

The Education Exchange Limited

**Directors' report and financial
statements**

Registered number 2966036

31 March 2000



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Directors' report

The directors submit the Annual Report together with the audited accounts of The Education Exchange Limited ('the Company') for the eighteen month period to 31 March 2000.

Principal activities and business review

At 31 March 2000 the company carried on the business of providing leased line and other Internet connections and virtual private network services primarily to the local authority and educational markets.

On 2 July 1999 Cable & Wireless plc acquired the entire share capital of Internet Network Services (Holdings) Limited at that date, together with its interest in Internet Network Services Limited and its wholly owned subsidiary The Education Exchange Limited.

Investment in the company has continued since that time with planned increases in network capacity, sales force and technical resource being implemented. Additional offices in Manchester and Edinburgh were opened in the period, extending our coverage across the UK.

Following the period end it was decided to fully integrate the business into that of Cable & Wireless. It is anticipated that this will happen over the course of the next financial year.

There was no disruption caused to the business as a result of the Year 2000 date change.

Results and dividends

The loss for the period after taxation, amounting to £1,203,000 (1999: £169,000) has been dealt with as shown in the attached accounts.

In view of the adverse profit and loss account the Directors are unable to recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the period were as follows:

JM Bolton	(appointed 22 November 1999 as alternate to KK Claydon)
KK Claydon	(appointed 2 July 1999)
JD Fitz	(appointed 2 July 1999)
RE Lerwill	(appointed 2 July 1999)
R Almeida	(resigned 2 July 1999)
TW Challenor	(resigned 2 July 1999)
SJ Coles	(resigned 2 July 1999)
Sir RT MacPherson	(resigned 2 July 1999)
NKO McGnee	(resigned 2 July 1999)

Directors' report *(continued)*

Directors and directors' interests *(continued)*

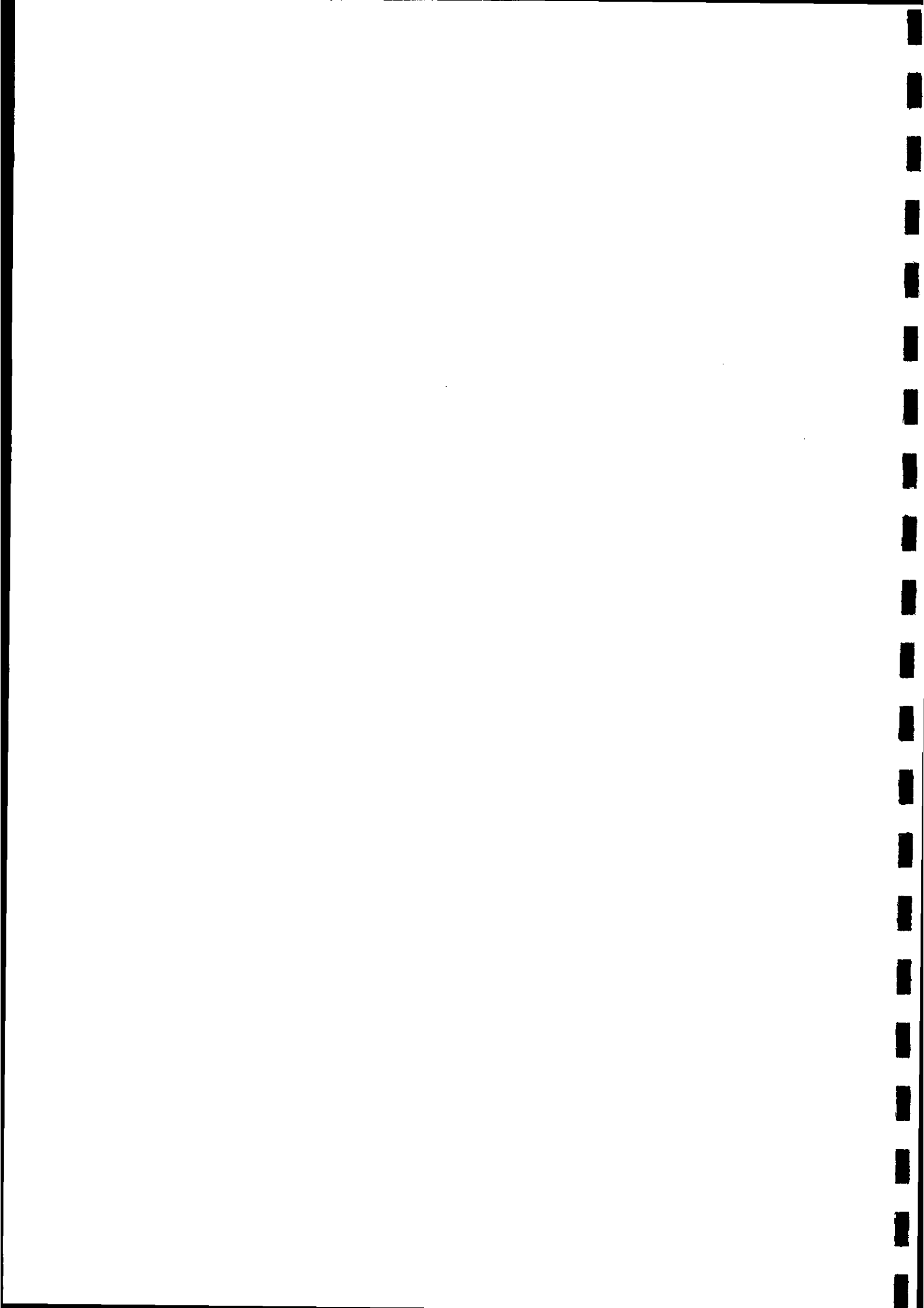
The directors who held office at the end of the financial period had the following interests in the ordinary shares of Cable & Wireless plc.

	At 1 October 1998 (or date of appointment if later)	Shares acquired/options granted	Shares disposed/ options exercised	Closing balance as at 31 March 2000
KK Claydon	8,915	22	(7,000)	1,937
	5,337	-	-	(a) 5,337
	29,372	-	-	(b) 29,372
	35,250	-	-	(b) 35,250
	9,674	-	-	(c) 9,674
	6,553	-	-	(d) 6,553
	10,782	-	-	(e) 10,782
JD Fitz	-	1,209	-	1,209
	1,828	-	(1,209)	(a) 619
	32,780	-	-	(b) 32,780
	19,400	-	-	(b) 19,400
	4,008	-	-	(c) 4,008
	12,033	-	-	(e) 12,033
RE Lerwill	34,632	120,000	(132,000)	22,632
	1,977	1,472	-	(a) 3,449
	6,350	-	(6,350)	(b) -
	309,653	-	(113,650)	(b) 196,003
	33,605	-	-	(c) 33,605
	25,651	-	-	(d) 25,651
	42,998	-	-	(e) 42,998
J Bolton	538	703	-	(a) 1,241
	2,650	-	-	(b) 2,650

All interests are in fully paid ordinary shares, unless marked (a) which are options to purchase ordinary shares under the savings related option scheme for employees, (b) which are options to purchase ordinary shares under the discretionary share option schemes, (c) which are C&W 1997 Long Term Incentive Plan (LTIP) (notional) (d) which are C&W Long Term Incentive Plan (LTIP) (notional) (e) which are C&W Performance Share Plan. Full details of the LTIP Performance Share Plan are included in the financial statements of the ultimate parent company.

Political and charitable contributions

The company made no political or charitable contributions during the period.

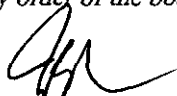


Directors' report *(continued)*

Auditors

In accordance with Section 386 of the Companies Act 1985, an Elective Resolution was passed in November 1999 dispensing with the obligation to annually appoint KPMG Audit Plc as auditors of the company.

By order of the board



JM Bolton
Secretary

25/01/01

124 Theobalds Road
London
WC1X 8RX

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements 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 at any time the financial position of the company and to enable them to ensure that the financial statements comply with the *Companies Act 1985*. They have *general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.*



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Report of the auditors to the members of The Education Exchange Limited

We have audited the financial statements on pages 6 to 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2000 and of its loss for the 18 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

31 January 2001

Profit and loss account

for the 18 months period ending 31 March 2000

	Note	18 months ending 31 March 2000 £000	12 months ending 30 September 1998 £000
Turnover	1	2,718	643
Cost of sales		(1,192)	(388)
Gross profit		1,526	255
Administrative expenses		(2,712)	(418)
Operating loss	2-4	(1,186)	(163)
Interest payable and similar charges	5	(17)	(6)
Loss on ordinary activities before and after taxation		(1,203)	(169)
Loss brought forward		(394)	(225)
Loss carried forward		(1,597)	(394)

All disclosures relate only to continuing operations.

There are no recognised gains or losses other than the loss for the year.

Balance sheet

at 31 March 2000

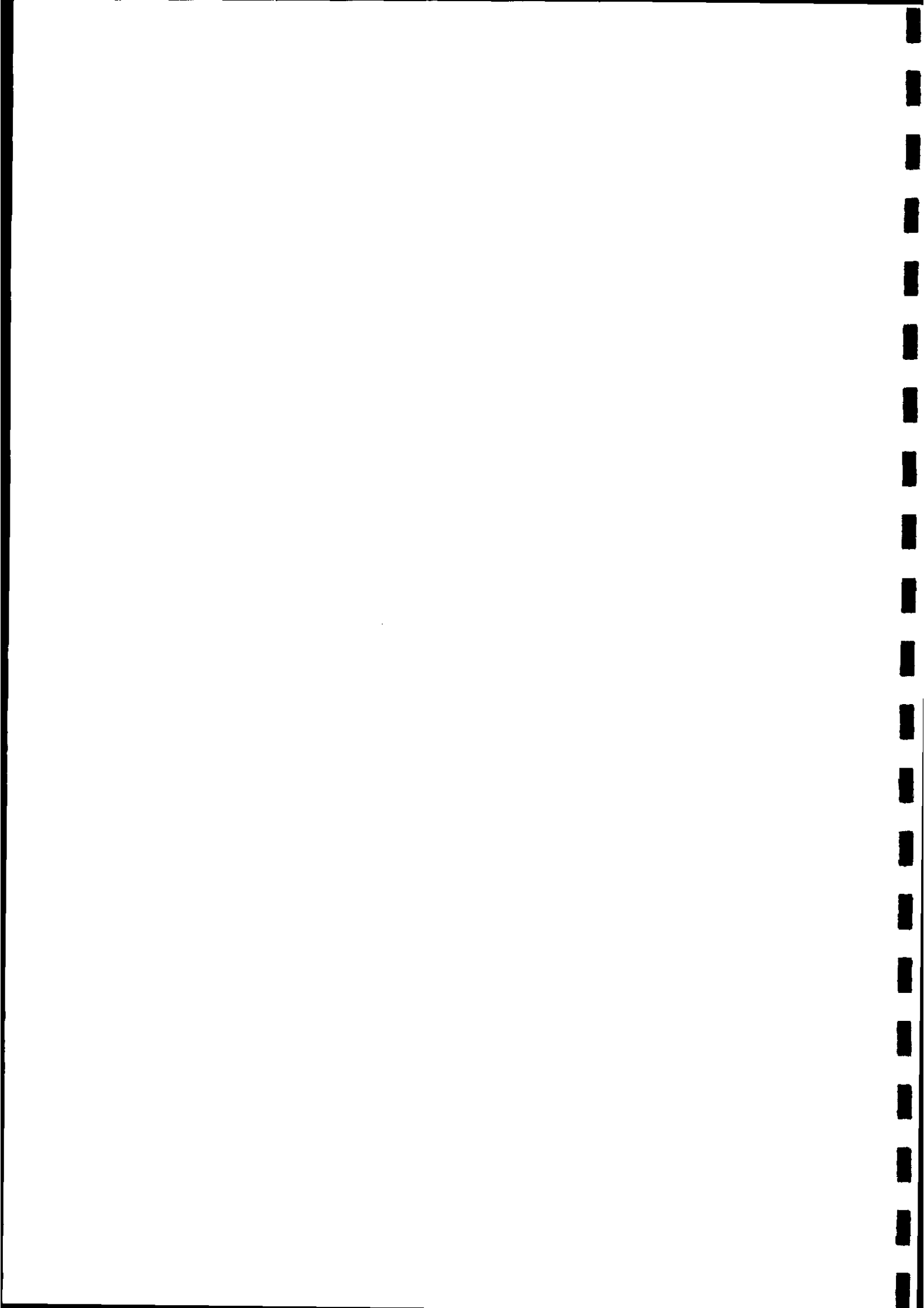
	Note	18 months ended 31 March 2000		12 months ended 30 September 1998	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	6		235		34
Current assets					
Stocks	7	6		202	
Debtors	8	1,690		528	
Cash at bank and in hand		282		46	
		1,978		776	
Creditors: amounts falling due within one year	9	(3,810)		(1,204)	
Net current (liabilities)/assets			(1,832)		(428)
Total assets less current liabilities			(1,597)		(394)
Capital and reserves					
Called up share capital	10	-		-	
Profit and loss account		(1,597)		(394)	
Equity shareholders' funds			(1,597)		(394)

These financial statements were approved by the board of directors on 25/01/01 and were signed on its behalf by:



RE Lerwill
Director

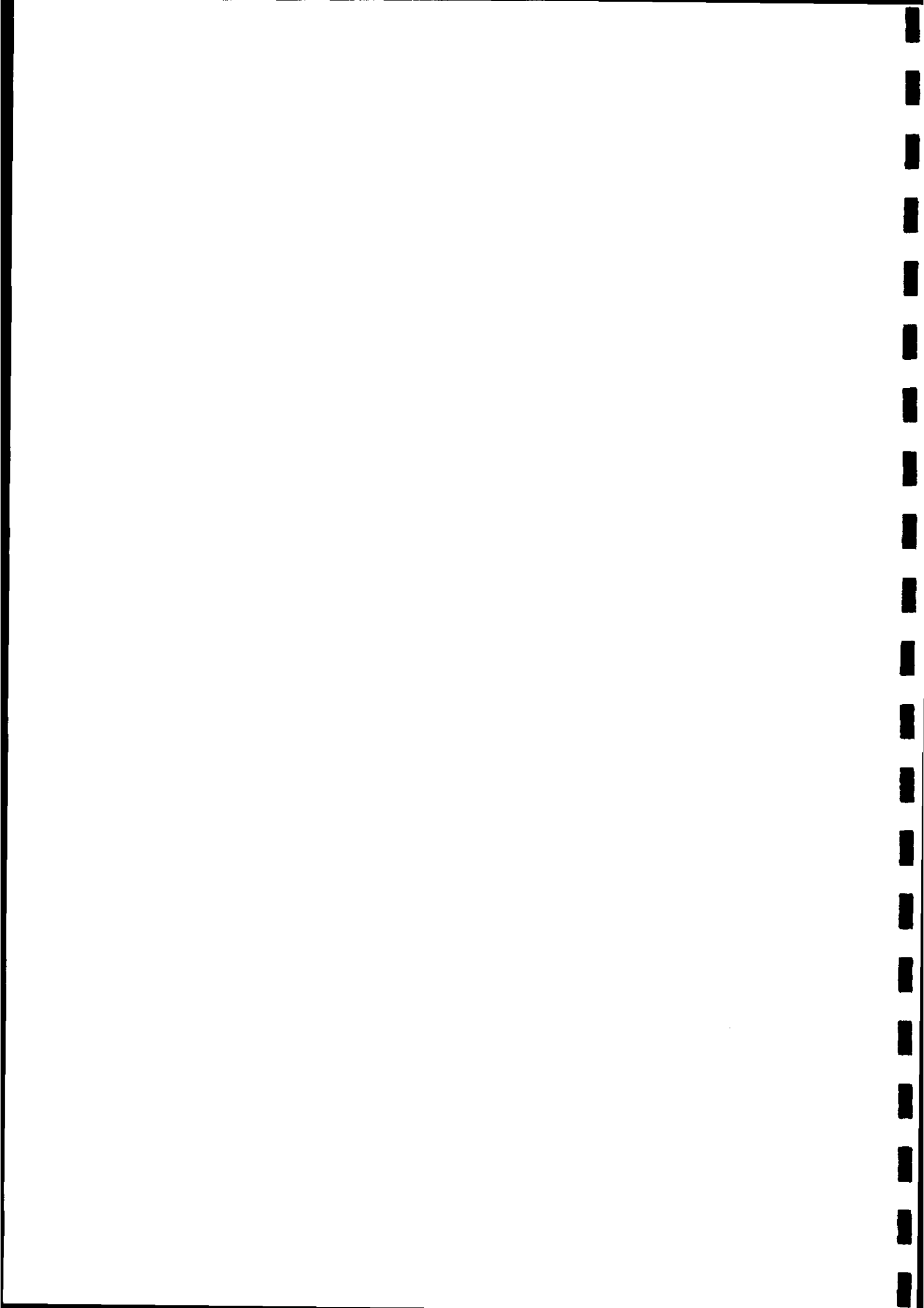
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Reconciliation of movements in equity shareholders' funds

for the 18 months period ended 31 March 2000

	18 months ended 31 March 2000 £000	12 months ended 30 September 1998 £000
Opening equity shareholders' funds	(394)	(225)
Loss for the financial period	(1,203)	(169)
	<hr/>	<hr/>
Closing equity shareholders' funds	(1,597)	(394)
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Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Going concern

Cable and Wireless plc, the company's ultimate parent company, has indicated its intention to procure sufficient financial support to allow the company to continue to trade. The directors consider it appropriate to prepare the accounts on a going concern basis. Should this support cease to be maintained the company would not be able to continue to trade.

It is anticipated that the business of The Education Exchange Limited will be integrated into that of Cable & Wireless over the course of the next financial year.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Software	-	33 1/3% on cost
Computer equipment	-	33 1/3% on cost

Stocks

Stocks are stated at the lower of cost and net realisable value.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. Subscriptions are proportioned over time on a straight line basis.

2 Loss on ordinary activities before taxation

	18 months ending 31 March 2000 £000	12 months ending 30 September 1998 £000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration	6	6
Depreciation and other amounts written off tangible fixed assets	71	13
	<hr/>	<hr/>

Notes (continued)

3 Remuneration of directors

The directors did not receive any emoluments from the company (1998: £nil).

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	18 months ending 31 March 2000	12 months ending 30 September 1998
Sales and marketing	4	-
Technical	1	2
Administration	1	3
	<hr/>	<hr/>
	6	5
	<hr/>	<hr/>

Payroll costs in respect of these staff were borne by Internet Network Services Limited.

Notes (continued)

5 Interest payable and similar charges

	18 months ending 31 March 2000 £000	12 months ending 30 September 1998 £000
Interest payable – other	3	-
Amounts owed to group undertakings	14	6
	<u>17</u>	<u>6</u>

6 Tangible fixed assets

	Software £000	Computer equipment £000	Total £000
<i>Cost</i>			
At beginning of period	13	46	59
Additions	8	264	272
	<u>21</u>	<u>310</u>	<u>331</u>
At end of period			
<i>Depreciation</i>			
At beginning of period	5	20	25
Charge for period	8	63	71
	<u>13</u>	<u>83</u>	<u>96</u>
At end of period			
<i>Net book value</i>			
At 31 March 2000	8	227	235
	<u>8</u>	<u>227</u>	<u>235</u>
At 30 September 1998	8	26	34
	<u>8</u>	<u>26</u>	<u>34</u>

Notes (continued)

7 Stocks

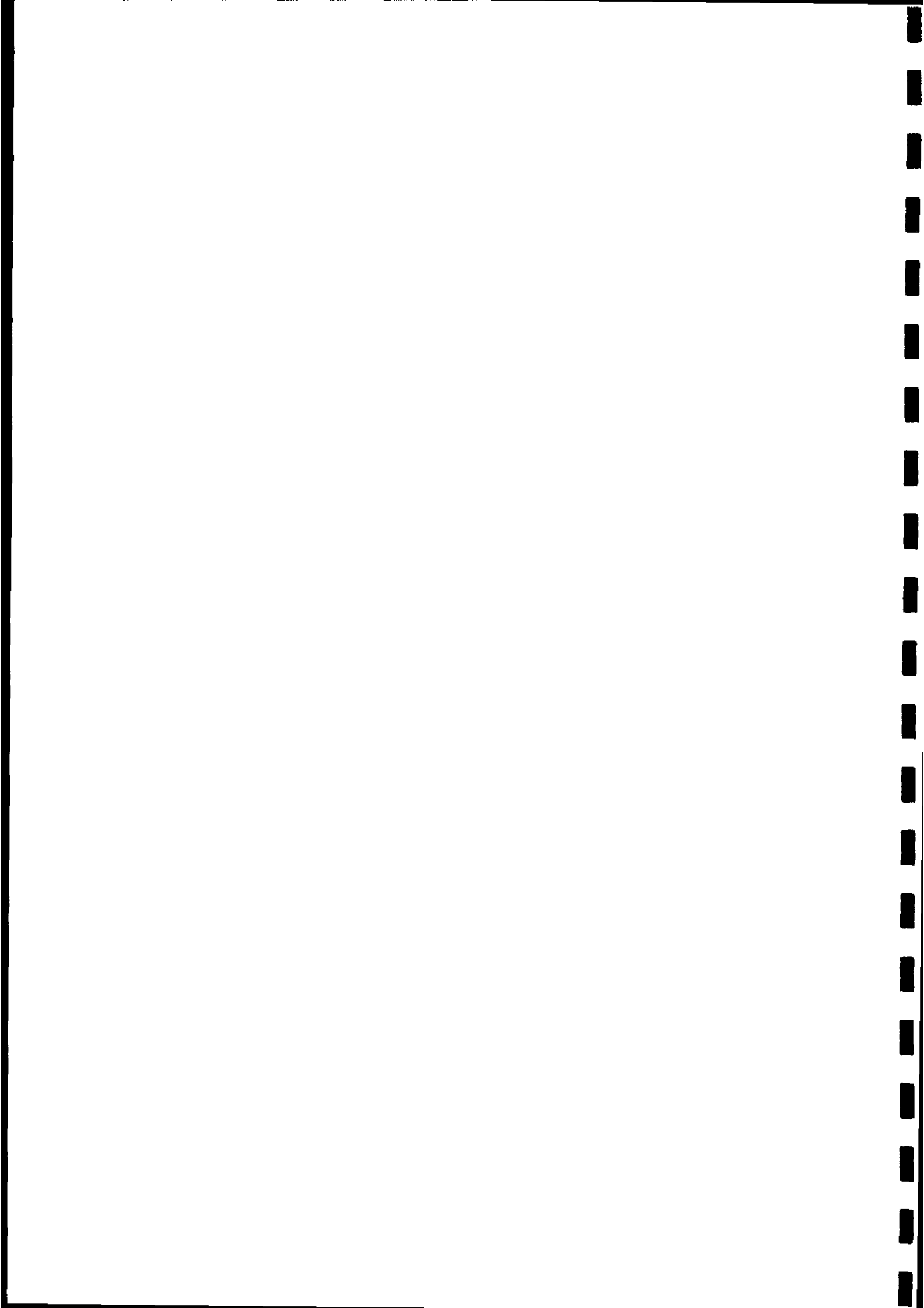
	18 months ending 31 March 2000 £000	12 months ending 30 September 1998 £000
Goods available for resale	6	202

8 Debtors

	18 months ended 31 March 2000 £000	12 months ended 30 September 1998 £000
Trade debtors	984	297
Amounts owed by group undertakings	579	193
Other debtors	98	18
Prepayments and accrued income	29	20
	<u>1,690</u>	<u>528</u>

9 Creditors: amounts falling due within one year

	18 months ended 31 March 2000 £000	12 months ended 30 September 1998 £000
Trade creditors	15	20
Amounts owed to group undertakings	2,005	90
Corporation tax	7	30
Accruals	114	101
Deferred income	1,669	963
	<u>3,810</u>	<u>1,204</u>



Notes (continued)

10 Called up share capital

	18 months ended 31 March 2000 £	12 months ended 30 September 1998 £
<i>Authorised</i>		
Equity: Ordinary shares of £1 each	100	100
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<i>Allotted, called up and fully paid</i>		
Equity: Ordinary shares of £1 each	100	100
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11 Cash flow statement

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking. A cash flow statement is included in the financial statements of Cable and Wireless plc.

12 Related party transactions

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose transactions with entities that are part of the Cable & Wireless group, or investees of the group qualifying as related parties, as all of the company's voting rights are controlled within that group. There are no material transactions with any other related parties.

13 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Internet Network Services Limited incorporated in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Cable & Wireless plc, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Internet Network Services Limited, incorporated in the United Kingdom. The consolidated accounts of these groups are available to the public and may be obtained from Cable and Wireless plc, 124 Theobalds Road, London EC1X 8RX.

