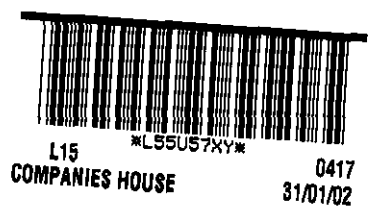


LONDON HYDRAULIC POWER COMPANY

Report and Financial Statements

31 March 2001



Report and financial statements 2001

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Officers and professional advisors

Directors

R Drolet
J D Fitz
R E Lerwill

Secretary

K K Claydon

Registered Office

124 Theobalds Road
London
WC1X 8RX

Auditors

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2001.

Principal activities

The Company owns an underground mains system which is used for communication purposes. The Company's trading results derive from ancillary operations arising out of ownership of the assets concerned. It is the Directors' intention to continue the business in line with current activities.

Results and appropriations

The Company made a profit for the year of £nil (2000: £nil). The Directors do not recommend the payment of a dividend (2000: £nil).

Business review

The Company received no income and incurred no expense during the year.

Directors and their interests

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

R Drolet	
R J Beveridge	(resigned 30 May 2000)
G Clarke	(resigned 30 May 2000)
M B Molyneux	(resigned 30 May 2000)
R E Lerwill	(appointed 30 May 2000)
J D Fitz	(appointed 30 May 2000)

The Directors have no interest in the shares of the Company nor any disclosable interests in any contracts or arrangements with the Company subsisting at the end of the financial year. The beneficial interests of the Directors in the shares of Cable and Wireless plc are as follows:

	At 1 April 2000 (or later date of appointment)	Shares acquired or options granted	Shares disposed or options exercised	At 31 March 2001
R Drolet	-	20,000	-	20,000
	3,289	-	-	3,289 (a)
	17,312	17,595	-	34,907 (b)
	13,236	-	-	13,236 (d)
	-	10,031	-	10,031 (e)
J D Fitz	1,209	9	-	1,218
	619	-	-	619 (a)
	80,927	-	-	80,927 (b)
	4,008	668	-	4,676 (c)
	12,033	-	-	12,033 (d)
	8,261	-	-	8,261 (e)

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, (c) which are C&W Long Term Incentive Plan (LTIP) 1998 (notional), (d) which are contingent share awards under the C&W Performance Share Plan (PSP) 1999 granted on 1 April 1999 or (e) which are contingent share awards under the C&W Performance Share Plan 2000 granted on 1 April 2000. Full details of the LTIP and the PSP are included in the financial statements of the ultimate parent company, Cable and Wireless plc.

Directors' report (continued)

Directors and their interests (continued)

The interests in shares of Cable and Wireless plc for R E Lerwill are disclosed in the Annual Report and Accounts for the year ended 31 March 2001 for that company.

Employees

During the year the Company had no employees.

Payments to suppliers

During the year, the Company did not enter into contracts with suppliers. Cable & Wireless UK Services Limited, a fellow Group Company, entered into most contracts with suppliers on behalf of Cable & Wireless (UK) Holdings PLC and its subsidiaries.

Auditors

During the year, the Directors appointed KPMG Audit Plc as auditors of the Company.

Elective Regime

The Company has 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.

By order of the Board:



K K CLAYDON
Secretary

124 Theobalds Road
London WC1X 8RX

29 January 2002

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.

**Auditors' report to the members of
London Hydraulic Power Company**

We have audited the financial statements on pages 7 to 11.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Directors' report and, as described on page 5, 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 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 2001 and of its results 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

PO Box 695
8 Salisbury Square
London EC4Y 8BB

29 January 2002

Profit and loss account

for the year ended 31 March 2001

During the financial year and the preceding financial year (as restated) the Company received no income and incurred no expenditure. Consequently, during those years the Company made neither a profit nor a loss.

Statement of total recognised gains and losses

for the year ended 31 March 2001

	<i>Note</i>	2001 £000	Restated 2000 £000
Result for the financial year			
Depreciation and amortisation		-	-
Total recognised gains and losses relating to the financial year		<hr/>	<hr/>
Prior year adjustment	<i>1</i>	(2,637)	-
Total recognised gains and losses since last annual report		<hr/> <hr/>	<hr/> <hr/>

London Hydraulic Power Company

Balance sheet

At 31 March 2001

		2001	Restated 2000
	Note	£000	£000
Fixed assets			
Tangible assets	3	-	-
Current assets			
Debtors	4	515	515
Net current assets		<u>515</u>	<u>515</u>
Net assets		<u>515</u>	<u>515</u>
Capital and reserves			
Called up share capital	5	166	166
Profit and loss account	6	264	264
Other reserves	6	85	85
Shareholders' funds		<u>515</u>	<u>515</u>
Equity		<u>507</u>	<u>507</u>
Non Equity		<u>8</u>	<u>8</u>
Shareholders' funds		<u>515</u>	<u>515</u>

These financial statements were approved by the Board of Directors on 29 January 2002 and were signed on its behalf by:



R E LERWILL
Director

Notes to the financial statements
(forming part of the financial statements)

1. Accounting policies

The principal accounting policies, which have been applied consistently in the preparation of the financial statements in the current and previous year, except as set out below, are as follows:

Basis of preparation

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

Change in accounting policy

In prior years, the financial statements have been prepared on historical cost basis modified to include the revaluation of network cable, plant and equipment. During the year, to bring the accounting policy in line with those of the group, the basis of preparation was changed to historical cost with no modification to include revaluations of fixed assets. The results of the prior year have been restated accordingly. The effect on the results for the current year was to reduce the depreciation charge by £107,000 (2000: £106,000)

Tangible fixed assets and 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.

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 which prepares consolidated financial statements which are publicly available.

2. Information regarding Directors, employees and auditors

The Directors did not receive any remuneration during the year (2000: £nil). The Company had no employees during the year. The auditors remuneration for the year was borne by a fellow Group company.

3. Tangible assets

	Network Cable, Plant and Equipment £000
Cost	
At 1 April 2000 and 31 March 2001	<u>429</u>
Depreciation	
At 1 April 2000 and 31 March 2001	<u>429</u>
Net book value	
At 1 April 2000 and 31 March 2001	<u>-</u>

Notes to the financial statements

(forming part of the financial statements)

4. Debtors

	2001 £000	2000 £000
Amounts falling due within one year:		
Amounts due from Group undertakings	<u>515</u>	<u>515</u>

5. Share capital

	2001 £000	2000 £000
Authorised, allotted, called up and fully paid:		
79,000 Ordinary shares of £2 each	158	158
790 5% non-cumulative preference shares of £10 each	<u>8</u>	<u>8</u>
	<u>166</u>	<u>166</u>

The preference shareholders have the right to vote at all General Meetings and are entitled to 4,000 votes per share. The preference shares rank first upon a winding up and are entitled to £10,000 per share.

6. Reserves

	Profit and Loss account £000	Revaluation Reserve £000	Other Reserve £000
At 1 April 2000 – as previously stated	264	2,637	85
Result for the year	-	-	-
	<u>264</u>	<u>2,637</u>	<u>85</u>
Prior year adjustment	-	(2,637)	-
At 31 March 2001	<u>264</u>	<u>-</u>	<u>85</u>

7. Reconciliation of movements in shareholders' funds

	2001 £000	2000 £000
Opening balance (originally £3,152,000 before prior year adjustment)	515	515
Result for the year	-	-
Closing balance	<u>515</u>	<u>515</u>

8. 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 124 Theobalds Road, London, WC1X 8RX. No other group accounts include the results of the Company.

Notes to the financial statements

(forming part of the financial statements)

9. 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 transactions with other group companies since it is a wholly owned subsidiary of Cable and Wireless plc.