CABLE & WIRELESS

Announcement

CABLE AND WIRELESS plc
RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

- **Group EBITDA before exceptionals up 10% to £221m**
- **UK recovery ahead of our expectations, with improved EBITDA guidance for full year 2006/07 to between £145m and £150m, excluding C&W Access**
- **International performing to plan with strong mobile and broadband growth**
- **Group cash and short term investments of £812m**
- **Interim dividend of 1.7 pence (2005/06: 1.4 pence), an increase of 21%**

CHAIRMAN'S STATEMENT

Commenting on the performance of the Group, Richard Lapthorne, Chairman, said:

"The Group has made good progress in the first half. The International business continues to perform well and the UK is executing its turnaround plan successfully. As a result of the actions we've taken over recent months, we expect to see further progress in our performance in the second half.

"Against this background, we are declaring an increased interim dividend of 1.7 pence."

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GROUP RESULTS

The Group results presented below should be read in conjunction with the Group's consolidated income statement, balance sheet and cash flow statement and related notes on pages 34 to 41.

	For 6 months ended 30th September 2006			For 6 months ended 30th September 2005[1]		
	Pre-exceptionals £m	Exceptionals[2] £m	Total £m	Pre-exceptionals £m	Exceptionals[2] £m	Total £m
Revenue	1,718	-	1,718	1,481	-	1,481
Outpayments & network costs	(1,056)	-	(1,056)	(835)	(3)	(838)
Staff costs	(260)	(20)	(280)	(266)	(12)	(278)
Other costs	(181)	(2)	(183)	(179)	(4)	(183)
Total operating costs	(1,497)	(22)	(1,519)	(1,280)	(19)	(1,299)
EBITDA[3]	**221**	**(22)**	**199**	**201**	**(19)**	**182**
LTIP charges	(5)	-	(5)	-	-	-
Depreciation & software amortisation	(121)	-	(121)	(111)	-	(111)
Amortisation of acquired intangibles	(9)	-	(9)	(3)	-	(3)
Other operating income/(expense)	9	(9)	-	-	11	11
Group operating profit/(loss)	**95**	**(31)**	**64**	**87**	**(8)**	**79**
Share of post-tax profit of joint ventures & associates	21	-	21	27	-	27
Total operating profit/(loss)	**116**	**(31)**	**85**	**114**	**(8)**	**106**
Gains on sale of non-current assets	-	-	-	2	-	2
Gain on termination of operations	-	10	10	-	-	-
Net interest & other finance income[4]	(16)	-	(16)	12	-	12
Profit/(loss) before income tax	**100**	**(21)**	**79**	**128**	**(8)**	**120**
Income tax expense	(24)	-	(24)	(20)	-	(20)
Profit/(loss) for the period from continuing operations	**76**	**(21)**	**55**	**108**	**(8)**	**100**
Profit for the period from discontinued operations	-	3	3	2	17	19
Profit/(loss) for the period	**76**	**(18)**	**58**	**110**	**9**	**119**
Attributable to equity holders of the Company	49	(18)	31	82	9	91
Attributable to minority interests	27	-	27	28	-	28
Profit/(loss) for the period	**76**	**(18)**	**58**	**110**	**9**	**119**
Earnings/(losses) per share from continuing operations attributable to equity holders (pence)	2.1p	(0.9)p	1.2p	3.5p	(0.3)p	3.2p
Earnings/(losses) per share attributable to equity holders (pence)	2.1p	(0.8)p	1.3p	3.6p	0.4p	4.0p
Dividend per share (pence)			1.7p			1.4p
Capital expenditure			(174)			(169)
Cash & cash equivalents			774			1,929

[1] Results adjusted to reflect revised accounting for Monaco Telecom and other presentational points as set out on page 38
[2] Exceptionals comprise items considered exceptional by virtue of their size, nature or incidence and include restructuring and impairment charges, and releases of certain provisions and certain profits and losses on disposal of non-current assets
[3] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4
[4] Includes interest income, interest expense and other finance income

ANALYSIS OF GROUP RESULTS

The Group's financial performance is described on pages 4 to 11 and is discussed in more detail in the International and UK sections that follow on pages 12 to 18 and 19 to 27 respectively. The results and the supporting commentary compare performance for the six months 1st April to 30th September 2006 to the equivalent period in 2005.

The commentary that follows refers to the Group pre-exceptionals results. For analysis of exceptional items see page 6.

Group results before exceptional items

Group revenue
The increase in Group revenue of £237m to £1,718m principally reflects the revenue from customers acquired as part of the Energis transaction on 11th November 2005. This growth was supported by a strong revenue performance from our International business where further increases in mobile and broadband revenue continue to offset the shift away from fixed line voice services.

Group outpayments and operating costs
The increase in total operating costs of £217m to £1,497m was also predominantly driven by the impact of servicing the customers acquired with Energis. We have successfully reduced the underlying operating cost base of the combined UK entity by over £7m per month principally through headcount reductions and improved terms with suppliers.

In our International business, outpayments have increased in comparison to the first half of 2005/06 due to the successful acquisition of new mobile and broadband customers. Whilst investing in the launch of new products and services in both existing (Jersey) and new geographies (the Isle of Man), our International business maintained a flat operating cost base.

The costs in Central have decreased significantly by £17m to £9m. This is mainly driven by a considerable headcount reduction from 191 at 30th September 2005 to 76 following the restructuring of the Group.

Group EBITDA
The trends in revenue and operating costs described above result in a 10% improvement in EBITDA of £20m to £221m, compared to the equivalent period in 2005/06.

Group long term incentive plan charges
The Cable & Wireless Long Term Incentive Plan (LTIP) was approved by shareholders at the Annual General Meeting in July 2006. In the six months to the end of September, the total LTIP charge in accordance with IAS 19 is £5m of which £1m is the charge for the International business and £4m is the charge for the UK. These amounts do not represent any commitment to participants in the plan which will depend on performance over the life of the plan in accordance with the plan's rules. The increase in the total shareholder return from 1st April to 30th September 2006 was approximately 20%.

Group depreciation
The depreciation charge increased by £10m to £121m reflecting the recent investments in mobile and broadband infrastructure by International and in local loop infrastructure by Cable & Wireless Access (C&W Access). The Group depreciation charge also reflects the depreciation of the fixed assets acquired as part of the Energis transaction - the impact of which has been more than offset by the effect of the impairment charge in the second half of 2005/06.

Group share of post-tax profit of joint ventures and associates
The main contributors to our share of post-tax profits of joint ventures and associates are the International business' investments in Bahrain, the Maldives and Afghanistan. Analysis of the first half 2006/07 performance of these businesses can be found on page 17.

Group net interest and other finance income
The £16m charge for net interest and other finance income compares to a credit of £12m for the first half of 2005/06 and mainly comprises an interest expense charge of £40m (30th September 2005: £41m) and interest income of £24m (30th September 2005: £49m).

The reduction in net interest and other finance income of £28m reflects a reduction of £1,155m in cash and cash equivalents from 30th September 2005 to £774m at 30th September 2006. Further details on the movement in cash and cash equivalents can be found on page 10.

Group income tax
The £24m (first half 2005/06 - £20m) total tax charge for continuing operations comprises a credit of £10m (first half 2005/06 - £21m) in respect of UK tax and a charge of £34m (first half 2005/06 - £41m) in respect of overseas tax.

In addition, the Group's share of joint ventures' and associates' profits includes a tax charge of £1m (first half 2005/06 - £1m). There is no credit or charge (first half 2005/06 - £6m charge) in respect of discontinued operations.

The above charges are in line with guidance provided of the continuing percentage tax rates of the Group’s two businesses: nil in the UK and low twenties for International.

Group pensions
Based on the 31st March 2005 funding valuation and following a £98m top-up contribution paid in March 2006, the main UK defined benefit scheme is fully funded on an ongoing basis.

The IAS19 deficit for the main UK scheme at 30th September 2006 is £77m compared with £89m at 31st March 2006. We have further unfunded pension liabilities in the UK of £23m. A number of our overseas businesses also operate defined pension schemes for which the aggregate IAS19 surplus is £2m at 30th September 2006, compared to a surplus of £10m at 31st March 2006.

Discontinued operations
Discontinued operations in the first half of 2005/06 represent the post-tax results of the Sakhalin and Spanish businesses prior to their sale.

Group exceptional items

	For 6 months ended 30th September 2006			
	International	UK[1]	Central	Total
	£m	£m	£m	£m
Operating items:				
Restructuring	(1)	(20)	(1)	(22)
Other operating income/(expense):				
Hurricane insurance receipts	1	-	-	1
Net loss on sale of C&W Access customer base	-	(10)	-	(10)
Exceptional items within total operating profit	**-**	**(30)**	**(1)**	**(31)**
Non-operating items:				
Reversal of unused provisions related to our former insurance operation, Pender	-	-	10	10
Exceptional items below total operating profit	**-**	**-**	**10**	**10**
Total exceptional items before tax	**-**	**(30)**	**9**	**(21)**
Tax on exceptional items	-	-	-	-
Total exceptional items from continuing operations	**-**	**(30)**	**9**	**(21)**
Total exceptional items from discontinued operations: reversal of unused provision related to exit from US business	-	-	3	3
Total exceptional items	**-**	**(30)**	**12**	**(18)**

[1] The UK numbers include £3m of exceptional restructuring costs in respect of C&W Access and £10m net loss on sale of C&W Access customer base

In the first half of 2006/07, we recognised a total net exceptional charge before tax of £21m for continuing operations.

The Group recognised a total charge of £22m for restructuring related mainly to headcount reduction programmes in the UK corporate business (£17m) and in C&W Access (formerly Bulldog) (£3m) following the announcement of its exit from the retail broadband market.

The sale of the C&W Access retail customer base resulted in a net loss of £10m comprising net proceeds of £10m more than offset by the write off of £20m of acquired intangible assets and goodwill related to the business being disposed.

We recognised income of £10m in relation to Pender, our former insurance operation, through the release of unused provisions and accruals following progress in resolving historical claims and other risks.

The £3m credit from discontinued operations has arisen from the release of certain provisions no longer required, associated with our exit from the US business.

Group earnings per share

	For 6 months ended 30th September 2006		
	Before exceptionals	**Exceptionals**	**Reported**
	£m	**£m**	**£m**
Profit/(loss) for the period from continuing operations before investment in C&W Access & LTIP charges	**147**	**(8)**	**139**
Attributable to equity holders	*120*	*(8)*	*112*
Attributable to minority interests	*27*	*-*	*27*
C&W Access loss for the period	(66)	(13)	(79)
LTIP charges	(5)	-	(5)
Profit/(loss) for the period from continuing operations	**76**	**(21)**	**55**
Attributable to equity holders	*49*	*(21)*	*28*
Attributable to minority interests	*27*	*-*	*27*
Profit for the period from discontinued operations	-	3	3
Profit/(loss) for the period	**76**	**(18)**	**58**
Attributable to equity holders	*49*	*(18)*	*31*
Attributable to minority interests	*27*	*-*	*27*
Earnings/(losses) per share from continuing operations before investment in C&W Access & LTIP charges attributable to equity holders of the Company during the period (pence)	*5.2p*	*(0.3)p*	*4.9p*
H1 2005/06	*5.7p*	*(0.3)p*	*5.4p*
Earnings/(losses) per share from continuing operations attributable to equity holders of the Company during the period (pence)	*2.1p*	*(0.9)p*	*1.2p*
H1 2005/06	*3.5p*	*(0.3)p*	*3.2p*
Earnings/(losses) per share attributable to equity holders of the Company during the period (pence)	*2.1p*	*(0.8)p*	*1.3p*
H1 2005/06	*3.6p*	0.4p	4.0p

We use earnings per ordinary share before exceptional items, a non-IFRS financial measure, as one of the key performance indicators for evaluating the financial performance of the business. The Board considers this an important measure of the underlying operating performance of the Group because it excludes non-recurring items. For the six months ended 30th September 2006, the earnings per ordinary share before exceptional items was 2.1 pence (*2005/06: 3.6 pence*) computed as:

	For 6 months ended 30th September 2006	**For 6 months ended 30th September 2005**
	£m	**£m**
Profit attributable to shareholders	31	91
Impact of exceptional items after tax & minority interests	18	(9)
Profit before exceptional items attributable to shareholders	**49**	**82**
Weighted average number of ordinary shares in issue (millions)	2,307	2,285
Basic earnings per ordinary share before exceptional items attributable to shareholders	**2.1p**	**3.6p**

Reconciliation of number of shares in issue to weighted average number of shares in issue

	As at 30th September 2006 '000	As at 30th September 2005 '000
Reported number of shares in issue	2,430,288	2,399,010
Shares held in treasury	(74,950)	(60,500)
Shares held by employee share ownership plan trust	(47,933)	(53,246)
Relevant number of shares in issue for earnings per share calculation	2,307,405	2,285,264
	As at 30th September 2006	**As at 30th September 2005**
Weighted average number of shares in issue	2,307,405	2,285,264
Dilution effects of:		
share options	47,577	30,613
Diluted weighted average number of shares	2,354,982	2,315,877

Dividend

We are proposing an interim dividend of 1.7 pence per share, which represents an increase of 21% over the prior year's interim dividend and reflects the Board's confident outlook as well as the progress made in the first six months of 2006/07.

The interim dividend of 1.7 pence per share will be paid on 21st January 2007 to ordinary shareholders on the register as at 24th November 2006.

The scrip dividend scheme will be offered in respect of the interim dividend. Those shareholders who have already elected to join the scheme need do nothing since the interim dividend will be automatically applied to the scheme. Shareholders wishing to join the scheme for the interim dividend (and all future dividends) should return a completed mandate form to: Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 2DZ by 28th December 2006. Copies of the mandate form, and the scrip dividend brochure, can be obtained from Lloyds TSB Registrars (UK callers: 0870 600 3975, overseas callers: +44 1903 502 541) or from our website www.cw.com.

Reconciliation of Group EBITDA to net cash flow before financing

	For 6 months ended 30th September 2006[1] £m
EBITDA[2]	221
Exceptional items	(22)
EBITDA less exceptionals	**199**
Share-based awards	11
Changes in working capital & payments to defined benefit pension scheme	(103)
Decrease in provisions	(50)
Cash generated from continuing operations	**57**
Income taxes paid	(22)
Interest received	24
Dividends received	20
Purchase of property, plant, equipment & intangible assets (net)	(172)
Acquisitions & disposals	(1)
Other income	10
Net cash outflow before financing activities	**(84)**

[1] Based on internal management accounts
[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

The Group net cash outflow of £84m represents outflows of £73m in the UK business, £65m in C&W Access and £25m in Central and a cash inflow of £79m in International. Further details in respect of International, the UK and C&W Access are included on pages 18, 24 and 27 respectively.

The significant movements in net cash flow before financing in Central include an EBITDA loss of £9m, an increase in working capital of £26m as we settled liabilities carried over from prior periods and payments in respect of provisions for restructuring the Central team of £9m, offset by interest income of £18m.

Group cash and debt

Cash and cash equivalents

	As at 30th September 2006 £m	As at 30th September 2005 £m
UK	16	26
International	146	279
Central	650	1,675
Group cash & short term investments	**812**	**1,980**
Less: credit-linked notes	(38)	(51)
Group cash & cash equivalents	**774**	**1,929**

Group cash and cash equivalents is £774m, a reduction of £1,155m from 30th September 2005. This reduction is primarily due to the acquisition of Energis in November 2005 for a net cash consideration of £608m. We also repaid the European Investment Bank (EIB) loan of £121m in September 2006, paid £98m into the defined benefit pension fund and made interim and final dividend payments to our shareholders totalling £74m over the period. The remaining £254m cash outflow relates mainly to the operational funding provided to the UK and C&W Access businesses, partially offset by cash generation in the International business.

During the first half of this year, Central has provided funding of £73m to the UK business and £65m to C&W Access whilst receiving £127m from the International business.

Cash and cash equivalents at 30th September 2006 exclude credit-linked notes referenced to our 2012 bond which have a similar economic effect to repurchasing the bonds for the period of the investment. These notes, which are marketable, have a fair value of £38m.

The amount of cash pledged as cash collateral for bank guarantees or held to cover potential future claims against the Group's former insurance operation, Pender, has been reduced from £71m at 30th September 2005 to £23m at 30th September 2006.

Debt

	Due in less than 1 year £m	Due in more than 1 but less than 2 years £m	Due in more than 2 but not more than 5 years £m	Due in more than 5 years £m	Total £m
UK	10	9	5	-	24
International	63	25	10	6	104
Central	-	-	207	363	570
Group debt as at 30th September 2006	**73**	**34**	**222**	**369**	**698**
Group debt as at 30th September 2005	**144**	**7**	**221**	**383**	**755**
Group debt as at 31st March 2006	**143**	**20**	**239**	**382**	**784**

The main change in the Group's debt position since 30th September 2005 has been the repayment of the EIB loan upon its maturity on 15th September 2006. This loan, including its associated cross-currency swap, amounted to £121m. The other notable movements have been increases arising from a finance lease acquired with Energis (£24m), non-cash amortisation relating to our convertible bond (£10m) and an increase in debt in the International business (£14m).

GROUP OUTLOOK

The following statements reconfirm guidance previously given or made for the first time in this results announcement:

UK corporate business
We expect the following outcomes:
- EBITDA 2006/07 to be in the range of £145m to £150m;
- Total cash outflow before the UK becomes cash generative to be no more than £340m, from 1st April 2006. This includes £180m of exceptional cash items relating to the UK turnaround along with capital expenditure, working capital requirements and payments against provisions made in prior periods;
- Total net cash outflow before financing for 2006/07 to be about £200m;
- Capital expenditure to be approximately 10% of revenue for the full year 2006/07 and the foreseeable future;
- The percentage tax rate to be nil for the foreseeable future;
- Future UK business with about £2 billion revenue and double digit operating margin.

C&W Access business
We expect the following outcomes:
- EBITDA loss 2006/07 to be approximately £85m;
- Net cash outflow before financing 2006/07 to be approximately £155m before net cash proceeds from the sale of the Bulldog brand and customer base of £10m;
- Net cash outflow before financing 2007/08 to be significantly lower than 2006/07.

International business
We expect the following outcomes:
- EBITDA margin to be between 35% and 37% by 2008/09;
- Capital expenditure to continue at 12% to 14% of revenue;
- The percentage tax rate to continue to be in the low twenties until at least 2008/09;
- Cash repatriation to continue to be at least 100% of our proportionate share of net cash flow before financing;
- Generation of post-tax free cash flow of 19% of revenue by 2008/09.

INTERNATIONAL BUSINESS

The International business is the world's pre-eminent telecoms provider for small to medium markets, with particular expertise and presence in island economies. We operate in 34 countries, through 25 subsidiaries and nine joint ventures and associates, in five continents across the world. Our principal businesses are in the Caribbean, Panama, Macau, Monaco and Islands (Islands comprises operations in the Channel Islands, Isle of Man, the Middle East and the Atlantic, Pacific and Indian Oceans).

The portfolio has a number of common features: the economies are generally growing and stable with usually few competitors; in most of our markets, we are the only full service provider, offering mobile, broadband and traditional domestic and international fixed line services, serving residents and businesses in a number of industries including tourism, offshore finance, gambling and insurance.

We have over five million active GSM customers in 25 mobile markets and are leader in all but five. We continue to invest significantly in our mobile networks to ensure that we are providing a reliable, high quality mobile service to our customers. We have seen significant growth in broadband customer numbers and continue to be market leader in all 27 of our broadband markets. We are meeting, and contributing to, growth in broadband demand by improving our range of distribution channels, increasing speeds, enhancing services and extending our geographical reach.

In common with most telecom operators, we face challenges in our fixed line business where margins are under pressure from competition and mobile substitution. International direct-dial prices continue to fall and we expect that this decline will accelerate with VoIP becoming more commonplace. We have launched our own VoIP product (Netspeak) and begun to deploy it across the portfolio to meet increasing demand.

International business results

The results that follow cover the six months to 30th September 2006. Further analysis of the results by International market is included on pages 29 to 31.

Commenting on the results for the first half of 2006/07, Harris Jones, CEO, Cable & Wireless International said:

"This period represents a solid financial performance with strong growth in our strategic areas of mobile and broadband. We have continued to invest to improve our overall market position by increasing our network reach and services in existing markets and launching new mobile services in Jersey. Our focus on cash generation and repatriation is showing good early results and we are firmly committed to achieving our target EBITDA margin."

International business key performance indicators

As at:

	30th September 2006 ('000)	31st March 2006 ('000)	30th September 2005 ('000)
Total active[1] GSM mobile customers	**5,408**	**4,059**	**3,011**
Subsidiaries	2,092	1,754	1,316
Joint ventures & associates	3,316	2,305	1,695
Total broadband customers	**370**	**312**	**231**
Subsidiaries	321	275	200
Joint ventures & associates	49	37	31
Total fixed line connections	**2,067**	**2,062**	**2,066**
Subsidiaries	1,505	1,497	1,503
Joint ventures & associates	562	565	563

[1] An active customer is defined as one having performed a revenue-generating event in the previous 60 days

Active GSM mobile customers
The number of active GSM mobile customers across the International portfolio increased by 80% to 5.4m in the 12 months to 30th September 2006. This growth was a result of our investment in mobile to enhance our customer experience, take advantage of increasing rates of penetration and expand into new markets.

Growth can be seen across the portfolio, particularly in Panama and Jamaica, where the number of customers grew by 99% and 64% respectively. In Panama, we have successfully migrated customers from TDMA services and delivered compelling promotions on prepaid services. Panama's relatively low mobile penetration of 50% of the population provides opportunity for further customer and revenue growth. In Jamaica, the growth was a result of network and capacity expansion, simplification of calling plans and removal of cross-network provider pricing differentials.

Our Jersey mobile business which launched on 13th September 2006 has gained 7% market share in less than six weeks to 31st October 2006.

The significant increase in customer numbers in joint ventures and associates is driven by the acquisition by Batelco (Bahrain) of Umniah, a Jordanian mobile service provider, in June 2006, and by the migration of TDMA customers to GSM in TSTT (Trinidad and Tobago). The number of customers in Roshan (Afghanistan) increased by more than 300,000 as the market continues to grow.

Broadband customers
Broadband customers increased by 60% at 370,000 to 30th September 2006, reflecting our commitment to investing in the provision of high speed internet services across our portfolio. All regions reported growth in broadband customers with Jamaica, Barbados, Islands and Macau reporting particularly strong growth rates.

Jamaica almost trebled its customer base in the last 12 months to 30th September 2006 by offering higher speed products and improved network reliability. In Barbados, the number of broadband customers more than doubled in a market which grew by 14 percentage points, resulting in a two percentage point increase in our market share. The Islands business grew its customer base by 63% driven by a migration from dial-up to broadband. Macau's customer base has grown by 49% due to the introduction of higher speed services, increasing demand as a result of its strong economy and investment in expanding our broadband network.

Fixed line connections
The number of fixed line customers remained steady over the 12 month period to 30th September 2006 at approximately 2.1m customers. Decline in Jamaica has been turned around since March 2006 and customer numbers since then have increased by 3% driven by the introduction of a prepaid fixed line product and the launch of a single national rate. This increase was largely offset by small declines in other subsidiaries.

International business income statement
For the six months ended:

	30th September 2006 £m	30th September 2005 £m	*Change as reported[1]* %	*Constant currency change[2]* %
Mobile	199	174	*14%*	*15%*
Broadband	36	25	*44%*	*45%*
International voice	88	96	*(8)%*	*(7)%*
Domestic voice	159	169	*(6)%*	*(4)%*
Enterprise, data & other[3]	134	126	*6%*	*7%*
Other internet	4	5	*(20)%*	*(19)%*
Total revenue	**620**	**595**	***4%***	***5%***
Cost of sales	(211)	(183)	*(15)%*	*(17)%*
Gross margin	**409**	**412**	*(1)%*	*0%*
Other operating costs	(203)	(205)	*1%*	*0%*
EBITDA[4]	**206**	**207**	***(0)%***	***1%***
LTIP charges	(1)	-	*nm*	*nm*
Depreciation & software amortisation	(70)	(62)	*(13)%*	*(14)%*
Amortisation of acquired intangibles	(3)	(3)	*0%*	*0%*
Operating profit before joint ventures & associates	**132**	**142**	***(7)%***	***(6)%***
Share of post-tax profit of joint ventures & associates	22	29	*(24)%*	*(24)%*
Operating profit before exceptional items	**154**	**171**	***(10)%***	***(9)%***
Exceptional items	-	(6)	*nm*	*nm*
Total operating profit	**154**	**165**	***(7)%***	***(6)%***
Capital expenditure	(77)	(53)	*(45)%*	*(48)%*
Headcount[5]	8,089	8,185	*1%*	*n/a*

nm represents % change not meaningful
[1] Positive percentages represent improvement
[2] Constant currency growth rates are based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement
[3] Includes corporate solutions, international management contracts, internet hosting, leased circuits, legacy data services, directory services, equipment rentals and television services
[4] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4
[5] Full time equivalents

The commentary that follows focuses on percentage changes at constant currency in order to highlight the underlying trends in the business. However, where absolute amounts are quoted, they reflect actual exchange rates.

Revenue
Total revenue in the first half of 2006/07 was £620m, an increase of 5% compared to the same period in 2005/06. This was driven by growth in mobile, broadband and enterprise, data and other revenue.

The increase in mobile and broadband revenue of 15% and 45% respectively was a result of our investment in new networks and upgrading our capability to provide higher quality services in these areas in response to increasing customer demand. This more than offset the decline in fixed voice revenue where fixed to mobile substitution, the growth of VoIP and continuing competitive pressure have driven fixed line revenue down.

Mobile revenue
Mobile revenue increased 15% to £199m from the first half of 2005/06. This growth was reflected across 18 of the 19 markets in which our subsidiaries provide mobile services. Mobile is our largest revenue segment representing 32% of our total revenue.

Jamaica's mobile revenue increased 29% compared to the first half of 2005/06, reflecting the success of actions taken to win back market share. Market share and penetration increases in Barbados, and share gains in the majority of markets in the North and East Caribbean, also increased mobile revenue in the Caribbean. This was achieved notwithstanding more intense competition in St Kitts, Dominica and Antigua in the East Caribbean and Anguilla in the North. In addition, competition was introduced into Turks & Caicos.

In Panama, a 12 percentage point increase in market penetration to 50%, promotional activity on prepaid services and increased tourist numbers led to a 25% increase in mobile revenue.

Macau's 22% growth compared to the first half of 2005/06 is due to a growing customer base driven by increasing market penetration and increased roaming revenue on the back of a booming gaming industry. In Macau, we were recently one of three operators to have been awarded a 3G licence which is a pre-cursor to the evolving competitive landscape.

In Monaco, substantial competitive pressure on pricing from French operators resulted in a £2m decline in revenue.

Broadband revenue
Broadband revenue across the portfolio was £36m in the first half of 2006/07, reflecting a 45% increase on the prior year first half with all markets where we provide broadband services showing growth. Growth was principally driven by the Panama and Caribbean businesses.

Increases in the Caribbean were a result of growing market share, increasing market penetration rates and the offering of new products such as Netspeak.

Panama's broadband revenue increased by 40% and Macau's by 16% as customers migrated from dial-up to higher speed broadband services.

While penetration rates are increasing, they are still relatively low in many of our markets offering further growth opportunities.

International and domestic voice revenue
International voice revenue for the first half of 2006/07 decreased £8m to £88m compared to the same period in 2005/06 and domestic voice revenue declined £10m over the same period to £159m.

The decline in international voice revenue was mainly driven by the £4m decrease in North Caribbean, due to increased competition and fixed to mobile substitution. Domestic voice revenue in Jamaica decreased £4m compared to the first half of 2005/06 in line with the decline in fixed line customer numbers. Since March 2006, customer numbers in Jamaica have increased 3%. In Panama, domestic revenue declined 6% due to a regulatory decision to reduce the retail pricing of calls from fixed to mobile, the impact of per second billing and competitive pricing pressure.

North Caribbean domestic voice revenue increased 16% in the first half of 2006/07 driven by a rebalancing of rates in the British Virgin Islands.

Enterprise, data and other revenue
Enterprise, data and other revenue comprises corporate solutions, international management contracts, internet hosting, leased circuits, legacy data services, directory services, equipment rentals and television services.

In the first half of 2006/07, enterprise, data and other revenue increased by 7% to £134m compared to the first half of 2005/06. This increase was principally driven by the businesses in Monaco, Islands and Macau.

In Monaco, increased revenue from international management contracts drove a £4m improvement as the markets in which our international customers operate continue to develop. Islands growth of £4m incorporates low margin income from the management of cables in Bermuda that was previously accounted for in the UK. Macau revenue increased £1m on the back of the growing economy.

Other internet revenue
Other internet revenue constitutes dial-up services and fell by £1m to £4m in the first half of 2006/07 compared to 2005/06 across the portfolio - as customers migrate to broadband.

Gross margin
Our reported gross margin remained flat on a constant currency basis. Gross margin decreased from 69% of revenue in the first half of 2005/06 to 66% in the first half of 2006/07 driven by increasing levels of competition across the portfolio and increasing subscriber acquisition costs associated with a growing customer base.

Operating costs
Our operating costs fell by £2m to £203m compared to the first half of 2005/06. Underlying operating costs decreased £7m compared to the first half of 2005/06 when we also include the impact of £3m of head office costs which were previously accounted for within Central, and £2m of operational releases in Monaco in the first half of 2005/06 that have not been repeated in the first half of 2006/07. Operating costs for the first half of 2006/07 also included £1m investment in Jersey as we prepared to launch mobile services on 13th September 2006, and start-up costs relating to the forthcoming launch of operations in the Isle of Man.

EBITDA
As a result of the factors discussed above, EBITDA for the first half of 2006/07 was £206m, a 1% increase on the same period last year. Treating operating costs on a like for like basis, EBITDA growth was 4% compared to the first half of 2005/06 on a constant currency basis. Our proportionate EBITDA (EBITDA multiplied by our current share of equity in each business) for the first half of 2006/07 was £147m.

We plan to increase our EBITDA margin by 2008/09 to between 35% and 37% by:

- Taking advantage of currently low mobile and broadband market penetration rates in Panama and the Caribbean businesses;
- Continuing our turnaround of the business in Jamaica;
- Turning around the domestic business and growing the international business in Monaco;
- The creation of the Guernsey, Jersey and Isle of Man cluster;
- Capitalising on the economic boom in Macau; and
- Implementing further cost saving opportunities through portfolio management and cost efficiencies.

Capital expenditure and depreciation
Capital expenditure in the first half of 2006/07 was £77m compared with £53m in the first half of 2005/06. This represents 12% of revenue, a similar percentage of revenue to the full year result for 2005/06.

57% of our total capital expenditure to date in 2006/07 relates to investment in mobile and broadband infrastructure. The remainder relates to other network upgrades, sales and information systems, value-added services and cable installations.

Depreciation has increased 14% to £70m driven mainly by our investment in mobile and broadband services. As we continue to invest in newer technologies, our asset life cycles are decreasing - resulting in rising depreciation charges.

Joint ventures and associates – our share

	Effective ownership	Revenue		Post-tax profit	
	As at 30th September 2006	For 6 months ended 30th September 2006	For 6 months ended 30th September 2005	For 6 months ended 30th September 2006	For 6 months ended 30th September 2005
	%	£m	£m	£m	£m
Trinidad & Tobago (TSTT)	*49*	64	60	-	6
Bahrain (Batelco)	*20*	34	31	12	13
Afghanistan (Roshan)	*20*	21	18	2	3
The Maldives (Dhiraagu)	*45*	12	11	6	5
Fiji (Fintel)	*49*	4	4	1	1
Others		4	3	1	1
Total		**139**	**127**	**22**	**29**

Our share of post-tax profit of joint ventures and associates decreased by £7m to £22m in the first half of 2006/07 compared to the first half of 2005/06. This decrease is primarily due to a lower contribution from our joint venture in Trinidad and Tobago (TSTT) where the migration of TDMA customers to GSM increased handset subsidies in the current period. Monaco Telecom's associate in Afghanistan, Roshan, contributed £1m less than in the prior year due to the expected increase in depreciation from mobile investment, higher interest charges and adverse movements in foreign exchange rates.

Our associate in the Maldives (Dhiraagu) delivered a strong result this year, increasing our share of post-tax profit to £6m, driven by continuing strong performance of the mobile business.

Exchange rate movements

Comparative average exchange rates show the US dollar remaining steady against sterling and a 7% depreciation of the Jamaican dollar against sterling.

A one US cent change in the US$:£ exchange rate has approximately a £2m impact on a full year's EBITDA of the International business, as approximately 70% of International EBITDA is earned in US$ denominated or related economies.

A one dollar change in the Jamaican $:£ exchange rate has approximately a £0.4m impact on a full year's EBITDA of the International business.

Projected International US$ remittances for the financial year have been sold forward against sterling at $1.86.

	For 6 months ended 30th September 2006	For 6 months ended 30th September 2005
US$: £		
Average	1.8272	1.8297
Period end	1.9024	1.7770
Jamaican$: £		
Average	120.1767	112.3452
Period end	125.4350	111.1100

Reconciliation of International business EBITDA to net cash flow before financing

	For 6 months ended 30th September 2006[1] £m
EBITDA[2]	206
Exceptional items	(1)
EBITDA less exceptionals	**205**
Pension payments	(1)
Share-based awards	2
Movement in provisions	(5)
Movement in working capital	(51)
Cash generated from continuing operating activities	**150**
Income taxes paid	(22)
Interest received	6
Dividends received from joint ventures & associates	20
Insurance receipts	1
Purchase of property, plant, equipment & intangible assets	(76)
Net cash inflow before financing activities	**79**

[1] Based on internal management accounts
[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

We generated £79m of net cash flow before financing in the first half of 2006/07.

Exceptional items of £1m and movement in provisions of £5m relate to costs associated with our restructuring programme across the portfolio. Our movement in working capital, although significant, is driven by timing differences in cash flows in Jamaica and Monaco. We expect our full year position for 2006/07 to be broadly flat compared with the position at 31st March 2006.

Our cash capital expenditure of £76m represents the main utilisation of cash generated from continuing operating activities and principally relates to our investment in mobile and broadband infrastructure.

In the first half of 2006/07, we remitted £127m to Central, including £20m of dividends received from joint ventures and associates. This represents 268% of our share of cash generated by subsidiaries. The remittance of cash to Central continues to be an area of focus and we expect to meet our target of remitting at least 100% of our proportionate share of cash generated for the full year.

UK BUSINESS

The UK business provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia, and wholesale broadband services in the UK through Cable & Wireless Access (formerly Bulldog).

We have now completed the integration of Energis and have started the recovery phase of the UK business. This phase comprises three areas: improving our service, managing our costs and simplifying our business.

Our strategy is to focus our resources on serving fewer, larger customers with a wide range of IP-based services tailored to their specific business needs and delivering them a higher level of service than they receive from other telecoms suppliers. This strategy ensures that we will have a simpler and therefore lower cost business.

UK business result

The results that follow reflect the financial performance of the integrated UK and Energis business in the first half of 2006/07 and only the UK business in the first half of 2005/06 as the acquisition of Energis took place on 11th November 2005.

Commenting on the results for the first half of 2006/07, John Pluthero, Chairman, UK said:

“We’ve pushed through rapid change in the first half of the year and are pleased with our progress. By delivering on our go-to market strategy and operating cost targets - and making inroads with service improvement and the overall customer experience - we’re starting to differentiate ourselves from our competitors.

“Our EBITDA of £73m in the first half of this year is ahead of our expectations and we have accordingly updated our guidance for full year EBITDA to between £145m and £150m.

“As such, we are happy to restate our objective of a business with £2 billion revenue and double digit operating profit”.

The following analysis of the UK business key performance indicators, income statement and cash flow reconciliation refers only to the UK corporate business and so excludes C&W Access. Equivalent analysis for C&W Access is on pages 25 to 27.

UK business key performance indicators

	As at 30th September 2006	As at 31st March 2006
Number of customers	14,566	21,000
Reduction in monthly operating cost run rate from November 2005	£7.1m	£4.4m
Headcount	5,179	5,614
Number of exchanges unbundled	685	411

Our customer reduction programme is progressing well and, at 30th September 2006, we had 14,566 customers, well ahead of the target of 18,000 we set ourselves. The programme is ongoing and we envisage the future UK business being focused on 3,000 customers comprising large corporates, carriers and public institutions.

Our monthly operating cost run-rate has decreased by £2.7m since 31st March 2006, bringing the total run-rate reduction since November 2005 to £7.1m. The cost reduction is a direct result of the completion of the integration programme last year, the ongoing recovery programme and our customer strategy. Our cost reduction relates primarily to a sustainable decrease in staff costs and renegotiation of our supply contracts.

The total number of colleagues in our business at 30th September 2006 was 5,179 - a reduction of 435 since 31st March 2006 - and ahead of our half year target of 5,200.

The local loop rollout plan, with a target of 800 fully unbundled exchanges, is in its final stages, and at 30th September 2006 we had 685 exchanges that were fully unbundled and available for customer traffic. The slippage against our target is predominantly due to delays in the provisioning of hardware for backhaul connectivity. At 30th September 2006, we had installed equipment in 796 exchanges - with 111 still requiring backhaul connectivity.

In addition to using our LLU capability to provide wholesale broadband services, we will use our LLU footprint to offer corporate access as part of our move to next generation and IP networks. We are starting corporate SDSL trials in December 2006.

UK business income statement
For the six months ended:

	30th September 2006 £m	30th September 2005[1] £m	*Change as reported[2]* %
Services	483	346	*40%*
Carrier	607	542	*12%*
Total revenue	**1,090**	**888**	***23%***
Outpayments & network costs	(790)	(602)	*(31)%*
Staff costs	(146)	(146)	*0%*
Other costs	(81)	(76)	*(7)%*
Total operating costs	(1,017)	(824)	*(23)%*
EBITDA[3]	**73**	**64**	***14%***
LTIP charges	(4)	-	*nm*
Depreciation & software amortisation	(41)	(42)	*2%*
Amortisation of acquired intangibles	(6)	-	*nm*
Other operating income	9	-	*nm*
Operating profit before joint ventures & associates	**31**	**22**	***41%***
Share of post-tax loss of joint ventures & associates	(1)	(2)	*50%*
Operating profit before exceptional items	**30**	**20**	***50%***
Exceptional items	(17)	2	*nm*
Total operating profit	**13**	**22**	***(41)%***
Capital expenditure	(78)	(76)	*(3)%*
Headcount[4]	5,179	4,952	*(5)%*

nm represents % change not meaningful

[1] The first half of 2005/06 excludes Energis, which was not acquired until 11th November 2005. Revenue split between Services and Carrier has been restated to reflect the 2006/07 alignment of customers

[2] Positive percentages represent improvement

[3] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

[4] Full time equivalents. The first half 2005/06 headcount number has been restated to include contractors working full-time on capital projects

Energis
The first half of 2005/06 excludes Energis which was acquired on 11th November 2005.

Revenue
During the period, we have realigned our go-to market channels. The revenue reported for Services and Carrier reflects the business alignment of customers to channels. The revenue split for the first half of 2005/06 has been restated accordingly.

Revenue for the first half of 2006/07 was £1,090m - an increase of £202m compared with the first half of 2005/06. The increase is largely attributable to the inclusion of revenue from Energis customers. The first half of this year has seen a positive improvement in our revenue mix with 44% of our revenue now coming from the Services channels compared with 39% in the first half of last year.

Services revenue
The Services channel has shown a 40% increase in revenue, largely due to the inclusion of Energis. Our results reflect the impact of churn and erosion due to contractual events, historically poor service levels and a competitive marketplace. We expect this to be an issue throughout the year but one that will improve as our service enhancement plans are delivered.

Carrier revenue
Carrier revenue has increased by 12% against the first half of last year. The improved revenue position is largely due to the inclusion of Energis. The UK Carrier business has a significant investment in legacy fixed line voice which is an integral part of the service offering to our largest customers. In the short term, we will continue to utilise the capacity to optimise profitability. We will work with our customers to migrate them to our IP network, when it suits their business needs.

Operating costs
Total operating costs are higher than the first half of last year, largely due to the increased cost base as a result of the Energis acquisition, but our underlying costs reflect improvements in some areas, as the recovery programme takes effect.

Reported outpayments and network costs in the first half of this year have increased by 4% as a percentage of revenue compared to the first half of last year. However, the first half of last year had a significant level of operational releases compared to the first half of this year and hence the comparative is best drawn on a basis that excludes them. Excluding these operational releases, our outpayments and network costs are broadly flat in terms of the revenue they support.

Staff costs represent a 3% improvement as a percentage of revenue as we have reduced our headcount - a direct result of our integration and recovery programmes. From a starting position of 4,952 in September 2005, our headcount increased by 1,560 on 11th November 2005 as a result of the Energis acquisition. Further to this there has been a net reduction of 1,333 colleagues bringing our closing headcount position for the first half of this year to 5,179. In addition, we have increased the resources dedicated to delivery of better service to our customers by about 400 colleagues.

The principal elements of other costs are property, consultancy, professional fees, staff travel and expenses. Other costs are £5m higher than the first half of last year but reflect an improvement as a percentage of revenue from 9% to 7%.

EBITDA
EBITDA is £73m for the first half of this year, an improvement of £9m over the first half of last year. First half 2006/07 EBITDA includes £13m of operational releases compared to £52m in the first half of 2005/06. Excluding the impact of operational releases, EBITDA has improved from £12m to £60m.

Our EBITDA performance to 30th September 2006 reflects an improvement on our own expectations and we now anticipate that our EBITDA for full year 2006/07 will be between £145m and £150m.

Capital expenditure and depreciation and software amortisation
Capital expenditure of £78m is broadly the same as expenditure of £76m in the first half of last year and slightly less than we expected. However, we expect capital expenditure to be approximately 10% of revenue for the full year and the foreseeable future. Our investment reflects a mix of expenditure between customers - including a major customer rollout - and infrastructure. Our infrastructure investment comprises our core network, the provision of GigE backhaul to local exchanges from our network and a number of projects to provide advanced services over the core network.

On the 11th October 2006, we announced the completion of the rollout of our Next Generation Network. Designed to meet the needs of big businesses, it is the first and largest UK national Next Generation Network of its type and is up and running under budget and ahead of time across our fully unbundled exchanges.

Depreciation and software amortisation of £41m for the first half of 2006/07 has decreased by 2% compared with the first half of 2005/06 despite the addition of Energis depreciation. The lower level of depreciation is a result of the fixed asset impairment in the second half of 2005/06.

Other operating income
Other operating income reflects the profit on sale of fixed assets.

Joint ventures and associates
The result represents our share of Apollo, a submarine cabling company.

Exceptional items
Exceptional costs of £17m arose as a result of UK restructuring activities mainly related to staff redundancy.

Reconciliation of UK business EBITDA to net cash flow before financing

	For 6 months ended 30th September 2006[1] £m
EBITDA[2]	73
Exceptional items	(17)
EBITDA less exceptionals	**56**
Share-based awards	4
Defined benefit pension scheme expense	1
Defined benefit pension scheme cash contributions	(5)
Movement in working capital	(35)
Movement in provisions	(26)
Cash utilised by continuing operating activities	**(5)**
Purchase of property, plant, equipment & intangible assets	(68)
Net cash outflow before financing activities	**(73)**

[1] Based on internal management accounts
[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

Cash outflow of £73m for the half principally reflects EBITDA of £73m, exceptional items relating to restructuring costs, working capital movement and capital expenditure.

Exceptional items of £17m and movement in provisions of £26m are largely attributable to restructuring costs in relation to our recovery programme. The costs are primarily a result of staff redundancy and property charges.

The working capital movement largely reflects timing differences in receipts and payments during the period and carried forward from the prior year.

Cash capital expenditure of £68m reflects a mix of investment in both customer and infrastructure projects.

Based on our year to date performance, we expect total cash outflow before the UK becomes cash generative to be no more than £340m, from 1st April 2006. This includes £180m of exceptional cash items relating to the UK turnaround - along with capital expenditure, working capital requirements and payments against provisions made in prior periods. Of this amount, we expect that the net cash outflow for this financial year will be about £200m.

CABLE & WIRELESS ACCESS (FORMERLY BULLDOG)

Through local loop unbundling, C&W Access provides broadband and telephony services to business and residential end users through wholesale agreements with major UK broadband service providers.

On 8th June 2006, we announced a revised strategy to leverage returns from our LLU capability by offering a wholesale product to major broadband service providers and ceasing residential sales. On 7th September 2006, we announced the formation of C&W Access and, with it, the signing of our first wholesale customer, Pipex, and the sale to Pipex of our Bulldog customer base and brand for £10m of net cash proceeds. A transitional services agreement was also put in place to support these customers during the move to Pipex's own customer support operations.

In the coming months, we will focus on obtaining additional wholesale agreements with other providers, allowing us to further leverage our unbundled local loop network.

C&W Access income statement

For the six months ended:

	30th September 2006[1] £m	30th September 2005 £m
Total revenue	**29**	**12**
Outpayments & network costs	(39)	(24)
Staff costs	(13)	(15)
Other costs	(24)	(17)
Total operating costs	(76)	(56)
EBITDA[2]	**(47)**	**(44)**
Depreciation & software amortisation	(11)	(5)
Total operating loss before exceptional items	**(58)**	**(49)**
Exceptional items	(13)	-
Total operating loss	**(71)**	**(49)**
Capital expenditure	(19)	(34)
Headcount[3]	378	813

[1] The results for the period primarily reflect the business prior to the change in strategy and only reflect 24 days of services from the wholesale broadband contract with Pipex.
[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4
[3] Full time equivalents

The results for this period primarily reflect the business prior to the change in strategy and only reflect 24 days of services from the wholesale broadband contract with Pipex.

Revenue
Our revenue in the first half of 2006/07 increased compared with the same period in 2005/06 due to the growth in the customer base over the period. Following the sale of our customer base on the 7th September, our revenue is now primarily generated from our wholesale agreement with Pipex.

Operating costs
Outpayments and network costs in the first half of 2006/07 were £39m. Outpayments have increased in line with the size of the customer base and are driven mostly by fixed per-line fees charged to us from BT's Openreach - as well as charges relating to voice termination. Network costs reflect the cost of running our exchanges and have increased in line with the size of the LLU footprint.

Staff costs of £13m were £2m lower than in the same period last year. Following the change in strategy, we have significantly reduced our headcount - particularly in the sales and marketing functions. These reductions took effect from July onwards, and therefore only generated savings in staff costs in the latter part of the period.

Other costs relate to sales and marketing costs and expenditure on support services. The increase in other costs was mainly driven by increased investment in our customer service levels and a higher number of customers during the period.

EBITDA
The EBITDA performance reflects the previous residential customer strategy. As the new strategy is implemented, we expect a progressive improvement in EBITDA performance, such that we expect our EBITDA loss for 2006/07 to be £85m.

Capital expenditure and depreciation
Capital expenditure related to the unbundling of exchanges in the period and the transformation of our systems in anticipation of the implementation of the wholesale strategy.

The increase in depreciation has been largely driven by the capital invested in our network.

Exceptional costs
Exceptional costs include £3m for restructuring activities related to the change to a wholesale strategy. The remaining £10m of exceptional costs reflects £10m of net cash proceeds from the sale of the customer base - more than offset by the write off of £20m goodwill recognised on the acquisition of Bulldog. The goodwill has been written off following the change in strategy to provide wholesale access.

Reconciliation of C&W Access EBITDA to net cash flow before financing

	For 6 months ended 30th September 2006[1] £m
EBITDA[2]	(47)
Exceptional items	(3)
EBITDA less exceptionals	**(50)**
Movement in working capital	1
Cash utilised in continuing operating activities	**(49)**
Purchase of property, plant, equipment & intangible assets	(26)
Acquisition & disposals	10
Net cash outflow before financing activities	**(65)**

[1] Based on internal management accounts
[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

Cash utilised in continuing operating activities amounted to £49m, mainly comprising outpayments, network, staff, customer operations and other administrative costs.

Cash capital expenditure was mainly driven by the expansion of the LLU footprint. C&W Access received £10m net cash proceeds from the sale of the customer base in September 2006 to Pipex.

We expect the full year 2006/07 net cash outflow before financing for C&W Access to be £155m, excluding net cash proceeds of £10m received from the sale of the customer base.

As a result of our move to a wholesale strategy, we expect net cash outflow before financing for 2007/08 to be significantly lower than 2006/07.

GROUP RESULTS DETAIL

£m	*For 6 months ended 30th September 2006 (H1 06/07)*				*For 6 months ended 30th September 2005 (H1 05/06)*				*CC change[1] (%)*			
	International	**UK[2]**	**Central[3]**	**Group Total**	**International**	**UK**	**Central**	**Group Total**	**International**	**UK**	**Central**	**Group Total**
Revenue	620	1,107	(9)	1,718	595	893	(7)	1,481	*5%*	*24%*	*(29)%*	*17%*
Outpayments & network costs	(246)	(819)	9	(1,056)	(223)	(619)	7	(835)	*(12)%*	*(32)%*	*29%*	*(27)%*
Staff & other costs	(168)	(264)	(9)	(441)	(165)	(254)	(26)	(445)	*(3)%*	*(4)%*	*65%*	*0%*
Total operating costs	(414)	(1,083)	-	(1,497)	(388)	(873)	(19)	(1,280)	*(8)%*	*(24)%*	*nm*	*(17)%*
EBITDA[4]	**206**	**24**	**(9)**	**221**	**207**	**20**	**(26)**	**201**	***1%***	***20%***	***65%***	***11%***
LTIP charges	(1)	(4)	-	(5)	-	-	-	-	nm	nm	-	nm
Depreciation & software amortisation	(70)	(51)	-	(121)	(62)	(47)	(2)	(111)	*(14)%*	*(9)%*	*100%*	*(10)%*
Amortisation of acquired intangibles	(3)	(6)	-	(9)	(3)	-	-	(3)	*0%*	*nm*	-	*nm*
Other operating income	-	9	-	9	-	-	-	-	-	*nm*	-	*nm*
Operating profit/(loss) before JVs & associates[5]	**132**	**(28)**	**(9)**	**95**	**142**	**(27)**	**(28)**	**87**	***(6)%***	***(4)%***	***68%***	***11%***
Joint ventures & associates	22	(1)	-	21	29	(2)	-	27	*(24)%*	*50%*	-	*(22)%*
Total operating profit/(loss)[5]	**154**	**(29)**	**(9)**	**116**	**171**	**(29)**	**(28)**	**114**	***(9)%***	***0%***	***68%***	***3%***
Exceptional items	-	(30)	(1)	(31)	(6)	2	(4)	(8)	*nm*	*nm*	*75%*	*nm*
Total operating profit/(loss)	**154**	**(59)**	**(10)**	**85**	**165**	**(27)**	**(32)**	**106**	***(6)%***	***nm***	***69%***	***(19)%***
Capital expenditure	(77)	(97)	-	(174)	(53)	(110)	(6)	(169)	*(48)%*	*12%*	*nm*	*(4)%*
Headcount[6]	8,089	5,557	76	13,722	8,185	5,765	191	14,141	*1%*	*4%*	*60%*	*3%*

nm represents % change not meaningful

1 Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement

2 UK results above include C&W Access

3 "Central" comprises the corporate centre and intra-group eliminations between the businesses

4 Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

5 Excluding exceptionals

6 Full time equivalents

INTERNATIONAL BUSINESS RESULTS DETAIL

Six months ended 30th September 2006 compared with six months ended 30th September 2005

£m	Jamaica			Barbados			North Caribbean			East Caribbean			Panama		
	H1 06/07	**H1 05/06**	**CC change[1]**	**H1 06/07**	**H1 05/06**	**CC change**	**H1 06/07**	**H1 05/06**	**CC change**	**H1 06/07**	**H1 05/06**	**CC change**	**H1 06/07**	**H1 05/06**	**CC change**
Mobile	23	19	*29%*	16	13	*23%*	23	22	*7%*	23	22	*4%*	59	47	*25%*
Broadband	6	3	*nm*	3	1	*nm*	4	4	*2%*	5	3	*67%*	7	5	*40%*
International voice	19	18	*13%*	9	8	*12%*	10	14	*(28)%*	16	17	*(6)%*	9	9	*(0)%*
Domestic voice	41	45	*(3)%*	12	14	*(14)%*	16	14	*16%*	17	19	*(11)%*	51	54	*(6)%*
Enterprise, data & other	13	15	*(7)%*	9	11	*(18)%*	10	9	*14%*	11	9	*22%*	20	18	*11%*
Other internet	1	1	*7%*	1	1	*(0)%*	-	-	-	1	1	*(0)%*	-	1	*nm*
Revenue	**103**	**101**	***9%***	**50**	**48**	***4%***	**63**	**63**	***2%***	**73**	**71**	***3%***	**146**	**134**	***9%***
Cost of sales	(37)	(31)	*(28)%*	(12)	(12)	*0%*	(16)	(13)	*(26)%*	(21)	(19)	*(10)%*	(54)	(46)	*(17)%*
Gross margin	**66**	**70**	***1%***	**38**	**36**	***5%***	**47**	**50**	***(4)%***	**52**	**52**	***(0)%***	**92**	**88**	***4%***
Other operating costs	(37)	(41)	*4%*	(17)	(17)	*0%*	(25)	(23)	*(11)%*	(34)	(32)	*(6)%*	(36)	(38)	*5%*
EBITDA[2]	**29**	**29**	***7%***	**21**	**19**	***10%***	**22**	**27**	***(17)%***	**18**	**20**	***(10)%***	**56**	**50**	***12%***
LTIP charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dep'n & software amortisation	(11)	(12)	*2%*	(5)	(4)	*(25)%*	(5)	(6)	*15%*	(9)	(8)	*(12)%*	(20)	(16)	*(25)%*
Amortisation of acquired intangibles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Op profit before JVs & associates[3]	**18**	**17**	***14%***	**16**	**15**	***7%***	**17**	**21**	***(18)%***	**9**	**12**	***(25)%***	**36**	**34**	***6%***
Joint ventures & associates	-	-	-	-	-	-	-	6	*nm*	-	-	-	-	-	-
Total operating profit[4]	**18**	**17**	***14%***	**16**	**15**	***7%***	**17**	**27**	***(36)%***	**9**	**12**	***(25)%***	**36**	**34**	***6%***
Exceptional items	-	-	-	-	-	-	1	(3)	*nm*	-	(1)	*nm*	-	-	-
Total operating profit	**18**	**17**	***14%***	**16**	**15**	***7%***	**18**	**24**	***(24)%***	**9**	**11**	***(18)%***	**36**	**34**	***6%***
Capital expenditure	(14)	(17)	*12%*	(4)	(4)	*0%*	(5)	(4)	*(25)%*	(8)	(6)	*(33)%*	(22)	(8)	*nm*
Headcount[4]	1,484	1,759	*16%*	821	832	*1%*	566	562	*(1)%*	1,048	1,040	*(1)%*	1,852	1,817	*(2)%*

nm represents % change not meaningful

[1] Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement

[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

[3] Excluding exceptionals

[4] Full time equivalents

INTERNATIONAL BUSINESS RESULTS DETAIL (CONTINUED)

Six months ended 30th September 2006 compared with six months ended 30th September 2005

£m	Macau			Monaco			Islands[1]			Elims/ head office			Total		
	H1 06/07	H1 05/06	CC change	H1 06/07	H1 05/06	CC change	H1 06/07	H1 05/06	CC change	H1 06/07	H1 05/06	CC change	H1 06/07	H1 05/06	CC change
Mobile	27	22	*22%*	12	14	*(14)%*	16	16	*(0)%*	-	(1)	*nm*	199	174	*15%*
Broadband	7	6	*16%*	2	1	*100%*	2	2	*(0)%*	-	-	-	36	25	*45%*
International voice	15	15	*(0)%*	4	5	*(20)%*	11	12	*(8)%*	(5)	(2)	*nm*	88	96	*(7)%*
Domestic voice	8	9	*(11)%*	5	5	*(0)%*	9	10	*(10)%*	-	(1)	*nm*	159	169	*(4)%*
Enterprise, data & other	14	13	*7%*	44	40	*10%*	15	11	*36%*	(2)	-	-	134	126	*7%*
Other internet	-	-	-	-	-	-	1	1	*(0)%*	-	-	-	4	5	*(19)%*
Revenue	**71**	**65**	***9%***	**67**	**65**	***3%***	**54**	**52**	***4%***	**(7)**	**(4)**	***(75)%***	**620**	**595**	***5%***
Cost of sales	(31)	(26)	*(19)%*	(35)	(32)	*(9)%*	(10)	(8)	*(25)%*	5	4	*25%*	(211)	(183)	*(17)%*
Gross margin	**40**	**39**	***2%***	**32**	**33**	***(3)%***	**44**	**44**	***(0)%***	**(2)**	-	***0%***	**409**	**412**	***0%***
Other operating costs	(13)	(13)	*0%*	(17)	(18)	*6%*	(25)	(23)	*(9)%*	**1**	-	*nm*	(203)	(205)	*0%*
EBITDA[2]	**27**	**26**	***4%***	**15**	**15**	***(0)%***	**19**	**21**	***(10)%***	**(1)**	**-**	***nm***	**206**	**207**	***1%***
LTIP charges	-	-	-	-	-	-	-	-	-	(1)	-	*nm*	(1)	-	*nm*
Dep'n & software amortisation	(8)	(8)	*0%*	(4)	(3)	*(33)%*	(8)	(5)	*(60)%*	-	-	-	(70)	(62)	*(14)%*
Amortisation of acquired intangibles	-	-	-	(3)	(3)	*0%*	-	-	-	-	-	-	(3)	(3)	*0%*
Op profit/(loss) before JVs & associates[3]	**19**	**18**	***5%***	**8**	**9**	***(11)%***	**11**	**16**	***(31)%***	**(2)**	**-**	***nm***	**132**	**142**	***(6)%***
Joint ventures & associates	-	-	-	2	3	*(33)%*	20	20	*(0)%*	-	-	-	22	29	*(24)%*
Total operating profit/(loss)[3]	**19**	**18**	***5%***	**10**	**12**	***(17)%***	**31**	**36**	***(14)%***	**(2)**	**-**	***nm***	**154**	**171**	***(9)%***
Exceptional items	-	-	-	-	-	-	-	-	-	(1)	(2)	*50%*	-	(6)	*nm*
Total operating profit/(loss)	**19**	**18**	***5%***	**10**	**12**	***(17)%***	**31**	**36**	***(14)%***	**(3)**	**(2)**	***(50)%***	**154**	**165**	***(6)%***
Capital expenditure	(5)	(5)	*0%*	(2)	(6)	*67%*	(7)	(3)	*nm*	(10)	-	*nm*	(77)	(53)	*(48)%*
Headcount[4]	933	975	*4%*	501	469	*(7)%*	685	681	*(1)%*	199	50	*nm*	8,089	8,185	*1%*

nm represents % change not meaningful; Constant currency growth rate based on the restatement of prior period comparatives at current period's reported average exchange rates. Positive percentages represent improvement

[1] Islands comprises operations in the Channel Islands, Isle of Man, the Middle East and the Atlantic, Pacific and Indian Oceans

[2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4

[3] Excluding exceptionals

[4] Full time equivalents

INTERNATIONAL BUSINESS RESULTS DETAIL (CONTINUED)

	GSM ACTIVE MOBILE CUSTOMERS ('000s)			BROADBAND CUSTOMERS ('000s)			FIXED LINE CUSTOMERS ('000s)		
	As at 30th September 2006	As at 30th September 2005	% Change	As at 30th September 2006	As at 30th September 2005	% Change	As at 30th September 2006	As at 30th September 2005	% Change
Jamaica	439	268	64%	58	21	nm	327	351	(7)%
Barbados	137	116	18%	22	9	nm	134	135	(1)%
North Caribbean	96	67	43%	17	14	21%	60	61	(2)%
East Caribbean	263	164	60%	29	19	53%	169	164	3%
Caribbean	**935**	**615**	**52%**	**126**	**63**	**100%**	**690**	**711**	**(3)%**
Panama	789	397	99%	78	58	34%	432	416	4%
Macau	236	194	22%	94	63	49%	176	174	1%
Monaco	42	37	14%	10	8	25%	34	34	0%
Islands	90	73	23%	13	8	63%	173	168	3%
Cable & Wireless subsidiaries	**2,092**	**1,316**	**59%**	**321**	**200**	**61%**	**1,505**	**1,503**	**0%**
TSTT	1,055	414	nm	13	8	63%	325	322	1%
Batelco	1,111	499	nm	32	21	52%	191	196	(3)%
Roshan	966	633	53%	-	-	nm	-	-	nm
Dhiraagu	160	132	21%	3	2	50%	31	31	0%
Solomon Telekom	7	4	75%	1	-	nm	8	7	14%
Telekom Vanuatu	17	13	31%	-	-	nm	7	7	0%
Cable & Wireless joint ventures & associates	**3,316**	**1,695**	**96%**	**49**	**31**	**58%**	**562**	**563**	**0%**
Total Cable & Wireless International	**5,408**	**3,011**	**80%**	**370**	**231**	**60%**	**2,067**	**2,066**	**0%**

nm represents % change not meaningful

UK BUSINESS RESULTS DETAIL

£m	For 6 months ended 30th September 2006 (£m)				For 6 months ended 30th September 2005[1] (£m)			
	UK including Europe, US, Asia	C&W Access	Eliminations	Total	UK including Europe, US, Asia	C&W Access	Eliminations	Total
Services	483	-	-	483	346	-	-	346
Carrier	607	-	(12)	595	542	-	(7)	535
C&W Access	-	29	-	29	-	12	-	12
Revenue	**1,090**	**29**	**(12)**	**1,107**	**888**	**12**	**(7)**	**893**
Outpayments & network costs	(790)	(39)	10	(819)	(602)	(24)	7	(619)
Staff costs	(146)	(13)	-	(159)	(146)	(15)	-	(161)
Other costs	(81)	(24)	-	(105)	(76)	(17)	-	(93)
Total operating costs	(1,017)	(76)	10	(1,083)	(824)	(56)	7	(873)
EBITDA[2]	**73**	**(47)**	**(2)**	**24**	**64**	**(44)**	**-**	**20**
LTIP charges	(4)	-	-	(4)	-	-	-	-
Depreciation & software amortisation	(41)	(11)	1	(51)	(42)	(5)	-	(47)
Amortisation of acquired intangibles	(6)	-	-	(6)	-	-	-	-
Other operating income	9	-	-	9	-	-	-	-
Operating profit/(loss) before JVs & associates[3]	**31**	**(58)**	**(1)**	**(28)**	**22**	**(49)**	**-**	**(27)**
Joint ventures & associates	(1)	-	-	(1)	(2)	-	-	(2)
Total operating profit/(loss)[3]	**30**	**(58)**	**(1)**	**(29)**	**20**	**(49)**	**-**	**(29)**
Exceptional items	(17)	(13)	-	(30)	2	-	-	2
Total operating profit/(loss)	**13**	**(71)**	**(1)**	**(59)**	**22**	**(49)**	**-**	**(27)**
Capital expenditure	(78)	(19)	-	(97)	(76)	(34)	-	(110)
Headcount[4]	5,179	378	-	5,557	4,952	813	-	5,765

[1] H1 2005/06 does not include any results for Energis, which was not acquired until 11th November 2005; [2] Earnings before interest, tax, depreciation and amortisation, LTIP (Long Term Incentive Plan) charges and other operating income and expenses. For further details on the LTIP refer to page 4; [3] Excluding exceptionals; [4] Full time equivalents

KPMG AUDIT PLC'S REVIEW REPORT

Independent review report to Cable and Wireless plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30th September 2006 which comprises the consolidated income statement, condensed consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: *Review of interim financial information* issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th September 2006.

KPMG Audit plc
Chartered Accountants
London
7th November 2006

FINANCIAL INFORMATION

Consolidated income statement

	For 6 months ended 30th September 2006			For 6 months ended 30th September 2005[1]		
	Pre-exceptionals £m	Exceptionals[2] £m	Total £m	Pre-exceptionals £m	Exceptionals[2] £m	Total £m
Revenue	1,718	-	1,718	1,481	-	1,481
Operating costs before depreciation & amortisation	(1,502)	(22)	(1,524)	(1,280)	(19)	(1,299)
Amortisation	(21)	-	(21)	(16)	-	(16)
Depreciation	(109)	-	(109)	(98)	-	(98)
Other operating income	9	1	10	-	11	11
Other operating expense	-	(10)	(10)	-	-	-
Group operating profit/(loss)	**95**	**(31)**	**64**	**87**	**(8)**	**79**
Share of post-tax profit of joint ventures & associates	21	-	21	27	-	27
Total operating profit/(loss)	**116**	**(31)**	**85**	**114**	**(8)**	**106**
Gains & losses on sale of non-current assets	-	-	-	2	-	2
Gain on termination of operations	-	10	10	-	-	-
Finance income	24	-	24	53	-	53
Finance expense	(40)	-	(40)	(41)	-	(41)
Profit/(loss) before income tax	**100**	**(21)**	**79**	**128**	**(8)**	**120**
Income tax expense	(24)	-	(24)	(20)	-	(20)
Profit/(loss) for the period from continuing operations	**76**	**(21)**	**55**	**108**	**(8)**	**100**
Profit for the period from discontinued operations	-	3	3	2	17	19
Profit/(loss) for the period	**76**	**(18)**	**58**	**110**	**9**	**119**
Attributable to equity holders of the Company	49	(18)	31	82	9	91
Attributable to minority interests	27	-	27	28	-	28
Profit/(loss) for the period	**76**	**(18)**	**58**	**110**	**9**	**119**
Earnings per share attributable to the equity holders of the Company during the period (pence)						
Basic			1.3p			4.0p
Diluted			1.3p			4.0p
Earnings per share from continuing operations attributable to the equity holders of the Company during the period (pence)						
Basic			1.2p			3.2p
Diluted			1.2p			3.2p
Earnings per share from discontinued operations attributable to the equity holders of the Company during the period (pence)						
Basic			0.1p			0.8p
Diluted			0.1p			0.8p

[1] Results adjusted to reflect revised accounting for Monaco Telecom and other presentational points as set out on page 38

[2] Exceptionals comprise items considered exceptional by virtue of their size, nature or incidence and include restructuring and impairment charges, and releases of certain provisions and certain profits and losses on disposal of non-current assets

Condensed consolidated balance sheet

As at:

	30th September 2006	31st March 2006[1]	30th September 2005[1]
	£m	£m	£m
ASSETS			
Non-current assets			
Intangible assets	708	722	247
Property, plant & equipment	1,439	1,489	1,344
Investments in associates & joint ventures	163	176	266
Other non-current assets	126	131	148
	2,436	**2,518**	**2,005**
Current assets			
Inventories	32	31	31
Trade & other receivables	926	929	868
Tax asset	2	2	-
Financial assets at fair value through income statement	38	39	135
Cash & cash equivalents	774	1,127	1,929
	1,772	**2,128**	**2,963**
Assets held for sale	101	105	-
	1,873	**2,233**	**2,963**
Total assets	**4,309**	**4,751**	**4,968**
LIABILITIES			
Current liabilities			
Trade & other payables	1,277	1,381	1,308
Current tax liabilities	133	123	170
Loans & obligations under finance leases	73	143	144
Derivative financial instruments	-	15	17
Provisions for other liabilities & charges	59	89	239
	1,542	**1,751**	**1,878**
Net current assets	**331**	**482**	**1,085**
Non-current liabilities			
Trade & other payables	6	-	-
Other financial liabilities	102	106	120
Loans & obligations under finance leases	625	641	611
Deferred tax liabilities	43	51	49
Provisions for other liabilities & charges	170	193	148
Retirement benefit obligations	133	143	254
	1,079	**1,134**	**1,182**
Net assets	**1,688**	**1,866**	**1,908**
EQUITY			
Capital & reserves attributable to the Company's equity holders			
Share capital	612	605	601
Share premium	44	24	17
Reserves	825	956	1,026
	1,481	**1,585**	**1,644**
Minority interests	207	281	264
Total equity	**1,688**	**1,866**	**1,908**

[1] Adjusted to reflect revised accounting for Monaco Telecom and other presentational points as set out on page 38

Consolidated statement of recognised income and expense

	For 6 months ended 30th September 2006	For 6 months ended 30th September 2005[1]
	£m	£m
Fair value gains on available for sale financial assets	(1)	5
Actuarial (losses)/gains in the value of defined benefit retirement plans	(5)	(21)
Exchange differences on translation of foreign operations	(119)	52
Net (loss)/income recognised directly in equity	(125)	36
Profit for the period	58	119
Total recognised income & expense for the period	**(67)**	**155**
Attributable to equity holders of the Company	(71)	114
Attributable to minority interests	4	41
	(67)	**155**
Impact of revised accounting for Monaco Telecom (see page 38):		
Retained earnings	(2)	
Minority interests	(61)	
	(63)	

[1] Results adjusted to reflect revised accounting for Monaco Telecom as set out on page 38

Consolidated cash flow statement

	For 6 months ended 30th September 2006 £m	For 6 months ended 30th September 2005 £m
Cash generated from continuing operations (see page 39)	57	108
Cash generated from discontinued operations (see page 39)	-	4
Income taxes paid	(22)	(27)
Net cash from operating activities	**35**	**85**
Cash flows from investing activities		
Interest received	24	65
Other income	10	4
Dividends received	20	19
Proceeds on disposal of trade investments	-	2
Proceeds on disposal of property, plant & equipment	15	20
Purchase of property, plant & equipment	(157)	(196)
Purchase of intangible assets	(30)	(14)
Proceeds from redemption of credit-linked notes	-	30
Acquisition of associates & joint ventures	(1)	(4)
Net cash from continuing operations	**(119)**	**(74)**
Discontinued operations		
Proceeds on disposal of subsidiaries	-	28
Net cash from discontinued operations	**-**	**28**
Net cash used in investing activities	**(119)**	**(46)**
Net cash (outflow)/inflow before financing activities	**(84)**	**39**
Cash flows from financing activities		
Dividends paid to minority interests	(82)	(45)
Dividends paid to shareholders	(50)	(56)
Repayments of borrowings	(133)	(20)
Interest paid	(30)	(33)
Proceeds from borrowings	37	22
Purchase of treasury shares	-	(1)
Net proceeds on issue of ordinary share capital	5	7
Net cash used in financing activities	**(253)**	**(126)**
Net decrease in cash & cash equivalents	**(337)**	**(87)**
Cash & overdrafts at the beginning of the period	1,127	2,021
Exchange gains & losses on cash & cash equivalents	(16)	(5)
Cash & cash equivalents at the end of the period	**774**	**1,929**

Basis of preparation

This interim financial information, for the six months ended 30th September 2006, has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31st March 2006, except as noted below.

We have reviewed the accounting for our investment in Monaco Telecom, and in particular the Principality's option to put its 45% stake to us, in the light of IAS 32 and developing accounting practice. While we consider the likelihood of the exercise of the option to be remote, in accordance with IAS 32, we have accounted for the option as a liability for the purchase of the 45% together with our existing investment in Monaco Telecom as if we held 100%. We have adjusted the 31st March 2006 and 30th September 2005 balance sheets to recognise the liability which is based on broker valuations (increasing other non-current liabilities by £106m and £120m respectively), de-recognise the minority interest related to Monaco Telecom (decreasing minority interest by £62m and £61m respectively), and recognise additional goodwill (£40m and £57m respectively). The impact on the income statement for the six months ended 30th September 2005 is to recognise an interest expense of £6m, being the accretion of the liability and to adjust profit attributable to minority interests - decreasing profit attributable to equity shareholders by a net £2m. The impact on the results for the six months ended 30th September 2006 is to record additional interest of £5m in respect of interest accretion on the liability. The adjustment did not change EPS as previously reported.

The Company has revised the format of its income statement in the current period in respect of the classification of certain items below operating profit and has represented the comparatives on the same basis. The only impact on the operating profit for the six months ended 30th September 2005 is that £11m, representing the exceptional gain on the sale of Coventry College (the Group's training centre) which was previously included in gains and losses on the sale of non-current assets is now included in other income within operating profit. There is no impact on the previously reported pre-exceptional operating profit.

During the current period, we have reclassified a balance of £10m from trade and other receivables to other non-current assets and have adjusted the comparative balance sheet to be comparable (31st March 2006: £15m and 30th September 2005: £15m).

The comparative figures for the financial year ended 31st March 2006 are condensed and therefore are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The interim financial statements for the six months ended 30th September 2006 were approved by the Directors on 7th November 2006.

Cash flow from operating activities

	For 6 months ended 30th September 2006	For 6 months ended 30th September 2005
	£m	£m
Continuing operations		
Net profit	55	100
Adjustments for:		
Tax expense	24	20
Depreciation	109	98
Amortisation	21	16
Other operating income	(10)	(11)
Gain on termination of operations	(10)	-
Gain on sale of non-current assets	-	(2)
Sale of Bulldog brand & retail broadband customer base	10	-
Interest & similar income	(24)	(53)
Interest & similar charges	40	41
Decrease in provisions	(50)	(54)
Share-based payments	11	6
Defined benefit pension scheme credit	(3)	-
LTIP charges	5	-
Defined benefit pension scheme other contributions	(6)	-
Share of results after tax of associates	(21)	(27)
Operating cash flows before working capital changes	**151**	**134**
Changes in working capital (excluding effects of acquisitions & disposals of subsidiaries)		
Increase in inventories	(1)	(5)
Decrease/(increase) in trade & other receivables	3	(83)
Increase/(decrease) in payables	(96)	62
Cash generated from continuing operations	**57**	**108**
Discontinued operations		
Net profit	3	19
Adjustments for:		
Tax expense	-	6
Profit on sale of operations	-	(23)
Changes in working capital	-	2
Decrease in provisions	(3)	-
Cash generated from discontinued operations	**-**	**4**
Cash generated from operations	**57**	**112**

Provisions for liabilities and charges

	Property	Redundancy	Network & asset retirement obligations	Other	Total
	£m	£m	£m	£m	£m
At 31st March 2006	55	36	91	100	282
Current portion	6	36	11	36	89
Non-current portion	49	-	80	64	193
Charged to income statement					
additional provision	-	18	2	3	23
amounts used	(8)	(41)	(3)	(8)	(60)
unused amounts reversed	(3)	-	-	(5)	(8)
Transfers	8	-	-	(14)	(6)
Exchange	-	(1)	(1)	-	(2)
At 30th September 2006	**52**	**12**	**89**	**76**	**229**
Current portion	16	12	17	14	59
Non-current portion	36	-	72	62	170
Analysed between:					
Current portion					
International	-	2	14	1	17
UK (including C&W Access)	14	9	3	3	29
Central	2	1	-	10	13
Non-current portion					
International	-	-	15	3	18
UK (including C&W Access)	31	-	57	1	89
Central	5	-	-	58	63
Total					
International	-	2	29	4	35
UK (including C&W Access)	45	9	60	4	118
Central	7	1	-	68	76

Property

Provision has been made for the lower of the best estimate of the unavoidable lease payments or cost of exit in respect of vacant properties. Unavoidable lease payments represent the difference between the rentals due and any income expected to be derived from the vacant properties being sub-let. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

Redundancy

Provision has been made for the total employee-related costs of redundancies announced prior to 30th September 2006. Amounts provided and spent in the year primarily relate to restructuring in the UK business and C&W Access.

Network and asset retirement obligations

Provision has been made for the best estimate of the unavoidable costs associated with redundant network capacity. We expect to use the provision over the shorter of the period to exit and the lease contract life. Provision has also been made for the best estimate of the asset retirement obligation associated with office sites, technical sites, domestic and sub-sea cabling. We expect to use this provision at the end of the life of the related asset on which the obligation arises. Amounts utilised in the year relate predominantly to cash spend against the unavoidable costs associated with redundant network capacity.

Other

Other provisions includes amounts relating to the disposal of the previously discontinued US businesses, amounts relating to the Group's former insurance operation and amounts relating to acquisitions and disposals of Group companies and investments. The reversal of unused amounts reflects the resolution of historical claims and other risks during the year.

Minority interests

	Total[1] £m
Balance as at 31st March 2006	281
Share of total recognised income & expenditure for the year	4
Dividends paid	(78)
Balance as at 30th September 2006	**207**

[1] Results adjusted to reflect revised accounting for Monaco Telecom as set out on page 38

Dividends paid and proposed

	2006 £m	2005 £m
Declared & paid during the six months ended 30th September		
Dividends on ordinary shares:		
Final dividend for the year ended 31 March 2006: 3.1p (31 March 2005: 2.6p)	**71**	**60**
Proposed at 30th September		
Dividends on ordinary shares:		
Interim dividend for 6 months 2006: 1.7p (6 months 2005: 1.4p)	**39**	**32**

The proposed dividend was approved on 7th November 2006.