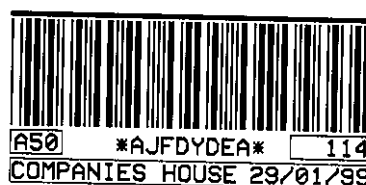


**MERCURY COMMUNICATIONS MOBILE
SERVICES LIMITED**

Report and Accounts

31 March 1998



MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

REPORT AND ACCOUNTS 1998

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MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Wallace
N Mearing-Smith
R Drolet

SECRETARY

R Drolet

REGISTERED OFFICE

Caxton Way
Watford Business Park
Watford
Hertfordshire
WD1 8XH

AUDITORS

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited accounts for the year ended 31 March 1998.

PRINCIPAL ACTIVITIES AND REVIEW OF DEVELOPMENTS

The principal activities of the Company are the distribution and installation of cellular telephone systems and the provision of cellular airtime services.

It is the Directors' intention to continue the business in line with current activities.

RESULTS AND DIVIDENDS

The Company made a profit for the year of £592,000 (1997 – loss of £681,000).

The Directors do not recommend the payment of a dividend (1997 - £nil).

DIRECTORS AND THEIR INTERESTS

The Directors currently serving or who held office during the year were as follows:

W Hoyle	(resigned 2 June 1997)
B Presbury	(resigned 2 June 1997)
J Reynolds	(resigned 2 June 1997)
G Wallace	(appointed 2 June 1997)
N Mearing-Smith	(appointed 2 June 1997)
R Drolet	(appointed 2 June 1997)

Where the Directors held any interest in the shares of Cable and Wireless plc or Cable & Wireless Communications plc, such interest is disclosed in the accounts of Cable & Wireless Communications plc, except as stated below:

Ordinary shares of Cable & Wireless Communications plc:

	At 1 January 1997 (or later date of appointment)	Shares acquired	Shares disposed	At 31 March 1998
N Mearing-Smith	153,949	-	-	153,949

Options to subscribe for ordinary shares in Cable & Wireless Communications plc:

	At 1 January 1997 (or later date of appointment)	Granted Number	Exercised Number	At 31 March 1998	Exercise Price	Date from which exercisable	Expiry Date
R Drolet	57,542	-	-	57,542	\$4.583	1/5/97	2/7/03

EMPLOYEES

The Company has no employees. Most Group employees are employed by a fellow Group Company, Cable & Wireless Communications plc.

PAYMENTS TO SUPPLIERS

The Company does not enter into contracts with suppliers. Cable & Wireless Communications Services Limited, a fellow Group Company, enters into most contracts with suppliers to the Cable and Wireless Communications Group.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

DIRECTORS' REPORT

YEAR 2000

The matters relating to the impact of the Year 2000 issue on the reporting systems and operations of the Company are set out on page 23 of the 1998 Annual Report and Accounts of Cable & Wireless Communications plc.

AUDITORS

During the year, KPMG Audit plc resigned and Arthur Andersen were appointed as auditors.

Approved by the Board of Directors
and signed on its behalf by:



R Drolet

Secretary

22 January 1999

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year:

The Directors are responsible for ensuring that in preparing the accounts, the Company has:

- selected appropriate accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards, subject to any explanations and material departures disclosed in the notes to the accounts; and
- prepared the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy the financial position of the Company which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

AUDITORS' REPORT TO THE MEMBERS OF MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

We have audited the accounts on pages 6 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 9.

Respective responsibilities of Directors and Auditors

As described on page 4, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

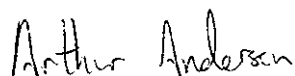
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

22 January 1999

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 March 1998

	Note	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
TURNOVER		77,553	76,597
Cost of sales		<u>(67,597)</u>	<u>(53,759)</u>
Gross profit		9,956	22,838
Other operating expenses (net)		(9,125)	(18,795)
Depreciation and amortisation		<u>(239)</u>	<u>(3,572)</u>
OPERATING PROFIT		592	471
Permanent diminution in the value of fixed assets		-	(1,020)
Net interest (payable) / receivable	2	<u>-</u>	<u>44</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	592	(505)
Taxation	5	-	(176)
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		<u>592</u>	<u>(681)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 March 1998

	31 March 1998 £'000	31 March 1997 £'000
Opening balance	4,031	4,712
Profit / (Loss) for the year	<u>592</u>	<u>(681)</u>
Closing balance	<u>4,623</u>	<u>4,031</u>

All activities derive from continuing operations.

The Company had no recognised gains or losses other than those reflected in the profit and loss account.

The accompanying notes form an integral part of these statements.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

BALANCE SHEET 31 March 1998

	Note	31 March 1998 £'000	31 March 1997 £'000
FIXED ASSETS			
Tangible assets	6	436	649
CURRENT ASSETS			
Stocks	7	-	1,797
Debtors	8	4,274	17,274
Cash at bank and in hand		-	2,172
			21,243
CREDITORS: amounts falling due within one year	9	(87)	(17,861)
NET CURRENT ASSETS		4,187	3,382
NET ASSETS		4,623	4,031
CAPITAL AND RESERVES			
Called up share capital	11	7,300	7,300
Share premium account	12	10,650	10,650
Profit and loss account	12	(13,327)	(13,919)
SHAREHOLDERS' FUNDS			
Equity		4,423	3,831
Non Equity		200	200
		4,623	4,031

These accounts were approved by the Board of Directors on 27 January 1999 and signed on its behalf by:



R Drolet

Director

The accompanying notes form an integral part of this statement.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

1. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies, which have been applied consistently in the preparation of the accounts, are as follows:

(a) Basis of preparation

The accounts are prepared in accordance with applicable Accounting Standards in the United Kingdom and on the historical cost basis.

(b) Turnover and revenue recognition

Turnover, which excludes value added tax, is accounted for on the accruals basis. Revenue is recognised in the period in which the service is provided. Turnover arises from the Company's principal activity being the distribution and installation of cellular telephone systems and the provision of cellular airtime services.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost which includes materials, direct labour and administrative expenses directly attributable to the construction and connection of the telecommunications and cable television networks and equipment.

(i) Depreciation

Depreciation is provided on the difference between the cost of tangible fixed assets and their estimated residual value in equal annual instalments over the estimated useful lives of the assets. The Directors review the useful economic lives and estimated residual values of all assets annually. Where expectations are significantly different from previous estimates, the remaining net book values of the assets are depreciated over the remaining useful economic life.

The current estimated useful lives are as follows:

	Lives:
Land and buildings:	
- freehold buildings	to 40 years
- leasehold land and buildings	to 40 years or term of lease if less
- leasehold improvements	remaining term of lease or expected useful life of the improvements
Communications network plant and equipment:	
- ducting and network construction	10 to 40 years
- electronic equipment and cabling	10 to 15 years
- other network plant and equipment	6 to 25 years
Non-network plant and equipment	3 to 10 years

(d) Stocks

Stocks represent equipment for resale and are stated at the lower of cost and net realisable value.

(e) Customer acquisition costs

The net costs associated with connecting new customers are deferred and amortised over a two year period.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(f) Deferred taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The Company provides for deferred tax only when there is a reasonable probability that the liability will arise in the foreseeable future. Where deferred tax is provided, the liability method is used. No deferred tax assets are recognised in respect of accumulated tax losses.

(g) Leased assets

All leases are operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

(h) Pension costs

The Company participates in a defined benefit pension scheme for certain employees. The regular cost of providing benefits is charged to operating profit over the service lives of the members of the scheme so as to achieve a constant percentage of pensionable pay.

(i) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1 (Revised), the Company has not prepared a cash flow statement because it is a wholly owned subsidiary of a Company incorporated in Great Britain which is part of a Group which prepares a consolidated cash flow statement (see Note 15).

2. NET INTEREST (PAYABLE)/RECEIVABLE

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
Interest receivable on deposits and short term loans	-	63
Interest payable on bank loans and overdrafts within five years, not repayable by instalments	-	(19)
	<u>-</u>	<u>44</u>

3. PROFIT / LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
Profit / loss on ordinary activities before taxation is stated after charging:		
Auditor's remuneration - audit	-	42
Management fees	2,327	-
Operating lease rentals	<u>14</u>	<u>277</u>

The auditors' remuneration for the current financial year has been borne by a fellow Group Company.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

No director received any remuneration during the year (1997 - £nil).

Cable & Wireless Communications plc, a fellow Group Company, employs most of the Group's employees. Details of staff numbers and staff costs for the Group are disclosed in the accounts of Cable & Wireless Communications plc.

In the year ended 31 March 1997 all staff were employed by the Company's immediate holding company Mercury Communications Limited. Remuneration and associated costs incurred by Mercury Communications Limited on behalf of the Company were recharged as follows:

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
The aggregate remuneration and associated costs of Company employees were:		
Salaries and wages	-	3,654
Social security costs	-	296
Pension costs	-	300
	<u>-</u>	<u>4,250</u>

5. TAXATION

	Year ended 31 March 1998 £'000	Year ended 31 March 1997 £'000
The charge for taxation, based on the Company's profit for the year, comprises:		
Current corporation tax at 31% (1997 - 33%)	-	178
Adjustment in respect of prior years	-	(2)
	<u>-</u>	<u>176</u>

The corporation tax charge for the year ended 31 March 1997 arises as a result of the permanent diminution in the value of office equipment.

If deferred tax had been fully provided in 1998 under the liability method, the tax charge for the year would have increased by a net figure of £nil (1997 - £312,000).

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

6. TANGIBLE ASSETS

	Land and buildings £'000	Network cable plant and equipment £'000	Non-network plant and equipment £'000	Total £'000
Cost				
At 1 April 1997	222	2,128	904	3,254
Additions	-	-	26	26
At 31 March 1998	<u>222</u>	<u>2,128</u>	<u>930</u>	<u>3,280</u>
Depreciation				
At 1 April 1997	142	1,711	752	2,605
Charge for year	<u>11</u>	<u>136</u>	<u>92</u>	<u>239</u>
At 31 March 1998	<u>153</u>	<u>1,847</u>	<u>844</u>	<u>2,844</u>
Net book value				
At 31 March 1998	<u>69</u>	<u>281</u>	<u>86</u>	<u>436</u>
At 31 March 1997	<u>80</u>	<u>417</u>	<u>152</u>	<u>649</u>

The net book value of land and buildings relates to short leasehold property improvements.

7. STOCKS

	31 March 1998 £'000	31 March 1997 £'000
Finished goods and goods for resale	<u>-</u>	<u>1,797</u>

8. DEBTORS

	31 March 1998 £'000	31 March 1997 £'000
Amounts falling due within one year:		
Trade debtors	-	10,623
Amounts owed by parent undertaking and fellow subsidiary undertakings	4,274	423
Other debtors	-	42
Prepayments and deferred customer acquisition costs	<u>-</u>	<u>3,119</u>
	<u>4,274</u>	<u>14,207</u>
Amounts falling due after more than one year:		
Deferred customer acquisition costs	<u>-</u>	<u>3,067</u>
	<u>4,274</u>	<u>17,274</u>

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 1998 £'000	31 March 1997 £'000
Trade creditors	-	8,164
Bank loans and overdrafts	87	-
Amounts owed to parent undertaking and fellow subsidiary undertakings	-	8,143
Other creditors including taxation and social security	-	547
Accruals and deferred income	-	1,007
	<u>87</u>	<u>17,861</u>

10. DEFERRED TAXATION

	31 March 1998 £'000	31 March 1997 £'000
Potential asset:		
Excess capital allowances	<u>-</u>	<u>369</u>

11. SHARE CAPITAL

	31 March 1998 £'000	31 March 1997 £'000
Authorised:		
200,000 "A" Preference Shares of £1 each	200	200
200,000 "B" Preference Shares of £1 each	200	200
14,600,000 Ordinary Shares of £1 each	<u>14,600</u>	<u>14,600</u>
	<u>15,000</u>	<u>15,000</u>
Allotted, called up and fully paid:		
Equity interests		
7,100,000 Ordinary Shares of £1 each	7,100	7,100
Non Equity interests		
200,000 'A' Preference Shares of £1 each	<u>200</u>	<u>200</u>
	<u>7,300</u>	<u>7,300</u>

Holders of non-voting convertible 'A' preference shares are entitled to a net cumulative dividend of 11% annually where sufficient distributable reserves are available to meet such a payment. As the holder of these shares has agreed to waive all accumulated rights as at 31 March 1998, no provision has been made in these accounts for such dividend amounts.

In the event of a winding up these shares take priority over ordinary shares up to their par value plus any deficiency of dividend not waived.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 1998

12. RESERVES

	Share Premium Account £'000	Profit and Loss Account £'000
At 1 April 1997	10,650	(13,919)
Profit for the year	-	592
At 31 March 1998	<u>10,650</u>	<u>(13,327)</u>

13. OPERATING LEASE COMMITMENTS

At 31 March 1998 the Company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings	
	31 March 1998 £'000	31 March 1997 £'000
Leases which expire:		
Within one year	-	14
Within two to five years	1	1
After five years	259	259
	<u>260</u>	<u>274</u>

14. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard No. 8 not to disclose related party transactions with Cable & Wireless Communications plc Group Companies.

MERCURY COMMUNICATIONS MOBILE SERVICES LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

15. ULTIMATE PARENT COMPANY AND CONTROLLING UNDERTAKING

The Directors regard Cable and Wireless plc, a Company registered in England and Wales, as the ultimate parent Company and controlling undertaking.

The largest Group in which the results of the Company are consolidated is that of which Cable and Wireless plc is the parent Company. The consolidated accounts of Cable and Wireless plc may be obtained from 124 Theobalds Road, London, WC1X 8RX.

The smallest Group in which the results of the Company are consolidated is that of which Cable & Wireless Communications plc is the parent Company. The consolidated accounts of Cable & Wireless Communications plc may be obtained from Caxton Way, Watford Business Park, Watford, Hertfordshire, WD1 8XH.

The Company is dependent on the financial support of Cable & Wireless Communications plc in order to meet its obligations as they fall due. Cable & Wireless Communications plc has indicated that it will continue to support the Company, thereby enabling it to meet its obligations as they fall due, for a period of not less than one year from the date of this report.