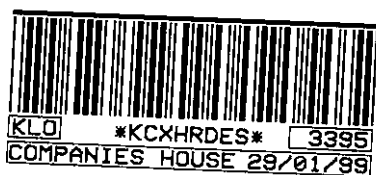


BELL CABLEMEDIA (KENT) LIMITED

Report and Accounts

31 March 1998



BELL CABLEMEDIA (KENT) LIMITED

REPORT AND ACCOUNTS 1998

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BELL CABLEMEDIA (KENT) 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

BELL CABLEMEDIA (KENT) LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited accounts for the 15 months ended 31 March 1998.

ACTIVITIES AND REVIEW OF DEVELOPMENTS

Bell Cablemedia (Kent) Limited's principal activity is the provision of cable television and telecommunications services in the South East Kent franchise area.

Construction of the cable network commenced in early 1996, and the Company commenced trading in December 1996.

The Directors expect the operations of the Company to continue to expand in the forthcoming year.

RESULTS AND DIVIDENDS

The Company made a loss for the period of £8,120,000 (year ended 31 December 1996: £50,000). The Directors do not recommend the payment of a dividend (1996 - £nil).

DIRECTORS AND THEIR INTERESTS

The Directors currently serving or who held office during the period were:

R Drolet	(appointed 31 January 1997)
D Somers	(resigned 9 May 1997)
W Anderson	(resigned 31 January 1997)
P Howell-Davies	(appointed 9 May 1997; resigned 2 June 1997)
G Wallace	(appointed 2 June 1997)
N Mearing-Smith	(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.

DIRECTORS' REPORT

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 & Wireless Communications Group

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

On 7 July 1998, Deloitte & Touche 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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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.

AUDITORS' REPORT TO THE MEMBERS OF BELL CABLEMEDIA (KENT) LIMITED

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

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.

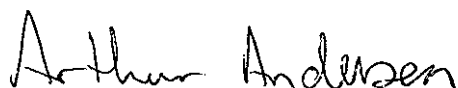
Basis of opinion

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 loss for the period 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

BELL CABLEMEDIA (KENT) LIMITED

PROFIT AND LOSS ACCOUNT 15 months ended 31 March 1998

	Note	15 months ended 31 March 1998 £'000	Year ended 31 December 1996 £'000
TURNOVER	2	1,469	1
Cost of Sales		(576)	-
Gross profit		893	1
Other operating expenses (net)		(579)	(10)
Costs of reorganisation	4	(106)	
Depreciation and amortisation		(939)	(40)
Write down of fixed assets		(1,557)	-
Provisions and write down of other assets	3	(1,629)	
OPERATING LOSS		(3,917)	(49)
Net interest payable	5	(4,203)	(1)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(8,120)	(50)
Taxation	8	-	-
LOSS FOR THE FINANCIAL PERIOD	16	(8,120)	(50)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS 15 months ended 31 March 1998

	15 months ended 31 March 1998 £'000	Year ended 31 December 1996 £'000
Opening balance	(50)	-
Loss for the financial period	(8,120)	(50)
Closing balance	(8,170)	(50)

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.

BELL CABLEMEDIA (KENT) LIMITED

BALANCE SHEET 31 March 1998

	Note	31 March 1998 £'000	31 December 1996 £'000
FIXED ASSETS			
Tangible assets	9	33,651	9,054
CURRENT ASSETS			
Debtors	10	-	19
Cash at bank and in hand		6	-
CREDITORS: amounts falling due within one year	11	(37,938)	(8,470)
NET CURRENT LIABILITIES		(37,932)	(8,451)
TOTAL ASSETS LESS CURRENT LIABILITIES		(4,281)	603
CREDITORS: amounts falling due after more than one year	12	(3,889)	(653)
NET LIABILITIES		(8,170)	(50)
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Profit and loss account	16	(8,170)	(50)
EQUITY SHAREHOLDERS' FUNDS		(8,170)	(50)

These accounts were approved by the Board of Directors on 22 January 1999, and signed on its behalf by:



R Drolet

Director

The accompanying notes form an integral part of this statement.

NOTES TO THE ACCOUNTS
15 months ended 31 March 1998

1. STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies, which have been applied consistently in the preparation of the accounts for this period and previous year, 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 derives from local, national and international telecommunications and cable television 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 design, construction and connection of the telecommunications and cable television networks and equipment.

Administrative expenses to be capitalised include all overheads of those departments responsible solely for design (including feasibility studies), construction and connection. Where departments spend only part of their time on functions directly connected with design, construction and connection, the relevant proportion of total overheads is capitalised.

Capitalisation of costs ceases once projects are substantially complete. Costs which are initially capitalised on projects under construction where the projects do not become operational are written off to the profit and loss account, once it is determined that the project will not become operational.

Costs of departments relating to revenue related operations, such as direct selling, marketing and other customer related departments, are not capitalised.

(i) Capitalisation of interest

Interest is capitalised as part of the cost of separately identifiable major capital projects, up to the time that such projects are substantially complete. The amount of interest capitalised is calculated as the capitalisation rate multiplied by the weighted average carrying amount of major capital projects under construction during the period. The capitalisation rate during the period was the Company's weighted average cost of capital of 8%.

(ii) 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.

NOTES TO THE ACCOUNTS
15 months ended 31 March 1998

1. ACCOUNTING POLICIES (continued)

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

Freehold land, where the cost is distinguishable from the cost of the building thereon, is not depreciated.

After a portion of the network is fully constructed and released to operations, depreciation of that portion commences at the earlier of six months after the release date or when target rates of penetration are achieved.

(iii) Franchise applications and other start-up costs

Franchise application costs represent the acquisition costs of rights to operate a telecommunications network in a given territory. Costs of successful and unsuccessful cable television franchise applications are written off as incurred. Costs incurred between the award of a franchise licence and the connection of the first customer are written off over the period during which revenues are generated by the franchise.

(d) Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Depreciation on the relevant assets and interest are charged to the profit and loss account.

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

(e) Fixed asset investments

Fixed asset investments are stated at cost less provisions for impairment.

Consolidated accounts are not prepared as the Company is a wholly owned subsidiary of another Company incorporated in Great Britain which prepares Group accounts (see Note 18).

(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.

NOTES TO THE ACCOUNTS
15 months ended 31 March 1998

1. ACCOUNTING POLICIES (continued)

(g) Pension costs

Defined contribution schemes

The Company participates in defined contribution pension schemes for certain employees. The pension costs charged to the profit and loss account represent contributions payable during the period.

(h) Foreign currencies

Transactions are recorded in sterling at the rate of exchange ruling on the date of the transaction, except for those for which forward cover has been purchased. All monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. All exchange differences arising are dealt with through the profit and loss account.

(i) Provisions

The Company accounts for provisions in accordance with Financial Reporting Standard No.12 'Provisions and Contingencies'. Consequently, provisions are only recognised when the Company has a legal or constructive obligation to transfer economic benefits as a result of past events. The amount recognised as a provision is a realistic and prudent estimate of the expenditure required to settle the obligation.

(j) 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 18).

2. TURNOVER

Turnover is attributable principally to the provision of telecommunications (including cable television) services in the United Kingdom. The Directors consider this to be a single class of business and accordingly no segmental analysis of operating loss or net assets is shown.

3. PROVISIONS AND WRITE DOWN OF OTHER ASSETS

During 1997, Cable & Wireless Communications plc undertook a review of financing within the Group. This resulted in a charge of £1,629,000 principally relating to the Company's share of financing costs incurred as part of Cable & Communications plc refinancing strategy.

BELL CABLEMEDIA (KENT) LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 1998

4. COSTS OF REORGANISATION

Following the formation of the Cable & Wireless Communications Group on 28 April 1997, the nature and focus of operations of group Companies have been fundamentally reorganised. Costs of £106,000 were incurred by the Company which include its share of the Group's branding, employee related costs such as redundancies, asset write downs and property rationalisations.

5. NET INTEREST PAYABLE

	15 months ended 31 March 1998 £'000	Year ended 31 December 1996 £'000
Finance charges payable on finance leases and hire purchase contracts	-	1
Interest payable to parent company	6,635	-
	<hr/>	<hr/>
Less: interest capitalised in period	(2,432)	-
	<hr/>	<hr/>
	4,203	1
	<hr/>	<hr/>

Interest on finance leases is included within interest payable to parent company (see Note 13).

6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	15 months ended 31 March 1998 £'000	Year ended 31 December 1996 £'000
Depreciation of owned tangible fixed assets	939	40
	<hr/>	<hr/>

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

None of the Directors received any emoluments from the Company during the period (1996 - fnil).

BELL CABLEMEDIA (KENT) LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 1998

7. STAFF NUMBERS AND COSTS

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 December 1996 and the period ended 27 April 1997, payroll costs incurred directly by the Company were as follows:

	4 months ended 27 April 1997 £'000	Year ended 31 December 1996 £'000
Wages and salaries	96	-
Social security costs	17	-
Other pension costs	3	-
	<u>116</u>	<u>-</u>

8. TAXATION

No corporation tax has been charged as the Company has made a loss for the financial period. The Company has approximately £9,252,000 (1996 - £12,000) of tax losses available for offset against future profits of the same trade. There is no unprovided deferred tax liability.

9. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Network cable, plant and equipment £'000	Non-network plant and equipment £'000	Total £'000
Cost				
At 1 January 1997	1,902	6,773	419	9,094
Additions	166	26,924	3	27,093
At 31 March 1998	<u>2,068</u>	<u>33,697</u>	<u>422</u>	<u>36,187</u>
Accumulated depreciation				
At 1 January 1997	20	11	9	40
Write down of fixed assets	510	1,038	9	1,557
Charge for the period	158	709	72	939
At 31 March 1998	<u>688</u>	<u>1,758</u>	<u>90</u>	<u>2,536</u>
Net book value				
At 31 March 1998	<u>1,380</u>	<u>31,939</u>	<u>332</u>	<u>33,651</u>
At 31 December 1996	<u>1,882</u>	<u>6,762</u>	<u>410</u>	<u>9,054</u>

BELL CABLEMEDIA (KENT) LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 1998

9. TANGIBLE FIXED ASSETS (continued)

Included in Network, cable, plant and equipment are assets held under finance leases with a net book value of £3,979,000 (1996: £681,000).

The net book value includes capitalised interest of £2,335,000 (1996 - £nil).

During 1997, Cable & Wireless Communications plc undertook a review of the net book values of the fixed assets of Bell Cablemedia (Kent) Limited. This resulted in a write down of fixed assets of £1,557,000 for the fifteen months ended 31 March 1998, principally relating to assets which will have no value to the Company upon the planned introduction of digital cable television.

The net book value of land and buildings comprised:

	31 March 1998 £'000	31 December 1996 £'000
Freehold	372	858
Short leasehold	1,008	1,024
	<u>1,380</u>	<u>1,882</u>

Freehold land is not depreciated.

10. DEBTORS

Amounts falling due within one year:

	31 March 1998 £'000	31 December 1996 £'000
Trade Debtors	-	2
VAT	-	4
Other debtors	-	10
Prepayments and accrued income	-	3
Amounts owed by related undertakings	-	-
	<u>-</u>	<u>19</u>

BELL CABLEMEDIA (KENT) LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 1998

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 1998 £'000	31 December 1996 £'000
Trade Creditors	-	728
Amounts owed to parent and fellow subsidiary undertakings	37,938	7,741
Accruals and deferred income	-	1
	<u>37,938</u>	<u>8,470</u>

Since the final quarter of 1997, the current assets and liabilities of the Company have been managed by Cable & Wireless Communication Services Limited. The net balance payable by the Company to Cable & Wireless Communications Services Limited is included within amounts owed to parent and fellow subsidiary undertakings.

BELL CABLEMEDIA (KENT) LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 1998

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 March 1998 £'000	31 December 1996 £'000
Amounts due to parent undertaking	3,889	653

13. OBLIGATIONS UNDER FINANCE LEASES

	31 March 1998 £'000	31 December 1996 £'000
The finance lease obligations to which the Company is committed fall due as follows:		
Within one year	307	28
Within two to five years	1,153	653
In five or more years	2,736	-
	4,196	681

The finance lease contract is with Bell Cablemedia (South East) Limited, the Company's parent Company.

14. SHARE CAPITAL

	31 March 1998 £'000	31 December 1996 £'000
Authorised		
2,000 ordinary shares of £1 each	2	2
Called up, allotted and fully paid		
100 ordinary shares of £1 each	-	-

15. CAPITAL COMMITMENTS

	31 March 1998 £'000	31 December 1996 £'000
Contracted but not provided for	-	-

The Company guarantees the obligations of Bell Cablemedia (South East) Limited under its £135 million lease facility.

BELL CABLEMEDIA (KENT) LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 1998

16. RESERVES

	Profit and loss account £'000
As at 1 January 1997	(50)
Loss for the financial period	(8,120)
As at 31 March 1998	<u>(8,170)</u>

17. 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.

18. 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.