

INTERNET NETWORK SERVICES LIMITED

Report and Financial Statements

31 March 2004



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Registered Office
124 Theobalds Road
London
WC1X 8RX

To the Company's Ordinary Shareholders

Elective Regime

On 29 November 1999 the Company passed elective resolutions in accordance with Section 379A of the Companies Act 1985 as amended ("the Act") to dispense with the formalities of:

- the laying of accounts before the Company in general meeting (Section 252 of the Act);
- the holding of annual general meetings (Section 366A of the Act);
- the obligation to appoint auditors annually (Section 386 of the Act).

Section 253(2) gives members the right to require the laying of accounts before the company in general meeting. To exercise such right, a member must give notice in writing to that effect deposited at the registered office of the Company within 28 days of the day on which the report and financial statements are sent out in accordance with Section 238(1) of the Act.

Contents	Page
Directors' report	1
Statement of directors' responsibilities	2
Report of the independent auditors, KPMG Audit Plc, to the members of Internet Network Services Limited	3
Profit and loss account	4
Reconciliation of movements in shareholders' funds	4
Balance sheet	5
Notes to the financial statements	6

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2004.

Principal activities and review of developments

The Company's principal activity is to hold assets used by other Cable & Wireless Group companies. It is expected that these assets will be transferred to a fellow subsidiary of Cable and Wireless plc and the Company will then cease to trade.

Business review

The Company made a loss for the year of £1,595,573 (2003: loss of £1,783,733). The Directors do not recommend payment of a dividend (2003: £nil).

Post balance sheet event

A subsidiary undertaking, The Education Exchange Limited, is intended to be liquidated. As the undertaking has net liabilities, the Directors believe that it is prudent to provide against the proportion of debt that would be deemed irrecoverable.

Directors and their interests

The Directors who held office during the year and subsequent to the year end were:

K K Claydon	resigned 18 July 2003
J D Fitz	resigned 27 May 2003
R E Lerwill	resigned 5 June 2003
J M Bolton	(alternate to K K Claydon) appointment ceased 18 July 2003
G H Norton	appointed 1 July 2003, resigned 16 September 2004
R Hoggarth	appointed 14 July 2003
L Solomon	appointed 16 September 2004

The Directors have no interest in the shares of the Company nor any disclosable interests in any contracts or arrangements with the Company either subsisting at the end of the financial year or entered into since the end of the previous financial year. The Directors who held office at the end of the financial year had the following beneficial interests in the shares of Cable and Wireless plc:

	At 1 April 2003 (or later date of appointment)	Shares acquired or options granted	Shares disposed or options exercised	At 31 March 2004	
R Hoggarth	-	100,000	-	100,000	
	-	8,576	-	8,576	(a)
	-	930,438	-	930,438	(b)
	-	100,000	-	100,000	(c)
G H Norton	10,452	886	-	11,338	
	-	10,393	-	10,393	(a)
	150,000	-	-	150,000	(b)

All interests are in fully paid Ordinary Shares, unless marked (a) which are options to purchase Ordinary Shares under the C&W Employee Savings Related Share Option Scheme, (b) which are options to purchase Ordinary Shares under the discretionary share option schemes, or (c) which are restricted shares which will vest on 14 July 2006.

By order of the Board of Directors



H M HANSCOMB
Assistant Secretary

Date: 26 November 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year 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 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.

Report of the independent auditors, KPMG Audit Plc, to the members of Internet Network Services Limited

We have audited the financial statements on pages 4 to 10.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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 1985. 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 audit 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

26 November 2004

Profit and loss account

For the year ended 31 March 2004

	<i>Note</i>	2004 £	2003 £
Other operating credits / (costs)		84,971	(7,577)
Exceptional operating expenses	2	(1,278,542)	-
Depreciation		-	(539,670)
Operating loss	3	(1,193,571)	(547,247)
Other interest receivable and similar income	5	7,927	-
Interest payable and similar charges	6	(1,743,400)	(1,769,526)
Loss on ordinary activities before taxation		(2,929,044)	(2,316,773)
Taxation	7	1,333,471	533,000
Retained loss for the financial year		(1,595,573)	(1,783,773)

All results are derived from discontinued activities.

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2004

	2004 £	2003 £
Opening balance	(28,315,354)	(26,531,581)
Loss for the year	(1,595,573)	(1,783,773)
Closing balance	(29,910,927)	(28,315,354)

The Company has no recognised gains and losses other than the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the periods stated above and their historical cost equivalents.

Internet Network Services Limited

Balance sheet

At 31 March 2004

	Note	2004 £	2003 £
Fixed Assets			
Tangible fixed assets	8	-	-
Investments	9	-	-
Current assets			
Debtors	10	6,467,099	7,374,920
Cash at bank and in hand		278,844	474,918
		<u>6,745,943</u>	<u>7,849,838</u>
Creditors: amounts falling due within one year	11	<u>(36,656,870)</u>	<u>(36,165,192)</u>
Net current liabilities		<u>(29,910,927)</u>	<u>(28,315,354)</u>
Total assets less current liabilities		<u><u>(29,910,927)</u></u>	<u><u>(28,315,354)</u></u>
Capital and reserves			
Called up equity share capital	12	9,225,000	9,225,000
Profit and loss account	13	(39,135,927)	(37,540,354)
		<u></u>	<u></u>
Shareholders' deficits		<u><u>(29,910,927)</u></u>	<u><u>(28,315,354)</u></u>

These accounts were approved by the Board of Directors on 26 November 2004 and signed on its behalf by:



L SOLOMON
Director

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements
Year ended 31 March 2004

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 are prepared in accordance with applicable accounting standards and on the historical cost basis.

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements have been prepared on a going concern basis, notwithstanding net liabilities of £29,910,927 (2003: £28,315,354). The directors have reviewed the financial position of the Company, including the arrangements with group undertakings, and believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Tangible fixed assets

Tangible fixed assets are recorded at cost, which includes materials, direct labour and other incremental costs applicable to the design, construction and connection of the telecommunications and networks and equipment.

Depreciation

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

Land and buildings:	
Freehold buildings	40 years
Leasehold land and buildings	up to 40 years or term of lease if less
Communications network plant and equipment:	
Cables and other assets	up to 20 years
Network equipment	3 to 25 years
Ducting	40 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.

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off for impairment.

Foreign currencies

Transactions in foreign currency 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 and gains or losses on translation are dealt with through the profit and loss account.

Cash flow statement

Under FRS1 (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 consolidated cash flow statement is included in the financial statements of Cable and Wireless plc in which the company is consolidated and which are publicly available from the address in note 16.

Notes to the financial statements (continued)
Year ended 31 March 2004

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date, except as otherwise required by FRS19. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2. Exceptional operating expenses

	2004 £	2003 £
Provision against intercompany debt waiver	<u>1,278,542</u>	<u>-</u>

A subsidiary undertaking, The Education Exchange Limited, is in the process of being liquidated. As the undertaking has net liabilities of £1,278,542, the directors believe that it is prudent to provide against the proportion of debt that would be deemed irrecoverable.

3. Profit / loss on ordinary activities before taxation

	2004 £	2003 £
Depreciation of tangible fixed assets	<u>-</u>	<u>539,670</u>

4. Information regarding Directors and employees

The Directors did not receive any remuneration during the year (2003: £nil). The Company had no employees during the year (2003: nil). The auditors' remuneration for the current and previous financial years has been borne by a fellow group company.

5. Other interest receivable and similar income

	2004 £	2003 £
Bank deposit interest receivable	<u>7,927</u>	<u>-</u>

6. Interest payable and similar charges

	2004 £	2003 £
Interest payable other	-	1,000
Interest payable to fellow group undertakings	1,743,400	1,768,526
	<u>1,743,400</u>	<u>1,769,526</u>

Notes to the financial statements (continued)
Year ended 31 March 2004

7. Taxation

Analysis of credit for the period	2004 £	2003 £
<i>Corporation tax</i>		
UK Corporation tax on losses of the year in respect of Group relief	1,255,210	533,000
Adjustments in respect of prior periods	78,261	-
	<u>1,333,471</u>	<u>533,000</u>

The current tax credit is lower than (2003:lower than) the standard rate of corporation tax in the UK of 30% (2003:30%). The differences are explained below:

	2004 £	2003 £
<i>Current tax reconciliation:</i>		
Loss on ordinary activities	<u>(2,929,044)</u>	<u>(2,316,773)</u>
Current tax credit at 30% (2003: 30%)	878,713	695,032
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	(162,032)
Capital Allowances for year in excess of depreciation	376,497	-
Adjustments in respect of prior periods	78,261	-
	<u>1,333,471</u>	<u>533,000</u>

8. Tangible assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment and software £	Telecoms infrastructure £	Total £
Cost					
At 1 April 2003 and at 31 March 2004	<u>232,000</u>	<u>461,000</u>	<u>16,068,000</u>	<u>4,742,000</u>	<u>21,503,000</u>
Depreciation					
At 1 April 2003 and at 31 March 2004	<u>232,000</u>	<u>461,000</u>	<u>16,068,000</u>	<u>4,742,000</u>	<u>21,503,000</u>
Net book values					
At 31 March 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 March 2003	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)
Year ended 31 March 2004

9. Fixed asset investments

Principal subsidiary undertakings

Details of the Company's subsidiary undertakings are given below.

Subsidiary undertaking	Percentage of shares held	Principal activities
The Education Exchange Limited	100	Non Trading
The Web Internet Services Limited	100	Non Trading

10. Debtors

	2004 £	2003 £
Amounts falling due within one year:		
Amounts owed by fellow Group undertakings	6,258,480	7,374,920
Other debtors	208,619	-
	<u>6,467,099</u>	<u>7,374,920</u>

11. Creditors

	2004 £	2003 £
Amounts falling due within one year:		
Amounts owed to fellow Group undertakings	36,656,870	36,084,840
Other creditors including tax and social security	-	80,352
	<u>36,656,870</u>	<u>36,165,192</u>

12. Share capital

	2004 £	2003 £
Authorised:		
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, called up and fully paid:		
9,225,000 ordinary shares of £1 each	<u>9,225,000</u>	<u>9,225,000</u>

13. Reserves

	Profit and loss Account £
At 1 April 2003	(37,540,354)
Retained loss for the year	(1,595,573)
At 31 March 2004	<u>(39,135,927)</u>

Notes to the financial statements (continued)

Year ended 31 March 2004

14. Commitments

	31 March 2004		31 March 2003	
	Land and Buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	437	-	-	-
In the second to fifth years inclusive	-	-	444	-
	<u>437</u>	<u>-</u>	<u>444</u>	<u>-</u>

All payments in respect of operating leases during the year were borne by a fellow subsidiary undertaking.

15. Related party transactions

Under FRS 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 the Group. There are no transactions with any other related parties.

16. 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 financial statements of Cable and Wireless plc may be obtained from the Secretary, Cable and Wireless plc, 124 Theobalds Road, London WC1X 8RX. No other group accounts include the results of the Company.