Cable & Wireless Jamaica Limited

Audited Consolidated Financial Statements

for the year ended 31 March 2005

After a year of accelerated Transformation efforts in 2004, the year ended March 31, 2005 has been characterized by a stabilization of the business - financially and operationally - as the company prepares for a new era in its pursuit of Growth in revenues, profits and cashflows.

Full year reported *Revenue* declined by 5% from $23,463m to $22,213m in the year ended 31 March 2005. Approximately $600m of this decline results from higher than usual line rental rebates associated with the more conservative application of Fixed Line credit policies, as explained below. Excluding this, underlying revenue was essentially flat.

The re-branding of the Company's Mobile business to *bMobile* in July 2004 has been well received by existing and prospective customers alike. This has been a major factor in the approximately one tenth increase in customer numbers during the year. Another key factor has been the exemplary performance of the Company's Stronger GSM network which was alone among the Mobile networks in withstanding the ravages of Hurricane Ivan. Indeed GSM customer numbers have almost trebled due to both new customer acquisitions and the Company's efforts to actively migrate customers from the TDMA platform. As a result, GSM revenues now represent the majority of total *Mobile revenues*. However, despite increased subscribers, *Mobile revenues* still declined slightly due to lower average revenue per user (ARPU). In February 2005, the range of Pre-paid and Post-Paid plans were totally revamped to further underscore bMobile's superior value proposition and greater relevance to customer's varied lifestyles. In doing so we are also confident of driving higher usage of value added services such as SMS and GPRS which are poised to follow the strong growth evidenced in other countries.

Since liberalization the Mobile market in Jamaica has been characterized by exponential growth in customer numbers fuelled by generous handset subsidies to attract new users to the market. Today approximately two-thirds of all Jamaicans possess a mobile phone and penetration levels compare favourably to those in other countries. These customer acquisition costs have constrained profits in the Mobile market. As has been experienced in other countries however, consumer focus shifts from cost of entry in favour of overall cost of ownership, quality of customer experience and availability of value added services. Accordingly the Company has led the industry by effectively eliminating handset subsidies and directing efforts towards more sustainable sources of competitive advantage and differentiation. The company has been spending between $1 and $2Bn per annum on handset subsidies. The change we have effected will allow us to re-invest these funds in to providing tangible improvements in other areas while also restoring the profitability of our Mobile business. Where we will incur additional cost of sales is in actively migrating appropriate customers from TDMA to the GSM network. We have already migrated significant numbers of customers in 2004 and will be substantially completing this process during the next 12 months.

Internet and Data revenues have demonstrated strong growth during the year. The Company is aggressively pursuing Broadband market leadership and has trebled the number of Broadband customers in just six months. We anticipate providing Broadband access to around 50,000 Jamaican homes during the coming year.

Domestic *Fixed line revenue* decreased by $1,556m from the prior year. $600m of this decline related to a more conservative application of long-established credit policies to reflect the recently liberalized market place, mostly in connection to residential customers. Previously, write-backs of rental revenues were only affected after a lengthy process of disconnection. However, reflecting the fact that a higher proportion of credit challenged customers do eventually cease service we have now accelerated the write-off of such amounts such that there was a one-off impact on revenues during the year up on migrating from the old to the new practice. The change in accounting treatment in no way diminishes from the commercial efforts to retain bona fide customers, nor on the long run level of revenues. Importantly this change has had no impact on operating profits as such amounts were already fully provided for as a bad debts expense within *Administrative expenses.* The remainder of the decline was primarily due to an approximately 10% reduction in the number of fixed line customers during the first half of the year- principally lower usage residential customers substituting their fixed line for a pre-paid mobile phone. Customer numbers have remained steady during the latter half of the year as a result of the *Homefone* re-branding, various customer service enhancements, focused actions on credit challenged customers and speedier provisioning and repairs.

International outbound revenues are largely unchanged from prior year. However international inpayments declined as international settlement rates reduced during the first half of the year. The proliferation of licencees precipitated significant declines in the settlement rates that the Company can charge to international carriers for terminating calls within Jamaica without any concomitant benefit to Jamaican consumers and with no attendant obligations upon new licencees to invest in infrastructure or people within Jamaica. The related settlement rates are now amongst the lowest in the world suggesting that further price pressures should be limited. The OUR issued a determination in December 2004 with respect to the RIO5 (Reference Interconnect Offer - which, among other things, regulates the prices that CWJ is able to charge other carriers for interconnection and termination). Following this determination, rates have stabilized and even increased slightly. A number of carriers have since exited the market due to reduced arbitrage opportunities.

Outpayments to other carriers increased marginally to 22% of revenues while the subsidizing of mobile handsets during the first three quarters and high handset sales following the re-launch of *bMobile* led to an increase of *Other costs of sales* from $2,137m to $2,279m. The overall impact is a slight decrease in *Gross Margin* for the year to 67% of *Revenue.*

Despite double-digit local inflation, *Total operating expense* decreased by 12% from prior year. *Employee expenses*, excluding *Redundancy costs* reduced marginally, even after allowing for $200m of one-off costs. Wage increases have been mitigated by significant headcount reductions at the end of the prior year and efficiency gains resulting from a range of initiatives such as improved procurement processes, convergence of the TDMA and GSM billing platforms, the implementation of an SAP ERP system and streamlined provisioning and logistics workflows.

Administrative, marketing and selling expenses also reduced by $218m or 4% again despite double digit inflation and despite one-off costs of $438 relating to repairs required following Hurricane Ivan. The company maintains comprehensive insurance against such eventualities and has already submitted claims for the majority of this amount plus an additional amount of $64m for write-offs of capital equipment included within *Other* expenses. At least partial recovery is anticipated during the financial year ending March 31, 2006. However, pending resolution of these claims the Company has prudently provided in full for the associated costs.

Depreciation was lower than prior year by $588m primarily due to the $11,064m fixed asset impairment in 2004.

The net impact is that *Operating profit before impairment* improved over the prior year by $425m, up 12% on 2004. This reflects an increase in operating profit margins from 15% to 18%.

The Company incurred major transformation costs, most significantly fixed asset impairments and redundancy costs, in each of the preceding four years. This year there are no such costs reflecting the progress that the company has made in its transformation efforts.

Total other expenses increased slightly due to higher *Interest expenses* resulting from the conversion of outstanding intercompany dividends and other foreign currency denominated debts into Jamaican dollar intercompany loans. This, together with diligent treasury management, essentially eliminated any *foreign exchange losses* for the year.

We continued the rationalization of our property portfolio disposing of Newport West, Ironshore and seven other properties during the year. The majority of these properties were sold at a profit. Unusually, two of the higher value properties yielded losses such that overall the property disposals resulted in a net loss of $147m. Nonetheless, property disposals realised $405m in cash proceeds and significant savings in *Operating expenses.* We also disposed of our equity investment in Intelsat Ltd. for proceeds of $427m and a net book profit of $298m.

As a result there was a *Net profit attributable to stockholders* of $2,281m compared to a loss in the previous year of $5,381m and a profit of $1,831m in 2002/03. Adjusting for the post-tax impact of the 2003/04 *Impairment* (ie. $11,064m x (1 - 33 1/3%) = $7,380m), an adjusted *Net profit attributable to stockholders* would have yielded $1,999m in 2003/04. As such, the current year Net profit represents an increase of 14% over prior year.

Overall, the 2004/05 has yielded *earnings per stock unit* of 13.56 cents compared to a loss last year of 32.00 cents. A *Dividend* of 6.0 cents per share (totaling $1,009m) has been recommended by the Board and will be tabled for approval by Shareholders at the Annual General Meeting in August. This will be reflected in the *Accumulated profit/(deficit)* of the Company Balance Sheet post March 31, 2005.

For the 2005 presentation of the Balance Sheet, the prior financial year has been restated

to specifically reflect the reclassification of:
i) software licenses from *Property, plant & equipment* to *Intangible assets* ($623m), and
ii) *inventories* acquired for internal use have been moved to *Property, plant & equipment* ($254m impact).

The following significant balance sheet movements have occurred between 31 March 2004 & 31 March 2005:

- *Property, plant & equipment* increased by $1,486m or 6% from last year due to the capital expenditure offset by the disposals in property noted above.
- The balance on *Accumulated profit and loss reserve* has increased by $1,983m, being the *Net profit attributable to stockholders* less the profit on the sale of shares in Intelsat Ltd. This resulted in positive reserves of $1,477m as of March 31, 2005 after the negative balance that resulted from the prior year *Impairment.*
- The current *Taxation* liability at March 31, 2005 is $2,070m lower than year end due to the favourable settlement of the long standing legal case pertaining to the Company's treatment of capital allowances. This does not affect the Company's total eventual tax liability but it does defer the payment of such taxes as is reflected by the corresponding increase in the *Deferred tax liability.*
- Total Gross Debt (comprising the current portion of loans plus non-current loans and amounts due to ultimate parent company) has reduced by $1,761m or 18% to $7,962m during the year.
- The *Employee benefit asset* has increased by $526m to $2,645m during the year, compared with an increase of $451m in the prior year. This reflects the continued increase in the Pension fund assets.

Cash flows from operating activities before working capital movements totaled $7,259m, an improvement of 27% from the prior year. There are a number of notable movements in working capital, namely:

- Capital expenditure increased from prior year by $1,266m to $5,279m relating primarily to the GSM network that is now substantially complete, with network performance consistent with world-class benchmarks.
- *Proceeds from disposal of investments* (the sale of our Intelsat shares) & the *proceeds from disposal of property, plant & equipment* total $427m and $405m respectively.
- During the year, the company repaid $2,345m of external loans.

Net cash generated before financing activities of $2,014m is consistent with the prior year and the cash balance of $1,781m has not moved significantly from the prior year-end.

Group Income Statement

Year ended March 31, 2005

	2005 $'000	2004 $'000
Revenue	22,213,581	23,463,145
Outpayments	4,956,198	4,886,372
Other cost of sales	2,279,099	2,137,469
Total cost of sales	(7,235,297)	(7,023,841)
Gross margin	14,978,284	16,439,304
Employee expenses	(3,145,757)	(4,296,696)
Administrative, marketing and selling expenses	(5,372,070)	(5,589,947)
Depreciation and amortisation	(2,445,705)	(2,962,885)
Total operating expenses	(10,963,532)	(12,849,528)
Operating profit before impairment	4,014,752	3,589,776
Impairment	-	(11,063,904)
Operating profit/(loss)	4,014,752	(7,474,128)
Net finance costs	(1,064,780)	(808,561)
Other	150,254	87,611
Total other expenses	(914,524)	(720,950)
Profit/(loss) before taxation	3,100,226	(8,195,078)
Taxation	(819,092)	2,814,022
Net profit/(loss) attributable to stockholders	2,281,134	(5,381,056)
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Dealt with in the financial statements of:		
The company	2,181,897	(5,358,154)
The subsidiaries, net (dealt with on the equity basis in the company)	99,237	(22,902)
	2,281,134	(5,381,056)
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Earning/(loss) per stock unit (cents)	13.56c	(32.00c)
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Group Balance Sheet

Year ended March 31, 2005

	2005	**2004**
	$'000	**$'000**
Property, plant & equipment	27,622,370	25,135,895*
Intangible assets	622,923	828,952*
Investments	100	316,011
Deferred expenditure	33,211	30,208
Deferred tax asset	-	458,937
Employee benefits assets	2,645,000	2,119,000
Total non-current assets	30,923,604	28,889,003
Cash and cash equivalents	1,781,123	2,434,912
Accounts receivable	3,949,717	3,572,567
Due from related companies	122,515	85,605
Inventories	370,653	289,712*
Current portion of deferred expenditure	117,456	221,981
Total current assets	6,341,464	6,604,777
TOTAL ASSETS	37,265,068	35,493,780
	===========	===========
Share capital	16,817,440	16,817,440
Reserves	870,425	756,366
Accumulated profit/(deficit)	1,477,095	(506,187)
TOTAL EQUITY	19,164,960	17,067,619
Bank overdraft, unsecured	548	323,661
Accounts payable	6,441,546	5,007,565
Current portion of loans	364,950	1,824,337
Taxation	225,324	2,295,503

Due to ultimate parent company	7,032,783	6,457,239
Due to related companies	9,068	82,613
Total current liabilities	14,074,219	15,990,918
Loans	563,957	1,441,477
Deferred tax liability	2,364,843	-
Employee benefits obligations	1,097,089	993,766
Total non-current liabilities	4,025,889	2,435,243
TOTAL LIABILITIES	18,100,108	18,426,161
TOTAL EQUITY & LIABILITIES	37,265,068	35,493,780
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The financial statements were approved by the Board of Directors on May 25, 2005 and signed on its behalf by:

Director Director
Patrick H. 0. Rousseau, 0. Jacqueline Holding

***Reclassified to conform with 2005 presentation.**

Company Balance Sheet

Year ended March 31, 2005

	2005 **$'000**	**2004** **$'000**
Property, plant & equipment	27,532,757	25,026,792*
Intangible assets	622,923	828,952*
Interest in subsidiaries	12,378,289	12,276,508
Investments	100	316,011
Deferred expenditure	33,211	30,208
Deferred tax asset	-	458,937
Employee benefits assets	2,645,000	2,119,000
Total non-current assets	43,212,280	41,056,408
Cash and cash equivalents	1,649,052	2,305,239
Accounts receivable	3,921,221	3,515,444
Due from related companies	121,496	103,082
Inventories	370,014	287,124*
Current portion of deferred expenditure	117,456	221,981
Total current assets	6,179,239	6,432,870
TOTAL ASSETS	49,391,519	47,489,278
	===========	===========
Share capital	16,817,440	16,817,440
Reserves	850,233	738,719
Accumulated profit/(deficit)	1,497,287	(488,540)
TOTAL EQUITY	19,164,960	17,067,619
Bank overdraft, unsecured	548	323,661

Accounts payable	6,365,941	4,899,942
Current portion of loans	364,950	1,824,337
Taxation	227,739	2,295,503
Due to ultimate parent company	7,030,908	6,454,075
Due to related companies	9,068	82,613
Total current liabilities	13,999,154	15,880,131
Due to subsidiaries	12,201,516	12,106,285
Loans	563,957	1,441,477
Deferred tax liability	2,364,843	-
Employee benefits obligations	1,097,089	993,766
Total non-current liabilities	16,227,405	14,541,528
TOTAL LIABILITIES	30,226,559	30,421,659
TOTAL EQUITY & LIABILITIES	49,391,512	47,489,278
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The financial statements were approved by the Board of Directors on May 25, 2005 and signed on its behalf by:

Director	Director
Patrick H. O. Rousseau, O. J.	Jacqueline Holding

***Reclassified to conform with 2005 presentation.**

Group Statement of Cash Flows

Year ended March 31, 2005

	2005 $'000	2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) attributable to stockholders	2,281,134	(5,381,056)
Adjustments to reconcile net profit/(loss) to cash provided by operating activities:		
Employee benefits	(422,677)	(315,024)
Depreciation and amortisation	2,445,705	2,962,885
Provision for impairment	-	11,063,904
Loss/(gain) on disposal of property, plant & equipment	147,599	(28,435)
Gain on disposal of investment	(297,853)	(58,315)
Amortisation of deferred expenditure	273,520	508,325
Unrealised translation losses on loans	8,254	371,844
Deferred taxation	2,823,780	(3,387,544)
	7,259,462	5,736,584
(Increase)/decrease in current assets		
Accounts receivable	(377,150)	(796,167)
Due from related companies	(36,910)	17,111
Inventories	(80,941)	329,554*
Increase/(decrease) in current liabilities		
Accounts payable	1,433,981	(1,436,984)
Taxation	(2,070,179)	380,398
Due to related companies	(73,545)	34,434
Net cash provided by operating activities	6,054,718	4,264,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Unrealised translation adjustment on consolidation	2,545	13,586
Acquisition of property, plant & equipment and intangible assets	(5,278,792)	(4,012,543)*
Proceeds from disposal of investments	427,426	73,906
Proceeds from disposal of property, plant & equipment	405,042	122,775

Deferred expenditure incurred	(171,998)	(236,326)
Net cash used by investing activities	(4,615,777)	(4,038,602)
Net cash generated before financing activities	1,438,941	226,328
FLOWS FROM FINANCING ACTIVITIES		
Loans repaid	(2,345,161)	(1,671,423)
Due to ultimate parent company	575,544	1,847,183
Dividends paid	-	(1,076,317)
Net cash used by financing activities	(1,769,617)	(900,557)
Net decrease in cash and cash equivalents	330,676	(674,229)
Cash and cash equivalents at beginning of year	2,111,251	2,785,480
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,780,575	2,111,251
	===========	===========
Comprised of-.		
Cash and bank balances	1,781,123	2,434,912
Bank overdraft	(548)	(323,661)
	1,780,575	2,111,251
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***Reclassified to conform with 2005 presentation**

Statement of Changes in Stockholders' Equity

Year ended March 31, 2005

	Share Capital $'000	**Reserves $'000**	**Accumulated/(deficit) profit $'000**	**Total $'000**
The Group:				
Balances at April 1, 2003	15,883,138	634,691	6,973,099	23,490,928
Net loss attributable to stockholders	-	-	(5,381,056)	(5,381,056)
Dividends	-	-	(1,076,317)	(1,076,317)
Appreciation in fair value of investment	-	22,078	-	22,078
Bonus issue of shares	934,302	-	(934,302)	-
Unrealised translation adjustment on consolidation	-	13,586	-	13,586
Transfer to capital reserve, net	-	87,611	(87,611)	-
Reversal of fixed assets revaluations	-	(1,600)	-	(1,600)
Balances at March 31, 2004	16,817,440	756,366	(506,187)	17,067,619
Net profit attributable to stockholders	-	-	2,281,134	2,281,134
Release of appreciation in fair value of investment	-	(186,338)	-	(186,338)
Unrealised translation adjustment on consolidation	-	2,545	-	2,545
Transfer to capital reserve	-	297,852	(297,852)	-
Balance at March 31, 2005	16,817,440	870,425	1,477,095	19,164,960
Retained in the financial statements of-				
The company	16,817,440	850,233	1,497,287	19,164,960
The subsidiaries	-	20,192	(20,192)	-

Balances at March 31, 2005	16,817,440	870,425	1,447,095	19,164,960
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The company	16,817,440	738,719	(488,540)	17,067,619
The subsidiaries	-	17,647	(17,647)	-
Balances at March 31, 2004	16,817,440	756,366	(506,187)	17,067,619
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Recognised gains/(losses):

(a) Total recognised gains/(losses) for the year aggregated $2,097,341,000 [2004: ($5,346,992,000)].

(b) Recognised gains/(losses) per ordinary stock unit for the year were 12.47 cents [(2004: 32 cents)].

Segment Results

	2005			
	Fixed Lines $'000	Mobile Services $'000	Carrier Services $'000	Total $'000
Turnover	13,510,250	5,765,969	2,937,363	22,213,582
Segment results before and after impairment	3,485,091	348,179	181,482	4,014,752
Segment assets	21,820,910	11,375,453	4,068,705	37,265,068
Segment liabilities	5,663,223	12,048,012	388,873	18,100,108
Other segment items:				
Additions to property, plant and equipment	1,952,385	3,070,529	255,878	5,278,792
Depreciation & amortisation	1,539,335	646,945	259,425	2,445,705
Other non cash items excluding depreciation	-	-	-	-

2004

	Fixed Lines $'000	Mobile Services $'000	Carrier Services $'000	Total $'000
Turnover	16,767,429*	5,770,237*	925,479*	23,463,145
Segment results before impairment	2,880,740*	570,045	138,991*	3,589,776
Impairment	(6,089,249)*	(4,974,655)*	-	(11,063,904)
Segment results after impairment	(3,208,509)*	(4,404,610)*	138,991*	(7,474,128)
Segment assets	26,254,976	5,658,580	3,580,224	35,493,780
Segment liabilities	7,661,402	10,116,093	648,666	18,426,161
Other segment items:				
Additions to property, plant and equipment	707,538	3,267,766	37,239	4,012,543
Depreciation & amortisation	2,222,127	408,716	332,042	2,962,885
Other non cash items excluding depreciation	-	-	-	-