cellular networks: the analog UNITACS network launched in early 1987 which utilizes the UK Total Access Communication System standard and a digital network known as 1010 launched in mid 1993 which utilizes the European GSM standard.

Both networks offer comprehensive territory wide coverage including coverage when within road tunnels.

One of the features of UNITACS, "roaming", introduced jointly with certain telecommunications authorities in the PRC and Macau, extends the range of this mobile telephone system. Customers are able to use their mobile phones in regions where compatible technology is available without requiring any reprogramming of, or modification to, their handsets. "Roaming" is already available in more than 400 towns and cities in China, including major cities such as Guangzhou, Zhuhai, Shenzhen, Tianjin, Chengdu, Beijing and Shanghai.

An innovative feature of the GSM digital network is that it offers the world's first subterranean digital coverage. Inside the MTR, the underground railway service in Hong Kong, customers are able to make and receive calls both in the stations and on the trains. Initial service is available in the main business corridor and there are plans to extend the service throughout the MTR.

The market is highly competitive with four operators operating a total of seven networks, four analog and three digital. The market continues to demonstrate robust growth with a penetration of close to 6% which is amongst the highest for countries outside Scandinavia. The successful launch of the new GSM network enabled Telecom CSL to achieve growth in the numbers of subscribers during fiscal 1994 in excess of the value of growth for the market as a whole.

The Telecommunications Authority announced in 1994 plans to issue up to six new licenses for PCN services in the 1.8 to 1.9 GHz band, the band on which the European DCS1800 digital standard is designed to operate. The existing cellular operators were permitted to apply for a PCN license; Telecom CSL applied on March 31, 1995 through a subsidiary company named CSL United Personalfone Limited. This company is a joint venture 67% owned by Telecom CSL and 33% owned by associates of the Guandong Post and Telecommunications Bureau. The selection criteria will be based on operating capability and assessment of relative value for money to Hong Kong consumers. Telecom CSL considers PCN as a logical extension to its existing GSM service and has welcomed the decision to open up the higher band width as a way of increasing capacity to meet forecast demand. The award of licenses is expected before October 31, 1995.

Telepoint or CT2 is a limited mobile service on which only outgoing calls can be made. There are three operators providing service in Hong Kong with more than 150,000 customers. Telecom CSL is the major shareholder in a joint venture licensee that was formed to develop this service. Although recent technological developments now enable a two way calling service to be offered which also has the benefit of utilising relatively smaller and less expensive base stations, following discussions with the Telecommunications Authority and in the light of technological developments the CT2 license was returned to the regulator. Telecom CSL does not intend to take any further part in the provision of this type of service but will concentrate on the development of its PCN if it is granted a license.

Telecom Systems and Products. The Telecom Systems and Products Unit is engaged in the sale of facsimile machines, small business telephone systems, personal computers, modems, office automation equipment, home-use cordless telephones and mobile telephones. These products are sold through 25 retail shops in Hong Kong, as well as through telephone sales. These products are also sold within the PRC by a sales team operating exclusively in that country. The Unit also designs for, and provides to, customers individualized telecommunications systems by integrating voice and data switching equipment from various suppliers. It also supplies and installs large capacity data network equipment.

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

In July 1994 Telecom CSL formed a 51%/49% joint venture company with TeleDirect Publications International BV to produce telephone directories. The joint venture company, Telecom Directories Limited, will enable the Group to take advantage of future opportunities in the directory market. As part of the reorganization described above, Telecom CSL's 51% interest will be transferred to HKT Enterprises.

Relationship between the Company and Hong Kong Telecom

The general policy of the Cable & Wireless Group is that the majority of the Hong Kong Telecom Group's capital investments will continue to be made in Hong Kong, with the exception of HKTI's investments in submarine cables and satellite facilities, but companies within the Hong Kong Telecom Group may participate in business opportunities or make investments elsewhere in the region when they are likely to generate particular benefits for the Hong Kong Telecom Group. Hong Kong Telecom continues to encourage and assist the development of certain telecommunications infrastructures and services in the PRC, which have resulted in a more rapid increase in telecommunications traffic levels between the PRC and Hong Kong than would otherwise have been the case. The Cable & Wireless Group will continue to pursue capital investment and business opportunities in the PRC and elsewhere in the region, but such activities are not expected to conflict with the Hong Kong Telecom Group's business. Where it can be demonstrated to be mutually beneficial to both the Company and Hong Kong Telecom, consideration may be given to the two companies jointly participating in business opportunities within the region. One recent example of this is the joint 30% participation by the companies in MobileOne (Asia) Pty Limited, which was recently awarded a mobile and a paging license in Singapore. See also - "Description of Business - Other Asia - New Business Development" and "Rest of the World - Cableships and Contracts".

The Company provides a wide range of services to Hong Kong Telecom including the provision of management and senior staff, strategic planning and product evaluation, marketing, business development, engineering resources, forecasting, corporate insurance and personnel functions, training and training facilities, technical expertise and procurement.

Both Hong Kong Telephone and HKTI were party to specific agreements with the Company, in the case of Hong Kong Telephone for management and other services, and in the case of HKTI for management and technical services. Both agreements include provision for the assignment of the Company's staff to work for Hong Kong Telephone and HKTI, respectively. The present Chief Executive and the Finance Director of Hong Kong Telecom are employees of the Company assigned under these agreements to work for Hong Kong Telecom and they also devote time to businesses of the Cable & Wireless Group other than those of the Hong Kong Telecom Group. The present Deputy Chief Executive and 42 other members of the Hong Kong Telecom Group's staff are also assigned from the Company to Hong Kong Telecom.

The fixed term of the agreement between HKTI and the Company expired on September 30, 1988 and the fixed term of the agreement between Hong Kong Telephone and the Company expired on March 31, 1990. Each agreement provided that it should continue after the expiration of its fixed term, subject to not less than one year's notice of termination by either party to take effect on its expiration date or on any anniversary of such date. In 1994 Hong Kong Telephone, HKTI and the Company were of the view that the terms of then current agreements should be reviewed. Discussions took place during 1994 and a revised agreement between Hong Kong Telecom and the Company was signed on December 28, 1994. The new management agreement relates to the provision by the Company of management and technical services (including services relating to the development or enhancement of telecommunications systems) and trade marks (in particular, use of the Cable & Wireless name and logo in connection with international business of the Group). It is expected that the costs payable by the Group under the agreement will be significantly lower than costs payable under previous arrangements with the Company (which amounted to HK$306 million for the year ended March 31, 1994 and to HK$217.2 million for the year ended March 31, 1995). The agreement is expressed to continue until terminated by either party giving not less than two years prior written notice to the other to expire on March 31, 1996 or any subsequent anniversary of that date. Under the agreement, the amounts payable by the Group are primarily based on a sum equal to the cost of the services provided plus a small uplift figure (initially 7.2 per cent), taking into account an appropriate allocation of the Company's indirect costs and in accordance where applicable with generally accepted accounting principles in the U.K.; this basis is subject to periodic review by the parties. The royalty rate for licensed trade marks will be 8 per cent of the relevant revenues derived from sales of relevant products and services utilizing the Company's trade marks.

OTHER ASIA

Southeast Asia

The Group and its associated companies currently provide domestic or international telecommunications services in the **Philippines** and **Thailand** and have representative offices in **Indonesia**, **Malaysia**, **Singapore** and **Vietnam**.

In the **Philippines**, Eastern Telecommunications Philippines, Inc., in which the Company holds a 40% shareholding, operates an international gateway facility and offers international telex, dedicated circuit and packet switched data services and international voice and fax gateway services. The Company also holds 40% of another Philippine company Oceanic Wireless Network, Inc. which operates backhaul transmission links from the north end of Luzon to Manila.

In **Thailand**, Compunet Corporation (40% owned by the Company) is a VSAT operator which uses THAICOM, a Thai domestic satellite operator. Compunet is a market leader in private data transmission via satellite in Thailand and is particularly strong in the banking, finance and securities sectors. Compunet's network also supports a wide range of customers in the oil and gas, manufacturing, tourism, Government and transport sectors.

In April 1995 the Group formed a joint venture company, Great Eastern Telecommunications Limited ("GET"), to invest in telecommunications business in Asia, including China. The new company is owned 51% by the Company and 49% by Hong Kong Telecom (see "Description of Business - Other Asia - PRC").

In **Singapore** in May 1995, MobileOne (Asia) Pte Limited ("MobileOne"), a joint venture between GET, Keppel Telecoms (part of the Keppel Group) and Singapore Press Holdings ("SPH"), was granted the first competitive mobile cellular license in Singapore. MobileOne was also granted one of three new paging licenses. It will begin service in competition against Singapore Telecom on April 1, 1997 when that company's exclusive license for cellular telephony expires. GET owns 30% of MobileOne and Keppel and SPH each hold 35%.

Since 1993, the Company has had a representative office in Indonesia. Telephone penetration in Indonesia (which has a population of more than 190 million people, the fourth largest in the world) is less than 2%. The Indonesia Government plans to add 5 million lines to its national network by 1998 and the Company intends to seek opportunities to capitalize on the emerging opportunities for foreign investment in the country.

In November 1993, the Company opened a representative office in Vietnam. Besides seeking out potential business, the office based in Hanoi also provides information and support to other companies within the Federation, particularly CWMI which is currently installing the Thailand-Vietnam-Hong Kong ("TVH") submarine cable. The new TVH cable, in which Hong Kong Telecom is a major investor, will greatly increase the international telecommunications capacity between Vietnam and the rest of the world.

Cable & Wireless Asia, a regional business unit based in Hong Kong, is assessing the development of government policies in Southeast Asia and each market's telecommunications and business environment with an eye toward potential investment opportunities which fit within the Federation's overall strategy for growth in Asia. (See also "Description of Business - Other Asia - New Business Development".)

Macau

Macau, a Portuguese-administered territory, borders on China's Guangdong province. Telecommunications in Macau are provided by CTM. CTM is managed and 51% owned by the Company. The other shareholders are Companhia Portuguesa Radio Marconi of Lisbon ("CPRM") which owns 28%, CITIC Pacific which owns 20% and Correios e Telecomunicações de Macau which owns 1%. CTM was formed in 1981 and has an exclusive 20-year franchise to operate local and international telecommunications services in and from Macau.

CTM introduced the first all digital network in the region and currently operates five local and two international telephone exchanges. It also operates a satellite earth station with two dish antennae and offers its customers IDD to 205 destinations worldwide.

In the fourteen years since CTM was incorporated, the number of telephone lines has grown from some 15,000 to 148,000 lines. In 1981, telephone penetration was only 5%, compared with 25% in 1995.

CTM's analog mobile telephone system continues to grow rapidly with over 29,000 customers as of May 1995 and roaming services to Beijing, Shanghai and Guangdong provinces in PRC as well as to Hong Kong. Competition in mobile and value added services is expected to be introduced in the near future. A digital network was launched in July 1995 to the European GSM standard.

AsiaSat

Asia Satellite Telecommunications Company Limited ("AsiaSat"), equally owned by the Company, CITIC and Hutchison Whampoa Limited, owns a satellite, AsiaSat 1, providing television broadcasting and telecommunications services in the Asia Pacific region. The satellite, launched in 1990, was the first private commercial satellite dedicated to providing regional and domestic satellite services to the countries in the region. Its broadcast footprint covers over half the world's population.

AsiaSat's executive offices are based in Hong Kong where it has a state of the art satellite control center. AsiaSat 2 is under construction and due for launch in late 1995. It is expected to be fully subscribed at launch and a third satellite is in the planning stages.

PRC

The Group is involved in setting up and expanding telecommunications systems in the PRC in conjunction with the PRC authorities. Hong Kong is the principal destination for external calls from the southern provinces of the PRC and the Shanghai area, and traffic between the PRC and Hong Kong continues to increase. The Group has an investment in Shenda Telephone Company Limited which provides public telephone services within the Shenzhen Special Economic Zone. In addition, the Group through an associated company, the Huaying Nanhai Oil Telecommunication Service Company Limited ("Huaying"), provides telecommunications services to oil companies and related support industries in southern Guangdong Province engaged in the exploration and exploitation of off shore oil resources in the South China Sea. Huaying also provides domestic and international telecommunications services to its customers through connection with the Guangdong Post and Telecommunications Administrative Bureau ("GPATB") network.

In April 1993, GET and the Directorate General, Telecommunications of the China Ministry of Posts and Telecommunications ("DGT") formed a joint venture, S B Submarine Systems Company Limited, to develop, install and maintain international submarine cables. The joint venture is owned 51% by DGT and 49% by GET. It is now in operation, laying its first cable from China to Korea.

Representative offices have been opened in Beijing, Shanghai, Guangdong and Taiwan.

New Business Development

Hong Kong Telecom and Guangdong Posts and Telecommunications operate two Bureau fiber optic cables between Hong Kong and Shenzhen with a cable link to the special economic zone of Pudong, in Shanghai.

To streamline the Group's approach to potential opportunities in the PRC, the China Development Board was formed in 1994, chaired by the Chief Executive of Hong Kong Telecom, to coordinate the work of the Company and the Group in the PRC. This Board has developed into the Asia Development Council which oversees all new business development opportunities for the Group in Asia.

UNITED KINGDOM

The following table sets out, for the three years ended March 31, 1995, the Group's operating revenue (including inter-regional revenue) from the UK by category of service and as a percentage of total UK operating revenue.

	Year ended March 31,					
	1993		1994		1995	
	(in millions except percentages)					
Public telecommunications						
International telephone services	£405.8	33.1%	£492.8	33.4%	£542.4	32.8%
Domestic telephone services	423.6	34.6	544.3	36.9	622.1	37.7
Other telecommunications services	254.2	20.7	268.5	18.2	337.3	20.4
Other						
Equipment sales and rental	140.7	11.5	168.6	11.4	149.7	9.1
Cableships and contracts	0.8	0.1	1.1	0.1		
TOTAL	£1,225.1	100.0%	£1,474.3	100.0%	£1,651.5	100.0%

The focus of the Group's business in the UK in recent years has been the installation of the telecommunications network of Mercury, an 80%-owned subsidiary of the Company, and the development of Mercury's services. Mercury is the only established public telecommunications operator (other than BT) licensed to provide, by means of its own facilities, fixed link national and international public telecommunications services in the UK. As indicated in the table above, Mercury's public telecommunications services have experienced substantial growth.

MERCURY

Mercury was formed in 1982 and commenced leased circuit services in April 1983 and public telephone services in May 1986. Mercury has experienced substantial growth and as of March 31, 1995 had approximately 1,800,000 public telephone service customers. Mercury has now invested over £3.1 billion in building an all-digital national and international telecommunications network and associated activities.

Mercury's public telecommunications operator license was granted by HM Government, as part of its stated Duopoly Policy, in 1984 for a minimum term of 25 years. (See "Regulatory Framework — the Mercury License".) In March 1991, following its planned review of the Duopoly Policy, HM Government decided to end it. (See "Description of Business — Competition".) Applications for new national telecommunications licenses were invited immediately, on the basis that such licenses should be granted unless there were specific reasons to the contrary; however, although the ending of the Policy applied in principle to new international operators also, HM Government has said that it is unlikely to grant new international licenses in the short term and therefore it would be premature at this stage to invite applications for such licenses. HM Government will, however, keep the position under review and will continue to press for a more open international telecommunications market. Since then, as at July

1995, some 150 licenses of various types have been granted. (See "Description of Business – Regulatory Framework – United Kingdom – Competition Policy of HM Government".)

Licenses granted contain very limited restrictions on geographical coverage and technologies used to provide the service, however, applicants have publicly restricted their type of service to sector or technologies such as local access, radio tails, national and regional provision and international simple resale and include foreign telecommunications operators Sprint, AT&T, Telstra and Telia. As Mercury is a full service operator including local, trunk and international voice telephony, a significant number of agreements with new operators are contemplated for the conveyance of their trunk and international traffic and/or for local delivery to Mercury directly connected customers.

During the year Mercury announced a major reorganization intended to streamline its operations and strengthen its competitive position in the UK telecommunications market. Mercury has sold or closed all the businesses connected with its experiment to enter the consumer 'Infotainment' sector, along with a number of other non-core businesses and projects. It is in the final stages of its sale of its Customer Premises Equipment business. Just over 1,000 jobs have been cut as a result.

In its core business, Mercury is lowering its operating costs by reducing the headcount by 2,500 and by other rationalization programs, including the reduction of customer service centers from five to two, consolidation of properties, improvements in operation effectiveness and changes to working practices. As a result, it is expected that operating costs will be reduced by over £60 million per year. A provision of £122 million has been made to cover the cost of the restructuring.

The Mercury Network

Mercury operates a UK trunk network more than 11,700 kilometers in length consisting of over 7,400 kilometers of fiber optic cable and about 4,300 kilometers of microwave links, which connect all the major British population centers. During 1995 the number of 565 MBit optical line systems operated over Mercury's trunk network increased from 752 to 874. In addition, 116 2.5 GBit/s optical line systems have been developed and these will be used in conjunction with the existing digital technology to provide a transmission network incorporating the Automatic Network Protection System and Synchronous Digital Hierarchy.

The Company estimates that approximately 98% of all exchange lines in the UK including (since October 1992) Northern Ireland are located within Mercury access areas (the geographical areas within which Mercury is able to offer its public telecommunications services). Mercury offers its public telecommunications services through direct or indirect connection with the Mercury network. Indirect connections are provided through the networks of other telecommunications operators, principally BT, pursuant to interconnection agreements entered into in compliance with licensing obligations. To the extent that a Mercury call is carried on another telecommunications operator's network, Mercury is required to pay that operator a conveyance outpayment which it deducts from the call charges it collects. See "Description of Business – Regulatory Framework – United Kingdom – Interconnection of PTO Networks". Mercury's access areas are increasing as additional connections between Mercury's network and BT's network are being installed and as BT provides further access to Mercury's network for BT customers. Mercury also has interconnection agreements with 55 local cable operators, two cellular operators and both PCN operators; it expects to enter into similar interconnection agreements with a significant number of recently licensed operators. See "Description of Business - Regulatory Framework - United Kingdom - Interconnection of PTO Networks" and " - Competition Policy of HM Government."

Mercury customers can call any public telephone number inside or outside the UK. Calls to destinations that are not directly connected to Mercury's network are routed on BT's or another operator's network.

Mercury has installed its network in over 146 UK towns and cities and is permitted under its license to expand its trunk network anywhere within the UK. Mercury has increased, and plans to increase further, the capacity of its existing network in response to increased demand for its services from both existing and new customers.

In addition to its trunk network, Mercury is developing local cable networks in certain of the towns and cities that are currently served by its trunk network. In central London, Mercury has installed a fiber optic cable network approximately 1,300 kilometers in length that provides direct connections to 6,000 customer premises. Mercury has also installed fiber optic cable networks in 41 other UK towns and cities. These local cable networks permit Mercury to expand its base of directly connected customers, reduce payments to other operators and obtain revenues from local calls.

Domestic and International Public Telephone Services

Mercury offers public telephone services to customers by means of both direct and indirect connections to Mercury's all-digital network. Since it began offering public telephone services in May 1986, Mercury's operating revenue from the Mercury public telephone services has grown substantially. Operating revenue totaled £1,164.5 million in 1995, compared with £1,036.1 million in 1994 and £829.4 million in 1993.

Operating revenue is derived from line rental, installation charges and call charges. Tariffs are set on the basis of a per minute rate, which varies according to the destination and the time of a call. Except for a minimal fixed charge, Mercury charges customers only for the actual time elapsed during a call, which is measured to the nearest tenth of a minute and multiplied by the applicable tariff. Mercury provides each customer that requests them with itemized bills, which identify the time, duration, destination and cost of each telephone call.

The principal source of operating revenue is Mercury's 2100 Service, which offers business customers direct connection to the Mercury network either by fiber optic cable or microwave link. Long distance and international calls from Mercury's 2100 customers are carried on Mercury's trunk network or international network either end-to-end, or as far as possible before being transferred to BT's or another operator's network for delivery. Where Mercury's local cable networks exist, calls can be made directly on the Mercury network to other Mercury 2100 customers, otherwise local calls are transferred to BT's or another operator's network. Mercury offers Mercury 2100 customers a range of additional features and services such as short code dialing for frequently dialed numbers, hotline facilities for key personnel, conference calling facilities and, when an end-to-end connection is possible, calling line identification, which displays the caller's identity on the receiving party's telephone, and international switched data

Mercury 2100 customers are mostly larger businesses and include a significant number of large UK and multinational companies and financial institutions operating in the UK. Mercury 2100 customers normally generate relatively high volumes of telephone traffic. In addition, because such customers are directly connected to Mercury's network, Mercury is not required to make access payments to another telecommunications operator for such traffic.

The second largest component of operating revenue is derived from Mercury's 2200 service, an indirectly connected service for business customers. This service is targeted at companies for which it is not cost effective to have directly connected services, either because their telecommunications requirements do not justify the additional charges associated with the Mercury 2100 service or because their distance from the Mercury network would require substantial installation charges.

Mercury 2200 customers access the Mercury network through interconnection with BT's network and their calls are delivered either through interconnection with BT's or another operator's network or, in certain cases for calls to Mercury 2100 customers, directly on the Mercury network. Mercury 2200 customers use automatic least cost routing systems which route long-distance and international calls via the Mercury network.

The third source of operating revenue is the Mercury 2300 service. This is an indirectly connected service provided to residential and business customers that are single line users. Most Mercury 2300 customers use a telephone that is equipped with a Mercury button that, when programmed with a PIN code, can direct calls over the Mercury network.

There are 2 further methods of access: a "Mercury Smart Socket", which automatically routes all long-distance and international calls over the Mercury network; and "Residential 132", where instead of using a PIN code, the customer's own telephone number is used to validate access and to identify customers for the purposes of billing. This makes its easier and quicker to use Mercury, although customers must be connected to a BT digital telephone exchange within a Mercury Access Area to use Residential 132.
The number of telephone lines that are directly or indirectly connected to the Mercury network in 1995 grew by 32% over 1994; the number of telephone lines for each service is shown at March 31, 1993, 1994 and 1995 in the table below.

	Year ended March 31		
	1993	1994	1995
Telephone lines			
Mercury 2100	173,792	201,998	239,953
Mercury 2200	511,044	600,891	781,565
Mercury 2300	335,947	546,555	757,616

Note: The figures for Mercury 2100 lines exclude premium rate services. A further 716,528 customers are indirectly connected via cable TV operators.

The service Mercury offers to its Mercury 2200 and 2300 customers and its ability to expand that customer base are dependent on the cooperation of BT in implementing interconnection arrangements.

See "Description of Business — Regulatory Framework — United Kingdom — Interconnection of PTO Networks". There can be no assurance that further disputes with BT about the terms of such arrangements will not occur.

Payphone Service

In November 1994, Mercury announced that it was withdrawing from the payphones business as it was no longer a core business activity. During March 1995, the removal began of the 1,500 payphones on private sites in the UK, this process will be completed by December 1995.

In May 1995, Mercury signed an agreement with IPM Communications plc ("IPM") for the transfer of the some 1,500 public payphone sites, IPM was granted a public payphone license in June 1995. Mercury will be working closely with IPM to achieve the replacement of the current payphones and enclosures by March 1996. Mercury will have no involvement in payphones beyond this date, except as a network provider to IPM.

International Telecommunications Facilities

Mercury offers its Mercury 2000 series and leased circuit customers international telephone services, including voice, facsimile and data transmission, through its four satellite communication centers, which contain eleven satellite earth stations, and through existing international submarine cable systems in which Mercury has purchased or leased capacity. The earth station site near Aberdeen is used mainly to provide services to North Sea oil industry customers via Eutelsat.

Mercury is the UK operator of PTAT, a submarine fiber optic cable linking the UK, the US, Bermuda and Ireland. This cable came into service in November 1989. PTAT, in which the Group owns a 55% interest, has substantially increased the ability of Mercury to meet customer demand for transatlantic cable transmission.
In addition, Mercury has a 2.9% holding in TAT10, which became operational in October 1992 and a 20.98% interest in TAT 11, which became operational in September 1993, in which Mercury is the sole UK Terminal Party. Mercury is also actively participating in the development of the future transatlantic cables TAT12/13 (Ready for Service in 1995/96 — Mercury interest 3.58%). Mercury has also purchased capacity in TAT8, TAT9 and the UK/Canada section of CANTAT3.

Mercury has acquired or will obtain interests in the fiber optic cables existing or planned between the many countries in Europe.

Cable	Date Ready for Service	Mercury Interest %
U.K.-France 5	April 1989	25
U.K.-Netherlands 12	Sept 1989	18.75
U.K.-Germany 5	Sept 1991	10.71
Eurafrica	Sept 1992	12.15
U.K.-Spain 4	Sept 1991	3
U.K.-France 4	Oct 1991	20
Denmark-Germany 1	Oct 1992	8.33
U.K.-Belgium 6	March 1992	10.32
Denmark-Russia 1	April 1993	0.98

In the Pacific and connecting regions, Mercury is also actively participating in the construction of new submarine cable systems. Mercury has an interest in existing systems such as TPC3/HAW4 (commenced service in April 1989 — Mercury interest 0.86%), H-J-K (commenced service in May 1990 — Mercury interest [illegible]), NPC (commenced service in May 1991 — Mercury interest 3.9%), TASMAN2 (commenced service in March 1992 — Mercury interest 1.52%), TPC-4 (commenced service in November 1992 — Mercury interest 0.17%), HAW5 (commenced service in January 1993 — Mercury interest 0.68%), SAT2 (commenced service in April 1993 — Mercury interest 1.26%), PacRimEast (commenced service in April 1993 — Mercury interest 2.79%) and APC (commenced service in September 1993 — Mercury interest 1.28%). Mercury is also participating in the planning of future submarine cable systems in the Pacific, including PacRimWest, APCN and TPC5.
In addition, Mercury is actively involved in the planning of systems that will connect several continents. The first of these systems is SEA-ME-WE 2 (Southern France-Singapore via several points in the Middle East, commenced service in July 1994 — Mercury interest 1.5%). The second system is called FLAG (Fiber Optic Link Around the Globe) and will connect the UK with Japan (via Southern Europe, the Middle East, Indian subcontinent and S.E. Asia) and Mercury will be the sole U.K. Terminal Party. This is scheduled to become operational in early 1997.

Mercury's operating revenue from international telephone services continues to grow. In 1995 and 1994 it was £542.3 million and £492.8 million, respectively. The growth is due to increases in the international traffic generated by Mercury's customers and the percentage of that traffic delivered directly by Mercury to overseas telecommunications administrations. This growth results in increased revenue to Mercury as Mercury's operating agreements generally provide that Mercury will receive for delivery the same percentage of the total traffic to the U.K. from a particular overseas destination that Mercury directly transmits to that destination. See "Description of Business — Agreements with Overseas Telecommunications Administrations and Carriers". Revenue accruing to Mercury from overseas telecommunications administrations increased from £165.9 million in 1993-4 to £182.6 million in 1994-5.

Other Telecommunications Services

Centrex. Mercury was the first PTO in Europe to offer its 2100 service customers a digital "Centrex" service. This permits a customer to obtain telephone system facilities from a group of lines reserved for the customer's exclusive use, rather than from an in-house system, thereby providing the customer an alternative to installing a PABX.

Card Services. In November 1993 Mercury launched a new Mercury Calling Card, providing account based calling from most phones in the UK and in over 60 other countries. In the US, the Caribbean and Hong Kong holders of a Mercury Calling Card can make outgoing calls to anywhere in the world at competitive call charges set by the local administration, rather than having costly routing via the UK. Mercury also accepts the Calling Cards of many overseas carriers for routing calls within and beyond the UK, and during 1994, launched a Calling Card enhancement to American Express Cards issued in the UK, enabling the cardmembers to make calls from around the world and have full details appear on their AMEX Card bill.

Leased Circuits. Mercury has developed a substantial business as the provider of private networks of domestic and international leased circuits for business customers. These circuits are directly connected private lines for the exclusive use of the customer and are leased at fixed rate regardless of use. Mercury's revenues from leased circuits were £147.6 million in 1995 (up from £126.2 million in 1994).

Messaging. Mercury provides a comprehensive range of messaging services. These include basic telex services, of which Mercury is the leading international carrier in the world, and integrated electronic messaging services.

At March 31, 1995 Mercury had bilateral telex operating agreements with 44 overseas telecommunications administrations (fourteen of which are with Group or associated companies) and had greater than 50% of the UK international telex market.
Mercury's MultiMessage service provides customers with access to fax, telex and electronic mail and offers a wide range of message handling services, providing customers with a fully managed messaging system. These services can be integrated into customers' existing host systems enabling them to gain all the benefits of being able to access easily public and other private messaging systems without having to alter their current working practices.

Managed Network Services. There is a growing significant trend for corporations to outsource all of their telecommunications activities. Because of its national reach, reputation for excellent customer service and comprehensive product set, Mercury is well placed to take advantage of this trend. Mercury announced its first major outsourcing deal in 1992 when it took over the entire voice telephone network of the Trustee Savings Bank in the UK. Since then Mercury has won more than 50% of these type of contracts for which it has chosen to bid.

Global Products. Mercury's International Business Service unit acts as the UK sales channel for the Company's global products, such as *Global Virtual Private Network*SM ("*GVPN*SM"). See "Description of Business - Rest of the World - Cable and Wireless Business Networks".

Wholesale. The increasing number of public telephony operators in the UK has led to the development of a substantial wholesale market. Mercury's Partner Services unit has been established to provide service to this market. This enables Mercury to improve its asset utilization and to attract off-peak traffic onto its trunk network.

DATA NETWORK SERVICES

Mercury Data Network Services is the group within Mercury providing a range of managed data networking services collectively known as the Mercury 5000 range.

Mercury 5000 services can be provided throughout the UK, either via a DataLink dedicated connection, or by dialed access over the PSTN at local call rates (the Mercury 5000 Dial service). Mercury 5000 International provides links to more than 160 public switched data networks in over 80 countries around the world.

Introduced in 1993, Mercury's *Global Managed Data Service™* ("*GMDS™*") is provided in connection with other Cable & Wireless Group Companies. See "Description of Business - Rest of the World - Cable & Wireless Business Networks."

Customers include companies in the retail, government, financial, petroleum, computer, manufacturing, and leisure industries. In addition, leading information providers and enhanced service suppliers utilize Mercury to provide on-line dial access to their Databases.

MERCURY COMMUNICATIONS (ENTERPRISES) LIMITED ("MERCURY ENTERPRISES")

Mercury Enterprises has been established as a separate legal entity within the Mercury Group since January 1993, in 1995, the portfolio of Mercury Enterprises businesses has been consolidated, and now comprises the following:

Mercury Paging Limited. This subsidiary now has over 150,000 pagers in service. Mercury Paging is a joint venture with Motorola Limited, a manufacturer and distributor of telecommunications equipment, and Mobile Telecommunications Technologies Corporation ("MTel"), a US-based operator of mobile communications services internally. Mercury Paging's network is operated under an individual and separate paging license.

Mercury Communications Mobile Services Limited ("MCMS"). Another subsidiary of Mercury Enterprises, MCMS is a cellular service provider in the UK market. Selling onto the networks of both Cellnet and Vodafone Limited, MCMS has over 95,000 subscribers.

M33 is multimedia provider in which, as of February 1994, Mercury had a 27% stake. M33 operates in the European market under the brands Andromeda Interactive and Andromeda Oxford, and in North America as Andromeda Interactive Inc.

Prelink Limited. Another Mercury Enterprises subsidiary, Prelink provides an information distribution service specializing in export intelligence for small and medium sized businesses in the UK. Prelink has an exclusive contract with the UK's Department of Trade and Industry, whereby it receives sales leads from consular and diplomatic posts around the world, for processing and onward transmission to subscribers to its service.

MERCURY ONE2ONE™

Mercury Personal Communications, now trading as *Mercury one2one™*, an equal partnership between Mercury Personal Communications Network Limited and Unitel, launched its mobile phone service on September 7, 1993 initially serving the London area. Since then its network has grown to serve 30% of the UK population in two regional areas: the South East and the West Midlands. By the end of 1996, it will serve 65% of the population, growing to 90% by December 1997.

By March 31, 1995, eighteen months since launch, *Mercury one2one* had attracted 260,000 customers to its service, taking a 19% market share within its service area, equal to a 6.5% share of the total UK mobile phone market. *Mercury one2one* currently attracts 30% of mobile phone sales in its service area; it offers Bronze, Silver and Gold tariff packages, all of which provide free calls during weekends.

Over 13 million calls are made on the *Mercury one2one* network every week.

On April 28, 1994 Orange Personal Communications Services Limited (a wholly-owned subsidiary of Hutchison Telecom UK Limited - itself a joint venture between Hutchison, Barclays Bank and British Aerospace) launched its PCN service under the brand name "Orange". Orange currently provides service in an area covering 75% of the population and offers a range of 5 tariffs.

OTHER EUROPE

In Europe, excluding the UK, the Group is pursuing opportunities in a number of countries including those in Eastern Europe and the CIS. The Group now has businesses in France, Germany, Belgium, Switzerland, the Netherlands, Ireland, Italy, Portugal, Spain, the Baltic States, Russia and the CIS, offering international services and local support to a growing customer base in these markets. The services include the IDNS-900 managed data network services, managed voice services, enhanced facsimile service, messaging services and equipment installation and maintenance.

On June 27, 1995, the Company and VEBA AG ("VEBA") agreed the key elements of a strategic alliance which was first announced on January 26, 1995. The parties have also signed a Memorandum of Understanding which is intended to lead to a more unified approach to the partners' interests in management of their PCN activities in Europe.

Two joint companies will implement the alliance:

a) **VEBACOM GmbH ("VEBACOM")**. This company will be owned 55% by VEBA and 45% by the Company. VEBA will take the management lead. VEBACOM will be the holding company for the existing telecommunications businesses and interests of the VEBA Group and the Cable & Wireless Group's existing business in Germany.

   In connection with the acquisition of its interest in VEBACOM, the Company will subscribe for approximately £825 million in new capital in VEBACOM, of which approximately £490 million cash will be paid on completion in the fall of 1995.

VEBACOM's business includes a 28.7% interest in E-Plus, the DCS 1800 network being built in Germany; a 65% interest in the HON software and services business, an 83.3% interest in the MEGANET data and voice networks business, the TeleColumbus cable TV business, the Concepta broadband cable services business, a 40% interest in the MINIRUF radio paging business and a 49.8% interest in the Teleport Europe GmbH, as well as 10% of Iridium, Inc. which will build a worldwide digital satellite mobile telecommunications network.

The funds provided on completion and subsequently by the Company will be used for the further development of VEBACOM's interests in the German telecommunications market and in mobile satellite communications.

b) **Cable and Wireless Europe S.A.** ("CWE") will be incorporated in Belgium and will be owned 50/50 by VEBA and the Company who will contribute cash and businesses respectively approximating to £38 million. The Company will take the management lead. CWE will manage and develop telecommunications interests in the European Union (excluding Germany and the UK) and Switzerland. Initially, CWE will become owner of the Company's 100% owned European subsidiaries. It will act as the management vehicle for each company's interests in Bouygues Telecom, Tele2, CableCom and Infomobile.

It is intended that ownership of the other interests of the Company and VEBA in Europe will subsequently be brought into CWE, with valuations being undertaken at the appropriate time.

While the Company has been very satisfied with the progress of its existing minority interest of 5.03% in Mannesmann Mobilfunk GmbH, the company licensed to operate Germany's second cellular telephone service, the potential existed for conflicts of interest to arise with the Company's indirect investment in E-Plus. Accordingly, on September 20, 1995 the Company agreed to sell its interest in Mannesmann Mobilfunk GmbH to Mannesmann AG and AirTouch Communications in proportion to their existing shareholdings in the company for a consideration of DM530 million (approximately £230 million), payable in cash. This transaction will generate a pre-tax profit on disposal of £194 million.

In **Sweden**, the Group holds 39.9% of Tele2, a joint venture company which offers a range of national and international services over a network which is operated independently of that run by Telia.

In **Belarus** the Group has a 50% stake in BELCEL, a joint venture providing cellular telephone services with direct international access covering Minsk and the regional centers of the country.

In March 1995, International Finance Corporation acquired a 10% interest in the Danish company TILTS Communications A/S ("TILTS"), in which the Group now has a 60% interest and Telecom Finland 30%. Following an international competitive tender, TILTS won the right to acquire a 49% interest in Lattelekom SIA, which is the provider of basic telecommunications services in the **Republic of Latvia**. The Republic of Latvia holds the balance of the Lattelekom equity. TILTS has a ten year management contract with Lattelekom.

In **Bulgaria**, the Group currently holds a 49% interest in Radio Telecommunications Company Limited

("RTC"), a joint venture with the Bulgarian Telecommunications Company and Radio Electronic Systems Limited. RTC holds a license to provide cellular mobile services in Bulgaria.

During the year, the Group disposed of its interest in SOVAM Teleport. The Group has a 20% interest in Spacecom, a joint venture company which provides dedicated international telephone services to customers in Moscow. In St Petersburg the Group currently has a 77% interest in Baltic Communications Limited which provides dedicated international telephone services in the city. The Group currently has a 31.9% interest in Petersburg Long Distance Inc. ("PLD"), a company listed on NASDAQ and the Toronto Stock Exchange. As reported by PLD in its latest report to the Securities and Exchange Commission, PLD also has an ordinary share interest of 50% in Peterstar Company Limited, which offers telecommunications services in St. Petersburg, and the Company has a further indirect economic interest of 11% in Peterstar. PLD also has an interest of 50% in BECET International, which has a license to develop a nationwide cellular network in the Republic of Kazakhstan, and a 50.75% ordinary share interest in Technocom Limited, an Irish company that holds a 41.83% beneficial interest in Teleport TP of Russia which operates a teleport and fiber optic network in Moscow and its environs. PLD also has a minority interest in St. Petersburg Intercity and International Telephone which provides long distance services to the St. Petersburg region, and has other telecommunications related interests.

Cable and Wireless FlightLink Limited, formerly Mercury FlightLink Limited (a consortium of Mercury Enterprises, In-Flight Phone International (a subsidiary of In-Flight Phone Corporation) and Irelandia Investments Limited) became wholly-owned by the Company in January 1995. This company will offer airborne telecommunications services to airlines and their passengers initially in Europe. The company's first customer trial will commence in the fall of 1995, with full operational service being offered from 1996.

BIMCOM Limited was acquired by the Company from Mercury Enterprises in June 1995. The company develops and markets a range of messaging products and services for the international maritime sector. It retains a close association with BIMCO, the Baltic and International Maritime Council.

CARIBBEAN

The operations of the Cable & Wireless Group and its associated companies in the Caribbean consists of its domestic and international telecommunications operations in Bermuda and 14 different countries in the Caribbean, principally Jamaica, Barbados, the Cayman Islands and Trinidad & Tobago.

The following table sets out, for the three years ended March 31, 1995, the Group's operating revenue (including inter-regional revenue) from the Caribbean region by category of service (including as a percentage of total Caribbean operating revenue).

	Year ended March 31					
	1993		1994		1995	
	(in millions except percentages)					
Public telecommunications						
International telephone services	£ 289.6	78.3	£ 371.1	77.8%	£ 381.4	76.6%
Domestic telephone services	57.9	15.7	76.9	16.2	87.8	17.6
Other telecommunications services	17.4	4.7	23.5	4.9	22.0	4.4
Other						
Equipment sales and rental	4.5	1.2	5.0	1.0	6.0	1.2
Cableships and contracts	0.5	0.1	0.6	0.1	1.0	0.2
TOTAL	£ 369.9	100.0%	£ 477.1	100.0%	£ 498.2	100.0%

The Group's telecommunications operations in the Caribbean grew during the five year period ended March 31, 1995. In those countries in the Caribbean where the Group provides domestic telephone services, the total number of telephone lines in service increased from approximately 390,000 at March 31, 1990 to approximately 670,000 at March 31, 1995. A major element in this increase has been supplied by TOJ which has grown by 20% (42,000 lines) in the last year alone and over the five year period by 156,000 lines. Outgoing international traffic on the Group's networks in the Caribbean region increased from approximately 250 million minutes in 1994 to approximately 270 million minutes in 1995.

In a strategic move to understand and meet customer expectations better, a smaller Caribbean and Latin America Regional Office was moved from London to the Cayman Islands in early 1995. A primary factor in this move was the need to promote greater customer focus in the short term as the growing demands of the Caribbean customers mirror those in North America.

Jamaica

The Group has a 70% interest in TOJ, a company established in May 1987 to co-ordinate the development of both domestic and international telecommunications services in Jamaica through JTC and Jamintel, respectively, each of which is wholly owned by TOJ. JTC and Jamintel are operating under separate licenses both expiring in 2013. The national telephone system of Jamaica is 100% digital.

The Company is a shareholder, with TOJ and American Telephone & Telegraph ("AT&T"), in Jamaica Digiport International Limited, a company formed to operate a satellite earth station which serves the international telemarketing and information processing requirements of customers in Montego Bay Free Trade Zone by providing high speed data transmission facilities.

Barbados

The Group provides domestic and international telecommunications to Barbados through BARTEL, in which the Group has a 75% interest, and international telecommunications to Barbados through BET, in which the Group has an 85% interest. Both licenses expire in 2011. The Group's telecommunications network in Barbados is entirely digital.

Cayman Islands

The Cable & Wireless Group provides both domestic and international public telecommunications services to the Cayman Islands under a license signed in December 1993 which expires in 2011. The Group's telecommunications network in the Cayman Islands is entirely digital.

Bermuda

The Cable & Wireless Group is currently operating in Bermuda under a license that is subject to a three year period of notice. Bermuda is an important circuit relay station for the Group's submarine cable network. Bermuda is connected to the US, Ireland and the UK by means of the Bermuda spur on the PTAT digital fiber optic cable system, which became operational in November 1989. (See also "Description of Business - United Kingdom - Mercury - International Telecommunications Facilities.") The cable link between Bermuda and British Virgin Islands, known as CARAC ("Caribbean Atlantic Cable"), provides links to the Group's digital microwave network and the Eastern Caribbean Fiber System ("ECFS") serving the Eastern Caribbean.

On June 23, 1995 the Bermuda Government announced its intention to grant a license to a new international telecommunications company in Bermuda. The Company has asserted that the Bermuda Government is not entitled to proceed with the grant, given the terms of the license it has granted to the Company, and the issue may be referred to arbitration in the forthcoming year.

Trinidad and Tobago

The Group's 49% interest in international and domestic telecommunications in Trinidad and Tobago is held in Telecommunications Services of Trinidad & Tobago ("TSTT"). TSTT's license is due to expire in 2009.

ECFS

Provisional System Acceptance of the ECFS cable is scheduled to occur in September 1995. It will connect 14 islands from the British Virgin Islands in the north to Trinidad in the south. The cable is pivotal in the strategy to introduce enhanced services, such as cable TV, into the region and shows the Company's commitment to meet customer expectations in the deliverance of advanced telecommunications services. The total cost of the cable system will be US$60 million, of which the Company's share will be approximately 74% (US$44 million).

Mobile Communications

In common with the rest of the world, mobile communications has grown significantly throughout the Caribbean region in the last year. In Jamaica, the number of mobile customers has reached 27,000 in 1995, an increase of 60% over 1994. Similar growth trends have been experienced in other Group units in the region, particularly Barbados, Cayman and Trinidad.

In the western region of **Colombia**, OCCEL S.A., a joint venture owned by the Company (22.[illegible]%), Itochu of Japan (2.7%) and local partners, commenced a cellular service in September 1994 and its customer base totaled some 41,000 by May 1995.

NORTH AMERICA

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

Through its US network the Group primarily provides domestic long distance voice, data, leased circuit and facsimile telecommunications services to business customers. The Group also offers its customers switched international telephone services through arrangements with certain US carriers operating U.S. networks pursuant to which international calls are transferred from the Group's U.S. network to the networks of the international carrier and then transmitted on such carrier's network. Additionally, the Group provides international leased circuit capacity acquired from underlying facilities - based carriers and made available to users. At March 31, 1995, the Group had approximately 100,000 customers using its long distance service, representing less than 1% of the US market for such services.

In the U.S., the volume of domestic telephone traffic on networks operated by the Group grew from approximately 2,403 million minutes in 1994 to approximately 2,762 million minutes in 1995, a 15% increase.

The Group's share of international traffic from the U.S. increased from approximately 136 million minutes in 1994 to approximately 182 million minutes in 1995, a 34% increase.

REST OF THE WORLD

The principal operations of the Cable & Wireless Group and its associated companies accounted for under the Rest of the World include Australia, Bahrain, Far East-Russia, Japan, the Republic of Maldives, the Pacific Rim, Pakistan, the Republic of Seychelles, South Africa and Yemen Arab Republic, together with the businesses of CWMI and CWBN.

AUSTRALIA

In January 1992, Optus Communications Pty Limited ("OCPL") completed the purchase of Aussat Pty Limited (now called Optus Networks Pty Limited) and Mobilcom (Australia) Pty Limited (now called Optus Mobile Pty Limited) from the Australian Federal Government. As a result, OCPL and its subsidiaries were awarded a 25 year license to operate a second public telecommunications network via fixed link, mobile and satellite transmission media covering both domestic and international services.

Under the conditions of the sale OCPL will operate within a duopoly environment in competition with Australia and Overseas Telecommunications Corporation (now called Telstra Corporation Limited) until June 30, 1997 for public fixed link telecommunications services. In relation to mobile telecommunications services, the duopoly continued until June 30, 1993 when a third national license holder was licensed to operate; its operations actually commenced in September 1993.

OCPL, in which the Group holds a 24.5% stake, launched its international and national long distance services in November 1992 and by March 1994 had attracted over one million customers. The service is now available to over 77% of the Australian population.

OCPL successfully launched its own satellite, B1, in August 1992. The launch failure of B2 the following December had no operational implications and its insurance replacement, B3, was successfully launched in August 1994.

In April 1994, a Heads of Agreement between OCPL and Nine Network Australia Limited was signed pursuant to which that company would become a shareholder of OCPL and the Group's interest would be reduced to 20.85%. This transaction did not proceed. However, in May 1995, OCPL entered into a joint venture with Continental Cablevision Inc. ("CCI"), Publishing & Broadcasting Limited ("PBL") and Seven Network Limited ("SNL") to establish a hybrid fiber coaxial cable broadband network to supply pay TV and telephony services to residential and small business customers in Australia. This venture, called Optus Vision Pty Limited, is owned 46.5% by each of OCPL and CCI, 5% by PBL and 2% by SNL.

Japan

As at March 31, 1995, the Company had a 17.58% shareholding in IDC, one of two companies licensed to compete with KDD (previously Japan's only international public telecommunications company) in providing international telecommunications services in Japan. Itochu Corporation (a major Japanese trading company), Toyota Motor Corporation and AirTouch International are the other principal shareholders of IDC.

IDC offers leased circuit and international public telephone services. Calls are delivered to IDC's facilities through interconnection with the networks of Japan's domestic public telecommunications companies, the largest of which is Nippon Telephone and Telegraph Corporation ("NTT").

IDC has six main operational sites. Satellite communications earth stations at Chiba and Yamaguchi, the Yokohama operations center, the Tokyo transmission center, the Osaka operations center, and the Miura cable landing station. Services are provided by satellite and submarine cables including the fiber optic transpacific North Pacific Cable which was completed in April 1991, the Japanese end of which is currently owned approximately 35% by IDC and 15% by the Group.

IDC currently has over 100 operating agreements with overseas telecommunications administrations and carriers worldwide, including the US, UK and Hong Kong. Operating agreements are particularly important to IDC because the Japanese Government requires direct circuits to be established between IDC and other countries. IDC has to date obtained approximately 19% of Japan's international traffic and has launched a number of enhanced services including ISDN, IVPN, Calling Cards and Home Direct services.

Competition with the other licensed company and with KDD, which is large and well established, is keen and, particularly with respect to KDD, based primarily on price.

The Company's wholly-owned subsidiary, Cable and Wireless (Japan) Limited, seeks and pursues other business opportunities in Japan.

Cable & Wireless Japan Communications Services Limited, a joint venture between the Company and Toyo Information Systems ("TIS") (a subsidiary of the Sanwa Bank), provides enhanced facsimile and managed data services (Type 2 Value Added Services), as well as Account Management for multi-national Japanese customers. As at March 31, 1995 the Company held 85.75%, and TIS 14.25%.

The Company holds minority shareholdings in Tokyo Digital Phone (8%), Kansai Digital Phone (7.2%), Central Japan Digital Phone (7.2%) which commenced operations in mid 1994, and Digital TU-KA Kyushu (2.5%), which will be operational in April 1996.

In October 1994 and in April 1995 the Company invested 2.5% of the equity of new companies, Digital TU-KA Chugoku and Digital TU-KA Tohoku, which have won a license to operate cellular service in the Kyushu and Tohoku regions of Japan respectively.

The main shareholders of these mobile digital phone companies are Japan Telecom (a domestic public telecommunications company) and Japan Railways, and Nissan in respect of Digital TU-KA Kyushu, Digital TU-KA Chugoku and Digital TU-KA Tohoku.

In November 1992 the Company acquired a 20% shareholding in OmniTRACS Corporation. The main shareholder is Itochu and others include Clarion, Maspro and Qualcomm. OmniTRACS provides data to trucks, etc. in Japan via domestic satellite and commenced operations in July 1993.

In February 1995, the Company reached an agreement to partner Japanese telecoms operator NTT in a number of Personal Handyphone System (PHS) operations in Japan. Under the agreement the Company invested some £10 million in acquiring a 5% interest in NTT's PHS operations (NTT Personal Communications Network, Inc., main shareholders of which are NTT, DoCoMo, Marubeni, Itochu) in 9 regions. The Central (Tokyo and its surrounding areas) and Hokkaido companies began operations in July 1995, and the remaining 7 companies are scheduled to begin operations in October 1995.

Far East Russia

The Group has increased its holding in Sakhalin Telecom to 60%, and retains 50% in Nakhodka Telecom. A new company Sakhalin Telecom Mobile has been established with 59.2% ownership by the Company and acquisitions have been made of 36% of Yuzhno-Sakhalinsk City Telephone Company and 25% of Sakhalinelectrosvyaz, the Regional and long distance PSTN company in Sakhalin. All these businesses are administered from the North East Asia Regional Office in Japan.

Maldives

Dhivehi Raajjeyge Gulhun Private Limited, in which the Group has a 45% shareholding, was granted a fourteen year extension to its operating license on January 1, 1995. Future expansion plans anticipate network access to all 200 inhabited islands in the Republic of Maldives by the year 2000.

Pakistan

In Pakistan, Paktel Limited, in which the Group has an 80% shareholding, consolidated its position as the preferred service provider, maintaining a 60% market share.

Saudi Arabia

The Company completed a contract to provide operational support and maintenance to the Saudi Arabian National Guard in February 1995. The ending of the contract is not material to the Group.

Seychelles

Cable and Wireless (Seychelles) Limited, a wholly owned subsidiary, has been granted a GSM cellular license in addition to the national and international license.

South Africa

The Group has a 25% holding in Mobile Telephone Networks (PTY) Limited ("MTN"). The remaining 75% is held by South African interests. In October 1993 MTN won one of two licenses to provide nation-wide GSM cellular telephone services in South Africa. Commercial service commenced on June 1, 1994 and the customer base reached 120,000 within the first year of operation. The Group also has a 40% holding in M-TEL Pty Limited, which is a service provider to MTN in South Africa.

Cableships and Contracts

CWMI is one of the Federation's main global businesses. It is the leading provider of installation and maintenance services to the submarine telecommunication industry, operating the world's most diverse and technologically advanced fleet of cableships and subsea equipment.

CWMI operates, on behalf of GET, the joint venture with the China Ministry of Post and Telecommunications entered into in April 1994, to develop, install and maintain submarine cable systems. Based in Shanghai and known as S B Submarine Systems Company Limited, it is laying its first cable from China to Korea.

In September 1994, in a joint venture with Singapore Telecom and ASEAN Cableship Pte Limited, the first of two new cable maintenance ships for the South East Asia region was delivered and is now in operation.

In December 1994, CWMI strengthened its position with the acquisition of British Telecom's marine subsidiary, BT Marine.

CWMI's new cable laying vessel, Cable Innovator, was launched in March 1995 and will enter service in October 1995. Its radical new design combines high cable carrying capacity with the innovative stern working technique pioneered by the company.

During the year CWMI completed the longest ever route survey project for the FLAG (Fiberoptic Link Around the Globe) system. This will stretch from the UK to Japan via the Suez Canal with landings in 11 countries.

In the Far East, the TVH cable, is now being installed by CWMI from Hong Kong to Thailand and Vietnam, and in the eastern Caribbean the installation of a new fiberoptic system connecting 14 islands from the British Virgin Islands to Trinidad will be the largest international unrepeatered system in the world.

Cable & Wireless Business Networks

Cable & Wireless Business Networks ("CWBN"), a division of the Company, mainly serves discrete groups of customers in the transport, oil and chemicals, pharmaceuticals and finance sectors. In the past year it has also begun to expand into the media, computing and electronics sectors.

During the year, the Company formed a 50:50 joint venture with Schlumberger Limited, the world's leading supplier of specialized services to the oil and gas industry. The venture, known as Omnes, will provide customized, global solutions initially to the oil and gas industry, drawing on CWBN's communications skills and Schlumberger's network and knowledge of the business. This is the communications industry's first carrier-customer alliance formed to serve other customers within the sector.

The related acquisition of Vitacom, a small American VSAT company in which the Group currently has an 87% interest, will allow more services to be offered to oil exploration and production companies operating in remote parts of the world.
During the year, the *Global Managed Data Service* was extended to the Caribbean and Russia, the equivalent service for voice, *Global Managed Private Line*™, was upgraded, and the *Global CityVoice*™ service for money brokers was extended to nine European cities including Brussels, Dusseldorf and Dublin linking with the USA and the Pacific Rim. CWBN also launched *Global Managed Router*™ service which allows local area networks ("LANs") to be interconnected to create 'global virtual' LANs.

AGREEMENTS WITH OVERSEAS TELECOMMUNICATIONS ADMINISTRATIONS AND CARRIERS

To provide international telephone services the relevant Group company generally enters into operating agreements for direct connection with the appropriate overseas telecommunications administration or recognized operating agencies in line with the recommendations of the ITU. These agreements govern both the rates of payment by the relevant Group company to the overseas administrations or carriers for the use of its facilities with respect to incoming international traffic.

The practice among telecommunications administrations and recognized operating agencies is for payments due in respect of the use of overseas networks to be recorded, collected and forwarded by the administration or carrier in the country in which the call is made. Settlements among such administrations and carriers are normally made on a net basis. If a Group company does not have an operating agreement for direct connection with, or the agreement has not yet been implemented by, the overseas telecommunications administration to which a call is directed, agreements are sought whereby calls can be routed through an intermediate switching center, paying the intermediary an agreed rate.

Mercury entered into its first operating agreement in April 1986 and, at March 31, 1994, had operating agreements for international switched telephone service with 101 carriers, including the U.S., France, Germany and Japan. During 1993/94 new direct routes were opened with a significant number of new countries including Iran, Tunisia and Ukraine. Thirty of these agreements involve relationships with other Group companies or associates as shareholder or manager of a carrier. Mercury continues to seek operating agreements with telecommunications administrations in other countries in order to increase the percentage of outgoing international calls from the UK that can be carried on Mercury's network. There can be no assurance as to whether or when Mercury will enter into any additional operating agreements.

In circumstances where more than one carrier is authorized to receive incoming calls in a particular destination, such as in the UK, revenue from incoming calls from a particular international destination is generally determined by the relative market share of such carriers in outgoing calls to that destination, since operating agreements between telecommunications administrations and carriers generally provide that carriers will receive the same percentage of the total incoming traffic from a particular international destination as the percentage of outgoing traffic that they carry to that destination.

COMPETITION

The Cable & Wireless Group provides international and domestic telecommunications services generally under exclusive licenses in the jurisdictions in which the Group operates. The Group and its associate companies do not operate under exclusive licenses in the UK, the U.S., Sweden, Japan or Australia, where competition in the telecommunications industry is promoted as a matter of government policy and the Group and its associated companies operates as a competing carrier. Other jurisdictions may also decide to promote competition, and there can be no assurance that any of the Group's existing exclusive licenses will be renewed on an exclusive basis. See "Description of Business - Regulatory Framework".

In the UK, Mercury and BT are currently the only operators licensed to operate international fixed link public switched networks, whether cable, radio or satellite. HM Government disposed of a final tranche of shares, comprising virtually all of its remaining holdings of BT, in July 1993. BT is much larger and more established than Mercury. See "Description of Business - United Kingdom - Mercury".

HM Government's promised review of the Duopoly Policy on competition in the UK was completed in March 1991 with the publication of the policy document "Competition and Choice: Telecommunications Policy for the 1990's". The primary policy changes announced were: the ending of the Mercury and BT duopoly, although no new international operator licenses were expected to be granted in the short term; the requirement for all dominant local operators to provide equal access to any long distance operator requesting it; the full liberalization of private satellite services; the removal of existing restrictions on the provision of all telecommunications services via international leased circuits with the exception of international simple resale services which will only be permitted between the UK and those countries whose regulatory regimes allow an equivalent freedom to provide such services in the reverse direction, the licensing of the self-provision of telecommunications circuits provided that they are not used to provide third party resale services, the lifting of the restrictions on the broad band cable TV operators so as to enable them to provide the full range of telecommunications services over their networks independently, and the grant to BT of greater flexibility in setting its tariffs provided that the Director General is satisfied that they meet certain tests laid down by him in the BT license.

The effect of these policy changes has been to change the UK telecommunications market into one of the most competitive in the world, with in excess of 60 new operators being granted licenses to date. Most of the new entrants occupy specific markets or geographic niches.

a) **Cable Operators.** Cable TV operators tend to offer a telecoms local loop alongside their cable television infrastructure. The UK cable operators are mostly owned by large North American cable and telephony companies. Their operations are restricted to certain geographic franchises, but they enjoy the economies of scope of a joint television and telephone offering, as well as a certain degree of protection as national operators (including BT and Mercury) are not permitted to sell broadcast entertainment services. The local presence of cable companies makes them a natural partner for Mercury, and Mercury has approximately 90% of the cable long distance and international interconnect market.

b) **Other local operators.** Metropolitan Fiber Systems ("MFS") and City of London Telecommunications ("ColT") specialize in providing local access over fiber optic networks. Like the cable operators, they are restricted by geographic boundaries and so cannot benefit from national presence. However, ColT has recently been awarded a national license.

c) **International resellers.** Companies such as Sprint, ACC and Worldcom have found niches selling an extremely limited range of products at a discount. These companies take advantage of the bulk discounts offered by BT and Mercury on leased international capacity and very low overhead structures to offer cheap voice telephony to a limited range of international destinations.

d) **Other national operators.** Energis, jointly owned by the regional electricity companies of England and Wales, has spent much of the last few years building a national trunk network taking advantage of the existing electricity pylon network. It is currently relying on its low cost technology to gain business customers, but is thought unlikely to be able to sustain the cost advantage. Other operators with national licenses include AT&T, Ionica and ColT, although they have little infrastructure at present.

Mercury has maintained its price leadership for PSTN services in the UK.

Mercury has introduced new discount packages in both the direct and indirectly connected business markets, offering automatic volume discounts of up to 25% off BT's base prices. Further enhancements to these packages this year include number discounts (10% off the price of calls to 5 specified numbers) and zone discounts (5% off the price of calls to specific countries in a specified zone).

In the residential market, the guaranteed savings of 30% during the day over BT's base prices was enhanced with the 'YourCall' discount scheme, giving an additional 5% off the price of calls to 5 pre-selected numbers.

In Hong Kong, the Agreement in Principle contemplated that Hong Kong Telephone's exclusive franchise would end on June 30, 1995, the Hong Kong Government announced last year its intention to award FTNS Licenses to three operators, in addition to a non-exclusive license to Hong Kong Telephone, to provide public telecommunications facilities and basic telephone services after July 1995. These licenses were awarded in June 1995 to Hutchison Communications Limited, New World Telephone Limited, with Hong Kong Telephone receiving its license on June 29, 1995. HKTI's exclusive rights will continue until September 30, 2006 and the Hong Kong Government has stated that any further liberalization in international services will be constrained by HKTI's license in general and the exclusive rights granted thereunder in particular. However, the Hong Kong Government has stated that it intends to pursue opportunities for further liberalizations without infringing the exclusive rights granted under that license. The Telecommunications Authority has issued certain statements that seek to explain a number of such opportunities together with the Telecommunications Authority's views on their relationship with the HKTI License. In some instances HKTI holds a contrary view to that of the Telecommunications Authority and continues to enter into discussion with both the Telecommunications Authority and the Hong Kong Government to try to reach a common understanding of the position. HKTI intends to pursue these discussions but at the same time will continue to review all rights available to it under the terms of the HKTI Licence and will consider using any such rights if it is deemed to be appropriate.

Hong Kong Telecom faces competition in the sale, rental and maintenance of telecommunications products and services such as mobile radio telephone and paging, data processing and computer services and local facsimile and data transmission facilities and services. It also faces competition in the provision of originating and delivery services to HKTI, and in the provision of local voice and data services for residential and business exchange lines, fax services and local leased line services. Ancillary services and features such as exchange line star services, call forwarding, ring back when free are all open to competition. Such services can only be provided under licenses granted by the Hong Kong Government pursuant to the Telecommunications Ordinance.

In the past, HKTI leased its private international telecommunications circuits solely to meet the telecommunications needs of the customers leasing such circuits. In 1990, HKTI and the Hong Kong Government agreed the scope of services which could be offered by organizations using international dedicated circuits leased from HKTI for a fee. The scope has recently been broadened as part of the Agreement in Principle. See "Description of Business—HKTI—Leased Circuits".

These organizations must obtain a license from the Hong Kong Government for such services. Telecom CSL already holds a license and competes in this market.

The Hong Kong Government has made a provision for a "self provide" license which enables companies and organisations to provide their own international circuits for intra-corporate traffic. A number of these licenses have now been issued and the licenses clearly state that no activity undertaken by self provide licenses may infringe the exclusive rights granted to HKTI under the terms of the HKTI Licence. However, HKTI does not accept the Telecommunications Authority's view that certain aspects of the self provide license do not overlap with rights granted to HKTI by the HKTI Licence. HKTI is currently discussing these issues with the Telecommunications Authority and the Hong Kong Government. See "Description of Business – Regulatory Framework – Hong Kong".

A number of service providers are offering "call back" services and calling card services for Hong Kong based customers. These services are all provided utilising the international switched network of HKTI. In a "call back" service, a customer is given an overseas access number to call. After ringing the number, the caller then hangs up. A switch owned by the "call back" operator recognises the call and rings the caller back with a dial tone to call any number in a particular country or elsewhere. The service effectively substitutes an outbound call for an inbound call. Consequently HKTI receives an accounting rate in-payment from the far-end carrier. To date these services have been provided utilizing public non-exclusive telecommunication licenses, these value added service providers focus on limited markets and traffic streams and HKTI has suffered no significant revenue loss due to this type of service. The FTNS Licensees are likely to utilize the "call back" service to improve the margin available on outgoing international calls. This will affect Hong Kong Telephone's competitive position as an originator of international calls and reduce its revenue. FTNS Licensees expect to receive delivery fees from HKTI for call back calls in addition to retaining the revenue derived from the international call. HKTI considers "call back" service to be in contravention of its exclusive license and consequently requested a legal ruling from the Telecommunications Authority. On 24 March 1995, the Telecommunications Authority issued a statement to the effect that "call back" service does not contravene HKTI's exclusive licence. HKTI does not agree with certain aspects of the statement issued by the Telecommunications Authority and is currently discussing the issues with the Telecommunications Authority and the Hong Kong Government. However HKTI is also reviewing all rights available to it under the terms of the HKTI Licence and will consider using any such rights if it is deemed appropriate.

In the U.S., the Group faces substantial competition from over 500 companies, some of which have significantly greater assets than the Group. The Group competes principally on the basis of price, but also on the basis of quality, reliability and range of services.

The Group also competes for transit traffic and for the provision of leased circuits with various overseas telecommunications administrations and recognized private carriers, many of which are government entities or companies with significantly greater assets than the Group. The Group competes for this business primarily on the basis of price.

In the sale and rental of telecommunications equipment, the Group competes with numerous companies offering similar services.

The Company believes that the liberalization and privatization of the telecommunications sector will continue in countries where such initiatives have already been implemented, and that such initiatives are likely to be seen in other jurisdictions. The Cable & Wireless Group continuously considers a variety of means by which it may take advantage of new opportunities generated by such liberalization and privatization and maintain its current market share, including significant acquisitions, joint ventures and other alliances.

RESEARCH AND DEVELOPMENT

Although the Group does not have a central research and development facility, research is carried out within its regional business. Many technical trials are currently being implemented throughout the Group, with the objective of maintaining Group engineering and service skills at the forefront of communications technology. The Group monitors the development of new telecommunications technology closely in connection with its selection of equipment and its development of new services - See "Description of Business - United Kingdom - Mercury".

EMPLOYEES

The Cable & Wireless Group had an average of approximately 41,100 employees during the fiscal year ended March 31, 1995. Each operating business has its own policy for pay, recruitment, succession planning and the training and development of employees. Some 40% of the Group operating companies currently have a formal recognition agreement with a trade union or staff association, covering various aspects of employment.

The Group's Hong Kong operations employ the largest workforces representing some 39% of the Group's employees. Other large workforces are in the Caribbean Region, with some 8,000 employees, and in the UK Mercury Communications employs approximately 9,000 people.

Numbers of jobs are reducing in both Mercury and HKT, as each business responds to an increasingly-competitive marketplace. In April 1994, the Company announced that it was planning changes in its London corporate headquarters and regional management functions to reflect the move towards a federal structure for the Group. See "Description of Business - The Company". These changes have now been implemented; the corporate headquarters now focuses on the Company's statutory and executive functions whilst the Caribbean Regional Office has moved closer to its customers by relocating to the Cayman Islands. As a consequence, the number of employees in the "corporate" activity is about 80.

REGULATORY FRAMEWORK

GENERAL

The Cable & Wireless Group and its associated companies generally operate under licenses issued by national governments or through ownership interests in local operating companies. In the case of local operating companies, the Company is typically a joint owner, sometimes having a minority holding either with the government concerned or other parties. If the Group and its associated companies do not provide both domestic and international telephone or telecommunications services for a particular territory, the Group or such associated company has arrangements with the domestic telecommunications administration covering interconnection of calls and apportionment of revenues.

The following table sets forth the principal locations as at March 31, 1995 in which the Group and its associated companies operate and the scheduled year of expiration of the relevant license, if any. The most significant licenses held by the Group and its associated companies are those relating to the Group's Hong Kong operations. See "Description of Business - Hong Kong". The most important license obtained by the Group in recent years is in the UK, where Mercury currently is the only company other than BT licensed to provide both fixed-link national and international telecommunications services by means of its own facilities. See "Description of Business - UK Mercury".

	Group's Interest %		Scheduled Expiration of License (1)			
			International		Domestic	
Hong Kong	57.5		2006		2010	
Other Asia						
Macau (6)	51		2001		2001	
Philippines	40		2002	(7)	2015	
Singapore	30		(4)		2017	(32)
Singapore	30		(4)		2007	(32)
Thailand	40		(4)		2002	(8)
United Kingdom	80		2009		2009	
United Kingdom	50				2016	(2)
Other Europe						
France	20		(4)		2010	(31)
Sweden	39.9			(18)		(4)
Latvia (27)	19		2013		2013	
Russia (28)	19.50		2007		2007	
Caribbean						
Anguilla	100		2018		2018	
Antigua	100		2012			(10)
Ascension Island (11)	100			(12)		(4)
Barbados	85				2011	(13)
Barbados	75.2	(13)	2011			
Bermuda	100			(14)		(4)
British Virgin Islands	100		2007		2007	
Cayman Islands	100		2011		2011	
Dominica	80	(29)	2020		2020	
Falkland Islands (11)	100		2010		2010	
Grenada	70	(15)	2013		2013	
Jamaica	79	(16)	2013		2013	
Montserrat	100		2007		2007	
St. Helena (11)	100		2010		2010	
St. Kitts and Nevis	65	(17)	2015		2015	
St. Lucia	100		2001		2001	
St. Vincent	100		2004		2004	
Trinidad and Tobago	49		2009	(19)	2009	
Turks and Caicos Islands	100		2012		2012	
Colombia	22.5		(4)		2004	(30)

	Group's Interest %		Scheduled Expiration of License (1) International		Domestic	
North America						
United States	100			(20)		(21)
Rest of the World						
Australia	24.8		2016		2016	
Bahrain	20		2031		2031	
Diego Garcia	100		2011			(4)
Fiji	49		2014			(4)
Japan	17.6			(5)		(4)
Macau	45		2008		2008	
Pakistan	80				2005	(22)
Seychelles	100	(23)	2010		2010	
Solomon Islands	41.9		2003		2003	
[illegible]	25				2008	(26)
Tonga	100		2000			(4)
Vanuatu	33.3		2012		2012	(9)
Republic of Yemen	51	(25)	[illegible]			(4)

(1) [illegible] expiration year is specified in a license, the expiration year shown above is the earliest [illegible] on the license is terminable by the host government, absent a default by the Group [illegible] companies.

(2) [illegible] Personal Communications Limited (of which the Group owns 50%) enjoys a twenty-five [illegible] issued by HM Government on May [illegible], 1993 permitting the establishment and [illegible] PCN throughout the U.K. (See also "Description of Business - United Kingdom - [illegible] Personal Communications".)

(3) [illegible] owns 24.8% of Optus Communications Pty Limited, a consortium which acquired [illegible] Pty Limited and Mobilcom (Australia) Pty Limited from the Commonwealth of Australia [illegible] companies. Optus has licenses to provide a second carrier network in Australia [illegible] international, satellite and mobile telephone services.

(4) N[illegible] provided.

(5) IDC [illegible] has no specified expiration date, and will remain in effect generally so long as IDC [illegible] with any orders or directives of the Japanese Minister of Posts and Telecommunications.

(6) The Governor of Macau has the right, on giving 12 months' notice, to purchase by way of [illegible] the Group's interest during the fifteenth year of the concession, i.e. between October [illegible] and October 19, 1996. If the license runs for the full period of the concession, the Group's interest will be transferred to the Territory free of charge (absent agreement otherwise).

(7) The Company has equity interests in two companies in the Philippines. It owns 40% of Eastern Telecommunications Philippines Inc. ("ETPI"), the operator referred to in the table, and in Oceanic Wireless Network, Inc. On August 27, 1992 the Supreme Court of the Philippines ruled void the July 1990 governmental order awarding ETPI the right to build and operate an international digital gateway facility. ETPI have appealed for the decision to be reconsidered and on July [illegible], 1995 the Supreme Court of the Philippines reversed its earlier decision. See also "Item 3. Legal Proceedings."

(8) The Group owns 40% of Compunet Corporation Limited, which has a license to provide domestic data communications services by satellite for 15 years. The license expires on December [illegible], 2002. Compunet does not have a license to provide international services.

(9) The Group owns [illegible]% of Telecom Vanuatu Limited ("TVL") which was established to take over the international telecommunications services of Vanitel Limited and the national telecommunications services of National Telecom Vanuatu Limited. TVL now operates both the national and the international telecommunications services of Vanuatu under an operating license granted for a 20-year term and expiring on November 30, 2012.

(10) A general domestic service is not provided by the Group but the Group has a 100% interest in a company licensed to provide marine cellular telephone services.

(11) These three countries are included within the Rest of the World region for accounting purposes. Their aggregate contribution to operating revenue, operating income and assets is not material to the Group.

(12) The license expired in 1972. The Group continues to operate with the approval of the Government of St. Helena.

(13) The Group provides international telephone services through an [illegible]% owned subsidiary, BET, and domestic telephone services through a [illegible]% owned subsidiary, BARTEL.

(14) The license has a rolling 3-year notice of termination provision. The Bermuda Government has indicated that it intends to authorize additional international telecommunications providers. The Company has advised the Bermuda government that the Company believes this to be inconsistent with the Company's rights under its license from the Government. The issue may be referred to arbitration in the forthcoming year (see "Item 3. Legal Proceedings").

(15) The Government of Grenada is entitled to require the Group to sell to it, or to offer for sale to the Grenadian public, up to a 10% interest.

(16) The Group provides international and domestic telecommunications services through TOJ's 100% owned subsidiaries Jamintel and JT. In addition, the Group owns a 65% interest, including a 30% interest held by TOJ, in Jamaica Digiport International Limited which provides international telecommunications services to certain business customers located in the Jamaica Free Trade Zones.

(17) As of March 31, 1995, the shareholdings were approximately 65% by the Company's wholly owned subsidiary Cable and Wireless (West Indies) Limited, 17% by the Government of St. Kitts and Nevis, and 18% by the St. Kitts and Nevis public.

(18) Tele2 AB launched international voice services on March 18, 1993. Under Swedish telecommunications legislation, no license is needed to provide telephone services.

(19) The Company's interest is expressed as 49% of TSTT. The Government of Trinidad and Tobago may at any time acquire the assets, including those assets deployed in the international services of TSTT.

(20) The Group is subject to regulation by the US Government as a dominant carrier providing international telecommunications services principally on a resale basis. See "Description of Business — North America" and "— Regulatory Framework — US". The FCC has relaxed this policy as regards resale of unaffiliated carriers' switched and certain private line services and on a route by route basis for other services. The Group has asked for modification of its regulatory classification to non-dominant on all International Simple Resale ("ISR") routes and certain private line routes.

(21) The Group is subject to regulation by the US Government as a non-dominant carrier providing a domestic long-distance telephone service. See "Description of Business — North America" and "— Regulatory Framework — US".

(22) The license permits the establishment and operation of cellular mobile public telephone service throughout Pakistan.

(23) The Seychelles Government is entitled to acquire up to 40% of the Company's wholly owned subsidiary Cable and Wireless (Seychelles) Limited, through which the Group's operations in the Seychelles are conducted.

(25) In accordance with the Group's agreement with the Government of the Republic of Yemen of 1988, the Company's interest will reduce over a ten year period to 30%.

(26) The Group owns 25% of Mobile Telephone Networks (Pvt) Limited which has a license, granted in October 1993, to provide a national cellular telephone service.

(27) The Company holds a 63% interest in Tilts Communications A/S which in turn holds 30.1% of the issued shares of Lattelekom SIA. Lattelekom has, from May 10, 1993, the exclusive right under Latvian law to provide national and international fixed link telecommunications. Under current law, these rights may not be revoked earlier than May 9, 2013.

(28) The Group had a 32.3% (now 31.9%) interest in PLD, which has effective control of a 50% interest in Peterstar. This company enjoys a 15 year non-exclusive license granted on January 22, 1992, to establish an overlay digital switching network with access to the existing St. Petersburg telephone network. It is authorized to operate this network pursuant to a 5 year license issued on August 28, 1992.

(29) In 1995 CWWI entered into a joint venture relationship with the Government of Dominica, whereby CWWI's current Branch Operation would be subsumed within a locally incorporated company - Telecommunications of Dominica Limited ("TOD"), owned 80% by CWWI and 20% by Government. There is provision in the new agreement for each party to divest a percentage of their shareholding in favor of the general public of the OECS states not earlier than 5 years following the inception of the deal. The resulting split will be CWWI (65%), Government (10%) and the Public (25%). The new license is for a minimum period of 25 years from 1995 - 2020.

(30) In 1994 the Company acquired a 22.3% interest in OCCEL, a locally incorporated company licensed to provide cellular services to the Western region of the country for a period of 10 years.

(31) The Company has a 20% interest in Bouygues Telecom, a company licensed by the Government of France to provide public digital radio communication service using the DCS 1800 standard. The initial term of the license is 15 years and it is renewable.

(32) The Company has a 51% interest in GET (49% owned by Hong Kong Telecom) which has a 30% interest in MobileOne. MobileOne has been awarded two licenses by the Singapore Government to provide public mobile (GSM) services (20 years from April 1, 1997) and paging services (10 years from April 1, 1997) in Singapore. The GSM license is one of two. The Government is entitled to grant a third license after March 31, 2000. The paging license is one of 3 new ones granted, a fourth being held by Singapore Telecom.

(33) On June 29, 1995 the Hong Kong Government awarded an FTNS license to Hong Kong Telephone and to three other operators. The licenses entitle the holders to provide public telecommunications facilities and basic telephone services in Hong Kong from July 1, 1995.

Other than in the UK, the US, Japan and Australia, the licenses of the Group and its associated companies generally give exclusive rights to provide specified services, and remain in effect for a fixed period of between 10 and 25 years or for an indefinite period, subject to notice of termination after a minimum period. Under the terms of the license agreements, the licensee provides the services concerned using its own buildings and equipment. The older licenses often provide for a small fixed annual fee payable for the license. In the case of more recently negotiated licenses, a fee equal to a percentage of the revenue arising from the license is normally payable.
Licenses frequently provide that upon their termination the overseas government shall purchase, or have the option to purchase, the property, plant and equipment of the licensee in that territory. In cases where the Group owns an operating company jointly with an overseas government, that government often has the right to purchase at specified times the whole or part of the Group's shareholding in the operating company.

An overseas government may seek to acquire, or increase its interest in, the operations of the licensee in the government's territory before the expiration of the relevant license, and a few governments have indicated their desire to do so. In the experience of the Group and its associated companies, most acquisitions of this nature by governments have resulted in compensation to the Group based on the [illegible] of the assets employed. In addition, the Group and its associated companies generally seek management and technical services contracts or similar arrangements to continue managing and maintaining the telecommunications network previously operated by the Group and its associated companies. Similarly, where the Group enters a new jurisdiction in a minority position by a joint venture or similar vehicle, it also seeks management and technical services contracts in those circumstances. At March 31, 1995, the Group and its associated companies had some 14 [illegible] arrangements.

United Kingdom

The principal legislation regulating telecommunications activities in the U.K. is the Telecommunications Act and the Wireless Telegraphy Act. The Telecommunications Act sets out two principal objectives of the U.K. system of telecommunications regulations: (i) to ensure to the extent practicable that all reasonable demands for telecommunications services throughout the U.K., including specified community services, are met; and (ii) to ensure that licensed operators are able to finance the provision of those services. Under the Telecommunications Act, the Secretary of State and the Director General are required, subject to meeting these two objectives, to promote the interests of consumers, purchasers and other users in respect of prices, variety and quality of telecommunications services and apparatus and to maintain and promote effective competition.

As a general rule, no person may operate a telecommunications system in the U.K. without a telecommunications license granted under the Telecommunications Act. Licenses may be granted either by the Secretary of State or by the Director General under powers delegated by the Secretary of State (although no such powers have been delegated to date). The Secretary of State is required to consult with the Director General before granting any type of telecommunications license.

If the operation of a telecommunications system involves the use of radio frequencies, including microwave and satellite frequencies, the operator must also be licensed under the Wireless Telegraphy Act.

The Director General is responsible for enforcing the terms and conditions of existing telecommunications licenses and has the authority to make orders, enforceable in the U.K. courts, to secure compliance with the licenses. Third parties are entitled to enforce these orders through court action and to recover damages for their breach. The Director General has not made any significant orders to date. The Director General is also responsible for monitoring telecommunications activities, investigating complaints about telecommunications services or apparatus and exercising certain functions under the Fair Trading Act 1973 and the Competition Act 1980 pertaining to restrictive practices and anticompetitive behavior.

The Director General has the power to modify license conditions with the licensee's consent and must impose modifications if, following a reference by him to the MMC, the MMC considers any matter so referred to operate against the public interest and recommends a modification. In either case, the Telecommunications Act provides for prior notification to persons likely to be affected by any modification and for consideration by the Director General of any representations or objections made by such persons. When the MMC considers a matter referred to it by the Director General, it must take into account the same objectives that the Secretary of State and the Director General are required to consider when carrying out their various functions.

The Secretary of State may prevent any such modifications, but only in the interests of national security or international relations, and can require any modification made by the Director General with the licensee's consent to be referred to the MMC. He may also give the Director General general directions as to the matters to which he is to have particular regard. The Secretary of State may also be involved in determining whether the functions under the Fair Trading and Competition Acts referred to above should be exercised by the Director General or the Director General of Fair Trading. The Secretary of State has discretion as to whether to accept the advice or recommendations given by the Director General or the MMC under these Acts. Subject to the above, the Director General, the Director General of Fair Trading and the MMC are independent of the Secretary of State.

The Mercury License

Mercury operates under a number of licenses granted under the Telecommunications Act, the most important of which is its PTO license, granted on November 5, 1984 which authorizes it to operate a fixed-link national and international public telecommunications network for a minimum term of 25 years. It is revocable on 10 years' notice given at any time after November 8, 1999. Mercury's PTO license may also be revoked by the Secretary of State at any time on various grounds, including non-compliance by Mercury for three months with an order of the Director General regarding performance of the terms of the license, the cessation of business by Mercury or any change in control of 15% or more of Mercury's common shares that, in the opinion of the Secretary of State, is against the interests of national security or relations with the government of a country or territory outside the UK.

Mercury is authorized by its PTO license to provide all types of domestic and international telecommunications services, with the exception of terrestrial land mobile services, terrestrial maritime services (other than to fixed oil and gas production platforms) and the distribution of cable television program services.

Mercury is required by its license generally to provide direct telecommunications services, so long as it is practicable to do so, within a specified radius from the points where Mercury has installed apparatus for the transmission, reception and distribution of messages. BT and Mercury must provide their respective services at published prices, terms and conditions and must also comply with a variety of other fair trading obligations. These include a prohibition on showing undue preference to or discrimination against others for services they are obligated to provide, or unfairly favoring any part of their own services that they are obligated to provide, or unfairly favoring any part of their own respective businesses, a restriction on the cross-subsidy of certain parts of their respective businesses by other parts, and a restriction on the imposition of linked sale obligations on customers and certain exclusive dealing arrangements on suppliers.

Mercury must also provide certain services, such as "999" emergency services, facilities for the disabled and directory inquiry services. In order to assist Mercury in meeting its license obligations, it has been granted special powers under the Telecommunications Act, such as the right, subject to certain exceptions and limitations, to carry out street works and install its apparatus on private and public land. Mercury also enjoys limited exemptions from the requirements to obtain planning permission for the installation of its network.

Mercury is currently required, as is BT, to notify the Director General of its price changes at least 28 days prior to the change, although Mercury has in specific instances obtained the consent of the Director General with less than 28 days' prior notice. Unlike BT, Mercury's PTO license does not contain restrictions on the extent to which it may increase the prices of a majority of its telephone services.

To enable the Director General to monitor compliance with Mercury's PTO license, Mercury is obligated to give him such information as he may reasonably require concerning its activities, to notify him in advance of any joint ventures and to maintain segregated accounts for certain parts of its business, such as the supply and maintenance of customer premises equipment and the provision of value added services.

Mercury also holds the required licenses under the Wireless Telegraphy Act for its microwave and satellite transmissions.

Interconnection of PTO Networks

Each UK PTO is obliged under the terms of its license to permit on agreed terms connection between its network and the network of other PTOs, in order to enable a customer of one PTO to make calls to the customers of other PTOs. If the two PTOs cannot reach agreement, such an agreement can be determined by the Director General on the application of whichever PTO requested the other to provide interconnection.

General Terms of Interconnect Agreements

Interconnect agreements generally provide, *inter alia*, for the connection of one PTO with another in order to deliver to, and in some cases to originate and transit traffic for, the other, and for the payments in respect of connection and the conveyance of traffic and any other services provided by one PTO to another.

Payment for Carriage of Traffic

The license typically provides for traffic to be conveyed at the conveying operator's cost including attributable overheads and a reasonable return on capital employed. In addition, the BT license provides for BT to receive contributions towards its Access Deficit, discussed immediately below.

ADCs

BT's Access Deficit is defined as the difference between its access revenues (principally line rentals) and the costs of maintaining its access network (including return on capital employed). This deficit is funded by the surplus profit made on carrying customers' calls. Where another operator carries the calls, BT loses the surplus but is nevertheless obliged to provide the access network. BT's license therefore provides for BT to receive ADCs on calls originating or terminating on BT's access network according to whether the call is local, trunk or international (on the basis that the size of the surplus is related to the type of call) and on the number of BT access segments.

The Director General is entitled to grant waivers to a PTO of its liability to pay ADCs to BT, provided that, *inter alia*:

(a) A waiver may not be granted to any one PTO for calls representing more than a 10% [illegible] share in the markets defined for that PTO by the Director General.

(b) The total waivers granted must be limited so that BT is guaranteed to receive full ADCs [illegible] loss of its market share above 15%.

(c) Once a PTO's market share rises above 25% that PTO must pay full ADCs on all traffic.

(d) Traffic originated by equal access would be liable to full ADCs.

The Director General has stated that the waiver of ADCs will not be automatic. He intends to hear arguments from BT and the other operators concerned about the relevant financial effects when he is called upon to make determinations of the interconnect arrangements. He will take account of the breadth of competition provided by the operator concerned, its economies of scale and BT's economies of scale and the availability of number portability. The BT license gives the Director General the flexibility to waive ADCs payable by mobile operators in respect of mobile traffic, taking account of the relationship between their call prices and those of BT and of actual and expected levels of cost, and irrespective of the market share achieved by the mobile operator concerned or any expiry date.

MERCURY'S INTERCONNECT AGREEMENT WITH BT

Following an application by Mercury and BT, the Director General on December 2, 1993 determined new interconnect rates effective June 1992 payable by Mercury to BT. The terms of that determination were incorporated in a new BT-Mercury Interconnect Agreement signed on November 14, 1994, which also incorporated other significant modifications.

The 1993 Determination provided for significantly reduced conveyance charges but, for the first time, provided explicitly for ADCs. Two markets were defined for Mercury for the purpose of ADC waivers: the national market and the international market. Waivers at the maximum available rate of 10% were granted in respect of both markets, but the Director General retained the right to withdraw all or part of the waiver in respect of national calls effective April 1, 1995, and in respect of international calls effective April 1, 1994. As at July 3, 1995, both the international and national waivers are subject to review by the Director General following discussions between BT and Mercury.

The Director General determined that Mercury's market shares in the year ended March 31, 1992 were [illegible] of the national market and 19% of the international market. In the event that Mercury's share of either market exceeds 25%, Mercury will lose its entitlement to waiver in respect of that market.

In 1994/1995 Mercury paid BT approximately £[illegible] million in respect of ADCs for the financial year 1993/94. It did not pay any ADCs on national traffic as its market share was below 10%. In a recent exploratory document issued by the Director General, it was stated that:

"... it is unlikely that Mercury's waivers for both the international market and local and national market will be renewed at the level of 10%. The reduction of the waiver granted to Mercury ... is in accordance with the stated policy "that as market shares of operators originally granted waivers grow and new entrants appear, it may be desirable to reduce the waiver granted to established operators to optimise the help to newcomers."

As of July 3, 1995, of those operators who are known to have applied for ADC waivers, the ISR operators have been given a 10% waiver in the ISR market. All the national PTOs have been given 80% waivers in the national markets in which they are licensed. If any operator exceeds 25% of their market, the waivers are lost but otherwise the waivers will last until April 1, 1996.

Risks arising from Interconnection

The Director General may make determinations adverse to Mercury's interests either as a result of regulatory development generally or as a result of a review of one or more aspects of the Mercury BT interconnect agreement.

Other risks arising from interconnection are:

(i) Possibility that international ADC waivers may be lost.

(ii) Reduction of Mercury's gross margin on calls if ADC liability rises and/or if retail tariffs reduce at a rate faster than the conveyance costs of interconnection.

(iii) Delays in the introduction of new products and services if difficulties are encountered in interconnection agreements.

Interconnection Agreements with other PTOs

Mercury has interconnect agreements in place with many of the new PTOs entering the UK market. Mercury has recently established a business unit to address the revenue opportunities that will result from this emerging market. Interconnection agreements exist between Mercury and other limited public telecommunications operators, such as cellular, personal communication network and broadband cable operators. These agreements permit broadband cable operators to provide voice (and, in certain cases, data) services over their networks and cover the interconnection of the public telecommunications operators' systems with Mercury's network to the full range of national and international telecommunications services.

Litigation between Mercury, the Director General and BT

Mercury has applied to the Commercial Court of the High Court of Justice for a declaration upon the true construction of Conditions 13.5 and 13.5A of the BT License. This was, in particular, for the purposes of the forthcoming review of the interconnection charges by BT and Mercury and the possible determination by the Director General of Oftel.

Mercury contends that charges set in the 1993 Determination were set on the basis of an erroneous interpretation of Condition 13 of the BT License.

BT and Oftel applied for Mercury's case to be struck out. Their application was unsuccessful in the High Court but was allowed by a 2:1 majority in the Court of Appeal. At that hearing Mercury was granted leave to appeal to the House of Lords, and the House of Lords in a unanimous judgment reversed the decision of the Court of Appeal. The substantive issue will now be heard by the Commercial Court in 1996.

INTERCONNECTION AND ACCOUNTING SEPARATION

Following the June 1993 industry consultation, the Director General issued a three stage program called "Interconnection and Accounting Separation: The Next Steps" in March 1994 involving:

(i) Immediate use of the Mercury/BT Determination as the basis for interim interconnection charges with BT for other operators.

(ii) Modifying BT's license to implement accounting separation and to establish a system of standard interconnection charges.

(iii) Identification of further issues relating to effective competition.

BT's license was modified in March 1995. The first set of BT separate accounts published will relate to financial year 1995/96. The first BT standard price list containing standard interconnection charges was published in April 1995.

In December 1994, the Director General decided to publish a further consultative document entitled "A Framework for Effective Competition".
The document was divided into two parts. Part one presented four options for change, part two dealt with other related issues.

Part One: The four options for change can be summarized as follows:

1. Modification of existing ADC regime
2. Move to long-run incremental cost as a basis for interconnection charges
3. As option two, but in addition remove the constraint on BT's line rental rate. ADCs automatically disappear in this case.
4. Minimal regulation with BT having interconnection pricing freedom within defined price floors and ceilings.

All options would involve changes to BT's license and so would have to be agreed between BT and the regulator. Failure to agree would result in a reference to the MMC. Such a reference would in all likelihood normally take 6-9 months and mean that any change to the regulatory regime would take place at the earliest after April 1, 1996. If BT perceives itself as a loser it can therefore pursue this route. In addition, the Director General has stated that a move to option 4 "is not an option before 1997", the year in which BT's existing price cap expires. It is impossible at this stage to assess the precise impact of these options on Mercury.

Note that the options were not envisaged by Oftel to be mutually exclusive packages and elements could be brought in in stages.

Part Two This section discussed a range of issues broadly associated with the development of effective competition.

The Director General also asked for views about how the existing barriers to the development of sustainable competition should be dealt with. He discussed the merits of further price flexibility for large customers of BT and concluded the existing rules should be maintained until August 1995 and then reviewed in the light of any new interconnection regime. This review is currently under way.

Oftel costed BT's USO (which is currently confused with and subsumed by the Access Deficit) at £90m - £160m. This is much lower than had previously been thought and this is without the assessment of any benefit BT might derive. Oftel intend to conduct further work on this subject and requested views on what should be included and how it should be met (in the event of there being a material cost).

The document also discussed the role of service providers in the UK and alternatives to the present pence per minute charging structure for interconnection services.

BT Referral to MMC on Number Portability

BT is currently the subject of an MMC referral after a failure to agree with the Director General a license amendment which would have given the Director General the power to resolve disputes over the reciprocal provision of number portability. A ruling should be made before the end of the year which may allow the Director General (through powers inserted into BT's license) to determine the financial arrangements necessary to allow for persons to take their fixed line telephone number with them when they change operators. This would apply between BT and any operator who interconnected with BT when either party wished to provide portability, and would probably set a precedent for the whole industry. It is possible that this could extend to non-geographic numbers (i.e. freephone and others).

Competition Policy of HM Government

Mercury is currently one of approximately 60 operators licensed to provide throughout the UK the basic public telecommunications service of conveying messages over fixed links, whether cable, radio or satellite, on a national basis, but the BT and Mercury duopoly in the international service continues. See "Description of Business - United Kingdom - Mercury".

Following its review of the duopoly in 1991, HM Government ended Mercury's and BT's fixed link duopoly. See "Description of Business - Competition - Regulatory Framework".

In addition to applying for fixed-link licenses in their own right, mobile operators are also permitted to offer fixed services over their existing radio spectrum and mobile customer equipment.

In the past, HM Government has licensed over 125 broad band cable operators to install telecommunications networks in specified franchise areas with average populations of 100,000 persons and to provide a full range of cable telecommunications and broadcasting services, other than mobile services, within their licensed areas. Following the review of telecommunications policy, cable operators are now permitted to provide voice telephony services, as well as data services in the five previously restricted business centers, in their own right and to link their contiguous franchises without geographic or population limit. Prior to 1993, Mercury had made small investments in two cable operators, Cable London plc and ETT Acquisition Company (the latter being the holding company for Encom Cable TV and Telecommunications Limited), in keeping with Mercury's policy of cooperating with cable operators in their provision of telecommunications services in competition with BT. In addition, simultaneously with BCE's investment in Mercury, the Group acquired an equity interest in BCE's UK cable investment company which has substantial investments in several UK cable franchises. See also "Description of Business United Kingdom Mercury".

In 1991, the Director General modified the BT and Mercury licenses by making arrangements to enable retailers of telecommunications services to enter the market. Also, BT and Mercury are cooperating in the introduction of quality assurance schemes for metering and billing. Mercury and BT are required to provide private circuits at the request of other PTOs who are themselves licensed to offer such services. As a result, Mercury is now able to use BT's private circuits to extend its network, subject to the terms of the BT license conditions. See "Description of Business Competition Interconnection of PTO Networks."

To date, whilst a number of licenses have been granted to give effect to some of these policy changes, it is still too early to predict how many new competitors will in practice enter the market or what effect the policy changes will have upon the market for the basic telephone services offered by Mercury.

On August 1, 1993 the price control on the majority of BT's services was increased from RPI-6.25% to RPI-7.5% for the four-year period ending July 31, 1997; from the same date, all exchange line rentals will be subject to a ceiling of RPI+2% and the price reductions introduced by BT in the form of optional tariffs and quantity discounts shall no longer be counted against BT's RPI-7.5% requirement.

Neither BT nor Mercury is permitted to broadcast television services to customers over its PTO networks. HM Government's telecommunication policy review concluded that this prohibition will not be reviewed until at least 2001, and then only if a change was thought likely to lead to more effective competition.

In the area of mobile communications, HM Government has granted two licenses to operate national cellular mobile radio telephone networks and to provide national cellular mobile radio telecommunications services. The operators are entitled to retail their services in their own right or through service intermediaries. MCMS is one of the leading companies in the latter market sector. Mercury Paging has been granted one of a number of radio paging licenses issued since August 5, 1984, and is in the process of having its service authorization extended to permit the provision of fixed services.

Following HM Government's recent review of telecommunications policy, all mobile operators may apply for licenses to provide their own national fixed links and to seek amendments to their existing licenses to enable them to provide fixed services to mobile customer apparatus.

HM Government issued a class license on August 2, 1991, allowing anyone to provide satellite services without geographical restriction by means of systems not connected to the public switched network at either end. A class license implementing the liberalization of receive-only dishes for the reception of all signals was issued in February 1989. In February 1992, HM Government announced that it had [illegible] in principle to accept applications from PanAmSat (then Alpha Lyracom) and British Aerospace Communications to provide international services via satellite. PanAmSat's license was granted in [illegible] 1993, as were similar licenses to ESat Telecommunications Limited and Satellite Information Services Limited. These licenses permit voice services to be provided with interconnection to the PSTN at only one end of a call.

The Branch Systems General License further liberalized the use of private circuits provided by BT and Mercury. Private telecommunications operators and ordinary commercial users may now share private circuits with other operators. This enables operators to configure their private systems in ways which best meet their business purposes. Private operators may now provide domestic simple resale services, i.e., use private circuits to convey calls that both originate and terminate on the public switched networks in the UK. Restrictions continue to apply in respect of ISR (the provision by means of an international leased circuit of services both originating and terminating on public switched networks) and voice and telex services, but the Telecommunications Services License issued in July 1991 removed the restrictions on data traffic and the mechanism allowing further liberalization of international private circuits has been used to allow a limited form of international resale. HM Government also decided that all existing restrictions on the provision of telecommunications services by means of international leased circuits should be removed. The Director General's advice that ISR services should only be permitted between the UK and those countries whose regulatory regimes allow an equivalent freedom to provide such services in the reverse direction was also accepted. The Secretary of State will decide on a case by case basis whether a country's regulatory regime is equivalent. To date only Canada, Australia and Sweden have achieved this designation. Negotiations are ongoing between HM Government and the FCC on provision of ISR services between the UK and the US.

In January 1995, the Director General issued a press notice regarding number portability (i.e., the right for a customer to retain his existing telephone number, at the same address, if he changes network operators). He stated that the cost/benefit analysis of portability carried out on behalf of the UK regulator had convinced him that there was a strong case for the introduction of portability and Mercury are now participating in discussion in a forum addressing the technical issues of number portability.

Since 1987 the Commission of the European Community (the "EC Commission") has issued a number of directives and several others that are currently in draft form are under active consideration.

Since the Council of Telecommunications Ministers' decision in June 1993 to establish January 1, 1998 as the date for full liberalization of services, there have been a number of significant developments.

On October 13, 1994 the EC Commission adopted an Article 90 directive on satellite communications. It required member states to fully liberalize satellite earth station equipment not forming part of the public telecommunications infrastructure, liberalize provision of satellite services, ensure that satellite service providers could exercise choice over the satellite operator from whom they wish to lease space segment capacity, and ensure the abolition of any restrictions on the offer of space segment capacity to authorized satellite network operators. The directive was due to be implemented by member states eight months following adoption by the EC Commission.

On November 17, 1994 the Council of Telecommunications Ministers unanimously agreed that infrastructure should be liberalized by January 1, 1998, to coincide with competition in public voice services. The same derogations applied as for the decision on full liberalization of services, whereby member states with less developed networks (Portugal, Ireland, Greece and Spain) were allowed an additional transition period of up to five years, and member states with very small networks (Luxembourg) were granted two years. It is understood that at least Portugal and Spain will not be taking advantage of the derogation.

On November 23, 1994, the EC Commission issued a communication on the outcome of the consultation process of its Green Paper on Mobile and Personal Communications. It outlined the necessary measures to be taken:

1. opening up of the sector to competition and the granting of licenses according to transparent and non-discriminatory criteria;
2. the number of licenses should only be limited by essential requirements, such as spectrum which should be utilized efficiently;
3. in order to promote competition, the combination of fixed and mobile services should be allowed;
4. the development of a Code of Conduct for mobile services;
5. direct interconnection between mobile networks and fixed networks;
6. the allocation of harmonized frequencies for mobile technologies, and
7. the definition before June 1, 1996 of a harmonized approach to licenses for mobile and satellite personal communications.

The EC Commission are presently working on the implementation of these measures which will include amendments to directives already in existence and the development of a code of conduct for service providers.

The Green Paper on the Liberalization of Telecommunications Infrastructure and Cable Television Networks was adopted by the EC Commission on January 25, 1995. Following consultation with the industry, which included comments by Mercury, the Commission and Council's main priorities were:

1. the establishment of harmonized principles for licensing, the need for licenses only to be limited due to scarce resources and to be based on transparent and non-discriminatory criteria;
2. the efficient management and allocation of scarce resources such as frequencies, numbering and rights of way under the control of the National Regulatory Authority ("NRA");
3. the definition, costing and funding of universal service;
4. the establishment of a specific regulation for interconnection which will include:
   (a) the obligation on certain operators to provide interconnection in a non-discriminatory manner to anyone who reasonably demands it,
   (b) principle conditions and guidelines for the commercial negotiation of interconnect agreements, and
   (c) a resolution process for interconnection disputes with the possibility of appeal to the NRA who should be able, as a last recourse, to impose interconnection between parties to safeguard public interest; and
5. guaranteeing effective access to comparable markets.

The EC Commission's aim is to have a regulatory framework for full liberalization in place well before January 1, 1998. They will therefore be working on a number of initiatives during 1995-96, particularly with regard to allowing alternative infrastructure to carry services already open to competition. These will the form of amendments to the EU Services Directive which will speed up the process. There will also be a specific directive on interconnection based on the principles of Open Network Provision ("ONP") which is likely to include guidelines for universal service costing and provision.

BT has taken legal action against the DTI over its application of the European Union directive on ONP for Leased Lines in the UK. BT claims that by only partially capturing Mercury, the Directive has been incorrectly implemented. It also argues that decisions such as the types of private circuits that Telecoms Operators should sell to users, which the directive defines, should be left to the free market if there is no longer a monopoly in the provision of the service. It believes that the fact that it is subject to the Directive, and that most of its competitors are not, has important commercial implications. The case was referred to the European Court of Justice by the British court on July 29, 1994 and a verdict is still awaited.

Labour Party Policy

The Labour Party, which is currently Britain's main opposition party, is in the process of developing new proposals on competition policy, industry regulation, and telecommunications regulation. These have been set out in a series of policy papers and speeches.

Labour has proposed that UK competition policy move to a system based on the European Union's Treaty of Rome, with substantial penalties for abuse of dominance.

Labour has confirmed that renationalization of the utilities is no longer an option, but that the system of regulation will be substantially revised. Proposals include clearer and more objective rules for the regulators, a wider consultation process, the requirement to publish reasons for decisions, and the creation of regulatory panels to advise regulators. Labour has proposed a regulatory system "which reduces regulatory uncertainty, produces fairness towards consumers, provides fair incentives to managers, and delivers a fair rate of return to shareholders."

On communications policy, Labour has established a Policy Forum on Information Superhighways, which will pass a report through the Party's consultation procedures before being put to Labour's annual conference in October 1995. The stated aim of the Policy Forum is to bring together expertise, both from within the Labour Party and from outside it, "in order to develop a clear view of the Superhighway's potential to improve Britain's economic competitiveness and quality of life."

The Forum has been organized as a series of working groups, which are to consider: the provision and regulation of the infrastructure of the Superhighway; the provision and regulation of the content carried on the network; the demand for the Superhighway's services; the potential for education and research.

HONG KONG

TELECOMMUNICATIONS AUTHORITY AND TELECOMMUNICATIONS ORDINANCE

The provision and operation of telecommunications systems, services and equipment in Hong Kong require the consent of Hong Kong Government and are principally regulated by the Telephone Ordinance and the Telecommunications Ordinance and any regulations issued under such Ordinances. The Telecommunications Ordinance, which governs the establishment and operation of telecommunications services, is administered by the Telecommunications Authority. On July 1, 1993 the OFTA was established. Its Director General was designated Telecommunications Authority in place of the Postmaster-General of Hong Kong.

The Telecommunications Ordinance contains provisions with respect to the licensing and control of telecommunications, telecommunications services and telecommunications equipment in Hong Kong including powers for the Governor in Council and, subject to subsidiary legislation which may be made by the Governor in Council, the Telecommunications Authority, to grant licenses in respect of telecommunications services in Hong Kong. The Telecommunications Ordinance prohibits the establishment or maintenance of any means of telecommunications and dealing in radio communications equipment in Hong Kong (other than pursuant to the Hong Kong Telephone Franchise) except under and in accordance with a license granted by the Governor in Council or the Telecommunications Authority. As provided in the Telecommunication Amendment Ordinance, the Telecommunications Authority has the power to determine the terms of interconnection between licensed providers of telecommunications services.

A license granted by the Governor in Council may, with the consent in writing of the person to whom it was granted, be amended by order of the Governor in Council. Any license granted under the Telecommunications Ordinance may at any time be canceled or withdrawn, or suspended for a period not exceeding 12 months in the event of any contravention by the licensee of the Telecommunications Ordinance or of any condition to which the license is subject. Any license granted under the Telecommunications Ordinance may be canceled or suspended at any time by the Governor in Council if he considers that the public interest so requires.

The Telecommunications Ordinance also contains provisions for the taking of possession by the Hong Kong Government of telecommunications stations where the Governor is of the opinion that an emergency has arisen in which it is expedient for the public service that the Hong Kong Government should have control over telecommunications stations, and provisions for the payment of compensation should such Government action occur. The Telecommunication (Amendment) Ordinance introduced provisions empowering the Telecommunications Authority to determine the terms and conditions of interconnection between licensed telecommunication systems in Hong Kong. It is intended that such terms and conditions will be determined by direct negotiation between the licensed operators concerned. In the event that agreement cannot be reached through such negotiation, the Telecommunications Authority will determine the terms under those powers.

The Government and the Telecommunications Authority are currently reviewing all telecommunications legislation, including the Telecommunication Ordinance, with the intention of introducing a comprehensive package of reforms. The Group has no indication of when proposals will be made. It is anticipated that the future regulation of Hong Kong Telephone and HKTI will, following the review and the introduction of revised legislation, be covered by the Hong Kong Telephone License, the HKTI License and an amended Telecommunications Ordinance.

The Telecommunications Authority has issued a number of Guidelines relating to issues affecting the interconnection of networks, and both Hong Kong Telephone and HKTI have commenced negotiations with the FTNS Licensees regarding interconnection of their new networks with the networks of Hong Kong Telephone and HKTI. Certain agreements have been concluded and signed whilst a number of issues continue to be discussed. Hong Kong Telephone has, in addition, concluded a number of commercial agreements with FTNS Licensees and PMRS including long term contracts to provide backbone network facilities for these companies. For a discussion of these and the nature and extent of the regulation of the services of Hong Kong Telephone and HKTI and the charges therefor, see "Description of Business - Regulatory Framework" and " - Agreement in Principle on Future Regulation".

The regulatory environment for telecommunications in Hong Kong is in a state of development. The Company expects that in the coming years the Hong Kong Government may propose, in addition to the current review of the Telecommunications Ordinance, further changes to the regulatory framework in which the Group operates. It is, however, believed to be too early to be able to comment on any possible effect of the change in sovereignty on the development of the regulatory framework.

Special Regulatory Regime Affecting Hong Kong Telephone

The Telephone Ordinance

The Hong Kong Telephone Franchise, which was granted by the Telephone Ordinance, gave Hong Kong Telephone the exclusive right to provide the local public telephone facilities and basic telephone services in Hong Kong until June 30, 1995. Hong Kong Telephone received on June 29, 1995 the Hong Kong Telephone License which permits it to provide telecommunications services in Hong Kong with effect from July 1, 1995 for a period of 15 years. The Telephone Ordinance was substantially repealed by the Telephone Amendment Ordinance 1995 except in relation to provisions affecting Hong Kong Telephone's ability to increase its charges. See "Description of Business - Hong Kong - Agreement in Principle on Future Regulation".

Hong Kong Telephone License

The Hong Kong Telephone License granted to Hong Kong Telephone on June 29, 1995 sets out the terms and conditions for Hong Kong Telephone's provision of telecommunication services. The Hong Kong Telephone License is substantially the same as the FTNS License issued to other FTNS Licensees. However, the Hong Kong Telephone License incorporates dominant operator provisions to which Hong Kong Telephone alone is subject and it, together with other FTNS Licenses, contains special conditions which are tailored to the requirements the Telecommunications Authority has chosen to impose on Hong Kong Telephone and each FTNS operator. The dominant operator provisions include requirements for Hong Kong Telephone to have approved and to publish all of its tariffs including any discounting, to provide a full range of accounting information to the Telecommunications Authority, to abide by non discrimination, anti competitive conduct and abuse of position regulation and to provide directory information and directory services. Hong Kong Telephone's special conditions include a USO that covers the provision of a public switched telephone service including service connection and the provision of a dedicated telephone number, a standard handset and ancillary services including directory listing and a reasonable number of public payphones.

The Hong Kong Telephone License and other FTNS Licenses incorporate certain reciprocal provisions, for example, licensees are required to interconnect their services and networks with those of other fixed and mobile licensees and HKTI. It also requires licensees to share certain facilities where sharing of those facilities is considered by the Telecommunications Authority to be in the public interest. In making this decision the Telecommunications Authority is required to take into account a number of factors including whether the facility is a bottleneck, whether the facility has available capacity and the existence of technical alternatives for the facility.

The Hong Kong Telephone License and other FTNS licenses allow for intervention by the Telecommunications Authority if terms of interconnection and facility sharing cannot be negotiated between the parties. To facilitate negotiations the Telecommunications Authority published throughout March to July 1995 ten Guidelines under powers set out in the Telecommunications Ordinance outlining its current views on a number of interconnection, facility sharing and related issues. These guidelines describe the manner in which the Telecommunications Authority may resolve issues in accordance with the Telecommunications Ordinance. Hong Kong Telephone does not believe that all views expressed in the Guidelines correctly reflect the Agreement in Principle nor that they are necessarily supported by the current legal and regulatory framework. Hong Kong Telephone will continue to reach commercially acceptable arrangements with other network operators on all issues, where this is possible. However, Hong Kong Telephone will review alternative action available to it in relation to those areas where its views differ from those of the Telecommunications Authority if it considers that this is in its best interests.

The Telecommunications Authority has also issued a Directive to Hong Kong Telephone, under powers set out in the Telecommunications Ordinance, to provide fixed line inter-operator number portability. Hong Kong Telephone is currently assessing the technical arrangements for such portability and has been in discussion with FTNS Licensees on this issue. Inter-operator Portability will be provided when the support systems are in place and where it is technically feasible to do so. Hong Kong Telephone has been providing geographic number portability to its customers since July 1995. This type of portability does not require the complex inter-operator systems and financial reconciliation of inter-operator portability.

Special Regulatory Regime Affecting HKTI

HKTI License

Under the HKTI license, HKTI has the exclusive right until September 30, 2006 to provide, subject to certain non-material exceptions, Hong Kong's international public telephone and telex facilities, voice, telegraph and data services, and international facsimile and data transmission services. The HKTI License was granted by the Governor in Council to HKTI pursuant to the terms of the Telecommunications Ordinance.

The HKTI License states that the provision of exclusively licensed circuits and services is subject to rights of specified parties to provide certain circuits or services other than for hire or reward and to the right of the Hong Kong Government to operate the aeronautical fixed telecommunications network or any other system of telecommunications for aeronautical or marine services whether or not for gain. The operation, maintenance and provision of these circuits and services by HKTI must be in a manner satisfactory to the Telecommunications Authority.

HKTI has agreed with the Hong Kong Government that its private international telecommunications circuits may be leased to provide a limited range of value-added telecommunications services to third parties. The range of services that may be provided to third parties over these circuits has been broadened to include managed data network services and value added voice. See "Description of Business - Hong Kong - HKTI - Leased Circuits" and " - Competition".

HKTI's range of charges in respect of its exclusively licensed services as well as the non-exclusive services described below, and any increases in such charges, are subject to approval by the Telecommunications Authority, which may also from time to time require HKTI to review its charges. The approval of HKTI's charges is at the discretion of the Telecommunications Authority, except for adjustments to charges necessitated by modifications in international accounting or by commercial or economic changes affecting the competitiveness of HKTI. The HKTI License gives HKTI a right of appeal to the Governor in Council, whose decision is final and binding. In recent years, HKTI has applied for approval of both increases in and reductions of certain of its charges and the Telecommunications Authority has approved changes in these charges after discussion with HKTI. These requested changes have, in most cases, resulted in reduced charges. As provided in the Agreement in Principle, HKTI implemented average reductions in its charges for IDD services of 8% on August 1, 1993, 2% on August 1, 1994 and 2% on August 1, 1995.

HKTI pays a royalty to the Hong Kong Government which, with effect from October 1, 1988 has been fixed at 9% of all receipts of HKTI (determined as set out in the HKTI License) derived from its provision of the exclusively licensed services, except for receipts derived from telecommunications services which neither originate from, nor terminate in, but merely transit, Hong Kong. If HKTI or the Governor in Council is of the opinion that by reason of any material economic or technical changes affecting the operation of the exclusively licensed services, other than of a temporary nature, the carrying out of the terms of the HKTI License results in the return on capital employed by HKTI being significantly less or greater than the return on capital employed by the Company in Hong Kong on September 30, 1981, HKTI and the Governor in Council, with effect from September 30, 1993 and every five years thereafter during the term of the HKTI License, may agree to a variation of the royalty percentage and the Governor in Council shall vary the percentage in accordance with such agreement. If these parties cannot agree, the proposed variation may be submitted to arbitration in accordance with the provisions of the HKTI License. Hong Kong Telecom Group and The Hong Kong Government have agreed that neither side will seek to change the royalty percentage from 9% before September 30, 1998.

Under the HKTI License, and in accordance with the Telecommunications Amendment Ordinance, HKTI is required to allow interconnection between Hong Kong Telephone and any other licensed telecommunication system in Hong Kong and HKTI's system. The terms and conditions of such interconnection are determined by direct negotiation between HKTI and the operators of such other networks. In the event that agreement cannot be reached through such negotiation, the

Telecommunications Authority will determine the terms under powers provided by the Telecommunication Amendment Ordinance. The interconnection must be in accordance with such standards as may be specified by the Telecommunications Authority as necessary to provide efficient telephone communications and other telecommunications between Hong Kong and external points. Accordingly, HKTI has negotiated interconnection terms with the PMRS which became effective on August 1, 1993. Discussions with the FTNS Licensees are currently under way and preliminary arrangements have been agreed with two new operators.

Subject to the terms of the HKTI License, HKTI is authorized to establish and maintain radio stations, cables and such equipment and apparatus as is necessary to carry out the services permitted by the HKTI License. HKTI is also entitled to provide other public telecommunications services approved by the Telecommunications Authority, which are not covered by any other exclusive license issued under the Telecommunications Ordinance and which are not covered by a right or franchise issued or granted under any other law, as well as multi-destination broadcast radio reception and transmission services for press agencies.

The Governor in Council may cancel and terminate the HKTI License in whole or in part on the happening of certain specified events, including the disposal by the Company of any of its shares in CWHT or a default by HKTI under the terms of the HKTI License.

If the HKTI License expires or is terminated under the provisions described above, The Hong Kong Government is obliged to purchase, at a fair value (determined in accordance with the terms of the HKTI License, to be agreed for, in default of agreement, to be determined by arbitration), such part of HKTI's assets as are then in Hong Kong and are employed in the performance of HKTI's obligations under the HKTI License.

HKTI Regulatory Agreement

On December 3, 1987, CWHT, the Company, TSL, The Hong Kong Government, HKTI and Hong Kong Telecom entered into the HKTI Regulatory Agreement, which became unconditional on January 28, 1988. The HKTI Regulatory Agreement replaced a 1981 shareholders' agreement regulating shareholders' rights and obligations and the management of HKTI's business. The following is a summary of certain of the provisions of the HKTI Regulatory Agreement, a copy of which was filed as Exhibit 10.2 to the Registration Statement on Form F-1 (File No. 33-25477), filed with the Securities and Exchange Commission on November 7, 1988 in connection with the initial offering of ADSs in the US by Hong Kong Telecom.

For so long as the HKTI Regulatory Agreement is in effect, the Company and/or CWHT will retain ultimate beneficial ownership of shares in Hong Kong Telecom carrying the right to exercise more than 50% of the votes ordinarily exercisable at general meetings of Hong Kong Telecom, except in the case of transfers made with the prior written consent of The Hong Kong Government and certain transfers of shares in Hong Kong Telecom within the group of companies of which the Company is a member. The Company will use all reasonable endeavors to secure the fulfillment by Hong Kong Telecom and CWHT of their respective obligations under the HKTI Regulatory Agreement.

The Company provided services to HKTI pursuant to a management and technical services agreement dated October 1, 1981 between HKTI and the Company. The fixed term of the agreement between the Company and HKTI expired on September 30, 1988, but the agreement would automatically continue thereafter until such time as it was terminated by either party by not less than one year's prior notice to take effect on an anniversary of the expiration date of the fixed term. In 1994 HKTI and the Company were of the view that the terms of then current agreements should be reviewed. Discussions took place during that year and a revised agreement between Hong Kong Telecom and the Company was signed on December 28, 1994. See "Description of Business — Hong Kong — Relationship between the Company and Hong Kong Telecom".

C&W, the Company and Hong Kong Telecom will, insofar as it lies within their respective powers so to do, procure that HKTI will continue to conduct the business that it conducted pursuant to the HKTI License prior to the HKTI Regulatory Agreement becoming unconditional and also such further businesses as may conveniently and efficiently be carried on in connection with that business (subject to the exceptions contained in the HKTI License) in the field of international telecommunications in Hong Kong.

Hong Kong Telecom will not, without the prior written consent of The Hong Kong Government, transfer or dispose of its shares in HKTI except to a company which is its holding company, a wholly owned subsidiary of its holding company or its wholly owned subsidiary. No share capital in HKTI will be issued, except with the prior written consent of the Hong Kong Government, other than to Hong Kong Telecom or to a company to which Hong Kong Telecom is permitted to transfer shares in HKTI.

Except with the prior written consent of the Hong Kong Government or in the ordinary course of business, HKTI will not sell or otherwise dispose of its business, property or assets or a material part thereof or cease to carry on its business.

HKTI will not, without the prior written consent of the Hong Kong Government (such consent not to be unreasonably withheld), borrow an amount or amounts exceeding the total of 150% of the aggregate amount paid up or credited as or deemed to be paid up from time to time on the issued share capital of HKTI and the amount standing to the credit of the reserves of HKTI after taking into account any balance outstanding to the credit or debit of HKTI's profit and loss account.

The Hong Kong Government is entitled to appoint two directors to the Board of HKTI.

The HKTI Regulatory Agreement shall continue in force until the occurrence of any one of a number of specified events including expiration of the HKTI License (or any renewal or replacement thereof) or termination by mutual agreement.

Agreement in Principle on Future Regulation

On June 5, 1992, the Hong Kong Government announced that Agreement in Principle had been reached with Hong Kong Telecom Group regarding various aspects of a broad framework for the future regulation of Hong Kong Telephone and HKTI. The implementation of the agreement was conditional upon the enactment of various legislative changes by Hong Kong's Legislative Council. The Telecommunication Amendment Ordinance and the Telephone Amendment Ordinance were given effect on June 3, 1994, implementing most of the elements of the Agreement in Principle. It is anticipated that the future regulation of Hong Kong Telephone and HKTI will, following the review of the Telecommunications Ordinance and the introduction of revised legislation, be covered by the FTNS Licence and HKTI Licence and an amended Telecommunications Ordinance. The changes contemplated by the Agreement in Principle are described below.

Local Services

Following the enactment of the Telephone Amendment Ordinance, Hong Kong Telephone is permitted to increase certain of its local charges provided that the average increase in such charges does not exceed the change in Hong Kong's consumer price index ("CPI") over the previous twelve months, less an agreed-upon factor. For the first three years, the agreed-upon factor will be 4%. The first set of increases under the new system were made on August 1, 1993, averaging 4.92%, and further average increases of 5.03% were made on August 1, 1994 and of 4.92% on August 1, 1995.

The Legislative Council's power to approve increases in Hong Kong Telephone's charges for local telephone services has been replaced by a discretionary power to disallow increases in such charges. This power, which will be exercised by the Telecommunications Authority, will be subject to a time limit and can only be exercised in the event that the Telecommunications Authority determines that a particular increase was predatory or breached the price cap described above.

International Services

In the Agreement in Principle, Hong Kong Telecom Group and the Hong Kong Government agreed that, shortly after all necessary legislative changes and detailed agreements have been enacted or negotiated, HKTI would reduce its charges for IDD services by an average of 8% in the first year and an additional 2% in each of the following two years. Within these limits, however, HKTI may rebalance its IDD charges among the various international traffic streams. The average 8% reduction in IDD charges took effect on August 1, 1993 and 2% reductions were made on August 1, 1994 and August 1, 1995.

Consistent with the Agreement in Principle, the Telecommunications Authority's power to approve increases in HKTI's charges has been replaced, for an initial period of 3 years, by a discretionary power to disallow increases in such charges. This power of disallowance will be subject to a time limit of 30 days and can only be exercised if the Telecommunications Authority determines that a particular increase is predatory or breaches the rate reduction agreement described above or is contrary to the public interest.

Hong Kong Telecom and the Hong Kong Government had also agreed that neither HKTI nor the Governor in Council would seek to adjust the 9% royalty now paid by HKTI under the HKTI License on the review date for the royalty, September 30, 1993. Consequently, the rate of royalty will remain 9% until the next review date, on September 30, 1998.

Private International Leased Circuits

Prior to the Agreement in Principle, HKTI permitted its private international circuits to be leased by organizations that, for a fee, offered customers a limited range of value-added telecommunications services. Hong Kong Telecom Group and the Hong Kong Government have agreed as part of the Agreement in Principle that such circuits will be made available on all routes without a requirement of reciprocal treatment, and this has been implemented. The range of services allowed to be offered over such circuits has been broadened to include certain managed data network services and value added voice services.

Private Circuits

Prior to the Agreement in Principle, international companies and other private organizations with offices in Hong Kong could lease private circuits from Hong Kong Telephone and HKTI to carry voice and data communications between local and overseas offices. Hong Kong Telecom Group and the Hong Kong Government have now agreed that such companies and organizations may now, in addition, obtain a license under the Telecommunication Ordinance to establish their own private telecommunications networks. However, such private networks could not be used to provide telecommunications services to parties outside the organization.

Interconnection

As a result of the Agreement in Principle HKTI interconnects directly not only with Hong Kong Telephone, but with PMRS and with FTNS Licensees. The legislative arrangements for this are contained in the Telecommunication Amendment Ordinance. The international revenue-sharing arrangement between HKTI and Hong Kong Telephone has been replaced with a "delivery fee" that applies to Hong Kong Telephone and to FTNS Licensees and PMRS. Under this system, HKTI pays such operators a "delivery fee" based on the revenue derived by HKTI on international calls delivered by such local systems less, in the case of PMRS and FTNS Licensees an ADC to reflect the fact that they do not, as is the case with Hong Kong Telephone, provide a universal service. The existing interconnection arrangement between Hong Kong Telephone and local mobile telephone networks will continue subject to further review in 1995 for implementation in 1996. It has been further agreed that providers of value-added services that carry those services over the Hong Kong Telephone network should pay a transport charge based on Hong Kong Telephone's related operating costs plus a reasonable profit.

US

The principal legislation regulating telecommunications services in the US is the Communications Act of 1934 (the "Communications Act"). Title II of the Communications Act establishes a comprehensive regulatory regime for common carriers involved in interstate or foreign communications by wire or radio. Because it offers interstate and international telecommunications services to businesses generally and not just to selected customers, CWI, one of the Group's subsidiaries in the US, is a common carrier subject to Title II regulation.

Title II requires common carriers to provide telecommunications services upon reasonable request, to provide services on rates and terms which are just and reasonable, to obtain the approval of the FCC for the construction of new or the extension of existing facilities, for the initiation of service offerings, and to file with the FCC for its approval tariffs describing their rates and services. The FCC has, by regulation, suspended for non-dominant common carriers providing interstate telecommunications services the requirement to obtain FCC approval for new telecommunications facilities and services and certain other requirements. CWI is deemed, for these interstate purposes, a non-dominant common carrier. CWI may thus, under the current FCC regulation, construct new interstate facilities, offer new services and set interstate prices without prior FCC approval (pursuant to tariff) and subject to general FCC reporting requirements.

CWI offers international telecommunications services principally on a resale basis. In the past it has been deemed a dominant carrier for these purposes because it is a subsidiary of a foreign company. In the light of new FCC policies, CWI has petitioned the FCC to modify its status from dominant to non-dominant on resold switched service and on most private line routes. At present, CWI remains subject to the requirement that it obtain FCC approval for new international facilities and services and that it files tariff changes with the FCC prior to revising its international rates and services.

The Communications Act also establishes limits to investment in common carrier radio licenses, such as cellular and personal communications services, by corporations owned or controlled by non-US citizens, such as the Company. The FCC has discretion to waive these limits in some circumstances, but has not done so broadly or frequently.

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

ITEM 2 - DESCRIPTION OF PROPERTY

The principal plant and equipment of the Cable & Wireless Group consists of transmission plant and exchange equipment, which is located throughout the Group's world-wide operations, but principally in the UK and Hong Kong. The Group's leasehold land and buildings principally consist of certain of its telephone exchanges and technical and administration centers. The term of the Group's leases for telephone exchanges and technical centers is usually protected to ensure the continuance of essential telecommunications services and in some instances is specifically tied to the term of the Group's telecommunications license. Nearly all such leases contain restrictions on their use for other purposes and a number of them contain restrictions on transfer.

The net book value of the Cable & Wireless Group's properties at March 31, 1995 was as follows:

	At March 31, 1995 (in £ millions)
Cables and repeaters	227.4
Plant and equipment	3,554.0
Land and buildings	543.4
Cableships	94.5
	4,419.3
Projects under construction	521.7
Total	4,941.0

ITEM 3 - LEGAL PROCEEDINGS

Except as described below, the Cable & Wireless Group is not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to be pending or threatened against it.

Mercury has applied to the Commercial Court of the High Court of Justice for a ruling in respect of BT interconnection charges. (See also "Item 1. Description of Business - Regulatory Framework - United Kingdom - Litigation between Mercury, the Director General and BT").

The Company has advised the Bermuda Government that it believes that the proposed authorization of any additional international telecommunications providers is inconsistent with the Company's rights under its license from the Government. The issue may be referred to arbitration in the forthcoming year. If the Bermuda Government persists, and its action in not overturned through arbitration, the consequent impairment of the Company's exclusive rights could have a material adverse effect on the Company's Bermuda revenues (see "Item 1. Description of Business - Caribbean - Bermuda").

In April, 1993, three individuals commenced a legal proceeding against Hong Kong Telecom and Telecom CSL in the High Court of Hong Kong asserting that the application of certain technology by Telecom CSL in the operation of its UNITACS mobile telephone network infringes a Hong Kong registration of a UK patent issued to such individuals. The individuals were seeking monetary damages and requested injunctive relief. Following discussions between the legal advisers of both parties the plaintiffs have now indicated that they accept that the operation of the UNITACS network does not infringe the patent in question. A consent summons is currently before the court and a judgement declaring non-infringement should be given shortly. In any event the Group does not believe that this action will have a material adverse effect on the Group's results of operations, financial condition or liquidity.

ITEM 4 - CONTROL OF REGISTRANT

In January 1995, VEBA acquired a 10.5% shareholding in the then issued share capital of the Company (see Item 1. "Description of Business - Other Europe"). Except for the foregoing, there is no person known to the Company to be the record holder of more than 10% of the Company's outstanding Ordinary Shares. The total number of outstanding Ordinary Shares owned by the directors and executive officers of the Company (of whom 6 are shareholders) at September 8, 1995 was 128,908, or approximately 0.006% of the outstanding Ordinary Shares. See "Item 6. Exchange Controls and Other Limitations Affecting Security Holders" for a discussion of the Special Share and other limitations on shareholdings.

ITEM 5 - NATURE OF TRADING MARKET

The principal trading market for the Ordinary Shares is the London Stock Exchange on which approximately 2,105 million Ordinary Shares were traded during the period from April 1, 1994 to March 31, 1995. The Ordinary Shares form part of the FT-SE 100 index, which measures the performance of the top 100 UK stocks. As at March 31, 1995 the Company was the seventeenth largest company (in terms of market capitalization) in the FT-SE 100 index with a market capitalization of approximately £8,507 million ($13,781 million) based on the Noon Buying Rate on March 31, 1995.

The Ordinary Shares are also listed on stock exchanges in Tokyo, Hong Kong, Frankfurt, Zurich, Basle and Geneva. The ADSs, each representing three Ordinary Shares, have been issued by The Bank of New York as Depositary and are listed on the New York Stock Exchange under the symbol CWP.

The table below sets forth, for the calendar quarters indicated, the high and low middle market quotations for the Ordinary Shares on the London Stock Exchange as reported on its Daily Official List and the high and low market quotations for the ADSs on the New York Stock Exchange (adjusted to reflect the subdivision of Ordinary Shares effected on October 28, 1993).

	Pence Per Ordinary Share		US Dollars Per ADS	
	High	Low	High	Low
1992				
First Quarter	312.5	260.0	16.81	13.38
Second Quarter	296.5	260.0	16.38	13.38
Third Quarter	312.5	243.5	16.38	14.50
Fourth Quarter	356.0	266.5	16.50	13.75
1993				
First Quarter	376.5	341.0	16.82	14.88
Second Quarter	393.5	335.0	18.38	16.00
Third Quarter	446.5	378.0	20.75	17.13
Fourth Quarter	517.5	433.5	25.13	19.88
1994				
First Quarter	537.5	425.5	25.00	18.63
Second Quarter	472.5	400.5	21.63	18.50
Third Quarter	478.0	393.0	22.50	18.25
Fourth Quarter	426.0	384.0	20.63	16.50
1995				
First Quarter	402.0	354.0	19.50	16.75
Second Quarter	448.0	388.0	22.25	19.00

At September 8, 1995 382,281 Ordinary Shares were held of record in the US. These Ordinary Shares were held by 310 holders of record. As of the same date, 26,190,907 ADSs (representing 78,572,721 Ordinary Shares) were held of record in the US by 2,007 holders of record. Since certain of such Ordinary Shares (or ADSs, as the case may be) are held by broker nominees, the number of holders of record may not be representative of the number of beneficial owners. At September 8, 1995 the Company had 275,240 shareholders of record.

ITEM 6 — EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

Certain of the countries in which the Cable & Wireless Group and its associated companies operate have exchange controls. Operations in the countries that currently have exchange controls are not, however, material to the business of the Group and its associated companies, and the controls themselves have not materially restricted payments within the Group and its associated companies.

LIMITATION ON SHAREHOLDINGS

Subject to limited exceptions (including the Depositary of the ADSs and SEPON), no person is entitled to hold Ordinary Shares (defined in the Articles to mean any share in the capital of the Company that ordinarily carries the right to vote on a poll at general meetings) representing more than 15% of all the Ordinary Shares then in issue nor, either alone or together with his Associates (as defined in the Articles), to exercise, or control the exercise of, more than 15% of the votes ordinarily exercisable on a poll at general meetings. An Associate of a person includes a body corporate of which one half or more of the voting power exercisable at its general meetings may be exercised or controlled, or of which one half or more of the directors are or can be appointed, by the person, any other person who is obliged to exercise or refrain from exercising any rights attaching to any Ordinary Share in accordance with the instructions of such person, and, if the person is a government or government department, agency or body, any other department, agency or body of such government.

If it appears to the directors that the limitation may be exceeded, they are entitled to refuse to register any Ordinary Shares in the name of the person unless they are first given a satisfactory declaration stating the total number of Ordinary Shares held by that person (and the names of any Associates) and the total number of votes ordinarily exercisable by him and his Associates on a poll at general meetings.

The directors are also empowered at any time to give notice in writing to any person requiring him to make such a declaration within a specified period. From the date of service of such notice until the directors declare themselves satisfied with the declaration received by them from such person, any Ordinary Shares held by such person shall not confer any right to attend or vote at general meetings. In addition, if within 21 days after the giving of the notice the directors are not satisfied that the person is not in contravention of the limitation on shareholdings, the directors may give a further notice requiring him to transfer Ordinary Shares sufficient to reduce his holding below the 15% limit. The Articles contain provision for the sale of such Ordinary Shares if the further notice is not complied with to the directors' satisfaction.

HM Government, as holder of the Special Share, is entitled to receive notice of, attend and speak at all general meetings of the Company, but the Special Share carries no right to vote at such meetings. Certain matters are deemed for the purposes of the Company's Articles of Association to be a variation of the rights attaching to the Special Share and are only effective with the written consent of the holder of the Special Share; these matters include a proposal for the voluntary winding up or dissolution of the Company, the creation or issue of any shares in the capital of the Company carrying voting rights which are not identical to those of the Ordinary Shares, a disposal or disposals of the whole or a material part of the assets of the Company and its subsidiaries and the amendment or removal of certain provisions of the Articles, including the provision that imposes limitations on shareholdings described above.

ITEM 7 - TAXATION

This summary describes the principal US federal and UK tax consequences of the purchase, ownership and disposition of ADSs as capital assets by a holder who is a citizen of or resident in the US or otherwise subject to US federal income tax on a net income basis in respect of ADSs (a "US holder") and who is a resident of the US for the purposes of the current income tax convention between the UK and the US ("the Income Tax Convention"). It is based upon the tax law and practice as at the date of this Annual Report on Form 20-F, as advised by Cleary, Gottlieb, Steen & Hamilton, New York, US and Speechly Bircham, London, England, with regard to US federal taxes and UK taxes respectively. It does not purport to be exhaustive, and, in particular, does not cover state, local or other national taxes.

This summary does not address the treatment of a holder of ADSs that is subject to special tax rules, including a holder (i) who owns 10% or more of the Ordinary Shares, or, in the case of a US corporation, who controls directly or indirectly, alone or with one or more associated corporations, at least 10% of the voting stock of the Company, or (ii) who is exempt from US tax on dividends paid by the Company.

For purposes of the Income Tax Convention, the current estate and gift tax convention between the UK and the US (the "Estate and Gift Tax Convention") and the US Internal Revenue Code of 1986 (the "Code"), holders of ADSs (including beneficial owners of ADSs held by nominees) are treated as the beneficial owners of the underlying Ordinary Shares represented by those ADSs.

DIVIDENDS

On payment of a dividend on the Ordinary Shares, the Company is required to account to the UK Inland Revenue for ACT. The rate of ACT has been fixed by reference to the lower rate of UK income tax, currently 20%, and will on this basis equal 20% of the aggregate of the dividend and the related ACT.

An ADS holder receiving a dividend who is both a resident of the US for purposes of the Income Tax Convention (a "US resident") and the beneficial owner of the dividend is generally entitled to receive an amount (a "Treaty Payment") equal to the lower rate of income tax on the dividend grossed up by tax at that rate on the grossed up amount (a "tax credit"), less withholding tax equal to 15% of the total of the dividend and the tax credit. For the year beginning April 1, 1996, and subsequent years, the tax credit is expected to be an amount equal to the related ACT, so that a dividend of £80 would give rise to a tax credit of £20 less withholding tax of £15, resulting in a Treaty Payment of £5 and a total net receipt of after UK taxes but before US taxes of £85.

However, if the Company were to pay a dividend out of non-UK source profits it could elect for that dividend to be treated as a "foreign income dividend" with the result that the dividend would not carry an associated UK tax credit and a US resident would not be entitled to a Treaty Payment. The Company has no present intention of electing to pay foreign income dividends and this summary applies only to dividends not paid under the foreign income dividend scheme.

The tax credit to which entitlement is conferred by the Convention is not available if (i) the holding is effectively connected with (a) a permanent establishment situated in the UK through which the holder carries on business in the UK or (b) a fixed base in the UK from which the holder performs independent personal services, or (iii) in the case of a US corporation, the holder is also a resident of the UK, or, in certain circumstances, a company at least 25% of the capital of which is held, directly or indirectly, by persons who are not individual residents or nationals of the US. Where the corporation is resident in the UK, it is however entitled under UK domestic law to a tax credit equal to the rate of ACT (£20 in the above example) which it can use to frank its own distributions. Where the holder is a US partnership, trust or estate, it is thought that the tax credit will be allowed to the extent that the income of the partnership, trust or estate is subject to US tax as the income of a resident either in its hands or in those of the partners or beneficiaries.

The Depositary will make arrangements under which an ADS holder who is (i) a US corporation whose business is not managed and controlled in the UK, (ii) an individual resident in the US and not resident in the UK, or (iii) a trust or estate, all of the beneficiaries of which are resident in the US will receive payment of the tax credit, net of withholding tax, together with the payment of the dividend, provided (i) the tax credit is not precluded by the rules set out above, (ii) the registered holder completes a declaration on the reverse of the dividend check confirming entitlement to the tax credit and presents the check for payment within three months of the date of its issue.

Other ADS holders should claim payment within six years from the UK Inland Revenue as described in IRS Revenue Procedure 80-18, 1980-1 CB#623 and IRS Revenue Procedure 81-58, 1981-2 CB#678. The first claim is made by sending the appropriate UK form in duplicate to the Internal Revenue Service Center with which the holder's last federal income tax return was filed. Forms may be obtained from the Assistant Commissioner (International), Internal Revenue Service, 950 L'Enfant Plaza South SW, Washington DC 20024. As a claim is not made until the UK tax authorities receive the appropriate form from the Internal Revenue Service, forms should be sent to the Internal Revenue Service well before the end of the six year period. Any claim for a tax credit by a US holder after the first claim should be filed directly with FICO (International), St John's House, Merton Road, Bootle, Merseyside, L69 9BB, England.

Dividend distributions on the ADSs (including the related tax credit and without reduction for UK withholding tax) will generally constitute dividend income to the extent they are paid out of the company's current or accumulated earnings and profits for US tax purposes. This income will not qualify for the dividends received deduction allowed in other circumstances to certain US corporations.

The 15% UK withholding tax will be treated as a foreign income tax that, subject to generally applicable limitations, is eligible for credit against the US federal income tax liability of the US holder or, at the election of the holder, may be deducted in computing taxable income. The dividends will generally constitute foreign source "passive" or "financial services" income for purposes of applying the foreign tax credit limitations.

CAPITAL GAINS

US holders who are not resident or ordinarily resident in the UK for UK tax purposes are not liable to UK tax on capital gains realized on the disposal of ADSs unless the holder carries on a trade in the UK through a branch or agency and the ADSs are used in or for the purposes of the trade or used or held for the purposes of the branch or agency or acquired for use by or for the purposes of the branch or agency. US holders are subject to US federal income tax on such gains to the same extent as on other gains from the disposition of stock. Deposits of Ordinary Shares by US holders in exchange for ADRs and withdrawals by US holders of Ordinary Shares in exchange for ADRs will not result in the realization of gain or loss for US federal income tax purposes.

INHERITANCE TAX

ADSs held by an individual who is domiciled for the purposes of the Estate and Gift Tax Convention in the US and is not for purposes of the Convention a national of the UK do not attract UK inheritance tax on the individual's death or on transfer during his lifetime unless they form part of the business property of a permanent establishment situated in the UK or pertain to a fixed base in the UK used for the performance of independent personal services. Where ADSs are subject to both UK inheritance tax and US gift or estate tax, the Convention generally provides for tax paid in the UK to be credited against tax payable in the US.

STAMP DUTY AND STAMP DUTY RESERVE TAX

UK stamp duty reserve tax is chargeable where Ordinary Shares are issued or transferred to a nominee or agent for a Depositary pursuant to an arrangement under which the Depositary issues Depositary receipts (such as the ADRs). The tax, payable by the Depositary, will generally be approximately 1.5% of the purchase price of the Ordinary Shares. In certain circumstances, the transfer to the Depositary's nominee or agent may give rise to a liability to ad valorem stamp duty, in which case the reserve tax charge is reduced or eliminated accordingly.

No UK stamp duty is payable on any transfer of an ADR provided that any instrument of transfer is executed and remains outside the UK, nor is any agreement for transfer of ADRs subject to and UK stamp duty reserve tax. However, if the seller of an ADR fulfills his obligations by requiring the transfer of the underlying Ordinary Shares (whether or not to the purchaser), the transfer instrument is, it is thought, subject to duty at approximately 0.5% of the purchase price if executed or brought into the UK. A transfer of Ordinary Shares which does not complete a sale is dutiable at the fixed rate of 50p.

If Ordinary Shares themselves are sold, stamp duty reserve tax at approximately 0.5% of the consideration will, subject to exceptions, be payable, generally by the purchaser, unless within two months of the date on which the agreement is made or (if later) becomes unconditional, the shares are transferred to the person with whom the agreement is made or his nominee and the transfer instrument is stamped on payment of the applicable stamp duty (approximately 0.5% of the consideration).
(Note: Stamp duty in connection with share transactions and stamp duty reserve tax are to be abolished from a date which is yet to be specified.)

ITEM 8 - SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth on the following page should be read in conjunction with, and are qualified in their entirety by reference to, the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 20-F. The selected consolidated financial data for the five years ended March 31, 1995 are derived from the Company's audited consolidated financial statements.

	Year ended March 31					
	1991	1992	1993	1994	1995	1995 (5)
	(in millions, except per share and per ADS data)					
INCOME STATEMENT DATA						
Amounts in accordance with UK GAAP (1):						
OPERATING REVENUE						
Public telecommunications	£2,166	£2,688	£3,356	£4,165	£4,606	$7,462
Other	427	436	470	534	527	853
Total operating revenue	2,593	3,124	3,826	4,699	5,133	8,315
Total operating expenses	2,030	2,468	3,055	3,608	3,999	6,478
Operating income	563	656	771	1,091	1,134	1,837
Associated companies	14	22	10	(14)	(38)	(62)
EXCEPTIONAL ITEMS (2)			178		(239)	(387)
Net interest income (expense)	8	(31)	(42)	(17)	(31)	(50)
Other income	23	(4)	1	28	18	29
Income before income taxes	608	643	918	1,088	844	1,367
Income taxes	(145)	(134)	(174)	(231)	(244)	(395)
Income before minority interests	463	509	744	857	600	972
Minority interests	(158)	(186)	(230)	(343)	(348)	(564)
Net income	£ 305	£ 323	£ 514	£ 514	£ 252	$ 408
Earnings per share ("EPS")	14.3p	15.1p	23.7p	23.6p	11.5p	$0.19
Earnings per ADS (3)	42.9p	45.3p	71.1p	70.8p	34.5p	$0.57
EPS before exceptional items	16.1p	18.3p	19.4p	23.6p	23.6p	$0.38
Earnings per ADS before exceptional items	48.3p	54.9p	58.2p	70.8p	70.8p	$1.15
Dividends per share (4)	7.86p	8.84p	9.90p	10.31p	11.31p	$0.18
Dividends per ADS (4)	23.58p	26.52p	29.70p	30.93p	33.93p	$0.55
Amounts in accordance with US GAAP(1):						
Net income	£ 300	£ 275	£ 445	£ 435	£ 208	$ 336
Earnings per share	13.85	12.65p	20.01p	19.50p	9.4p	$0.15
Earnings per ADS (3)	41.55p	37.95p	60.30p	58.50p	28.2p	$0.45
BALANCE SHEET DATA						
Amounts in accordance with UK GAAP(1):						
Current assets	£ 1,019	£ 961	£1,797	£2,023	£2,026	$ 3,282
Total assets	4,414	4,910	6,524	7,456	7,875	12,758
Short-term debt	89	111	231	359	321	520
Current liabilities	974	1,088	1,401	1,678	1,745	2,827
Long-term debt	606	797	951	1,177	1,340	2,171
Total shareholders' equity	2,236	2,363	3,018	3,275	3,139	5,409
Amounts in accordance with US GAAP(1):						
Total shareholders' equity	£2,493	£2,622	£3,110	£3,403	£3,367	$5,454

(1) The Company's consolidated financial statements are prepared in accordance with UK GAAP, which differ in significant respects from US GAAP. See Note 23 of Notes to Consolidated Financial Statements.

The presentation of financial information has been changed compared with the 1994 Report and Accounts as a result of the adoption of UK Accounting Standards and pronouncements issued by the Accounting Standards Board in the past year. Prior years figures have been restated on a comparable basis. (See note (1) to the Consolidated Financial Statements).

(2) The exceptional items in 1995 consisted of Mercury reorganization costs of £61 million and £178 million provision for goodwill charge on impending sale of Telephone Rentals plc ("TR"). See Note 5 to the Consolidated Financial Statements for a discussion of the 1993 items.

(3) Per ADS amounts have been computed on the basis that one ADS represents three Ordinary Shares.

(4) Dividends per share and per ADS are based on interim dividends paid and final dividends declared per Ordinary Share increased by the associated ACT rebate before deduction of withholding taxes. See "Taxation".

(5) Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of $1.62, the noon buying rate on March 31, 1995. For exchange rate information, see "Exchange Rates".

DIVIDENDS

The table below sets forth the amounts of interim, final and total gross dividends paid per Ordinary Share in respect of each fiscal year indicated, increased by the associated ACT rebate before deduction of withholding taxes (as described under "Taxation") and translated into US dollars per ADS (each representing three Ordinary Shares) at the Noon Buying Rate on each of the respective payment dates for interim and final dividends.

Year ended	Pence per Ordinary Share			US Dollars per ADS		
March 31	Interim	Final	Total	Interim	Final	Total
1991	2.46	5.40	7.86	0.13	0.29	0.42
1992	2.84	6.00	8.84	0.14	0.31	0.45
1993	3.17	6.73	9.90	0.13	0.31	0.45
1994	3.25	7.06	10.31	0.14	0.28	0.42
1995	3.54	(1)	(1)	0.14	(1)	(1)

(1) At the Company's Annual General Meeting on June 27, 1995, the Company's shareholders approved a final dividend for 1995 (to be paid on September 1, 1995) of 7.78 pence per share (including ACT) making a total of 11.31 pence per ordinary share.

The Company expects to pay an interim and a final dividend in respect of each fiscal year, which will normally be payable in February and September, respectively. While the Company expects to pay dividends each year, the payment of dividends will depend upon the Company's earnings, financial condition and other factors.

It is the current policy of the Company to give shareholders, other than those who have registered addresses in the US, rights of election that enable them to receive Ordinary Shares in lieu of cash dividends ("Scrip Dividends"). Although the Securities and Exchange Commission is increasingly relaxed about a foreign issuer offering Scrip Dividends in the US without registration of the new shares, the tax situation as between the UK and the US makes such an offer unattractive to US residents. As a result, the Scrip Dividend alternative offer is not being made to US resident shareholders.

There are currently no UK governmental restrictions on dividend payments to non-UK shareholders applicable to the Company.

Dividends paid by the Company will be in pounds sterling and exchange rate fluctuations will affect the US dollar amounts received by holders of the ADSs on conversion by the Depositary of such cash dividends.

ITEM 9 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussions should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report. These financial statements have been prepared in accordance with UK GAAP, which differ in significant respects from US GAAP. The principal differences between UK GAAP and US GAAP, as they relate to the Company, are described, and reconciliations of net income and shareholders' equity to US GAAP are set forth, in Note 24 of Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

The Group's operations now cover seven main geographic regions: Hong Kong, Other Asia, UK, Other Europe, Caribbean, North America and Rest of the World. Some 60% of the Group's operating income arises in Hong Kong (see "Information on Hong Kong"). For presentations of operations see "Description of Business - The Company" and Note 4 of Notes to Consolidated Financial Statements.

The operating revenue of the Cable & Wireless Group of companies is derived principally from public telecommunications, being international and domestic telephone services and other telecommunications services such as leased circuits, telex services and the sale and rental of telecommunications equipment. In addition operating revenue is derived from the charter and use of the Group's cableships, contracts relating to telecommunications systems and consultancy fees. Operating revenue from public telecommunications includes amounts received and receivable from customers and from telecommunications administrations and carriers for the use of the Group's network. Amounts payable by the Group to such administrations and carriers for the use of their networks are included as telecommunications outpayments in operating expenses. Other than such telecommunications outpayments, operating expenses of the Group generally do not vary significantly with the volume of telecommunications traffic.

A substantial portion of the Group's assets, operating revenue and operating expenses are denominated in currencies other than the pound sterling (mainly currencies tied to the US dollar, such as the Hong Kong dollar). Accordingly, the Group's operating results and shareholders' equity, when translated into pounds sterling, may be significantly affected by exchange rate movements. In addition, the Group is potentially exposed to movements in exchange rates between local operating currencies and currencies commonly used for net settlement of payments among telecommunications administrations and carriers. Exchange rate exposure also arises in respect of local currency remittances to the UK by the Group's regional operations. See "Exchange Rates".

The following table sets out, for the three years ended March 31, 1995, operating revenue, operating expenses and operating income of the Group, and expresses such amounts as a percentage of total operating revenue. Contributions to operating income are not analyzed by the categories of service provided by the Group, as the allocation of operating expenses among the Group's public telecommunications services would necessarily be arbitrary. The analysis of operating revenue is, however, an indication of the sources of growth of the Group's business. Certain prior year figures have been restated to conform with the current year presentation.

	Year ended March 31					
	1993		1994		1995	
	(in millions except percentages)					
Public telecommunications						
International telephone services	£1,830	47.8%	£2,280	48.5%	£2,463	48.0%
Domestic telephone services	979	25.6	1,214	25.8	1,323	25.8
Other telecommunications services	547	14.3	671	14.3	821	16.0
Other						
Equipment sales and rental	310	8.1	352	7.5	348	6.8
Cableships and contracts	160	4.2	182	3.9	178	3.4
Total operating revenue	£3,826	100.0%	£4,699	100.0%	£5,133	100.0%
Telecommunications outpayments	£1,259	32.9%	£1,460	31.1%	£1,565	30.5%
Employee costs	647	16.9	746	15.8	859	16.7%
Rental of transmission facilities	53	1.4	59	1.3	71	1.4%
Other operating costs	703	18.4	877	18.7	987	19.2%
Depreciation and amortization	393	10.3	466	9.9	517	10.1%
Total operating expenses	£3,055	79.9%	£3,608	76.8%	£3,999	77.9%
Operating income	£ 771	20.1%	£1,091	23.2%	£1,134	22.1%

YEAR ENDED MARCH 31, 1995

Total operating revenues in 1995 at £5,133 million were £434 million higher than the previous year.

Operating revenue from international telephony was £2,463 million, an increase of 8% over 1994. The Group has continued to experience growth in international telecommunications, particularly Hong Kong Telecom and Mercury. Hong Kong Telecom had growth in international telephone revenue of [illegible] over 1994. Line growth was up by 5%, and international outgoing minutes improved by 15%. The volume of outgoing telephone traffic to the PRC continues to grow, increasing at an annual compound rate of some 29% over the three years ended March 31, 1995. In the year ended March 31, 1995 the annual growth rate was 18% which is less than the increase for the year ended March 31, 1994 (30%) and for the year ended March 31, 1993 (40%). The slowdown in the traffic growth was due to the dampening effect of macroeconomic controls within the PRC. Mercury's international revenue was £542 million, £50 million higher than the previous year. International call volumes increased 21% over last year. Operating revenue from domestic telephone services was £1,323 million, an increase of 9% over 1994. This increase was largely due to an increase of 15% in Mercury over last year and an increase in Hong Kong Telecom of 9% over last year.

Revenues from other telecommunications services increased by 22% to £821 million. Particular areas of growth were Hong Kong Telecom and Mercury. In Hong Kong, revenues increased by 21%, largely attributable to stronger demand for and usage of mobile phones and paging. In Mercury, revenues increased by 34%, major components being leased services and data networks. Leased services is a growth area in the UK and the growth in data networks revenues arises from the commencement of a number of major outsourced contracts.

Operating revenue from equipment sales and rentals fell by 1% to £348 million, arising mainly in Mercury.

Revenue from cableships and contracts decreased by 2% to £178 million with a reduction in turnover from cableships being almost offset by an increase in contracts. The reduction in turnover from cableships arose following the sale of Northern Ocean Services in the previous year partially offset by additional turnover following the acquisitions of BT Marine and Worldwide Ocean Surveying.

Excluding exceptional items, total operating costs increased by 9% to £3,939 million.

Telecommunications outpayments increased by 7% over last year to £1,565 million, mainly reflecting the growth in telephone outgoing traffic over 1994.

Net employee costs before exceptional items increased by 11% to £829 million, mainly as a result of the increased staff levels in Mercury in the earlier part of the year, and salary increases in other locations.

Other operating costs before exceptional items increased by 9% to £956 million particularly in Mercury with an increase of 21% as a result of increased emphasis on customer service and implementation of the National Code Change and in Hong Kong Telecom with an increase of 10% as a result of increased business activity. Amortization increased by 11% to £517 million reflecting the continuing high level of capital expenditure necessary to expand Group operations. The impact of inflation has not been significant to an explanation of the movement in the total operating costs of the Group over the last year.

Corporate costs have decreased significantly by 24% to £32 million following the restructuring of the London based Corporate and Regional Headquarters announced last year.

Business development costs have increased by £7 million reflecting increased expenditure on pursuing opportunities in new strategic markets. In the current year, the Company intends to reduce its new business development costs from £35 million in 1995 to just over £20 million. Without jeopardizing the Company's future, the aim is to cut costs, focus still more sharply on the most attractive opportunities and achieve a balance between start up losses and earnings for the Company's shareholders.

Operating income as a percentage of turnover decreased from 23.2% last year to 22.1%. Margins have improved in North America and the Caribbean. Margins in Hong Kong Telecom are in line with the previous year, whilst margins in Mercury have reduced. During the year Mercury announced a major reorganization to streamline its operations and strengthen its competitive position in the UK telecommunications market.

There are two exceptional items in the current year. Firstly there is an exceptional pretax charge of £122 million relating to the Mercury reorganization announced in December 1994 to streamline its operations and strengthen its competitive position in the UK Telecommunications market. Of the total charge, £61 million is taken as an exceptional charge to operating profit (of which £30 million is included in employee costs and £31 million in other operating costs) and £61 million is taken as a non-operating exceptional charge. Secondly, there is an exceptional charge of £178 million relating to goodwill associated with the acquisition of Telephone Rentals Plc ("TR") in 1988. This acquisition was made in order to achieve rapid growth in Mercury's business customer base which continues to be reflected in the overall business. The Group has now decided to focus Mercury's activities on service provision and is seeking purchasers for the non-strategic elements of the former TR activities in the UK. The exceptional charge reflects the expected outcome of the disposal at the current time. There are no taxation or minority interest charges or credits applicable to this charge.

The Company has continued to make investments in associated undertakings. This represents additions to both the Group's existing investments and other investment opportunities that have arisen. This year we have included an analysis of our share of the results and net assets of associated undertakings together with comparative figures for the previous year (see Note 6 to the Consolidated Financial Statements). The purpose of the increased disclosure is to give greater prominence to our investments in associated undertakings, which will be of increasing importance to the Group as a whole.

Losses from associated undertakings increased as compared to 1994. The Group's share of losses in *Mercury One-2-One* were £61 million (1994 - £33 million). The increased start up losses in *Mercury One-2-One* and start up losses on the Group's new investments in South Africa have been partially offset by both reduced start up losses in Australia and Sweden and improved results from the Group investments in other areas, principally Bahrain and Trinidad. The market penetration achieved by *Mercury One-2-One* continued to increase, reflecting the growing public demand for digital mobile services.

Net cash flow from operating activities decreased marginally from £1,646 million to £1,604 million. The movement of £23 million in net interest and other income in the profit and loss account reflects the increase in net interest paid as a result of the increase in average net borrowings during the year, reduced profits on the sale of assets and increased exchange losses, partially offset by increased income from fixed asset investments.

Taxation totaled £244 million in 1995, up by £13 million from 1994. The effective rate of tax for the year is 28.9% after exceptional items, and 22.5% excluding exceptional items, compared with 21.[illegible]% [illegible] year and the statutory UK corporation tax rate of 33%.

Minority interests were £348 million, an increase of 1% over 1994. This increase reflects general profit growth in non-wholly owned subsidiaries, in particular HKT, partially offset by reduced profits after exceptional items in Mercury.

YEAR ENDED MARCH 31, 1994

Total operating revenues in 1994 at £4,699 million were £873 million higher than the previous year.

Operating revenue from international telephony was £2,280 million, an increase of 25% over 1993. The main contributors to this increase was Hong Kong and Mercury. Hong Kong's international telephone revenue grew by 12% due to a substantial increase in interconnections plus increased usage of the network between Hong Kong and China and Hong Kong and Taiwan. Mercury's international revenue was £493 million, £88 million higher than the previous year. The customer base continued to expand with 528,000 lines installed during the year, resulting in higher international outgoing and international return traffic.

Operating revenue from national telephone services was £1,214 million, an increase of 24% over 1993. This increase was due largely to Mercury in the UK which experienced continuing growth in the customer base with a line growth of 45%. Revenues from national telephone services were up by 28% in Mercury. Hong Kong's domestic telephone revenues grew by 28% due to strong growth in payphones, increased exchange lines coupled with higher tariff rates introduced in August 1993.

Revenues from other telecommunications services increased by 23% to £671 million. Particular areas of growth are Mercury where leased circuit and mobile revenue has increased by 18%, and the Asia region where the mobile telephone and paging business in Hong Kong Telecom again shows improvement.

Equipment sales and rentals showed a 14% growth in operating revenue to £352 million, arising mainly in Mercury.

Revenue from cableships and contracts increased by 14% to £182 million with all of this increase arising in the marine businesses.

Excluding exceptional items in the previous year, total operating costs increased by 21% to £3,608 million.

Telecommunications outpayments increased by 16% to £1,460 million. Outpayments by Mercury have been reduced by amounts received from BT as a result of the determination on interconnect charges published in December 1993 by the Oftel. Of the amount received some £25 million relates to the previous financial year.

Net employee costs (excluding pensions) increased by 15% to £746 million, mainly as a result of the increased staff levels in Mercury, where increased emphasis on the residential market has necessitated an increase in staff employed in customer service and support activities.

Other operating costs and amortization increased by 25% to £877 million and 19% to £466 million respectively. Increases in other operating costs arose in Mercury as a result of the expansion of residential services and in Hong Kong where costs reflect the higher level in general of business activity. The increase in amortization reflects the continuing investment in new equipment to expand Group operations and the effect of the reduction in the asset lives of submarine cables introduced in the previous year.

Operating losses have been incurred in Europe, where the Group is maintaining or expanding its base in both the E.U. countries and in the emerging markets in Eastern Europe. The losses are due to the various units still in a developing phase where the market share is gradually being built up as the presence in these markets becomes more established. The margins have remained fairly constant. Group operating profit grew by 42% to £1,091 million after last year's exceptional items and by 27% before these exceptional items.

Corporate costs increased by 3% to £42 million, and business development costs have increased by £8 million reflecting increased expenditure on researching new geographic and sectoral markets. As a result of the restructuring of the corporate center, announced in April 1994, a provision of £21 million has been set up to cover the estimated costs of restructuring and rationalization of office accommodation.

Operating income as a percentage of turnover increased from 20.2% last year to 23.2% this year, with improved margins in Hong Kong and North America. The margins in Mercury have reduced slightly although this has been offset in the current year by the effect of the prior year adjustment for interconnect charges. The results for Rest of the World include operating losses of £24 million arising from the delay in the commissioning of new equipment for a project undertaken by a subsidiary of the Group's marine division.

Income from associated undertakings declined compared with 1993, as a result of start up losses in Optus Communications Pty Limited in Australia, *Mercury one2one* in the UK and reduced profits in Trinidad as a result of exchange translation losses on borrowings following the devaluation of the local currency. These were partially offset by improved results from International Digital Communications Inc. in Japan and Eastern Telecommunications Philippines Inc. The rate of market penetration achieved by *Mercury one2one* is above expectations and reflects the growing public demand for digital mobile services.

Net cash flow from operating activities improved by £447 million during 1993/94. The movement in net interest and other similar income reflects the increase in average net cash in 1994 compared with 1993, principally as a result of the proceeds of the transfer of a 20% share holding in Mercury to BCE Inc. in January 1993. The Group's cash and deposits are held principally in sterling, U.S. dollars and Hong Kong dollars.

Taxation totaled £211 million in 1994, up by £56 million from 1993. The effective rate of tax for the year is 21%, compared with 19% last year and the statutory UK corporation tax rate of 33%.

Minority interests were £133 million, an increase of 50% over 1993. This increase reflects general profit growth in non wholly owned subsidiaries, the sale of a minority interest in Mercury Communications Limited to BCE Inc. in January 1993 and the impact of a slightly increased minority in Hong Kong Telecom following the exercise of warrants at the end of the previous year.

TAXATION

The statutory UK corporation tax rate was 33% in 1993, 1994 and 1995, whereas the Group's effective tax rate was 28.9% after exceptional items and 22.5% excluding exceptional items in 1995, 21.1% in 1994 and 19.0% in 1993. For a reconciliation of the statutory UK tax rate with the Group's effective tax rate, see Note 8 of Notes to Consolidated Financial Statements. The Group's effective tax rate was significantly lower than the statutory UK tax rate during the three year period, due to the relatively high capital expenditure for the Group's telecommunications network giving rise to capital allowances that reduce taxable income. In addition, a substantial portion of the Group's income is generated in jurisdictions with lower tax rates.

EXCHANGE RATES

For the year ended March 31, 1995 more than 60% of the Group's net assets, turnover and operating costs were denominated in currencies other than the pound sterling, the same percentage as 1994. As a result, exchange rate movements can have a significant effect on the Group's reported assets, turnover and operating expenses when translated into pounds sterling for financial reporting purposes, and on the remittance of local currency by the Group's regional operations to the UK.

The table below compares, for the five years ended March 31, 1995, the percentage change in operating revenue from each of the Group's public telecommunications services with the percentage change in such operating revenue excluding the effect of exchange rate movements on currency translation computed by using, for purposes of analysis, the exchange rates used to prepare the Company's Consolidated Financial Statements for the year ended March 31, 1995.

Percentage change from prior period	Year ended March 31				
	1991	1992	1993	1994	1995
International telephone services	12.6	22.[illegible]	24.9	24.6	8.0
Excluding the effect of exchange rate movements on currency translation	24.2	16.4	23.0	16.2	10.[illegible]
Domestic telephone services	23.8	35.0	25.0	24.0	[illegible]
Excluding the effect of exchange rate movements on currency translation	33.2	28.8	23.2	17.[illegible]	10.[illegible]
Other telecommunications services	[illegible]	12.6	24.3	22.8	22.2
Excluding the effect of exchange rate movements on currency translation	14.1	9.1	22.[illegible]	16.[illegible]	24.4

A decline or increase in the pound sterling against local operating currencies can significantly increase or decrease operating revenue for financial reporting purposes.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the cash payments in respect of property, plant and equipment of the Group for the three years ended March 31, 1995. In all three years cash flow from operations exceeded capital expenditures.

	Year ended March 31		
	1993	1994	1995
		(in millions)	
Hong Kong	£ 264	£ 291	£ 271
Other Asia	24	29	23
United Kingdom	398	443	483
Other Europe	30	13	9
Caribbean	109	128	142
North America	50	43	39
Rest of World	45	19	57
Total cash payments	£ 880	£ 965	£ 1,024
Cash flow from operations	£1,199	£1,646	£1,604

A major element of capital expenditure over the three year period ended March 31, 1995 was the development of Mercury's telecommunications network in the UK, which accounted for 45%, 46% and 47% of total cash payments in 1993, 1994 and 1995, respectively.

Although the precise level of the Group's future capital expenditures will depend on factors that cannot now be foreseen, current plans indicate capital expenditure of some £5 billion over the next three years on our existing networks.

The Group expects that its funding requirements for future capital expenditures will continue to be met from a combination of existing cash balances, cash flow from operations and borrowings.

The Group's principal treasury and funding operations are carried out by the London-based Group Treasury in accordance with Board approved policies and authorities.

The funding policy of the Group continues to be one of maintaining a broad portfolio of debt diversified by source and maturity that reflects the long term nature of its worldwide businesses and its asset base. The Group Treasury has not undertaken any major funding transactions following the issue of £200 million of 25 year Eurosterling bonds in June 1994.

Long-term and short-term interest rate instruments are used to smooth the impact of interest rates on the total Group borrowing. Approximately 37% of the Group's medium and long-term borrowing is at fixed rates of interest.

The Group has access to significant borrowing facilities. Undrawn committed medium term facilities exceeded £498 million as at March 31, 1995. The structure of financing and bank facilities means the Group has sufficient funds for its projected cash requirements. Neither covenants in any of the Group's financing nor exchange controls are expected to restrict the Group's activities.

Foreign exchange hedging operations, using principally forward rate contracts, are carried out in respect of material transaction exposures. Where material, a proportion of overseas net assets are hedged by foreign currency borrowings. At March 31, 1995, 62% of the Group's borrowing was in currencies other than sterling. The Group does not undertake speculative transactions which would increase its currency exposure.

At March 31, 1994, the Group had net working capital of £546 million and at March 31, 1995, net working capital of £492 million (calculated in accordance with UK GAAP).

POST BALANCE SHEET EVENTS

On June [illegible], 1995, the Bermuda Government announced its intention to grant a license to a new international telecommunications company in Bermuda. The Government has stated an intention to license others as well. The Company has advised the Bermuda Government that it believes that the proposed authorization of an additional international telecommunications provider is inconsistent with the Company's rights under its license from the Government. The issue may be referred to arbitration in the forthcoming year. If the Bermuda Government persists, and its action is not overturned through arbitration, the consequent impairment of the Company's exclusive rights could have a material adverse effect on the Company's Bermuda revenues (£60 million in the year to March 31, 1995).

On May 2, 1995, the Company acquired 7.01% of the ordinary share capital of BEZEQ, the Israel Telecommunications Corporation, Israel's provider of domestic and international telecommunications services. A further 3.01% of BEZEQ was acquired in June 1995. The total consideration paid was £193 million.

In June 1995 the Company and VEBA AG put into effect the key elements of a strategic alliance which was announced on January 26, 1995. The parties have entered into a Memorandum of Understanding which is intended to lead to a more unified approach to the partners' interests in and management of their PCN activities in Europe. Two companies will implement the alliance: VEBACOM GmbH ("VEBACOM") and Cable and Wireless Europe SA ("CWE"). VEBACOM will be owned 55% by VEBA and 45% by the Company, for which the Company will subscribe approximately £825 million of new capital. This amount will be paid as to approximately £490 million in cash on closing, with the deferred amount as follows: 1995/6 £135 million, 1996/7 £200 million and the balance in 1997/8. These funds will be used for the further development of VEBACOM's interests in the German telecommunications market and in mobile satellite communications. CWE will be owned 50/50 by VEBA and the Company. VEBA is expected to subscribe approximately £38 million of new capital to CWE. Net gearing of the Company is expected to increase to approximately 46% in the short term but will reduce thereafter reflecting the Group's strong underlying cash flows. This gearing effect includes the full impact of £335 million for deferred consideration, whereas the cash impact is distributed over the next three years. Funding will be accommodated within existing facilities and any exposure to exchange rate movements will be managed within the Group's established currency management processes. The gearing effect also includes the proceeds from the sale of Mannesmann Mobilfunk GmbH as discussed below.

On September 20, 1995, the Company agreed to sell its [illegible]% interest in Mannesmann Mobilfunk GmbH for a consideration of approximately £250 million, making a pre-tax profit on disposal of £193 million.

US GAAP RECONCILIATION

The Company prepares its consolidated financial statements in accordance with UK GAAP, which differ in significant respects from US GAAP. The principal differences between UK GAAP and US GAAP as they relate to the Company include the treatment of deferred taxation, the methods of accounting for goodwill, the methods of accounting for pension costs and the treatment of interest expense on borrowings used to finance the construction of assets. Net income under US GAAP as compared with that reported under UK GAAP decreased by approximately £44 million, £[illegible] million and £69 million in 1995, 1994 and 1993, respectively. The decrease in net income that occurred under US GAAP in 1995 as compared with that reported under UK GAAP is due primarily to the treatment of deferred taxation, the treatment of restructuring costs and the treatment of goodwill. Under UK GAAP no provision is made for deferred taxation unless there is a reasonable probability that the liability will arise in the foreseeable future. US GAAP requires full provision for deferred taxation under the liability method on all timing differences. In 1995, the provision for deferred taxation increased by £86.5 million under US GAAP as compared with that reported under UK GAAP and the amortization of goodwill amounted to £16.7 million under US GAAP. Under UK GAAP, goodwill arising on acquisition is written off against retained earnings in the consolidated balance sheet in the year of acquisition, whereas under US GAAP goodwill is amortized against income over a period of up to 40 years.

In 1994, the provision for deferred taxation increased by £[illegible] million under US GAAP as compared with that reported under UK GAAP, principally due to timing differences relating to capital allowances on capital expenditures.

Under UK GAAP, pension costs and surpluses are charged or credited to the profit and loss account over the expected service life of employees. Under US GAAP costs and surpluses are similarly spread but based on prescribed actuarial assumptions which differ in certain respects from those used for UK GAAP. In 1995, the application of US GAAP to the pension costs resulted in an additional credit to the profit and loss account of £13.1 million and in 1994 the application of US GAAP resulted in an additional charge of £9.1 million.

Shareholders' equity under US GAAP increased by £28 million and £128 million at March 31, 1995 and 1994, respectively.

For a further discussion on the principal differences between UK GAAP and US GAAP, see Note 25 of Notes to Consolidated Financial Statements.

INFORMATION ON HONG KONG

Some 60% of the Group's operating income arises in Hong Kong. For a description of the Company's business in Hong Kong see "Description of Business – The Company – Hong Kong". The growth of the business of the Group in Hong Kong is linked to the growth of the Hong Kong economy generally and therefore the Group has benefited from the development of Hong Kong as a leading manufacturing, commercial and financial center within Asia and from Hong Kong's trade links with the PRC. This development has been accompanied by an increasing demand for local and international telephone services, including IDD and facsimile and data services. In particular, the growth in use of international telephone services has been the principal factor affecting the Hong Kong Telecom Group's financial performance during this three-year period though this was lower in 1995 than in previous years caused by the slowdown in China traffic as a result of a number of macroeconomic developments in China. The aggregate operating revenue and net operating income from the Hong Kong Telecom Group's other operations (consisting of local telephone services, other telecommunications services, equipment sales and rental and computer, engineering and other services) have also increased over this period, in particular the operating revenue of the mobile telephone business which grew substantially in the year ended March 31, 1995.

The Hong Kong Government's most recent economic forecasts indicate a growth rate for Hong Kong's economy during 1995 of 5.5%, which is slightly higher than the average growth rate over the last three years but below the average gro..th rate achieved over the last ten years.

Hong Kong Telecom Group and the Hong Kong Government reached preliminary agreement in June 1992 on a number of significant changes in the regulation of Hong Kong Telephone and HKTI. The exclusive local franchise of Hong Kong Telephone Company Limited expired on 30 June 1995. From that time, Hong Kong Telephone will continue to provide local services under a non-exclusive local license renewable after 15 years. The exclusive international license of HKTI remains in effect until 30 September 2006. Under Telecommunication Ordinance, the other three fixed link local networks were licensed this year. The financial and technical terms of interconnection of these networks with Hong Kong Telephone's network are under commercial negotiation between Hong Kong Telephone and the operators of such other networks and are governed by the provisions of Telecommunication (Amendment) Ordinance. Moreover, Hong Kong Telephone is permitted to increase certain of its local charges subject to restrictions of not exceeding the change in Hong Kong's consumer price index (CPI (A)) less an agreed factor, for the first three years. HKTI continued to fulfill the terms of its agreement with government to reduce international prices by an aggregate 12% over a three year period, to August 1995.

With effect from July 1, 1997, the exercise of sovereignty over Hong Kong will be transferred from HM Government to the Central People's Government of the PRC. Hong Kong Telecom's principal properties and operations are, and are likely to remain, located in Hong Kong and as such are subject to the laws of Hong Kong in force at the relevant time. Neither the Joint Declaration nor the Basic Law makes any specific reference to the regulatory framework applicable to the Hong Kong Telecom Group after 1997, although it is acknowledged that Hong Kong Telephone license matters must be submitted to the Hong Kong ... int liaison group after June 1995.

For more information on the Hong Kong Telecom Group, see the most recent annual report of Hong Kong Telecom filed on Form 20F.

ITEM 10 – DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The management of the business of the Company is vested in the Board of Directors who determine the overall strategy of the Company. At each annual general meeting of the Company one-third (or the number nearest to one-third but not greater than one-third) of the directors are required to retire from office by rotation, the directors to retire by rotation in every year shall be those who wish to retire and thereafter those who have been longest in office since their last election, but, as between persons who became directors on the same day, those to retire will (unless they otherwise agree among themselves) be determined by lot. A retiring director is eligible for re-election. All directors initially appointed by the Board of Directors hold office only until the next annual general meeting and shall then be eligible for election (but shall not be taken into account in determining the directors who are to retire by rotation at such meeting). The Company may by ordinary resolution remove any director before the expiration of his or her period of office and appoint another person in his or her place. The Board of Directors may from time to time appoint one or more directors to any executive office for such period and on such terms as it decides, and the Board of Directors may terminate any such appointment. A director so appointed to the office of Chairman, Chief Executive, Deputy Chief Executive, Managing Director, Joint Managing Director, Deputy Managing Director or Assistant Managing Director shall cease to hold such office if he or she ceases for any reason to be a director.

The directors and executive officers of the Company that served during the year ended March 31, 1996 were as follows:

Name	Position	Age
The Rt. Hon. Lord Young of Graffham PC	Executive Chairman	[illegible]
[illegible] H. Ross	Chief Executive	[illegible]
[illegible] W. [illegible] Cheung	Executive Director and Chief Executive HKT	[illegible]
Michael J. Harris	Executive Director, Western Europe and Chief Executive, Mercury	[illegible]
[illegible]	Executive Director, Finance	[illegible]
Jonathan H. M. Solomon	Executive Director, Strategy and Corporate Business Development	[illegible]
Winfried F. W. Bischoff	Non-executive Director	[illegible]
Sir Peter [illegible] GCB	Non-executive Director	[illegible]
Dr. [illegible]	Non-executive Director	[illegible]
Sir Ralph Robins	Non-executive Director	63
The Hon. Raymond Seitz	Non-executive Director	[illegible]
Dr Brian Smith CBE	Non-executive Director	[illegible]
[illegible]	Company Secretary	[illegible]

BOARD OF DIRECTORS

The Rt. Hon. Lord Young of Graffham P.C. was appointed a Director and Executive Chairman with effect from October 1, 1990.

Following a brief period in legal practice, he joined Great Universal Stores Limited in 1956. He later established his own industrial construction group and in 1973 formed a British subsidiary of Manufacturers Hanover Trust Company.

Following the general election of 1979, he became industrial adviser to the then Secretary of State for Industry, and from 1981 acted as his special adviser. He has also acted as an adviser to the Secretary of State for Education and Science. He was a member of the National Economic Development Council and was appointed Chairman of the Manpower Services Commission in 1982.

In September 1984 he was appointed Minister without Portfolio and became a member of the Cabinet. He was given special responsibility for job creation and encouraging enterprise. He became Secretary of State for Employment in September 1985, and was Secretary of State for Trade and Industry from June 1987 until July 1989. He is President of the Institute of Directors and Chairman of the London Philharmonic Trust.

James H. Ross was appointed Chief Executive of the Company in April 1992 and was appointed a Deputy Chairman and Chief Executive on September 12, 1995. He was previously a Managing Director of the British Petroleum Company plc and Chairman and CEO of BP America Inc. with corporate responsibility for BP's activities in North and South America, Africa and the BP Group's Health, Safety and Environmental policies.

He joined BP in 1959 after serving two years in the Royal Navy and subsequently worked in the U.K., France and Africa. He spent three years in the shipping industry with BP Tanker Company in London and Scott Nielsen, Inc. in the U.S. Between 1981 and 1985 he was General Manager of Corporate Planning for the BP Group before becoming Chief Executive of BP's international oil refining and marketing business. He was appointed CEO of BP America Inc. in 1988.

Mr. Ross is a non-executive Director of McGraw Hill Inc., a trustee of Cleveland Orchestra, a member of the European Round Table and of the Advisory Board of the Centre for Strategic and International Studies and Chairman of the Manchester Business School.

He received an honours degree in Modern History from Oxford University in 1962 and a diploma (with [illegible]) in Advanced Studies in Business Management from Manchester Business School in 1967.

Edward M. Astle was appointed Executive Director, International Services on September 12, 1995. Mr. Astle joined the Company in the newly created position of Regional Director (Europe) in May 1989. In [illegible] he became Chief Executive Officer of CWMT, and he later also assumed responsibility for [illegible] Wireless Network Services which manages the Group's worldwide investment in satellite [illegible] (INTELSAT, INMARSAT) and coordinates the Group's submarine cable strategies and investments. In November 1994 he also assumed responsibility for Cable & Wireless Business Networks which uses the capabilities of the Federation to provide telecommunications services for multinational customers in selected markets.

Edward Astle graduated from Oxford University with a combined degree in Modern History and Modern Languages and completed his MBA from INSEAD in 1983. He is 41 years of age.

Linus W L Cheung was appointed an Executive Director of the Company in January 1995 with responsibility for Hong Kong, PRC and Taiwan. He is also Chief Executive of Hong Kong Telecom which he joined in March 1994 from Cathay Pacific Airways where he was Deputy Managing Director with responsibility for the airline's worldwide commercial activities.

He joined the Swire Group as a management trainee for Cathay Pacific from the University of Hong Kong in 1971. Following an assignment in the airline's Tokyo office and sales and marketing roles in Hong Kong he transferred to the Taipei office as General Manager for Taiwan. On his return to airline's head office in Hong Kong in 1988 he was appointed General Manager for passenger marketing. In 1989 he was seconded for two years to the Hong Kong Government as a full-time member of the Central Policy Unit. On his return to Cathay Pacific he was appointed Director, Hong Kong, later becoming Deputy Managing Director. He is closely involved in community work in Hong Kong and is a Justice of the Peace.

Michael J Harris was until his resignation on March 30, 1995 Executive Director, Western Europe and Chief Executive of Mercury; he was appointed a Director of the Company in February 1992. He joined Mercury Communications Limited as Chief Executive in October 1991. He was previously Chief Executive of Firstdirect (a division of Midland Bank), the UK's first full scale direct bank. Prior to that he was a Director of Space Time Systems Limited, a venture funded business operating in the leisure and ticketing field.

Rodney J Olsen is Executive Director, Finance and has Board authority for Asia Pacific and Regional Business. He was resident in Hong Kong for 19 years and since joining the Cable & Wireless Group in 1976 has served as General Manager Finance, HKTI, Senior General Manager, HKTI, Area General Manager Strategic Planning of the Company and Managing Director of Hong Kong Telephone. He is a former member of the Council of the Employers' Federation of Hong Kong and of the Council of the Hong Kong Management Association. He was appointed Director, Far East and Pacific in 1986 and Director, Finance in 1987. He is a non-executive Director of Astec (BSR) plc and Standard Chartered PLC, is a member of the Hundred Group of Finance Directors and is a Trustee of the Windsor Leadership Trust.

Stephen R Pettit was appointed Executive Director, Europe and Mobile on September 12, 1995. Mr Pettit joined the Company as Managing Director, Europe in March 1994. He studied economics and politics at the University of Wales and the London School of Economics and joined the British Petroleum Company in 1974. His career with the BP Group covered a wide range of commercial activities, including time in BP Shipping, BP Gas (both the development of LNG projects and trading of LPG), BP Chemicals and BP Oil. In 1981 he was sponsored by BP to undertake the MBA program at INSEAD, Fontainbleau, France, from which he graduated with distinction. In 1986 he was appointed Managing Director of BP Malaysia, and in 1989 he was appointed Chief Executive, International Trading. He moved to BP Chemicals again in November 1991 to take up the post of Chief Executive, Petrochemicals where he had an overall champion role for the promotion and focus of development and investment in the Asia Pacific Region. Mr Pettit is 44 years of age.

Jonathan H M Solomon is Executive Director, Strategy and Corporate Business Development. He joined the Company in 1985 as Director of Special Projects after a career in the Civil Service, which included posts with the Department of Prices and Consumer Protection and the Department of Industry, Electronics Division. He served as Under Secretary with the Department of Industry (Posts and Telecommunications) from 1980 to 1984. He was appointed Director, Corporate Strategy in 1987 and was appointed to his current position in 1993.

Winfried F W Bischoff was appointed a non-executive Director of the Company in 1991 and was appointed a Deputy Chairman on September 12, 1995. He is Chairman of the Remuneration Committee and a member of the Audit Committee. Mr Bischoff joined the Schroder Group in London in 1966. In 1971 he was appointed Managing Director of Schroders Asia Limited, Hong Kong. He was appointed Chairman of J Henry Schroder Wagg & Co Limited with effect from October 1, 1983, Group Chief Executive of Schroders plc from December 1, 1984 and Chairman of Schroders plc from May 3, 1995.

Sir Peter Carey GCB was until his retirement on June 28, 1994 a non-executive Director of the Company and was a member of the Audit Committee and the Remuneration Committee. Among his current appointments are non-executive Chairman of Dalgety plc, non-executive Director of B P B Industries plc, Director of the supervisory board of N V Philips Electronics and senior adviser to Morgan Grenfell.

Dr. Janet P Morgan was appointed a non-executive Director of the Company in 1988. She is a member of the Audit Committee and Remuneration Committee and Chairman of Flexible Resource Limited, a wholly-owned subsidiary of the Company. She is a non-executive Director of W H Smith plc, Midlands Electricity plc and the Scottish American Investment Company plc and the Scottish Oriental Smaller Companies Trust plc.

David Nash was appointed a Non-executive Director of the Company on September 12, 1995. Mr Nash is a Chartered Accountant and worked for 22 years at ICI during which time he lived and worked in Africa, South America, London and North West England. He held various positions in finance and planning and, ultimately, set up and ran ICI's worldwide Mergers & Acquisitions team. In early 1987, David Nash left ICI and the chemical industry to join the Board of Cadbury Schweppes Plc. In December 1989 he left to join the Board of Grand Metropolitan PLC as Group Finance Director and was appointed Chairman and Chief Executive of GrandMet's Food Sector, which accounts for more than half of GrandMet's sales and profits, in December 1993. He is also a non-Executive Director of the Investment Management Regulatory Organisation Limited (IMRO). Mr Nash is 55 years of age.

The Hon. Raymond Seitz was appointed a Non-executive Director of the Company in February 1995. He is a member of the Audit Committee and Remuneration Committee. Mr Seitz was, until May 1994, the US Ambassador to the United Kingdom.

He graduated from Yale University in 1963. During a career in the US Diplomatic Service spanning 28 years, he was Executive Assistant to Secretary of State George Shultz from 1981-84, Minister of the US Embassy in London from 1984-89, Assistant Secretary of State for Europe, based in Washington, from

1989-91 and then US Ambassador to the Court of St James to May 1994. Mr Seitz is currently a senior managing director at Lehman Brothers.

Sir Ralph Robins was appointed a non-executive Director of the Company in April 1994. He is a member of the Audit Committee and the Remuneration Committee. Sir Ralph joined Rolls-Royce as a graduate apprentice in 1955 and after a series of senior positions he transferred to the US as Executive of Rolls-Royce Aero Engines Inc. Returning to England, further senior management roles culminated in his election to the Board of Rolls-Royce plc in 1982. He served progressively as Managing Director, Deputy Chairman and Chief Executive before becoming Chairman in October 1992. Sir Ralph is Chairman of the Defense Industries Council and a former President of the Society of British Aerospace Companies.

Dr. N Brian Smith was appointed a non-executive Director of the Company in 1988 and is Chairman of the Audit Committee and a member of the Remuneration Committee. He joined ICI Limited in 1954 and after a series of senior positions, was a Director of that company from 1978 to 1985. He was Chairman of Metal Box plc (now MB Group plc) from 1986 to 1989. He is Chairman of BAA plc, Hydron Limited and the Heatherwood and Wrexham Park Hospital Trust, he is also a non-executive Director of Berisford International plc and a member of the Oxford Diocesan Board of Finance. Dr Smith retired at the Annual General Meeting of the Company on June 27, 1995 and did not seek re-election.

Kenneth K Claydon was appointed Company Secretary in March 1991 and is a Fellow of the Institute of Chartered Secretaries and Administrators (FCIS). He joined the Company in 1962 and was Company Secretary of Hong Kong Telecom and its subsidiaries between 1987 and 1989. He was appointed Assistant Secretary in 1986 and returned to this post on his return from Hong Kong in 1989.

Directors are not required to hold any qualification shares.

The Articles of Association of the Company require that the Chairman or equivalent chief executive officer of the Company be a British citizen. There is no provision for retirement of directors at a specified age.

ITEM 11 - COMPENSATION OF OFFICERS AND DIRECTORS

For the year ended March 31, 1995, the aggregate compensation of all directors and officers of the Company (27 persons) paid or accrued in that year for services in all capacities was £5.1 million. Lord Young's compensation, excluding pension contributions, for the year ended March 31, 1995, was £479,217.

The aggregate remuneration of the directors of the Company was as follows:

	1994 £'000	1995 £'000
Fees of Non-executive directors	110	108
Executive Directors' emoluments	1,815	1,792
Performance related bonuses	1,027	
Pension contributions	1,340	1,447
Total:	4,292	3,347

The remuneration, excluding pension contributions, of the directors was as follows:

	1994 Number	1995 Number
£0 to £5,000		2
£10,001 to £15,000	1	
£15,001 to £20,000	1	1
£20,001 to £25,000	2	2
£25,001 to £30,000	1	1
£[illegible]0,001 to £[illegible]5,000	1	
£80,001 to £85,000	1	
£105,001 to £110,000		1
£180,001 to £185,000	1	
£210,001 to £215,000		1
£285,001 to £290,000		1
£310,001 to £315,000		1
£315,001 to £320,000	1	
£390,001 to £395,000		1
£395,001 to £400,000	1	
£455,001 to £460,000	1	
£475,001 to £480,000		1
£[illegible]75,001 to £[illegible]80,000	1	
£[illegible]75,001 to £[illegible]80,000	1	

The following table shows an analysis of the remuneration of the individual Executive Directors

	1994	1995			
	Total	Salary	Performance related bonus	Allowances and benefits *	Total
	£	£	£	£	£
Linus W L Cheung (appointed 1 January 1995)		56,306		49,624	105,930
Michael J Harris (resigned 30 March 1995)	395,426	275,887		14,007	289,894
Rodney J Olsen	455,291	288,075		24,875	312,950
James H Ross	578,100	481,249		10,026	491,[illegible]
Jonathan H M Solomon	317,128	202,500		10,514	213,014
The Rt. Hon Lord Young of Graffham	777,163	465,712		13,535	479,[illegible]

* *Allowances and benefits include such items as company cars, fuel and medical insurance and in the case of Mr Linus W L Cheung housing and related benefits overseas*

Michael J Harris, who retired from the Board on March 30, 1995, ceased to be an employee of the Group on May 31, 1995 whereupon he was paid £313,667, being the equivalent of one year's salary and benefits to which he was entitled under his contract of service

Of the aggregate pension contributions of £1,447,000 (1994 – £1,340,000) the amount of £179,450 (1994: £171,375) may be attributed to the Executive Chairman who is the highest paid director

The following table shows an analysis of the fees of the individual Non-executive Directors.

	1994 £	1995 £
Winfried F W Bischoff	25,000	25,000
Sir Peter Cates (retired 28 June 1994)	20,000	5,000
Dr Janet F Morgan	25,000	30,000
Sir David Plastow (retired 31 December 1993)	15,000	
Sir Ralph Robins (appointed 12 April 1994)		19,389
The Hon Raymond Seitz (appointed 1 February 1995)		3,333
Dr N Brian Smith	25,000	25,000
Total:	110,000	107,722

REMUNERATION COMMITTEE

The Remuneration Committee, comprising the Non-executive Directors of the Board, sets the Executive Directors' remuneration by reference to individual performance and market data. The Committee considers that the Executive Directors' package is fair and reasonable for the responsibilities involved and sufficiently dependent on achievement to provide motivation through both incentive and reward. It is felt that the total package reinforces the achievement of long term performance improvement. The Committee considers that its approach is consistent with the main features of the Framework for Remuneration Committees established by the Institute of Directors.

SERVICE CONTRACTS

Executive Directors are on 2 year rolling contracts, with the exception of Linus Cheung who has a 3 year fixed contract expiring in May 1997 and the Chief Executive who is on a one-year rolling contract. These contracts are reviewed on an annual basis by the Remuneration Committee comprising all non-executive Directors. The Chairman and the non-executive Directors have no contracts.

BASE SALARY

Base salary ranges are set for the Executive Chairman and the Executive Directors. These ranges have been capped at the median of the comparator group which is comprised of Directors and officers of 10 UK based international companies with similar profiles to the Company. The ranges have been frozen since April 1993 and will remain frozen at least until July 1, 1996. Any movement within an individual's range will reflect a combination of the achievement of personal objectives and overall contribution to long-term performance of the Group. Generally, salaries were last revised on [illegible] 1994 after a 2 year freeze and will be frozen again until at least July 1, 1996. Following his appointment as an Executive Director, [illegible] salary was revised with effect from April 1, 1995.

THE BONUS SCHEME

The bonus scheme focuses on real (inflation adjusted) growth in reported earnings per share (EPS) adjusted to be consistent with prior year calculations and normalized to measure underlying growth by removing any anomalies such as exceptional items. There is a short and long term element which, combined, could pay a maximum of 100% of base salary should the Group achieve a [illegible]% real growth in normalized EPS over [illegible] years. This compares with a [illegible]% average real growth in normalized EPS over the last decade. The short term element, limited to 40% of base salary, depends on the level of real growth in normalized EPS for the year. There is no payment without real growth.

The longer term element, limited to 60% of salary, is calculated on the latest [illegible] years' average real growth in normalized EPS and, again, there is no payment without real growth. No bonus payments were made to Executive Directors in respect of the year ended March 31, 1995.

DIRECTORS' PENSION SCHEME

The Directors' pension scheme, independent of other Group pension schemes, is a defined benefit scheme whereby retirement benefits based on the Executive Directors' final remuneration and length of service are funded through separate trustee administered schemes. The Company pays contributions into the scheme on behalf of Executive Directors based on the recommendations of the actuary who carries out a valuation of the scheme every three years or at such shorter intervals as may from time to time be agreed.

ITEM 12 — OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

At September 8, 1995 options to subscribe for 45,270,648 Ordinary Shares were outstanding at exercise prices ranging from 107.89p to 463.10p and with expiration dates ranging from December [illegible] to June 15, 2005. At September 8, 1995 directors and executive officers of the Company as a group ([illegible] persons) held options to subscribe for 2,882,620 ordinary shares.

ITEM 13 — INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Except as disclosed in Item 12 above, and as of September 8, 1995, neither the Company nor any of its subsidiaries was a party to any material transactions, or proposed transactions, in which any director, any other executive officer, any spouse or relative of any of the foregoing, or any relative of such spouse had or was to have a direct or indirect material interest.

During 1995 and as of September 8, 1995, neither any director nor any other executive officer, nor any associate of any director or any other executive officer, was indebted to the Company or any of its subsidiaries.

PART II

ITEM 14 – DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 16 – CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable.

PART IV

ITEM 17 – FINANCIAL STATEMENTS

Not applicable.

ITEM 18 – FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this Annual Report on Form 20-F.

ITEM 19 – FINANCIAL STATEMENTS AND EXHIBITS

(A) INDEX TO FINANCIAL STATEMENTS

All other schedules have been omitted because they are not required under the applicable instructions or because the substance of the required information is shown in the financial statements.

(B) INDEX TO EXHIBITS

Global Digital Highway, *Global Managed Data Service*, *GMDS*, *Global CityVoice* and *Global Managed Private Line* are trade marks of Cable and Wireless plc.

Datapak, *Datapak International* and *Faxline 100* are trade marks of Hong Kong Telecommunications Limited.

Mercury one2one is a trade mark of Mercury Communications Limited.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CABLE AND WIRELESS PLC AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Cable and Wireless plc

We have audited the accompanying consolidated balance sheets of Cable and Wireless plc and subsidiaries at March 31, 1995 and 1994 and the related consolidated statements of income, cash flows and total recognized gains and losses for each of the years in the three year period ended March 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cable and Wireless plc and subsidiaries as of March 31, 1995 and 1994, and the results of their operations and cash flows for each of the years in the three year period ended March 31, 1995, in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations for each of the years in the three year period ended March 31, 1995, and shareholders' equity as of March 31, 1994 and 1995, to the extent summarised in Note 23 to the consolidated financial statements.

KPMG
Chartered Accountants
LONDON, ENGLAND

24th May, 1995

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Note	1993	1994	1995	1995 (Note 1)
		Year ended March 31 (in millions, except per share data)			
Operating revenue (continuing operations)					
Public telecommunications	2	£3,356.3	£4,165.2	£4,606.2	$7,462.0
Other	2	469.5	534.0	526.6	853.1
Total operating revenue	4	3,825.8	4,699.2	5,132.8	8,315.1
Operating expenses					
Telecommunications outpayments	3	1,259.1	1,489.0	1,564.6	2,534.6
Employee costs		646.9	746.5	828.9	1,342.8
Rental of transmission facilities		53.1	58.9	71.5	115.8
Other operating costs	3	619.8	877.1	956.4	1,549.4
Depreciation and amortization		392.4	458.6	517.2	837.9
Total operating expenses before exceptional items		2,971.3	3,608.0	3,938.6	6,380.5
Exceptional items charged against operating income	5	83.5		60.5	98.0
Total operating expenses		3,054.8	3,608.0	3,999.1	6,478.5
Operating income (continuing operations)	4	771.0	1,091.2	1,133.7	1,836.6
Other exceptional items	5				
Profit on partial sale of subsidiaries		177.8			
Profit less losses on sale and termination of operations				(17.7)	(28.7)
Losses on disposal of fixed assets				(43.7)	(70.8)
Provision for goodwill charge on impending sale of business				(178.0)	(288.4)
		948.8	1,091.2	894.3	1,448.7
Associated undertakings	6	9.6	(15.8)	(38.4)	(62.2)
Interest income	7	81.9	75.2	100.3	162.5
Interest expense	7	(93.4)	(96.0)	(131.4)	(212.9)
Other income including surplus (deficit) on sale of assets	7	1.1	28.3	19.3	31.3
Income before income taxes		948.0	1,083.5	844.1	1,367.4
Income taxes	8	(174.3)	[illegible]	(243.9)	(395.1)
Income before minority interests		773.7	[illegible]	600.2	972.3
Minority interests		(229.6)	[illegible]	(348.1)	(563.9)
Net income		£514.1	£511.2	£252.1	$408.4
Earnings per share	9	23.7p	23.6p	11.5p	$0.19
Earnings per share before exceptional items	9	19.4p	23.6p	23.6p	$0.38

See accompanying notes to consolidated financial statements

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Note	At March 31 1994 Restated (Note 1)	1995	1995 (Note 1)
			(in millions)	
Assets				
Current assets				
Cash and cash equivalents	10	£1,135.6	£990.6	$1,604.8
Accounts receivable, net	11	797.4	882.2	1,429.2
Inventories	12	89.8	117.2	189.9
Current asset investments	13	—	36.2	58.6
Total current assets		2,022.8	2,026.2	3,282.8
Non current receivables	11	202.0	211.4	342.4
Investments	13	666.3	696.6	1,128.5
Property, plant and equipment, net	14	4,565.1	4,941.0	8,004.4
Total assets	4	£7,455.9	£7,875.2	$12,757.8
Liabilities and shareholders' equity				
Current liabilities				
Short-term borrowings	15	£63.7	£54.4	$88.1
Current portion of long-term debt		295.8	267.0	432.8
Accounts payable and accrued liabilities	16	1,142.3	1,218.1	1,973.3
Income taxes payable		52.8	69.1	111.9
Dividends payable		123.7	136.6	221.3
Total current liabilities		1,678.3	1,745.2	2,827.1
Long term debt	17	1,176.9	1,339.7	2,170.3
Other long term creditors and provisions	18	[illegible]	122.9	199.1
Deferred taxation	8	126.8	130.0	210.6
Total liabilities		3,045.6	3,337.8	5,407.1
Minority interests		1,136.2	1,198.8	1,942.1
Commitments and contingencies	19			
Shareholders' equity	20			
Share capital		546.3	548.9	889.2
Reserves		357.0	320.1	518.6
Retained earnings		2,371.4	2,469.6	4,000.8
Total shareholders' equity		3,274.7	3,338.6	5,408.6
Total liabilities and shareholders' equity		£7,455.9	£7,875.2	$12,757.8

See accompanying notes to consolidated financial statements.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	1993 Restated	1994 Restated	1995	1995 (Note 1)
		Year ended March 31 (in millions)			
Net cash inflow from operating activities	24	£1,398.6	£1,645.7	£1,603.7	$2,598.6
Returns on investments and servicing of finance					
Interest paid		£(97.6)	£(96.7)	£(127.4)	$(206.4)
Interest received		52.5	77.4	81.3	131.7
Interest element of finance lease rental payments		(1.1)	(1.8)	(4.9)	(7.9)
Dividends paid to shareholders		(140.4)	(154.1)	(175.0)	(283.5)
Dividends paid to minorities		(156.5)	(207.6)	(235.7)	(381.8)
Dividends received from investments		21.4	13.3	16.9	27.4
		£(321.7)	£(369.2)	£(444.8)	$(720.5)
Taxation					
U.K. corporation tax paid		£(43.3)	£(49.9)	£(53.6)	$(86.8)
Overseas tax paid		(119.0)	(146.2)	(160.3)	(259.7)
		£(162.3)	£(196.1)	£(213.9)	$(346.5)
Investing activities					
Purchase of property, plant and equipment		£(880.5)	£(965.0)	£(1,024.2)	$(1,659.2)
Capital element of finance lease rentals received		19.4	7.6	7.1	11.5
Purchase of investments		(155.3)	(239.8)	(217.4)	(352.2)
Purchase of subsidiary undertakings		(2.2)	—	(45.1)	(73.1)
Sale of property, plant and equipment		32.3	54.4	31.2	50.5
Sale of subsidiary undertakings	28	—	18.7	3.0	4.9
Sale of investments		11.1	1.2	29.9	48.4
Net cash outflow from investing activities		£(975.2)	£(1,096.5)	£(1,218.5)	$(1,969.2)
Net cash outflow before financing		£(230.6)	£(16.1)	£(270.5)	$(438.2)
Financing					
Issue of ordinary share capital – parent	27	(20.3)	(25.5)	(12.6)	(20.4)
– subsidiary undertakings		(476.5)	(18.7)	(0.1)	(0.2)
Issue of Eurosterling bonds		(50.0)	(262.8)	(200.0)	(324.0)
Other long term debt issued		(256.1)	(237.8)	(129.1)	(209.1)
Long term debt repaid		113.1	106.9	180.3	292.1
Increase in short term deposits		—	115.2	88.6	143.5
Capital element of finance lease rentals repayments		1.9	1.7	8.0	13.0
Net cash inflow from financing		(687.9)	(320.7)	(64.9)	(105.1)
Increase (decrease) in cash and cash equivalents	25	457.3	304.6	(205.6)	(333.1)
		£(230.6)	£(16.1)	£(270.5)	$(438.2)

See accompanying notes to consolidated financial statements

CABLE AND WIRELESS PLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF TOTAL RECOGNIZED GAINS AND LOSSES

	Year ended March 31			
	1993	1994	1995	1995 (Note 1)
	(in millions)			
Income for the financial year				
Parent	£322.7	£181.9	£200.0	$324.0
Subsidiary undertakings	207.1	361.3	108.9	176.4
Associated undertakings	(15.7)	(29.0)	(56.8)	(92.0)
	514.1	514.2	252.1	408.4
Currency translation differences on foreign currency net investments	231.7	(86.9)	(113.1)	(183.2)
Total gains and losses relating to the financial year	£745.8	£427.3	£139.0	$225.2

There is no material difference between the Group results as reported and on a historical cost basis. Accordingly no note of historical cost profits and losses has been prepared.

STATEMENT OF ACCOUNTING POLICIES

(a) *Basis of preparation and accounting convention*

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United Kingdom (UK GAAP) which differ in certain material respects from generally accepted accounting principles in the United States (US GAAP) (see Note 23).

The accounts have been prepared in accordance with applicable accounting standards and on the historical cost basis, modified to include the revaluation of certain property, plant and equipment.

(b) *Basis of consolidation*

The Group accounts comprise a consolidation of the accounts of the Company and all its subsidiaries together with the Group's share of the results and net assets of its associated undertakings. The accounts of principal subsidiaries are made up to March 31 and the results of certain associated undertakings are based on the audited accounts to December 31. Where subsidiary or associated undertakings are acquired during the year the difference between cost and fair values attributed to the assets acquired is dealt with as a movement on retained earnings.

(c) *Foreign currencies*

Average rates of exchange ruling during the year are used to translate the income statements of overseas subsidiary and associated undertakings.

The net investments in the Group's overseas subsidiary and associated undertakings are translated into sterling at rates of exchange ruling at March 31. Exchange differences resulting from the translation of such net investments at rates ruling at the beginning and end of the year, together with the differences between income statements translated at average rates and rates ruling at March 31, are dealt with as movements on Group reserves.

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

Foreign currency deposits held to meet known commitments for capital expenditure are translated at rates of exchange at the date of purchase of such deposits. All other foreign currency assets and liabilities are translated at the rates ruling at March 31, and all other exchange differences are dealt with through the income statement.

If appropriate the results of operations in hyperinflationary economies are translated using a relatively stable currency as the functional currency. The exchange difference arising from this process is taken to the income statement.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

STATEMENT OF ACCOUNTING POLICIES

(d) *Property, plant and equipment and depreciation*

Depreciation of property, plant and equipment is set aside on the basis of providing in equal annual instalments for the cost or valuation over the estimated useful lives of the assets, namely

		Average
Telephone cables and repeaters		
- analogue	12 to 20 years	14 years
- digital	15 years	15 years
Freehold buildings	40 years	40 years
Leasehold land and buildings	up to 50 years or term of lease if less	40 years
Plant	2 to 40 years	10 years
Cableships	up to 30 years	14 years

Depreciation provided on capital projects relating to major network development is calculated by reference to network usage as a proportion of expected usage when the network is completed.

Freehold land, where the cost is distinguishable from the cost of the building thereon, is not depreciated. Certain land and buildings are included at open market value for existing use. Surpluses and deficits on disposals of property, plant and equipment are determined by reference to sale proceeds and net book amounts.

(e) *Investments*

Investments in marketable securities are recorded at historic cost less provisions for permanent diminution in value.

(f) *Deferred taxation*

The Group does not provide for deferred tax unless there is a reasonable probability that the liability will arise in the foreseeable future. Where deferred tax is provided the liability method is used.

(g) *Inventories*

Stores of equipment, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence. Stores held for resale or leasing are stated at the lower of cost and net realizable value.

STATEMENT OF ACCOUNTING POLICIES

(h) *Pensions*

The regular cost of providing benefits is charged to the income statement over the service lives of the members of the schemes on the basis of a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal schemes are allocated to the income statement over the expected remaining service lives of the members.

(i) *Finance leases*

Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease. The total net investment in finance leases included in the balance sheet represents total lease payments receivable net of finance charges relating to future accounting periods.

(j) *Leased assets*

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalized is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to the income statement. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the income statement using the annuity method. All other leases are operating leases and the annual rentals are charged to income on a straight line basis over the lease term.

(k) *Capitalization of interest*

Interest, net of taxation, incurred up to the time that separately identifiable major capital projects are ready for service is capitalized as part of the cost of the assets. Major network development usually consists of a number of minor capital projects and is not therefore normally classified as a single separately identifiable major capital project.

(l) *Debenture issue costs*

The costs of issue of capital instruments such as Bonds and Debentures are charged to the income statement on an annual basis over the life of the instrument. A corresponding amount is subsequently transferred from the income reserve to the Share Premium account.

CABLE AND WIRELESS PLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in accounting policies and presentation of financial information

During the year under review the Accounting Standards Board has issued various pronouncements, including Financial Reporting Standard No 5 - Reporting the substance of transactions, Financial Reporting Standard No 6 - Acquisitions and mergers, and Financial Reporting Standard No 7 - Fair values in acquisition accounting. These accounts have been prepared in accordance with these standards, where applicable. Prior years' figures have been restated on a comparable basis. In addition, certain prior year figures have been restated to conform with the current year presentation.

The consolidated financial statements are stated in pounds sterling (£), the currency of the country in which the Company is incorporated. The translations of £ amounts into US dollar (US$) amounts as of and for the year ended March 31, 1998 are unaudited, are presented for convenience only and have been made at the rate of US$1.62 to £1, the Noon Buying Rate on March 31, 1998. Such translations should not be construed as representations that the pound sterling amounts could be converted into US dollars at that or any other rate.

2. Operating revenue and revenue recognition

The Group's operations are all considered to fall into one class of business, namely telecommunications.

Operating revenue comprises the value of all services provided and equipment sold to third parties and is accounted for on the accruals basis. At the end of each year adjustments are recorded to defer prepayments with respect to services invoiced in advance and to accrue for unbilled services. Revenue derives from:

(a) *Public telecommunications*

Amounts accruing to the Group from international and domestic telecommunications, including telephone, telex and telegram services and facsimile and data transmission. These services are generally provided under agreements with licensing governments. Also included is revenue arising from the ownership and/or the operation of assets which form part of the Group's world-wide communications systems, such as leased circuit services, together with amounts charged for maritime telecommunications services and management fees.

(b) *Other*

Equipment sales and rental - revenue from the sale, leasing, rental and maintenance of terminals, communications systems and associated activities in respect of non-franchised and public telecommunications activities, except for rentals in respect of direct exchange lines which are treated as domestic telephone revenue.

2. Operating revenue and revenue recognition - (continued)

Cableships - revenue from charters and from the use of the Group's ships under agreement with other cable owners and with manufacturers.

Contracts - revenue derived from consultancy fees together with the proceeds of short term contracts completed in the year and the estimated sales value of work done during the year on long term contracts relating to telecommunications systems.

The following table sets forth certain information with respect to the Group's operating revenue by category of service:

	Year ended March 31		
	1993	1994	1995
		(in millions)	
Public telecommunications			
International telephone services	£1,830.2	£2,279.7	£2,462.5
Domestic telephone services	979.4	1,214.0	1,322.8
Other telecommunications services	546.7	671.5	820.9
	£3,356.3	£4,165.2	£4,606.2
Other			
Equipment sales and rental	£309.8	£351.8	£348.0
Cableship and contracts	159.7	182.2	178.6
	£469.5	£534.0	£526.6

3. Operating expenses

Telecommunications outpayments comprise outpayments to other telecommunications administrators and carriers and royalty payments to governments. The following table sets forth certain information relating to the Group's other operating costs:

	Year ended March 31		
	1993	1994	1995
		(in millions)	
Cost of sales	£252.5	£227.3	£206.6
Property rentals, taxes and utility costs	106.8	104.9	149.7
Other	580.5	544.9	600.1
	£939.8	£877.1	£956.4

Net exchange losses of £5.4m, £3.7m and £1.1m are included within operating costs for 1993, 1994 and 1995 respectively.

4. Regional analysis

Details of turnover, contributions to operating income, net operating assets, capital expenditure and depreciation and amortization by geographical region are as follows:

	Year ended March 31		
	1993	1994	1995
Operating revenue		(in millions)	
Hong Kong	£1,649.8	£2,080.7	£2,244.1
Other Asia	55.9	78.0	86.4
United Kingdom	1,225.1	1,474.3	1,651.5
Other Europe	37.1	34.3	45.2
Caribbean	369.9	477.1	498.2
North America	332.2	383.4	422.3
Rest of the world	206.1	227.4	234.1
Inter-regional turnover	(50.3)	(56.0)	(49.0)
	£3,825.8	£4,699.2	£5,132.8

Regional revenue includes inpayments received from Group undertakings located in other regions.

	Year ended March 31		
	1993	1994	1995
	After exceptional items		After exceptional items
Operating income		(in millions)	
Hong Kong	£565.1	£761.7	£827.9
Other Asia	16.4	22.9	24.7
United Kingdom	202.7	247.1	143.1
Other Europe	(10.8)	(23.9)	(22.0)
Caribbean	105.7	153.7	170.7
North America	17.3	26.0	38.5
Rest of the world	(64.8)	(5.3)	17.7
	831.6	1,182.2	1,200.6
Corporate costs	(40.7)	(42.0)	(32.0)
Business development costs	(19.9)	(27.7)	(34.9)
Provision for restructuring	-	(21.3)	-
	£771.0	£1,091.2	£1,133.7

Central costs incurred in researching new markets and business opportunities are classified as business development costs.

4. Regional analysis - (continued)

	At March 31	
	1994	**1995**
Identifiable assets	**(in millions)**	
Hong Kong	£2,336.9	£2,682.7
Other Asia	131.0	137.2
United Kingdom	3,156.3	3,304.7
Other Europe	185.1	245.9
Caribbean	822.6	865.8
North America	208.9	230.0
Rest of the world	615.1	408.9
	£7,455.9	£7,875.2

	Year ended March 31	
	1994	**1995**
Additions to property, plant and equipment	**(in millions)**	
Hong Kong	£302.9	£341.9
Other Asia	30.5	23.4
United Kingdom	459.2	476.9
Other Europe	12.8	8.8
Caribbean	133.6	147.1
North America	45.9	35.5
Rest of the world	20.1	71.2
	£1,005.0	£1,104.8

	Year ended March 31	
	1994	**1995**
Depreciation and amortization	**(in millions)**	
Hong Kong	£126.0	£143.3
Other Asia	11.9	14.6
United Kingdom	216.6	248.9
Other Europe	9.2	4.8
Caribbean	47.8	51.1
North America	30.9	33.8
Rest of the world	23.2	20.7
	£465.6	£517.2

5. Exceptional items

	Year ended March 31		
	1993	1994	1995
Charged against operating income		(in millions)	
Write off of cables and repeaters	£(83.5)	-	-
Mercury reorganisation costs			
Employee costs	-	-	£(30.3)
Other operating costs	-	-	(30.2)
	£(83.5)	-	£(60.5)
Other exceptional items			
Profit on partial sale of subsidiaries	£177.8		
Mercury reorganisation costs			
Profit less losses on sale and termination of operations	-	-	£(17.7)
Loss on disposal of fixed assets	-	-	£(43.7)
Provision for goodwill charge on impending sale of business			£(178.0)

Profit on partial sale of subsidiaries of £177.8m comprises the profit of £166m arising as a result of the sale of 20% of Mercury Communications Limited to BCE Inc less goodwill previously written off to reserves of £48.3m and the profit of £63.6m arising on the sale of shares in Hongkong Telecom Limited as a result of the exercise of warrants less goodwill previously written off to reserves of £3.5m.

Mercury reorganisation costs totalling £121.9m relate to the reorganisation announced in December 1994 to streamline that company's operations and strengthen its competitive position in the UK telecommunications market. Applicable to these exceptional charge is a tax credit of £13.2m relating to the operating cost element and a minority share of £21.7m.

Employee costs of £30.3m relate to the termination of employment of 2,500 Mercury employees. The Company terminated the employment of 1,500 employees during the year to March 1995. A further 1,000 employees will terminate employment by December 31, 1995. The staff reduction applies to all areas of the business and is not restricted to, or exclusive of, any specific employee group. Severance costs paid and charged against the reorganisation liability amounted to £5.3m at March 31, 1995.

Other operating costs of £30.2m comprise relocation costs and asset write downs.

5. **Exceptional items - (continued)**

The exceptional charge of £178m relates to goodwill associated with the acquisition of Telephone Rentals plc (TR) in 1988. This acquisition was made in order to achieve rapid growth in Mercury's business customer base which continues to be reflected in the overall business. The Group has now decided to focus Mercury's activities on service provision and is seeking purchasers for the non-strategic elements of the former TR activities in the UK. The provision reflects the expected outcome of the disposal at the current time. There are no taxation or minority interest charges or credits applicable to this charge.

6. **Associated undertakings**

	Year ended March 31		
	1993	1994	1995
		(in millions)	
Share of profits, less losses, of associated undertakings	£9.6	£(13.8)	£(38.4)
Less: Taxation credit / (charge)	(2.4)	1.0	(5.4)
	7.2	(12.8)	(43.8)
Interest received and receivable	-	(4.0)	(3.3)
Dividends received and receivable	(22.9)	(12.2)	(9.7)
Dealt with by associated undertakings	£(15.7)	£(29.0)	£(56.8)

Share of profits, less losses, and of net assets of associated undertakings by geographical region are as follows:

	Year ended March 31		
Share of profits, less losses, before taxation	1993	1994	1995
		(in millions)	
Hong Kong	£ 1.4	£ 3.6	£ 3.6
Other Asia	1.9	3.6	3.9
United Kingdom	(9.3)	(34.4)	(62.2)
Other Europe	(1.5)	(5.0)	(1.7)
Caribbean	15.3	8.8	14.5
North America	-	0.2	-
Rest of the world	1.8	9.4	3.5
	£ 9.6	£ (13.8)	£ (38.4)

6. Associated undertakings - (continued)

Share of net assets	Year ended March 31 1993	1994	1995
		(in millions)	
Hong Kong	£22.4	£24.1	£33.0
Other Asia	24.9	23.0	24.7
United Kingdom	78.5	129.5	93.0
Other Europe	18.3	69.1	78.3
Caribbean	62.3	49.3	53.5
North America		-	16.6
Rest of the world	190.8	268.4	291.7
	£397.2	£563.4	£590.8

7. Interest and other similar income

	Year ended March 31 1993	1994	1995
		(in millions)	
Interest income			
Deposits and short-term loan interest	£51.9	£79.2	£100.3
Interest expense			
Medium term loans - repayable in less than five years	£19.8	£32.1	£55.0
- repayable in more than five years	55.5	53.1	59.3
Finance charges on leases	1.3	2.1	5.3
Bank loans and overdrafts	19.2	13.5	20.8
	95.8	100.8	140.4
Less Interest capitalized	(2.4)	(4.2)	(9.0)
	£93.4	£96.6	£131.4
Other income			
Share of profits of international telecommunications satellite organization	£7.0	£8.0	£11.8
Other income including gains on sale of assets	4.4	18.9	11.5
Realized exchange gains/(losses) on conversion of foreign currency denominated loans and deposits	(10.3)	1.4	(4.0)
	£1.1	£28.3	£19.3

8. Income taxes

Income before income taxes	Year ended March 31		
	1993	1994	1995
		(in millions)	
United Kingdom	£247.4	£153.4	£(159.4)
Overseas	670.6	934.9	1,003.5
	£918.0	£1,088.3	£844.1

The charge for taxation, based on the Group income for the year, comprises:

	Year ended March 31		
	1993	1994	1995
		(in millions)	
United Kingdom corporation tax			
Current	£100.8	£124.3	£122.9
Less double taxation relief	(40.6)	(52.0)	(63.6)
	60.2	72.3	59.3
Deferred	4.6	7.4	3.2
	64.8	79.7	62.5
Overseas			
Current	118.0	159.8	166.2
Deferred	(2.0)	3.0	1.6
Associated undertakings	2.4	(1.0)	5.4
	183.2	241.5	235.7
Adjustments in respect of prior years	(8.9)	(10.8)	8.2
	£174.3	£230.7	£243.9

If deferred tax had been fully provided in each year under the liability method, the tax charge would have increased by £78.6m, £85.4m and £58.0m in 1993, 1994 and 1995 respectively, comprising:

	Year ended March 31		
	1993	1994	1995
		(in millions)	
Current year	£78.6	£85.4	£80.5
Prior year	—	—	(22.5)
	£78.6	£85.4	£58.0

8. Income taxes - (continued)

The Group's effective tax rate varies from the statutory tax rate as a result of the following factors

	Year ended March 31		
	1993	1994	1995
Statutory tax rate	33.0%	33.0%	33.0%
Timing differences not provided for			
- Timing differences included in potential deferred tax	(8.5%)	(7.8%)	(9.5%)
- Other timing differences	0.5%	1.4%	1.1%
Items not deductible for tax or not taxable	6.8%	10.4%	26.8%
Tax rate differences	(11.8%)	(11.7%)	(20.3%)
Prior year	(1.0%)	(1.0%)	1.0%
Other	(0.0%)	(3.2%)	(3.2%)
Effective tax rate	19.0%	21.1%	28.9%

Deferred taxation

Deferred taxation provided in the accounts and the total potential liability, including amounts for which provision has been made, are as follows

	Amounts provided at March 31	
	1994	1995
	(in millions)	
Tax effect of timing differences due to		
Excess capital allowances	£32.6	£34.0
Other	125.0	130.2
	157.6	164.2
Less Advance corporation tax	(30.8)	(34.2)
	£126.8	£130.0

8. Income taxes - (continued)

	Total potential liability at March 31	
	1994	1995
	(in millions)	
Deferred tax asset		
Advance corporation tax	£30.8	£34.2
Losses	-	26.0
Other	40.1	60.5
	70.9	120.7
Less: Deferred tax not provided under UK GAAP	(21.7)	(34.5)
Deferred tax asset provided under UK GAAP	£49.2	£86.2
Deferred tax liability		
Capital allowances	£573.2	£641.2
Undistributed reserves	134.8	140.1
Other	119.5	137.7
	827.5	919.0
Less: Deferred tax not provided under UK GAAP	(651.5)	(702.8)
Deferred tax liability provided under UK GAAP	£176.0	£216.2
Net deferred tax liability provided under UK GAAP	£126.8	£130.0

The analysis of the deferred tax liability provided under UK GAAP between current and non-current amounts is as follows:

	At March 31	
	1994	1995
	(in millions)	
Current		
UK	£15.0	£14.5
Hong Kong	0.2	(1.3)
Other overseas	(10.8)	(0.2)
Non current		
UK	25.6	24.7
Hong Kong	61.4	58.9
Other overseas	35.4	33.4
	£126.8	£130.0

The above figures do not include an amount of £490.0m (1994 £484.0m) of contingent tax liability on the undistributed reserves of overseas subsidiary and associated undertakings which the Group does not expect to remit to the United Kingdom.

9. Earnings per share

	Year ended March 31		
	1993	1994	1995
		(in millions)	
Profit for the financial year	£514.1	£514.2	£252.1
Exceptional items			
Items included in operating profit	83.5	-	37.9
Not included in operating profit		-	227.1
Profit on partial sale of subsidiaries	(177.8)	-	-
Profit for the financial year excluding exceptional items	£419.8	£514.2	£517.1
Earnings per ordinary share excluding exceptional items	19.4p	23.6p	23.6p
Earnings per ordinary share on exceptional items	4.3p	-	(12.1)p
Earnings per ordinary share	23.7p	23.6p	11.5p

The weighted average number of shares in issue were 2,163,394,914, 2,178,627,407 and 2,189,737,387 for 1993, 1994 and 1995 respectively.

A fully diluted earnings per share based on share options in issue and the conversion of unsecured loan stock is not provided as the effects on the earnings per share are not material. Additional information on earnings per share for the current year has been provided in order that the effects of exceptional items on reported earnings can be fully appreciated. Exceptional items for 1995 comprise the Group's 80% interest in the £121.9m Mercury reorganisation costs (see note 5), less the attributable tax credit of £13.2m (total £87.0m), together with the £178.0m provision for goodwill charge on the impending sale of the former Telephone Rentals activities.

There are no taxation or minority interests charges or credits applicable to the 1993 exceptional items.

10. Cash and cash equivalents

Cash and cash equivalents comprise the following

	At March 31 1994	At March 31 1995
	(in millions)	
Cash in hand and at banks	£84.0	£108.8
Short-term deposits	1,051.6	881.8
	£1,135.6	£990.6

Short-term deposits are highly liquid investments with a range of maturity dates. They are purchased by the Group as part of its short term funds management policy and are considered to be cash equivalents for the purposes of the Consolidated Statement of Cash Flows. Of the total amount shown as cash in hand and at banks £31.9m (1994: £50.8m) is held in countries subject to exchange regulations which may temporarily delay repatriation.

11. Receivables

Accounts receivable comprise the following

	At March 31 1994 Restated	At March 31 1995
	(in millions)	
Trade accounts receivable	£654.9	£692.3
Less: Allowance for doubtful accounts	(62.7)	(66.9)
	592.2	625.4
Receivables from associated undertakings	13.6	21.2
Miscellaneous receivables	191.6	235.6
	£797.4	£882.2

Non current receivables	At March 31 1994 Restated	At March 31 1995
	(in millions)	
Miscelleneous receivables	£203.4	£213.7
Less: Allowance for doubtful accounts	(1.4)	(2.3)
	£202.0	£211.4

11. Receivables - (continued)

Included within miscellaneous receivables are net investments in finance leases comprising:

	At March 31	
	1994 Restated	1995
	(in millions)	
Total lease payments receivable	£66.6	£53.2
Less: Finance charges allocated to future periods	(4.1)	(1.5)
	£62.5	£51.7
Total rentals received during the year in respect of finance leases	£9.8	£9.0
Assets acquired during the year in respect of finance leases	£0.7	

A company within the Group is a limited partner in a number of limited partnerships which own and lease assets to third parties. Non-recourse finance of £317.0m (1994 - £339.6m) has been offset, under paragraph 29 of Financial Reporting Standard No. 5, against net investments in finance leases.

12. Inventories

Inventories comprise the following:

	At March 31	
	1994	1995
	(in millions)	
Consumable stores	£10.4	£13.1
Finished goods	79.1	104.1
	£89.5	£117.2

13. Investments

Current asset investments

Current asset investments represent those investments which it is expected will be sold shortly.

Investments

Investments comprise the following:

	At March 31	
	1994	1995
	(in millions)	
Equity in net assets of listed associated undertakings	£27.6	£19.3
Equity in net assets of unlisted associated undertakings	465.2	464.6
Loans to associated undertakings	70.6	76.9
	£563.4	£560.8
Other investments		
Listed shares	£2.1	£59.4
Unlisted shares	47.2	26.5
Interest in international telecommunications satellite organizations	53.6	49.9
	£102.9	£135.8
	£666.3	£696.6

13. Investments - (continued)

The principal associated undertakings as at March 31, 1998 are

	Issued share capital (in millions)		Percentage holding and Class
Bahrain Telecommunications Company BSC	Dinar	70.0	20.0 Ordinary
* International Digital Communications Inc	Yen	31,200.0	17.6 Ordinary
Mercury one2one	£	127.8	50.0 Ordinary
Optus Communications Pty Limited	AUS$	925.0	24.5 Ordinary
Telecommunications Services of Trinidad and Tobago Limited	TT$	282.8	49.0 Ordinary
Lattelkom SIA	US$	159.4	21.0 Ordinary
OCCEL	Col Peso	69,768.0	22.3 Ordinary
Petersburg Long Distance Inc	US $	177.9	32.3 Ordinary
Bouygues Telecom	Fr Francs	0.2	20.0 Ordinary

* The Group regards International Digital Communications Inc. as an associated undertaking because it exercises significant influence

14. Property, plant and equipment

	Cable and repeaters	Land and buildings	Plant	Cableships	Projects under construction	Total
			(in millions)			
Cost or valuation						
At April 1, 1994	£428.6	£442.8	£4,979.1	£96.0	£537.7	£6,484.2
Acquisitions	-	1.3	8.5	78.3	0.8	88.9
Additions	9.8	107.4	786.2	-	201.4	1,104.8
Disposals	(1.6)	(11.7)	(135.1)	(12.4)	-	(160.8)
Transfers	10.1	113.0	74.2	6.2	(203.5)	-
Exchange adjustments	(29.1)	(23.8)	(193.4)	-	(14.7)	(261.0)
At March 31, 1995	£417.8	£629.0	£5,519.5	£168.1	£521.7	£7,256.1
Depreciation At April 1, 1994	£169.6	£77.5	£1,632.2	£39.8	-	£1,919.1
Acquisitions	-	-	4.2	32.0	-	36.2
Charge for the year	27.3	17.6	465.9	6.4	-	517.2
Eliminated in respect of disposals and adjustments	(0.2)	(7.7)	(67.6)	(4.6)	-	(80.1)
Exchange adjustments	(6.3)	(1.8)	(69.2)	-	-	(77.3)
At March 31, 1995	£190.4	£85.6	£1,965.5	£73.6	-	£2,315.1
Net book value						
At March 31, 1995	£227.4	£543.4	£3,554.0	£94.5	£521.7	£4,941.0
At March 31, 1994	£259.0	£365.3	£3,346.9	£56.2	£537.7	£4,565.1

Capitalized interest included in the above net book value comprises

At March 31, 1995	£9.4	£13.3	£4.4	£0.8	-	£27.9
At March 31, 1994	£9.9	£5.5	£3.8	£0.8	-	£20.0

Cost or valuation at March 31, 1995 is represented by						
Valuation in 1981	-	17.0	-	-	-	17.0
Valuation in 1985	-	1.9	-	-	-	1.9
Cost	417.8	610.1	5,519.5	168.1	521.7	7,237.2
	£417.8	£629.0	£5,519.5	£168.1	£521.7	£7,256.1

The net book value of tangible fixed assets includes an amount of £38.0m (1994 - £22.9m) in respect of assets held under finance leases.

14. Property, plant and equipment - (continued)

	At March 31	
	1994	1995
	(in millions)	
Land and buildings at net book value comprises		
Freehold	£172.2	£242.5
Long-term leasehold - more than fifty years	104.7	205.0
Short-term leasehold - less than fifty years	88.4	95.9
	£365.3	£543.4

Certain Group land and buildings were valued on the basis of an open market for existing use at March 31, 1981 and 1985 by members of the Royal Institution of Chartered Surveyors and Chartered Quantity Surveyors. If land and buildings had not been revalued they would have been included at the following amounts:

	At March 31	
	1994	1995
	(in millions)	
Cost	£425.2	£611.7
Accumulated depreciation and amortization	(75.1)	(83.1)
Net book value	£350.1	£528.6

15. Short-term borrowings

Short-term borrowings comprise the following:

	At March 31	
	1994	1995
	(in millions)	
Bank loans and overdrafts	£32.6	£39.2
Bills payable	31.1	15.2
	£63.7	£54.4

15. Short-term borrowings - (continued)

Details of the category of short term borrowings and the weighted average interest rates are as follows

	At March 31	
	1994	1995
	(in millions)	
Balance at end of period		
- Banks	£32.6	£39.2
- Current portion of lease obligations	8.4	13.2
- Current portion of loans payable to banks and suppliers	318.5	269.0
Total	£359.5	£321.4

	At March 31	
	1994	1995
	(%)	
Weighted average interest rates at end of period		
- Banks	3.9%	5.2%
- Current portion of lease obligations	6.2%	7.4%
- Current portion of loans payable to banks and suppliers	3.9%	5.2%
	4.4%	6.3%

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following

	At March 31	
	1994 Restated	1995
	(in millions)	
Trade payables	£375.8	£396.6
Accruals	390.1	328.0
Deferred income	88.0	161.7
Payable to associated undertakings	19.6	29.5
Taxes, other than income taxes, and social security	123.6	127.5
Other	145.2	174.8
	£1,142.3	£1,218.1

17. Long term debt

	At March 31	
	1994 Restated	1995
	(in millions)	
Convertible unsecured loan stock repayable 2008	£154.5	£149.5
Bank loans		
Sterling repayable at various dates up to 2019	161.1	353.2
Hong Kong dollars repayable at various dates up to 1995	220.9	200.9
US dollars repayable at various dates up to 2041	838.8	775.1
Other currencies repayable at various dates up to 1997	63.6	56.7
	1,438.9	1,535.4
Current portion of long-term debt	(287.4)	(253.8)
	£1,151.5	£1,281.6
Net obligations under finance leases	£33.8	£71.3
Less Current instalments due	(8.4)	(13.2)
	£25.4	£58.1
	£1,176.9	£1,339.7

The convertible unsecured loan stock carries interest at 7% per annum. This stock is convertible into ordinary shares of the Company on August 31, in each year up to and including 2008, on the basis of one share for every 206p of nominal loan stock.

Interest on the other loans is at rates varying from 5% to 11% per annum.

Approximately 37% of the Group's long term borrowings are presently at fixed rates of interest.

£13.7m of borrowings due within one year and £105.5m of borrowings due after more than one year were secured on assets of the Group.

Any borrowing, the liability of which is swapped into another currency, is accounted for as a liability in the swap currency and not in the original currency of denomination.

Long-term and short-term interest rate instruments are used to smooth the impact of interest rates on the total Group borrowing.

The Group's long term debt has an average maturity of approximately ten years.

17. Long term debt - (continued)

Maturities at March 31, 1995 on long term debt are as follows

	At March 31	
	Finance Leases	Loans
	(in millions)	
1996	£12.3	£118.6
1997	12.8	86.7
1998	3.5	73.1
1999	3.4	80.1
After 2000	26.1	923.1
	£58.1	£1,281.6

Borrowing facilities

At March 31, 1995, the Company and its subsidiaries had unutilized bank borrowing facilities and commercial paper programs of £1,617m. Of this amount £495m was under committed facilities.

18. Other long term creditors and provisions

Other long term creditors and provisions comprise the following:

	At March 31	
	1994	1995
	(in millions)	
Provision for pensions and redundancy payments and unfunded gratuities	£5.2	£7.3
Provision for cableships periodic overhauls	2.3	1.6
Provision for restructuring	21.3	80.6
Other creditors	34.2	33.4
	£63.0	£122.9

19. Commitments and contingencies

Capital commitments

At March 31, 1995 capital commitments under contracts for construction of property, plant and equipment not included in the balance sheet amounted to approximately £234.8m (1994: £309.2m).

Capital expenditure authorized by the Directors but not contracted for amounted to approximately £195.0m (1994: £176.9m).

Contingent liabilities

At March 31, 1995, the Group had issued trading guarantees to the extent of £244.4m (1994: £193.3m). The amounts represent the maximum liability on a consolidated basis that the Company would have been exposed to under these types of agreements in effect as at these dates.

Trading guarantees are performance bonds or contracts issued usually by the Company on behalf of its trading subsidiaries in the normal course of business guaranteeing that the subsidiary will meet its obligations to complete projects in accordance with the contractual terms and conditions. The guarantees also enable the customer to obtain repayment of any advance payment in the event of the relevant subsidiary failing to carry out its contractual obligations in full.

The nature of contracts include construction projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

Lease obligations as lessee

Rental expense under operating leases was £34.4m in 1993, £42.0m in 1994 and £42.9m in 1995. At March 31, 1995 future minimum lease payments under operating leases that have initial remaining lease terms in excess of one year were as follows:

	(in millions)
1996	£183.[illegible]
1997	114.7
1998	72.8
1999	68.3
After 1999	1,021.6
Minimum lease payments	£1,4[illegible]7.4

20. Shareholders' equity

The movement in consolidated shareholders' equity during the three years is as follows

	Share Capital	Share Premium	Associated Undertakings (in millions)	Retained Earnings	Total
At March 31, 1992	£539.6	£303.1	£41.7	£1,479.0	£2,363.4
Shares issued	3.2	26.1	-	-	29.3
Goodwill written back	-	-	-	37.7	37.7
Debenture issue costs	-	(1.0)	-	-	(1.0)
Exchange adjustments	-	-	5.6	226.1	231.7
Net income	-		(15.7)	529.8	514.1
Dividends	-	-	-	(161.2)	(161.2)
Disposal	-	-	4.0	-	4.0
At March 31, 1993	£542.8	£328.2	£35.6	£2,111.4	£3,018.0
Shares issued	3.5	34.7	-	-	38.2
Goodwill written off	-	-	-	(28.5)	(28.5)
Bond issue costs	-	(0.5)	-	0.5	-
Exchange adjustments	-	-	(13.5)	(73.4)	(86.9)
Net income	-	-	(29.0)	543.2	514.2
Dividends	-	-	-	(180.4)	(180.4)
Disposal	-	-	0.1	-	0.1
Transfer	-	-	1.4	(1.4)	-
At March 31, 1994	£546.3	£362.4	£(5.4)	£2,371.4	£3,274.7
Shares issued	2.6	25.1	-	-	27.7
Goodwill written off	-	-	-	(82.2)	(82.2)
Goodwill written back	-	-	-	178.0	178.0
Bond issue costs	-	(0.5)	-	0.5	-
Exchange adjustments	-	-	(5.8)	(107.3)	(113.1)
Net income	-	-	(56.8)	308.9	252.1
Dividends	-	-	-	(198.6)	(198.6)
Transfer	-	-	1.1	(1.1)	-
At March 31, 1995	£548.9	£387.0	£(66.9)	£2,469.6	£3,338.6

20. Shareholders' equity - (continued)

During the year 4,638,487 shares were issued as a result of the exercise of options at prices ranging between 127.75p and 446.50p.

Share capital comprises 2,734,520,636 authorized shares of 25p each, 2,195,402,195 issued and outstanding ordinary shares (1994 – 2,185,225,118) and a Special Rights Preference Share of £1 authorized, issued and outstanding at both March 31, 1995 and 1994. The Special Rights Preference Share is held by H.M. Government and carries no right to participate in the capital (beyond the sum of £1) or the earnings of the Company.

Share options

At March 31, 1995 outstanding options granted under share option schemes were as follows:

		Number of shares	Price	Normal dates of exercise
C & W Savings Related Share Option Scheme		86,332	153.00p	1995
		65,550	166.50p	1995-1996
		174,020	165.00p	1995-1996
		256,712	226.50p	1995-1997
		928,952	217.00p	1995-1997
		720,701	212.00p	1995-1998
		1,708,230	179.00p	1996-1998
		1,116,454	222.00p	1996-1999
		2,485,261	222.50p	1997-1999
		2,012,367	209.36p	1997-2000
		923,732	272.64p	1998-2000
		1,249,010	304.24p	1998-2001
		2,394,487	393.84p	1999-2001
	**	2,469,668	341.84p	1999-2001
	**	2,226,614	285.20p	2000-2002

20. Shareholders' equity - (continued)

Share options - (continued)

		Number of shares	Price	Normal dates of exercise
C&W Senior Employees' Share Option Scheme		45,722	251.50p	1995-1996
		2,007,100	268.00p	1995-1997
		2,596,643	261.70p	1995-1999
		2,319,713	222.44p	1997-1999
		2,774,214	397.70p	1996-2000
		100,000	445.30p	1997-2001
	**	4,426,020	446.50p	1997-2001
C & W Revenue Approved Share Option Scheme		35,556	127.75p	1995
		88,616	161.00p	1995-1996
		395,770	199.50p	1995-1997
		1,083,766	185.50p	1995-1998
		3,739,326	251.50p	1995-1999
		4,562,760	268.00p	1995-2000
		761,904	210.00p	1995-2000
		318,414	290.50p	1995-2002
		4,823,992	261.70p	1995-2002
		3,997,488	222.44p	1997-2002
		178,904	323.00p	1995-2002
		4,720,154	397.70p	1996-2003
		69,000	463.10p	1997-2004
	**	4,917,980	446.50p	1997-2004
	**	28,000	386.50p	1997-2004
TR Savings Related Share Option Scheme*		52,272	107.37p	1995
TR Executive Share Option Scheme*		34,290	107.89p	1995-1996
		11,400	119.47p	1995-1998

* These schemes are governed by Telephone Rentals plc scheme rules but were converted to options for Cable and Wireless plc shares in May 1989 following the acquisition of Telephone Rentals plc in December 1988.

** Granted during the year ended March 31, 1995

20. Shareholders' equity - (continued)

Share options - (continued)

	Number of ordinary shares		
	1993	1994	1995
Options outstanding at beginning of year	49,336,116	56,130,678	55,254,173
Options exercised during the year	(9,637,206)	(10,556,330)	(4,638,487)
Options granted during the year	18,348,784	12,164,363	14,068,282
Options lapsed during year	(1,917,016)	(2,484,538)	(1,834,871)
Options outstanding at end of year	56,130,678	55,254,173	62,849,097
Options normally exercisable at end of year	10,565,934	16,630,749	14,648,366

21. Pension plans

The Company and its principal subsidiaries operate pension and retirement schemes which cover the majority of employees in the Group. These schemes are principally of the defined benefit type whereby retirement benefits are based on the employees' final remuneration and length of service and are funded through separate trustee administered schemes. Contributions to the schemes are made in accordance with the recommendations of independent actuaries who value the schemes at regular intervals, usually triennially.

Actuarial values of the principal United Kingdom and overseas pension schemes were prepared at March 31, 1993 and December 31, 1993 respectively. The valuation of the United Kingdom scheme disclosed a reduced surplus compared to the previous valuation, as a result of which the actuary recommended, and the Company agreed to, the resumption of contributions to the scheme with effect April 1, 1993. The surplus in the United Kingdom scheme is being spread over the remaining service lives of the employed members.

The valuation of the principal overseas scheme, which is that in Hong Kong, disclosed a reduced deficit compared to the previous valuation, as a result of which the actuary recommended, and the Company agreed to, a reduction in contributions to the scheme with effect from April 1, 1994. The deficit in the overseas scheme is being spread over the remaining service lives of the employed members.

The main assumptions used in valuing the schemes were that the average long-term rate of return earned by the schemes' assets would be 2% higher than the rate of salary escalation. The valuations showed that the aggregate market values at the United Kingdom and Hong Kong valuation dates were £600.7m and £485.4m respectively. The aggregate actuarial values of these assets were sufficient to cover 107.2% and 91% of the aggregate benefits that had accrued to the members after allowing for expected future increases in earnings.

21. Pension plans - (continued)

US GAAP disclosures

The following disclosures are in accordance with US pension accounting rules under SFAS No.87 "Employers Accounting for Pensions".

The defined benefit obligations were determined using the following weighted average assumptions at March 31, 1993, 1994 and 1995:

	Year ended March 31		
	1993	1994	1995
	(% per annum)		
Discount rate	9.6%	7.9%	9.0%
Rate of future pay increase	7.6%	6.7%	7.3%
Rate of pension increase	5.3%	4.5%	4.9%
Estimated rate of return on plan assets	9.5%	9.1%	9.5%

The components of the pension cost for the year were as follows:

	Year ended March 31		
	1993	1994	1995
	(in millions)		
Service cost	£40.7	£56.3	£81.0
Interest cost on projected benefit obligation	81.1	87.8	87.4
Actual return on plan assets	(100.8)	(351.6)	94.0
Net amortization and deferral	25.4	268.4	(209.3)
Net pension cost	46.4	60.9	53.1
Members contributions	(7.0)	(8.2)	(12.4)
Pension cost for the year under US GAAP	£39.4	£52.7	£40.7

21. Pension plans - (continued)

The information required to be disclosed in accordance with SFAS No. 87 concerning the funded status as at March 31, 1994 and 1995 is as follows:

	Year ended March 31	
	1994	1995
	(in millions)	
Accumulated benefit obligations		
Vested	£805.2	£793.0
Non-vested	41.3	8.6
	£846.5	£801.6
Projected benefit obligation	£(1,133.1)	(1,152.4)
Plan assets at fair value (see note below)	1,253.3	1,134.4
Plan assets in excess of/(below) projected benefit obligation	120.2	(18.0)
Unrecognized transition amount	(67.8)	(59.8)
Unrecognized prior service cost	32.3	28.2
(Gain)/loss at year end	(89.2)	55.2
(Accrued)/prepaid pension cost under U.S. GAAP	£(4.5)	£5.6

Note: The Plan assets consist primarily of investments in equity and fixed interest securities.

22. **Exchange differences on revaluation of net investments**

Cumulative exchange losses on the revaluation of net investments overseas amounted to £298.2m at March 31, 1995 (£185.1m at March 31, 1994).

23. **Summary of differences between United Kingdom and United States generally accepted accounting principles**

The Company's financial statements are prepared in accordance with UK generally accepted accounting principles (GAAP), which differ in certain material respects from US GAAP. The significant differences as they relate to the company, and the adjustments necessary to restate net income and shareholders' equity in accordance with US GAAP, are set out below.

(a) *Goodwill*

Under UK GAAP goodwill arising on acquisition is eliminated directly against reserves. Under US GAAP goodwill is capitalized and amortized by charges against income over the period, not to exceed 40 years, which is estimated to be benefited. For US GAAP goodwill has been amortized over a period of up to 40 years.

Under UK GAAP the profit or loss on disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any material goodwill previously eliminated directly against reserves. Under US GAAP an adjustment to profit or loss on disposal is required in respect of goodwill previously amortized.

(b) *Capitalization of interest*

Under UK GAAP the capitalization of interest is not required, but the Company does capitalize interest, net of tax, incurred in relation to certain separately identifiable major capital projects. US GAAP requires that gross interest cost should be capitalized on all qualifying assets during the time required to prepare them for their intended use.

(c) *Deferred tax*

Under UK GAAP no provision is made for deferred taxation unless there is a reasonable probability that the liability will arise in the foreseeable future. US GAAP requires full provision for deferred income taxes under the liability method on all temporary differences and, if required, a valuation allowance is established to reduce gross deferred tax assets to the amount which is more likely than not to be realized.

23. Summary of differences between United Kingdom and United States generally accepted accounting principles - (continued)

(d) Revaluation of properties

Under UK GAAP properties may be stated on the basis of either original cost or at subsequent valuation less related amortization calculated on the revalued amount where applicable. Any surplus on the revaluation of property is taken to shareholders' equity. Under US GAAP revaluation of property is not permitted except in connection with the purchase accounting requirements of business combinations.

(e) Pension costs

Under UK GAAP the expected costs of pensions are charged to the profit and loss account so as to spread the cost of pensions over the expected service lives of employees. Surpluses arising from actuarial valuations are similarly spread. Under US GAAP costs and surpluses are similarly spread but based on prescribed actuarial assumptions which differ in certain respects from those used for UK GAAP.

(f) Dividends

Under UK GAAP dividends proposed after the end of an accounting period in respect of that accounting period are deducted in arriving at retained earnings for that period. Under US GAAP such dividends are not deducted until formally approved.

(g) Earnings per ordinary share

Under UK GAAP earnings per share is based on income after taxes and minority interests and computed using the weighted average number of Ordinary Shares in issue during the year. Under US GAAP earnings per share is based on net income, and computed using the weighted average number of Ordinary Shares in issue and Ordinary Share equivalents outstanding during each year.

The weighted average number of ordinary shares in issue and ordinary share equivalents outstanding was 2,255,992,001, 2,271,086,455 and 2,286,726,065 for 1993, 1994 and 1995 respectively.

23. Summary of differences between United Kingdom and United States generally accepted accounting principles - (continued)

(h) *Investments in marketable securities*

Under UK GAAP investments in marketable securities are recorded at historic cost less provisions for permanent diminution in value. Under US GAAP investments classified as available for sale are reported at fair value, with unrealised gains or losses reported as a separate component of Shareholders' funds.

(i) *Restructuring costs*

Under UK GAAP restructuring costs shown as exceptional items are chargeable against profits in full irrespective of whether they have been agreed or incurred. Under US GAAP certain of these costs are only chargeable against profits when certain specific criteria have been met. The amount added back for US GAAP purposes will be allowable as a charge against profits in subsequent years.

(j) *Cash flows*

The Cash Flow Statement is prepared in accordance with the UK Financial Reporting Standard No 1, Cash Flow Statements (FRS 1) for UK GAAP reporting. Its objective and principles are similar to those set out in Statement of Financial Accounting Standard (SFAS) No 95, "Statement of Cash Flows". The principal difference between the standards is in respect of classification. Under FRS 1, the Group presents its cash flows for (a) operating activities, (b) returns on investments and servicing of finance, (c) taxation, (d) investing activities, and (e) financing. SFAS No 95 requires only three categories of cash flow activity (a) operating, (b) investing, and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 would, with the exception of dividends paid, be included as operating activities under SFAS No 95; dividend payments would be included as a financing activity under SFAS No 95. In addition, under FRS 1, cash and cash equivalents include short term borrowings with original maturities of less than 90 days. SFAS No 95 requires movements on such short term borrowings to be included in financing activities.

23. Summary of differences between United Kingdom and United States generally accepted accounting principles - (continued)

The following table summarizes the effect on net income of the differences between UK GAAP and US GAAP

	Year ended March 31			
	1993	1994	1995	1995
	(in millions)			
Net income as reported under UK GAAP	£514.1	£514.2	£252.1	$408.4
US GAAP adjustments				
Amortization of goodwill	(15.6)	(14.5)	(16.7)	(27.1)
Goodwill written off in respect of sale of subsidiary undertakings	3.3	0.1	20.8	33.7
Capitalization of interest	7.6	7.4	0.7	1.1
Deferred tax - FAS 109	(106.1)	(77.6)	(86.5)	(140.1)
- Tax effect of other US GAAP adjustments	(6.5)	(0.1)	(4.4)	(7.1)
Depreciation on revaluation of properties	0.2	0.2	0.2	0.3
Pension costs	(10.0)	(9.1)	13.1	21.2
Profit on partial sale of subsidiary	48.8	-	-	-
Restructuring costs	-	-	22.3	36.1
Other	-	-	(4.0)	(6.5)
Minority interests	9.3	14.8	10.0	16.2
Net income under US GAAP	£445.1	£438.1	£207.6	$336.2
Earnings per share under US GAAP	20.4p	19.5p	9.4p	$0.15
Earnings per ADS* under US GAAP	61.3p	58.5p	28.2p	$0.45

* Computed on the basis that one American Depository Share (ADS) represents three Ordinary Shares

23. Summary of differences between United Kingdom and United States generally accepted accounting principles - (continued)

The following table summarizes the effect on shareholders' equity of the differences between UK GAAP and US GAAP

	At March 31		
	1994	1995	1995
		(in millions)	
Shareholders' equity as reported under UK GAAP	£3,274.7	£3,338.6	$5,408.5
US GAAP adjustments			
Goodwill	500.3	408.6	661.9
Capitalization of interest	190.1	199.7	323.8
Deferred tax - FAS 109	(681.0)	(755.1)	(1,223.3)
- Tax effect of other US GAAP adjustments	(67.5)	(86.2)	(139.6)
Revaluation of properties	(14.8)	(14.6)	(23.6)
Pension costs	(15.6)	(14.6)	(23.6)
Proposed final dividend	123.8	136.6	221.3
Restructuring costs		22.3	36.1
Unrealised gains on equity securities		39.5	64.0
Minority interest	83.8	91.7	148.6
Shareholders' equity under US GAAP	£3,402.8	£3,306.5	$5,355.8

Goodwill and capitalized interest are analyzed as follows

	At March 31			
	Goodwill		Capitalized Interest	
	1994	1995	1994	1995
		(in millions)		
Gross	£588.4	£480.3	£311.0	£344.5
Accumulated depreciation	(88.1)	(71.7)	(120.9)	(116.9)
Net	£500.3	£408.6	£190.1	£227.6

Figures in the above tables for 1993 and 1994 have been restated to show minority interests separately.

Capitalized interest at March 31, 1995 is shown gross of tax of £75.2 million of which a tax credit of £0.6m relates to the current year.

23. Summary of differences between United Kingdom and United States generally accepted accounting principles - (continued)

Other US Accounting Standards not yet adopted

SFAS No 114 - "Accounting by Creditors for Impairment of a Loan" addresses the accounting by creditors for the impairment of certain loans. The Statement was issued in May 1993 and is required to be adopted in 1995. The Company was not yet assessed the impact of SFAS No 114 on its financial information. The Company intends to adopt the Statement as from the financial year beginning April 1, 1995.

SFAS No 121 - In March 1995, the US Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, and for long-lived assets and certain intangibles to be disposed of. The Company is required to comply with the requirements of SFAS No 121 in its 1997 Consolidated Financial Statements. The Company has not yet assessed the impact of SFAS No 121 on its financial information or when it will be adopted.

24. Reconciliation of operating profit to net cash inflow from operating activities

	For the year ended March 31		
	1993	1994	1995
		(in millions)	
Operating income	£771.0	£1,091.2	£1,133.7
Add back non-cash items			
Exceptional items	83.5	-	60.5
Depreciation and amortization	392.4	465.6	517.2
Other non-cash items including foreign exchange	(16.7)	7.5	(2.7)
Net cash outflow re re-structuring costs	(14.2)	-	(17.2)
Provisions for restructuring	-	21.3	-
Movement in working capital			
Decrease/(increase) in stocks	(13.6)	1.5	(19.2)
Increase in debtors	(186.1)	(58.5)	(106.1)
Increase in creditors	182.3	117.1	37.5
Net cash inflow from operating activities	£1,198.6	£1,645.7	£1,603.7

Movements in working capital only relate to operating activities

25. Analysis of changes in cash and cash equivalents during the year

	At March 31		
	1993	1994	1995
		(in millions)	
Balance at April 1	£201.5	£697.6	£987.8
Net cash inflow/(outflow) before adjustments for the effect of foreign exchange rate changes	457.3	304.6	(205.6)
Effect of foreign exchange rate changes	38.8	(14.4)	(34.6)
Balance at March 31	£697.6	£987.8	£747.6

26. Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	At March 31		Change
	1994	1995	in year
	(in millions)		
Cash at bank and in hand	£84.0	£108.8	£24.8
Short-term deposits	1,051.6	881.8	(169.8)
Short-term deposits maturing after three months	(115.2)	(203.8)	(88.6)
Bank overdrafts	(32.6)	(39.2)	(6.6)
Balance at March 31	£987.8	£747.6	£(240.2)

27. Analysis of changes in financing during the year

	Share capital including premium	Loans and finance lease obligations
		Restated
	(in millions)	
Balance at April 1, 1992	£842.7	£838.3
Cash inflows from financing	20.3	199.1
Shares issued for non-cash consideration	8.0	—
Effect of foreign exchange rate changes	—	90.8
Balance at March 31, 1993	£871.0	£1,126.2
Cash inflows from financing	25.8	301.7
Shares issued for non-cash consideration	12.7	—
Bond issue costs	(0.8)	—
Effect of foreign exchange rate changes	—	(8.1)
Balance at March 31, 1994	£908.7	£1,503.8
Cash inflows from financing	17.6	140.8
Shares issued for non-cash consideration	15.8	(43.9)
Bond issue costs	(10.9)	—
Acquisitions		20.8
Inception of finance lease contracts		28.8
Effect of foreign exchange rate changes		(64.3)
Balance at March 31, 1995	£938.0	£1,621.9

28. Sale of subsidiary undertakings

	Year ended March 31	
	1994	1995
	(in millions)	
Fixed assets	£52.0	£0.2
Net current assets	(0.4)	1.3
Long-term liabilities	(2.8)	-
	48.8	1.5
Profit/(loss) on disposal	(2.4)	1.5
	£46.4	£3.0
Satisfied by		
Deferred receipts	£0.7	-
Cash received	45.7	3.0
	£46.4	£3.0

30. Acquisitions

	Year ended March 31 1995
	(in millions)
Net assets acquired	
Tangible fixed assets	£52.7
Cash and cash equivalents	5.5
Net current assets	(7.4)
Long-term liabilities	(26.1)
Minority shareholders' interest	(0.1)
	24.6
Goodwill	27.4
	£52.0
Satisfied by	
Cash	50.6
Deferred consideration	1.4
	£52.0
Net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings	
Cash consideration	50.6
Cash at bank and in hand acquired	(6.3)
Bank overdrafts of acquired subsidiary undertakings	0.8
	£45.1

26. **Analysis of the balances of cash and cash equivalents as shown in the balance sheet**

	At March 31		Change
	1994	1995	in year
	(in millions)		
Cash at bank and in hand	£84.0	£108.8	£24.8
Short-term deposits	1,051.6	881.8	(169.8)
Short-term deposits maturing after three months	(115.2)	(203.8)	(88.6)
Bank overdrafts	(32.6)	(39.2)	(6.6)
Balance at March 31	£987.8	£747.6	£(240.2)

27. **Analysis of changes in financing during the year**

	Share capital including premium	Loans and finance lease obligations Restated
	(in millions)	
Balance at April 1, 1992	£842.7	£838.3
Cash inflows from financing	20.3	191.1
Shares issued for non-cash consideration	8.0	—
Effect of foreign exchange rate changes	—	90.8
Balance at March 31, 1993	£871.0	£1,120.2
Cash inflows from financing	25.5	391.7
Shares issued for non-cash consideration	12.7	—
Bond issue costs	(0.5)	—
Effect of foreign exchange rate changes	—	(8.1)
Balance at March 31, 1994	£908.7	£1,503.8
Cash inflows from financing	12.6	140.8
Shares issued for non-cash consideration	15.5	(4.9)
Bond issue costs	(0.9)	—
Acquisitions	—	20.8
Inception of finance lease contracts	—	25.5
Effect of foreign exchange rate changes	—	(64.1)
Balance at March 31, 1995	£935.9	£1,621.9

30. Valuation and qualifying accounts

	Year ended March 31		
	1993	1994 (in millions)	1995
Balance at beginning of period			
- Doubtful debts	£35.8	£59.8	£64.1
- Inventory	10.7	11.0	9.6
Total	£46.5	£70.8	£73.7
Charged to costs and expenses			
- Doubtful debts	£30.6	£37.2	£34.1
- Inventory	1.7	5.6	1.1
Total	£32.3	£42.8	£35.2
Charged to other accounts			
- Doubtful debts	£3.9	£(2.8)	£4.5
- Inventory	0.8	(0.8)	(2.2)
Total	£4.7	£(3.6)	£2.3
Deductions			
- Doubtful debts	£(10.5)	£(30.1)	£(33.5)
- Inventory	(2.2)	(6.2)	(1.0)
Total	£(12.7)	£(36.3)	£(34.5)
Balance at end of period			
- Doubtful debts	£59.8	£64.1	£69.2
- Inventory	11.0	9.6	7.5
Total	£70.8	£73.7	£76.7

31. Financial instruments

The Group uses financial instruments, including forward foreign exchange contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. While these instruments are subject to the risk of loss from changes in exchange rates and interest rates, these losses would generally be offset by gains in the related exposures. Financial instruments are only used to hedge underlying commercial exposures. The Group does not speculate in derivative financial instruments.

Realized and unrealized gains and losses on forward contracts which hedge firm third party commitments are recognized in income in the same period as the underlying transaction. Net interest paid or received on interest rate swaps is included in interest expense.

The counterparties to the Group's financial instruments are major international financial institutions. Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. It is the Group's policy to monitor the financial standing of these counterparties on an ongoing basis. The Group does not have a significant exposure to any individual conterparty.

The Group assesses the exposure of its overall financial position on a net basis, after considering the extent to which variable rate liabilities can be offset with variable rate assets, typically short term deposits and cash. The Group's objective is to optimize interest expense consistent with maintaining an acceptable level of exposure to the risk of interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and variable rate debt based on an assessment of interest rate trends. To obtain this mix in a cost efficient manner, the Group primarily utilises interest rate swaps, that have the effect of converting specific debt obligations of the Group from fixed to variable rate, or vice versa, as required. If appropriate the Group also uses foreign currency swaps to match long term currency denominated debt to a proportion of its overseas asset base.

31. Financial instruments - (continued)

The estimated fair value of the Group's financial instruments are summarised below

	At March 31 1995			
	1994		1995	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in £ millions)			
Investments	102.9	241.7	172.0	400.7
Convertible bonds	(154.5)	(332.1)	(149.5)	(279.5)
Other long term debt	(1,022.4)	(1,017.1)	(1,190.2)	(1,198.7)
Interest rate swaps - profit	N/A	21.5	N/A	13.6
- (loss)	N/A	(8.2)	N/A	(10.4)
Cross currency swaps - profit	N/A	4.9	N/A	15.1
- (loss)	N/A	(15.1)	N/A	(5.8)
Forward foreign exchange contracts		3.1	-	1.2

Investments

The fair value of investments is based on year end quoted prices for listed investments and estimates of likely sales value for other investments.

Cash at bank and in hand, accounts receivable, accounts payable, short term borrowings and other current liabilities

The carrying value approximates 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.

Long term debt

The fair value is based on quoted market prices or, where these are not available, on the quoted market prices of comparable debt issued by other companies.

Interest rate swaps

The fair value of interest rate swaps is the estimated amount which the Group would expect to pay or receive on the termination of the agreement, taking into consideration current interest rates and the current creditworthiness of the counterparties. The notional value of the interest rate and currency swaps at 31 March 1995 was £690.1m (1994 £800.1m), all of which were to swap fixed interest rate obligations to floating.

31. Financial instruments - (continued)

Forward foreign exchange contracts

The fair value of these contracts is the estimated amount which the Group would expect to pay or receive on the termination of the contracts, taking into consideration current exchange rates. At 31 March 1995 the Group had £395.0m of such contracts outstanding (1994 £250.4m).

32. Companies Act 1985

These Consolidated Financial Statements do not comprise "statutory accounts" within the meaning of Section 240 of the Companies Act 1985 of Great Britain. Statutory accounts for the three years ended March 31, 1995 on which the auditors have given an unqualified audit report, have been, or will be, delivered to the Registrar of Companies in England and Wales.

33. Post balance sheet events (unaudited)

The Company has signed an agreement with VEBA AG to form a new company VEBACOM towards which the Company will subscribe approximately £825m of new capital. This amount will be paid as to approximately £490m in cash on completion, with the deferred amount as follows: 1995/96 - £45m, 1996/97 - £200m and the balance in 1997/98.

On September 20, 1995 the Company agreed to sell its 5.05% interest in Mannesmann Mobilfunk GmbH for a consideration of approximately £730m, making a pre-tax profit on disposal of £194m.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

CABLE AND WIRELESS PUBLIC LIMITED COMPANY
(Registrant)

/S/ R J Olsen
R J Olsen
Director, Finance

Date September 28, 1995

CABLE & WIRELESS

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45th Floor
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EXHIBIT B

CWI's 1995 REPORT TO CUSTOMERS

Not Able To Copy
Document's Exhibit -
Is In Original File
In RAR

CABLE & WIRELESS, INC.

1995

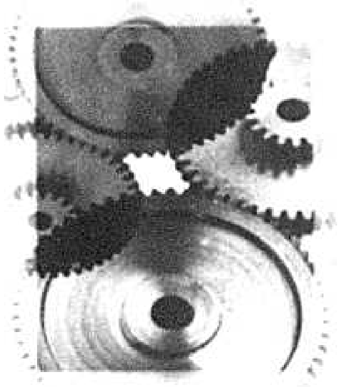
Cable & Wireless, Inc.

report to customers

businesses. That achievement is based on CWI's commitment to understanding how its customers do business, then tailoring services to reflect that understanding.

By focusing closely on customer needs, CWI has developed a complete portfolio of domestic and international voice, data and messaging communications services delivered via a nationwide fiber optic network. Each service enables business customers to increase productivity, reduce operating expenses and gain a competitive advantage in their marketplace.

Product innovations, state-of-the-art technology and a dedication to a high level of customer service are the tools CWI uses to build long lasting relationships with its customers. By knowing their needs and understanding their goals, CWI can use these tools to deliver the best total telecommunications solution.



The Federation and Federal Development: A Window to the Future

The Cable & Wireless Federation is an alliance of forward looking, imaginative and locally autonomous companies working together globally, but operating close to their local markets. The Federation has grown to be the largest international alliance in the industry by developing synergistic partnerships with more than 100 businesses in over 50 countries around the world. In the U.S., Cable & Wireless, Inc. (CWI) provides leadership to all Federation members in developing a customer focused culture within their organizations.

In November 1994, the Federation launched the Federal Development initiative. This initiative is designed to draw maximum competitive advantage from the combined knowledge and skills of the Federation's membership.

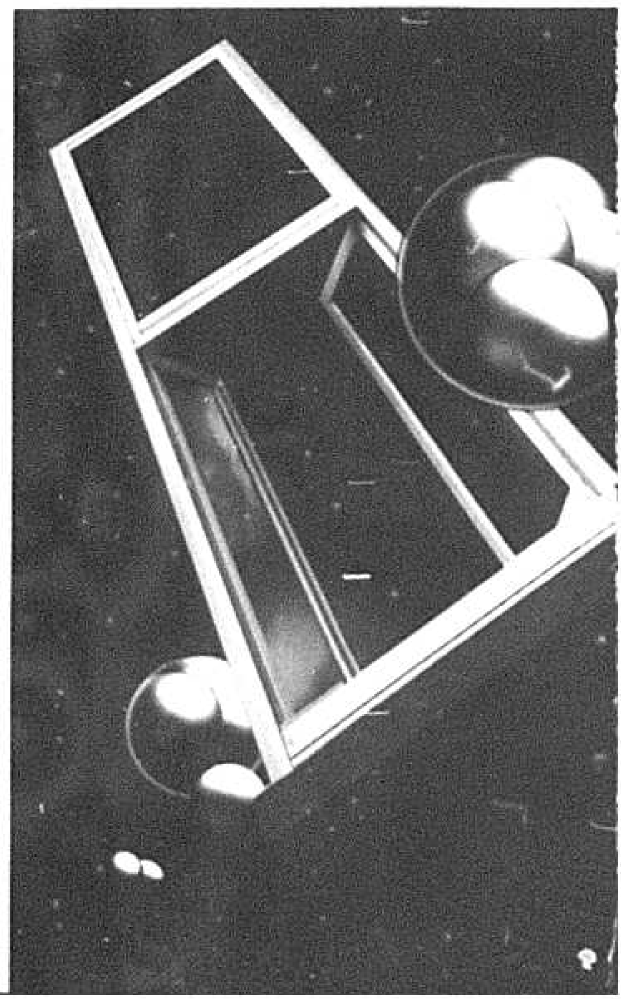
Part of the Federal Development initiative is cultivation of new partnerships. In November 1994, Cable & Wireless joined an international alliance of communication and consumer electronics companies, headed by General Magic, Inc. of California. Through this association with General Magic, Cable & Wireless will be able to reinforce its position as an emerging leader in providing advanced personal communications services.

Early in 1995, Cable & Wireless also joined an alliance with Japan's NTT to develop mobile operations based on the new Personal Handyphone System. Trials have been conducted in Hong Kong and marketing is planned elsewhere in Asia.

In the U.S., CWI is heading a program to develop a business plan for a multi-service Asynchronous Transfer Mode (ATM) backbone network. CWI is also addressing the use of new technologies and products from third party providers for a variety of services, including video-on-demand, ATM-to-desktop service and development of core networks.

An immediate benefit of the Federation is that it helps to network knowledge that already exists among the diverse Federation membership. Equally important, however, the organization enables Federation member expertise to be combined to develop new products and services, and to take advantage of new opportunities.

In that way, the Cable & Wireless Federation is truly a window to the future.



A Letter from the CEO

As technology and customer needs have evolved in the telecommunications industry, Cable & Wireless, Inc. (CWI) has evolved as well. From its dedication to understanding its customers, to delivering products and services that reflect that understanding, CWI has continued to grow at a rate that outpaces the industry.

This dedication has enabled CWI to become a key asset in the Cable & Wireless Federation. Because the U.S. is the most competitive telecommunications market in the world, the lessons learned here provide valuable knowledge from actual experiences for other Federation members. In addition, CWI has also become known as the model for the customer intimate business.

The Federation itself is evolving this year with its Federal Development initiative, which emphasizes new partnerships and programs to help Cable & Wireless maximize its competitive potential by sharing skills and technology within the Group. In the U.S., CWI's role in Federal Development is the creation of a business plan for a multi-service Asynchronous Transfer Mode (ATM) backbone network. Around the world, alliances with General Magic in California and NTT in Japan have enabled Cable & Wireless to further develop the Federation and its pool of resources.

CWI recognizes that it must always be ready to quickly change to meet its customers needs. This applies to technology as well as changes in the regulatory environment. The company is extensively involved in working with the Federal & State Administrations and Congress as they debate the new telecommunications legislation. The new legislation is structured to promote increased competition in the telecommunications industry, including opening the local telephone business to long distance carriers. CWI is looking forward to offering local telecommunications services, along with its current product portfolio, to its customers.

At CWI, we are proud to stand at the leading edge of telecommunications, offering our customers not only safe passage through the rough waters of technological and political change, but unmatched service and support on the most fundamental levels. It is to our customers that we attribute our success and to whom we dedicate our efforts, now and for the future.

Thank you.

Alan Peyser

C. Alan Peyser

Chief Executive Officer

President's Letter

What an exciting year it has been for Cable & Wireless, Inc.! Over the past year, CWI has not only surpassed its financial achievements of 1994, but achieved recognition as an acknowledged business leader, through our pioneering work in the area of customer service and support.

Through the book "The Discipline of Market Leaders" by Michael Treacy and Fred Wiersema, and an adaptation of the book published in *Fortune Magazine*, the world has come to understand what CWI's clients have known all along: CWI learns from its customers and responds to what they need.

While other companies are just beginning to appreciate the power of customer focus, CWI has made it a staple in its daily business regimen. Every decision we make is rooted in our belief that a successful company listens to and learns from its customers.

At CWI, we strive to foster a corporate culture that increases empowerment, improves communications and promotes teamwork. We continually invest in our employees and the tools they use to enhance their capabilities and responsiveness to customers.

In addition, we are continuing to develop our network in North America to allow rapid product introductions and to share common network features across the Cable & Wireless Federation. CWI will invest $120 million over the next four years to improve our existing network infrastructure through new switching and Advanced Intelligent Network (AIN) technology.

CWI is also committed to finding new ways to take our expanding product portfolio to market. That applies not only to our established business units of International & Corporate, General Business, Alternate Channels and Messaging, but to our two newly established units, Specialized Calling Services and Personal Communications Services. Specialized Calling Services provides an entree for CWI into the rapidly-expanding prepaid calling card market, while our Personal Communications Services unit will exploit the as yet untapped potential of the next generation of telecommunications.

Our commitment to the customer continues to be reflected in CWI's yearly performance. This year, Cable & Wireless, Inc.:

- Increased total revenues by [illegible]% to $[illegible] Million
- Increased operating profit by [illegible]% to $[illegible] Million
- Increased Alternate Channels (Carrier & Partner Programs) revenues by [illegible]%
- Grew switched network traffic by [illegible]%
- Grew SureFax® traffic per business day by over 40%

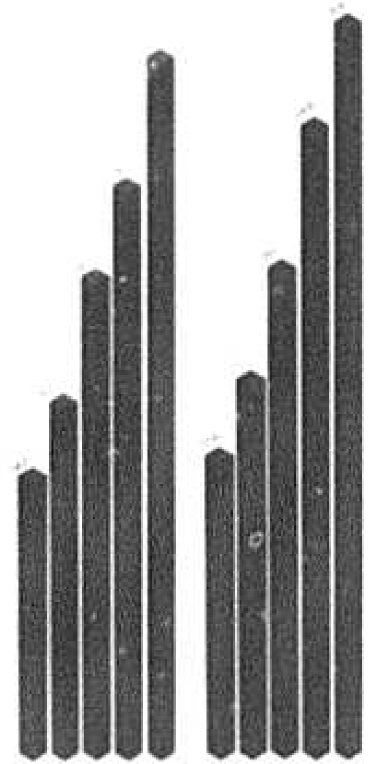
As our reputation as innovators in business communications flourishes, we will always remember the most important part of Cable & Wireless, Inc.: our customers.

Gabriel A. Battista, President and Chief Operating Officer

Financial Highlights

The following financial highlights are for the fiscal year ending March 31, 1995.

	1995	1994
Revenues	**$672 Million**	$578 Million
Minutes	**2.9 Billion**	2.6 Billion
Employees	**2390+**	2200+
Operating Profit	**$61 Million**	$39 Million



Beyond Products and Services: A Dedication to Total Satisfaction

As a customer-focused company, CWI doesn't sell products or services. Instead, it provides solutions to the problems customers encounter every day. To do that, CWI strives to learn how their customers operate, not just as a category of business, but as unique entities with unique ways of getting things done.

Whether by sales consultations, regional marketing representatives, or customer support services, CWI gains an understanding of its customers that enables it to tailor its services and support to match each customer's needs.

In a continuing effort to provide the personalized service its known for, CWI has implemented the following enhancements:

- **Regionalized Customer Satisfaction Center.** Established in August 1994, the Customer Satisfaction Center (originally known as the Customer Service Center) delivers personalized support to switched service customers, 24 hours a day. Customer Satisfaction Representatives are teamed with local Account Representatives to ensure an optimum understanding of regional business practices.
- **Regional Marketing Managers.** With offices in Dallas, Baltimore, Chicago, Boca Raton and New York, CWI's Regional Marketing Managers identify opportunities for closer customer relationships. Working with our sales force, these telecommunications professionals have designed customized telecommunications solutions for more than [illegible] organizations.

Regardless of the size of your organization, you can receive guaranteed quality customer support with CWI through any of the following programs:

- **Customer Development Group (CDG).** Established April 1, 1994, the mission of the CDG is to proactively support small business customers by responding to a variety of sales and service opportunities. The group actively supports our customer base and encourages new customers to take advantage of the CWI product portfolio.
- **Strategic Customer Support Program.** For larger switched service customers, Strategic Representatives work with CWI's Sales Representatives to ensure products and services meet our customers' needs. Strategic Representatives are available 24 hours a day, seven days a week with a toll-free 800 number.
- **Service Management Centers.** National or global network customers can take advantage of Cable & Wireless' expanding community of Service Management Centers (SMCs), offering a single interface point for your communications needs worldwide. SMCs located in the U.S., U.K., Europe, Hong Kong, Japan, the Middle East and the Caribbean provide customers with 24-hour support, fault management, provisioning management, and billing and invoice assistance.

CWI's dedication and commitment to *all types* of customers continues to be the foundation for its successful and rapidly growing Carrier and Partner Programs.

- **Carrier Program.** CWI offers originating and terminating services to a wide variety of telecommunications carriers. Within this program, personalized solutions are developed to meet each carrier's individual needs.
- **Partner Program.** CWI cultivates valuable partnerships with a select group of independent agents representing Cable & Wireless services to the marketplace. CWI extends its resources to these partnering organizations, allowing them to provide the high quality service for which CWI is known.

ASAP Software Express

"The level of customer service that Cable & Wireless provides exceeds our expectations."

— Paul Jarvie, VP Marketing

ASAP Software Express' commitment to the customer is written into the company's name. Founded in Evanston, Illinois in 1984, ASAP has grown to be one of the largest software resellers in the country by getting things done quickly.

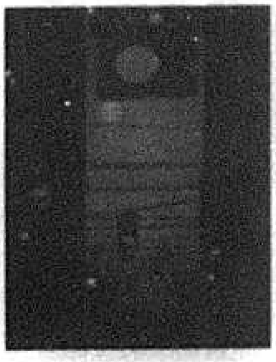
Paul Jarvie, ASAP's vice president for marketing, says, "At our company, we've always been very sensitive to our customers' need for a high level of customer service — fast." Quick response, combined with unique information services, has enabled ASAP to realize a 55 percent compound annual growth rate over the past seven years. The company's long distance service provider? Cable & Wireless, Inc.

"Each of our inside sales reps has a unique 800 number," explains Jarvie. "Customers can call free, direct to the rep, without being routed through a switchboard. It helps decrease our operating expenses since we don't need operators to route calls. Also, 800 numbers are used for print ad and direct mail responses. We've just started dedicating 800 numbers to track advertising and test new programs."

Another successful ASAP Software Express marketing strategy is the "TeleSeminar" — an informational conference call used to develop prospects and customers, while providing timely information on new directions in the software industry. Another technique, Jarvie says, is a broadcast fax sent to key customers every Monday morning; by dialing an 800 number and using the telephone keypad, customers can have more detailed information sent automatically to their fax or electronic mail system.

"The level of customer service that Cable & Wireless provides exceeds our expectations," according to Jarvie. "Our account team has been very helpful to my department by offering suggestions and ensuring programs are administered properly. The personal hand-holding has been excellent."

"During our TeleSeminars, I always feel that someone from Cable & Wireless is waiting in the wings so that if something were to go wrong, we could snap our fingers and it would be fixed."



Network Expansion & Improvements— Building for the Future

In 1993, CWI embarked on the second phase of a program initiated several years ago to ensure that the level of its network intelligence stays well ahead of the competition. CWI will invest $120 million over the next four years to enhance its already technologically advanced long distance network, and to pave the way for the next generation of business communications services.

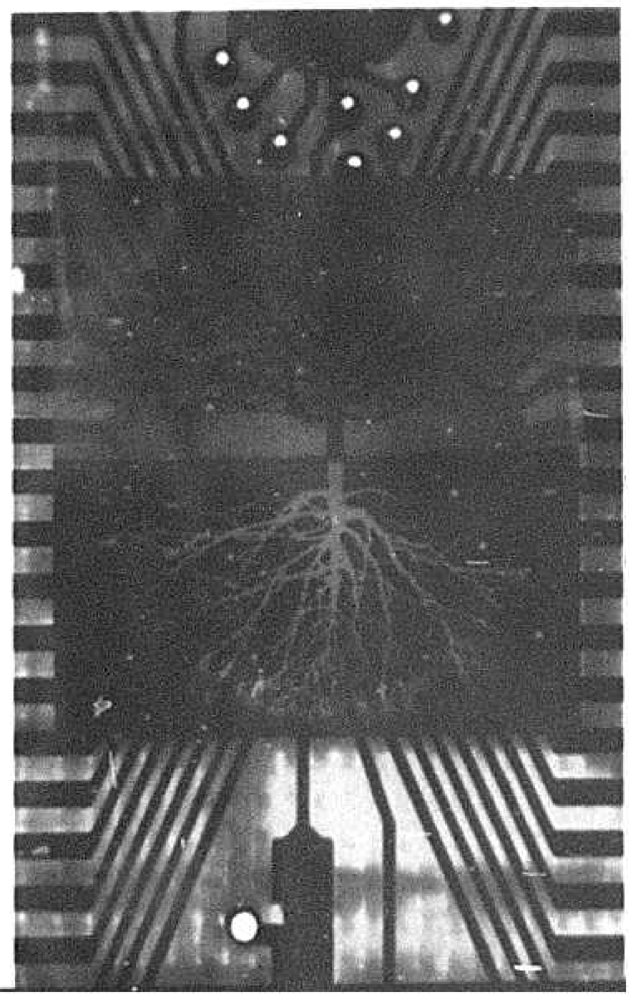
This significant investment in technology will enable CWI to improve its existing network infrastructure through new switching and Advanced Intelligent Network (AIN) technology. With these enhancements, CWI will be able to bring customers a new generation of customized voice and wideband services to support applications such as desktop videoconferencing, high-speed data transfer, multimedia and information services.

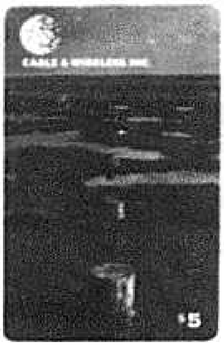
The enhanced network also allows CWI to share features with other Cable & Wireless Federation members around the world — features such as security codes to virtually eliminate fraud, global billing and call routing information.

CWI's commitment to move toward AIN technology began four years ago, with the plan for implementing Signaling System 7 services. With the completion of that plan, CWI has moved forward to the next phase of network evolution: upgrading the switching system.

Currently, the company's network consists of a combination of Northern Telecom DMS 250 switches and SSTs, which are designed and manufactured by CWI. The SSTs will be phased out gradually over a four year period; the DMS 250 switches will be upgraded to Northern Telecom's global carrier switches.

With these upgrades, CWI's network architecture will be completely compatible with other Cable & Wireless operating companies around the world. That way, the service features developed here in the U.S. will not have to stop at the water's edge, and CWI can take on a truly global perspective.





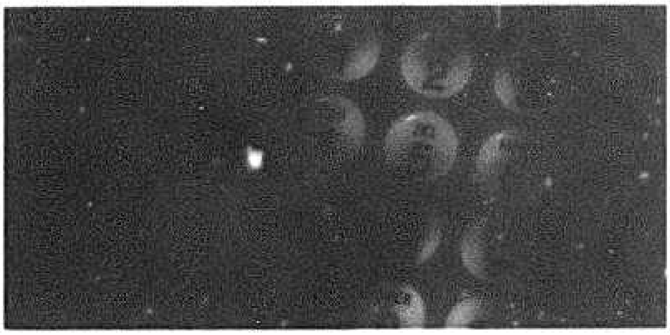
New Markets, New Opportunities

While focusing on the customer and their ever changing needs, CWI continues to identify new markets for its products and services. Each new market CWI identifies brings new challenges for excellence and new opportunities to exceed customer expectations.

PREPAID CALLING CARDS

In 1994, CWI entered the prepaid calling card market offering two limited edition collector sets: The Premiere Series, a four card set featuring landscape architecture images of the Global Digital Highway™; and the First Edition Series, a set of two Cable & Wireless Corporate Cards. With the overwhelming success of this introduction, CWI's newly created Specialized Calling Services business unit is striving to become a major player in this rapidly growing U.S. market.

In addition to off-the-shelf Corporate Cards available in a range of denominations from $5 to $100, and Image Cards with a company's name or message, CWI can completely customize calling cards to your particular business needs.



PERSONAL COMMUNICATIONS SERVICE

Another new market explored by CWI in 1994 was Personal Communications Service (PCS) — also known as wireless communications. While PCS generally refers to a broad range of microcellular services, systems and equipment, for CWI, PCS encompasses the offering of cost-effective integrated services via digital wireless technology.

To meet the PCS challenge, CWI formed a new Personal Communications Service business unit. This business unit will develop, with appropriate partners, state-of-the-art wireless communications services.

LOCAL CALLING SERVICE

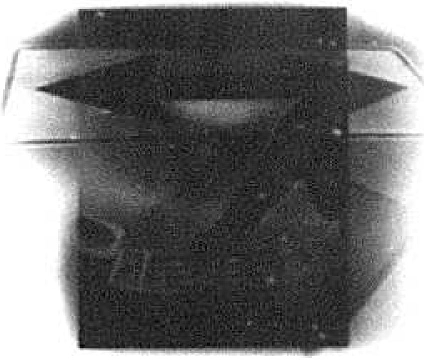
Addressing the one-stop shopping needs of its customers, CWI began a trial offer combining the sale of long distance and local calling service in New York City. This new service offers unified billing for local and long distance, and a single point of contact for all telecom customer service needs. In the upcoming year, CWI is planning to roll out this complete telecommunications solution to the following areas: New York City, Chicago, Boston, Philadelphia and the Maryland metropolitan areas.

As the regulatory environment evolves, CWI welcomes the opportunity to offer this local and long distance service to *all* of its customers nationwide.

TRIALS

Also this past year, CWI experimented with offering additional services designed to enhance current customer communications and add greater value to the CWI services portfolio. Trials were run on voice mail, paging, cellular and an advanced form of Electronic Intelligent Billing™.

CWI embraces the challenges offered by these new markets, and looks forward to working with its customers to define other untapped opportunities now, and for years to come.



Product Innovation

At CWI, innovation and cutting edge technology is a natural outgrowth of our commitment to listening closely to our customers, then developing exciting, valuable products based on what we've learned. In every case, the products CWI develops from such close interaction enables its customers to attain the highest possible levels of efficiency and productivity.

SWITCHED LONG DISTANCE SERVICES

Business First℠

Many of CWI's most innovative products have emerged from our dedication to putting business first. With the CWI Business First philosophy, a wide range of services are consolidated under one umbrella. customers work with an assigned account team to create a package of capabilities that match their business segments and geographic requirements.

800 Security

To safeguard against unauthorized calling, 800 Security prevents the completion of incoming 800 calls unless they are accompanied by valid codes.

International

Business First℠ International is a simplified integrated service that provides high quality, cost effective international service.

PASSPORT

PASSPORT's terminating service has been expanded to more than 100 countries. Six originating countries have also been added to allow customers to call their home office and overseas contacts when traveling abroad.

DATA SERVICES

Our International & Corporate Services (ICS) business unit contributed to CWI's portfolio of innovative products with several new offerings this past year.

High Speed Asynchronous Dial Access

High Speed Asynchronous Dial Access has been added to CWI's MDS X.25 Connect and LAN Connect services enabling customers to employ analog modems to cost effectively access their networks or hosts from branch offices and while on the road.

SNA Over Frame Relay

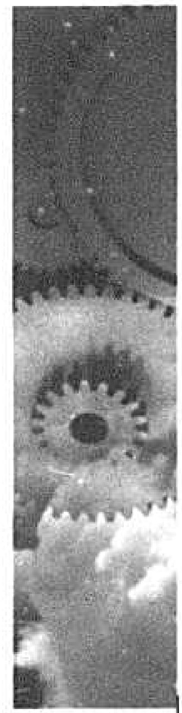
ICS also launched the industry's first certified SNA Over Frame Relay product in 1994. This new service provides highly reliable, thoroughly tested SNA network configurations; routers can handle SNA/SDLC traffic over frame relay without transmission delays. With this new product, customers can avoid lengthy testing that might otherwise delay service activation.

Customer Network Performance Reports

These statistical reports concentrate on network port availability, network usage, peak period analysis, traffic analysis and trouble analysis for CWI's Managed Data Service Customers. Using these reports, customers are able to manage costs and assure the quality and reliability of their data networks.

Cable & Wireless NetWorth℠

CWI will be entering the exciting world of the Internet in 1995. CWI's business oriented approach to Internet service, NetWorth, will provide customers with a turnkey, end to end solution encompassing Internet connectivity, hardware, networking, navigational software and customer support around the clock.



GLOBAL SERVICES

Global Managed Router Service

CWI expanded its Global Managed Data Service, which offers international frame relay and X.25 services, to include Global Managed Router Service (GMRS). With GMRS, Cable & Wireless can manage routers at customer locations around the world, freeing their resources for more strategically oriented business goals.

MESSAGING SERVICES

SureFax® for Windows

CWI's Messaging business unit introduced SureFax for Windows, a product which brings full featured list management and broadcast fax capability directly to the desktop.

SureFax® BusinessForm Service

In addition, CWI also introduced SureFax BusinessForm, a service which combines intelligent, electronic forms processing with the speed and cost effectiveness of high quality faxing.

Cable & Wireless Service Portfolio

Switched Long Distance Services

- Domestic and international outbound, 800, calling card and conference calling
- Call accounting features
- Management reporting information
- Paging
- Prepaid calling cards

Data Services

- Point-to-point private line
- Managed data services including packet switched and frame relay

Global Services

- International private line
- Global managed data services
- Global managed bandwidth services

Messaging Service

- Enhanced facsimile
- Telex and X.400 services

Cable & Wireless, Inc.
Architects of Business Communications[SM]
National Sales Offices

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BOCA RATON, FL	(800) 229-9287
BOSTON, MA	(800) 229-3013
CHARLOTTE, NC	(800) 895-2920
CHICAGO, IL	(800) 969-1029
CINCINNATI, OH	(800) 899-95[illegible]
CLEVELAND, OH	(800) 229-5515
COLUMBUS, OH	(800) 966-2113
DALLAS, TX	(800) 899-2924
DENVER, CO	(800) 861-0304
DETROIT, MI	(800) 9[illegible]-4008
HARRISBURG, PA	(800) 659-6[illegible]
HARTFORD, CT	(800) 229-2300
HOUSTON, TX	(800) 969-5656
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MIAMI, FL	(800) 486-[illegible]
MILWAUKEE, WI	(800) 969-[illegible]
MINNEAPOLIS, MN	(800) 229-[illegible]
NASHVILLE, TN	(800) 899-1188
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NEW YORK, NY	(800) 969-2969
NORFOLK, VA	(800) 486-4500
ORLANDO, FL	(800) 486-7665
PHILADELPHIA, PA	(800) 229-[illegible]113
PHOENIX, AZ	(800) 486-0468
PITTSBURGH, PA	(800) 966-[illegible]88
PRINCETON, NJ	(800) [illegible]2-3588
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SAN FRANCISCO, CA	(800) 969-49[illegible]
SAN JOSE, CA	(800) 895-2921
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