Company Registration No. 1541957

Cable & Wireless U.K.

Directors' report and financial statements

31 March 2009

Registered Office
Waterside House
Longshot Lane
Bracknell
RG12 1XL

Contents

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2009.

Principal activities and review of developments

The Company's principal activity is the supply of telecommunications services and equipment. It is the Directors' intention to continue the business in line with current activities.

Cable & Wireless U.K. is an unlimited company having a share capital.

During the year additional shares were issued to the Company's existing immediate parent company for a total consideration of £1,354m. The consideration was settled through the intercompany account.

Business review

Cable & Wireless U.K. specialises in providing high quality communications services such as IP, data, voice and hosting to large enterprise customers. This focus allows the Company to tailor services to address customer needs, making sure we deliver what these customers want.

Whilst many of the economies we operate in have been slowing recently, the work we have done over the past three years has positioned us well – we have a high proportion of long term contracted revenue, a powerful product portfolio and a large market opportunity.

Our acquisition of certain trade and assets of Thus plc on 1 January 2009 gave us even greater scale with a number of new enterprise and Government customers. The integration is delivering significant cost savings from network and property rationalisation, removal of duplicate capabilities and one set of product development. Since acquisition, the Thus business has focused entirely on the mid market sector.

On 1 April 2009 we transferred around 600 legacy Cable & Wireless U.K. customers and acquired Thus customers into this separate mid market sector business to which Cable & Wireless U.K. provides network services. The contracts disposed of after the year end have been shown as discontinued on the face of the profit and loss account.

Our Multi Service Platform (MSP) is at the core of many of our customer solutions. It is a highly advanced IP-based network supporting more than 150 customers. Customers' competitive advantage often relies on bandwidth-hungry, business critical applications such as Oracle and SAP. Our MSP has been designed to work with these applications, allowing customers to replace their legacy networks with a single, responsive, flexible and scalable solution – which also takes cost out of their business.

Our capability also includes the only operational GSM-based fixed mobile convergence (FMC) solution in the UK. Simply put, FMC allows mobile phone calls made on a company's premises to be routed through their data network, rather than via a mobile operator's. There are a number of advantages for businesses in doing this: it means customers will only receive one bill from one partner; it allows them to keep their existing handsets and Blackberry's; and most importantly, with 50% of all business mobile calls made in the office it offers the opportunity for considerable savings.

Hosting continues to be another important part of the wide range of services we offer, with customers increasingly asking us to manage their data centres on their behalf.

Directors' report *(continued)*

Our growth drivers

Since we set out our strategy more than three years ago, our vision to be the first choice for mission critical telecoms for the world's largest organisations is at the heart of everything we do. In this economic environment, success comes from being able to stand head and shoulders above the competition – offering customers compelling service and capability. This has driven our success and it is what will continue to drive us forward as we seek to be the number one in our chosen markets.

Consistently great customer service
We have done a lot in the last three years and our customers tell us they like what they see. For example, with many of our customers, a key measure of our service is how we deal with any issues that arise. We have been working hard to make sure that when there is a problem, we fix it quickly and keep our customer informed.

But we know our customers are looking for more. They want a service provider that is not just looking to maintain delivery times but actively looking to reduce them. That is why we announced to the business in November 2008 that we are re-engineering the way we deliver new orders, to give us a better, more scalable process.

We are not just changing our structure and process. Our colleagues are the most important part of great customer service. We have a culture where everyone is encouraged to "think customer", where they understand how critical our services are to customers and where they will go the extra mile to make sure they give a consistently great service experience.

Capability that solves customer business issues
Our innovative capability will continue to attract new customers and win more business from existing ones. Our ability to offer products like the UK's first 'on-demand' IP contact centre for Thames Water will continue to differentiate us from our competitors. Our FMC solution is unique to the UK market and has been adopted by customers such as Tesco. It offers customers the chance to develop more productive ways of working and opens up a corporate mobile market that is estimated to be worth £500m per year to us.

Many of our solutions benefit our customers to reducing the amount of money they are spending, for example, our managed video conferencing solution offers the chance to reduce travel costs and increase productivity.

Our competitive position

We operate in a number of competitive markets, competing with major global and dominant incumbent players. Although there are a number of participants in the market, the choice for large customers often comes down to us or BT.

We continue to be well positioned in our chosen markets. Our market specialisation gives us a focus that most of our competitors, operating across a variety of market segments, cannot match. It allows us to develop network, product and service solutions specifically tailored to large organisations.

Directors' report *(continued)*

Our strategy and objectives

The success of our business during the last three years is down to the consistent focus on our strategy – we want to be the first customer-defined communications services business in the world with the ambition to be the number one in our chosen markets. We aim to do this by:

Specialising in large customers
Our focus on large enterprise, carrier and reseller customers means we have knowledge and experience of our customers that few can match. By focusing only on this market, we can deliver an unparalleled customer experience. This market provides us with the richest product set and is one we have many years' experience in serving.

Delivering market-leading capability
Our focus is customer, rather than technology. Our capability is designed to help our customers solve their business issues and make sure they can succeed, even in the challenging markets they are experiencing today.

Giving the best customer service
We are changing the game in an industry that has been synonymous with poor service. Customer service is our number one priority and we are continuing to develop a service-focused culture throughout our business.

Offering customers best value
We are creating a proposition that is valued by our customers and economic for us. Our strategy is to give our customers the option of great customer service.

Risk factors

Like most businesses, we are exposed to the current economic environment. This could affect our growth and profitability as well as our ability to finance our business. We monitor key recession indicators closely and have plans in place to address any sustained impact of the downturn. In addition, we have raised sufficient debt to meet our medium term liquidity needs and continue to maintain good relationships with our core banks.

Our financing agreements mean that we are subject to certain financial and other covenants. If we are unable to meet these covenants, we may have to repay these facilities early, adversely affecting our cash position. We monitor covenant positions against our forecasts and budgets to ensure that we continue to operate within our covenant limits.

The Company is a member of a group-wide UK pension scheme, providing benefits based on final pensionable pay. The scheme is well managed and measures have been taken to reduce financial risk exposures. However, the value of the scheme's assets and liabilities are affected by market movements and we may also have to make additional contributions to the scheme if the scheme's assumptions change. We engage in regular dialogue with the scheme Trustees who manage the scheme's assets with appropriate external advice. Annuities were purchased during the year for all the UK pensioner liabilities, significantly reducing the risk relating to these obligations.

The risk of litigation from customers and competitors is always present, as it is for most large organisations. Unfavourable outcomes could significantly affect our financial performance or reputation. Where and when litigation is brought against us, we defend our position robustly using appropriate legal advice and services.

Our global network is a critical asset, enabling us to provide customers with efficient and extensive telecommunication services. We operate, manage, bill and support these services, and manage our financial performance, with our IT systems. Like other telecoms operators, our network and IT systems are vulnerable to interruption and damage from natural disasters, fire, security breaches, terrorist action, human error and other factors outside of our control. If we were to experience full or partial network failure we might lose customers or receive claims from customers based on loss of service, affecting our reputation and results. We are confident that we have appropriate business continuity and disaster recovery plans, crisis management and emergency response teams and insurance cover. In addition, we strive constantly to improve our network and add resilience where issues have been identified.

Directors' report *(continued)*

The strategy of the Company is to serve the largest users of telecommunication services in the UK. To achieve this, we are transforming our service and quality (with increased automation), our go to market capability (with new products and services) and our economics. Furthermore in January 2009, we acquired certain trade and assets of Thus plc and are now integrating them into our existing business to create value and generate significant cost synergies. Implementing a business transformation and integrating an acquired business is complex, time consuming and expensive. Such activities are vulnerable to issues such as poor data integrity and associated processes that can jeopardise our customer solutions and reduce the speed of the overall process. If we fail to execute our plans properly, our operations and results may be adversely affected. That is why we have established detailed transformation programmes with key milestones, designed to ensure we achieve our aims.

It is important to ensure that we maintain the security of our customers' data, especially where services are delivered outside of the UK. If the sensitive data passing through our network were to fall into the wrong hands, we would be exposed to significant legal and regulatory consequences. To increase security further, we have started an IT security mitigation programme to review our offshore operating model and implement enhanced onshore controls and business support processes.

Like all major telecoms operators in the UK, we are reliant on BT's network to deliver some services to our customers. BT is also our largest competitor with over 50% share of our core market of enterprise customers. Because BT is both the main competitor and main supplier to telecommunications operators in the UK, the regulator, Ofcom, must regulate BT's practices adequately to ensure that a fair competitive environment is maintained. If it doesn't, we may be unable to compete effectively, which could have a material effect on our results. We engage with Ofcom to encourage balanced regulation and appeal against decisions that are perceived to favour the interests of BT.

BT is due to introduce its next generation network (21CN) and next generation fibre roll out. This network and fibre roll out is likely to lead to a substantial change in commercial relationships between telecommunications operators' networks, as well as to the terms on which services are delivered. The timing of the introduction of BT's 21CN and what impact these new commercial arrangements will have on us is unclear at this stage. We are actively engaging with Ofcom as regulation will be a key factor in shaping these new arrangements.

Directors' report *(continued)*

Financial risk management

The Company is exposed to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The Company has in place risk management programmes that seek to limit the adverse effects on the financial performance of the Company.

Credit risk
Cash deposits and similar financial instruments give rise to credit risk, which represents the loss that would be recognised if a counterparty failed to perform as contracted. Management seek to reduce this risk by ensuring the counterparties to all but a small proportion of the Company's financial instruments are entities rated A-1 short-term and/or AA- long-term by Standard & Poor's (or equivalent by Moody's and/or Fitch). The credit rating of these counterparties is monitored on a continuing basis.

Credit risk procedures on trade debtors vary depending on the size or type of customer. These procedures include such activities as credit checks, payment history analysis and credit approval limits. Based on these procedures, management assessed the credit quality of those trade debtors that are neither past due nor impaired as low risk. There have been no significant changes to the composition of trade debtor counterparties within the Company that indicate this would change in the future. There has been an economic downturn in markets in which the Company operates. This would indicate an increased credit risk on trade debtors that are neither past due nor impaired. However, management have assessed this risk and, after providing additional valuation allowance where necessary, continue to support the assessment of credit quality as low risk.

Liquidity risk
Liquidity risk reflects the risk that the Company will have insufficient resources to meet its financial liabilities as they fall due. The Company manages liquidity risk with the use of robust forecasts to ensure that it has sufficient funds to meet all its potential liabilities as they fall due. These forecasts take account of reasonably possible downsides against expected outcomes so as to ensure adequate contingency levels are maintained.

Liquidity forecasts are produced on a regular basis to ensure the utilisation of current banking facilities is optimised, to ensure that the covenant compliance targets and medium-term liquidity is maintained and for the purpose of identifying long-term strategic funding requirements. The Directors also continually assess the balance of capital and debt funding of the Company.

Interest rate risk
The Company is exposed to movements in interest rates on its surplus cash balances and variable rate loans although there is a degree of offset between the two. The Directors may seek to reduce volatility by fixing a proportion of this interest rate exposure whilst taking account of prevailing market conditions as appropriate. There were no interest rate derivatives in place as at 31 March 2009.

Directors' report *(continued)*

Key Performance Indicators and Performance review

Measurement of how the Company is performing against its aims and strategies is currently based on three key performance indicators.

	31 March 2009	31 March 2008
Margin (including network costs) percentage	28%	28%
Operating costs (excluding network costs) as a percentage of revenue	19%	21%
EBITDA before exceptional margin percentage	9%	7%

Revenue in 2008/09 was £2,544m compared with £2,181m in 2007/08. £76.2m of the increase was attributable to acquisition during the period. The exisiting business saw additional demand for IP, data and hosting products from the core market of large enterprise customers, this was however, partially offset by lower revenues from traditional voice and legacy products.

Margin including network costs increased by £97.8m to £709.8m in the year to 31 March 2009, which comprised £50.2m of growth and £47.6m from the Thus acquisition. Excluding Thus, the increase of £50.2m is due to revenue growth and continued improvement of product mix.

Operating costs excluding network costs in the year to 31 March 2009 increased by £23.9m to £478.5m. The increase comprises £33.9m from Thus, partially offset by a £10.0m reduction in our existing business.

The operating cost fall in our existing business is due to the delivery of a number of cost savings initiatives including the renegotiation of network maintenance contracts and rationalisation of our network. These were partly offset by an increase in energy charges in the second half of the year.

There has been an increase in employee numbers by 1,060 to 5,136 as at 31 March 2009 when compared to the prior year. This increase includes Thus plc colleagues transferred and also reflects colleagues transferred to us from customers as we win more managed service contracts as well as a significant move towards insourcing key service activities.

Depreciation has increased year on year. Excluding Thus plc, the depreciation charge was £169.8m, an increase of £53.4m reflecting the level of capital expenditure in recent years.

EBITDA before exceptional items as a percentage of revenue is 9% for the year ended 31 March 2009 compared to 7% for the year ended 31 March 2008. This increase is attributable to improved performance and integration synergies from the acquisition of Thus plc.

Directors' report *(continued)*

Dividends

The Directors do not recommend payment of a dividend (2008: £nil).

Policy and practice on payment of creditors

The Company agrees payment terms with its suppliers when it enters into binding purchase contracts and seeks to abide fairly by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

At the year end, there were 78 days (2008: 76 days) purchases in trade creditors.

Directors

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

D J Platt	
N I Cooper	
I Gunatilleke	
P S Davis	(appointed 27 January 2009)
H Copestick (Alternate Director to P S Davis)	(appointed 16 July 2009)
R Burge	(appointed 11 March 2009)
I J Gibson	(appointed 11 March 2009)

All Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Employees

The Company has developed employment policies that comply with local requirements and meet relevant standards on employment of disabled people. Full and fair consideration is given to disabled applicants for employment and training, and career development is encouraged on the basis of aptitude and abilities. It is the policy of the Company to retain employees who become disabled whilst in its service and to provide specialist training where appropriate.

As a company within a global telecommunications group, great emphasis is placed on effective employee communications and direct employee communication programmes have been established. The Company values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the Company. Employee representatives are consulted regularly on a wide range of issues affecting the current and future interests of employees.

The Company considers that the establishment of the right priorities and environment for people is essential for their performance and development and to the future of the Company.

Political and charitable contributions

The Company made no political donations and did not incur any political expenditure during the year.

Directors' report *(continued)*

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

On behalf of the Board

P. S. DAVIS
Director
~~Date:~~ 18 September 2009

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the independent auditor, KPMG Audit Plc, to the members of Cable & Wireless U.K.

We have audited the financial statements of Cable & Wireless U.K. for the year ended 31 March 2009 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds, the statement of total recognised gains and losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 9.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

KPMG

Report of the independent auditor, KPMG Audit Plc, to the members of Cable & Wireless U.K. *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

18 September 2009

8 Salisbury Square
London
EC4Y 8BB

Profit and loss account
for the year ended 31 March 2009

	Note	2009 £m	2008 £m
Turnover	2		
Continuing operations		**2,409.6**	2,181.2
Acquisitions	22	**76.2**	-
Discontinued operations	25	**58.0**	-
		2,543.8	2,181.2
Operating costs before depreciation, amortisation and exceptional items	3	**(2,312.5)**	(2,023.8)
Exceptional operating costs	3, 5	**(69.2)**	(165.8)
Total operating costs before depreciation and amortisation		**(2,381.7)**	(2,189.6)
Depreciation	3	**(178.2)**	(116.4)
Amortisation	3	**(29.8)**	(25.8)
Total operating costs		**(2,589.7)**	(2,331.8)
Operating loss			
Continuing operations		**(12.3)**	(150.6)
Acquisitions	22	**(45.0)**	-
Discontinued operations	25	**11.4**	-
		(45.9)	(150.6)
Profit on sale of fixed assets		**1.1**	55.4
Interest receivable and other similar income	6	**0.3**	5.2
Interest payable and similar charges	7	**(100.6)**	(32.3)
Exceptional non-operating costs	5	**13.0**	34.1
Loss on ordinary activities before taxation		**(132.1)**	(88.2)
Taxation	8	**54.0**	-
Loss for the year		**(78.1)**	(88.2)

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

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2009

	Note	2009 £m	2008 £m
Opening shareholders' deficit		**(492.3)**	(409.0)
Loss for the year		**(78.1)**	(88.2)
Share based payments	24	**4.9**	5.2
Foreign exchange translation		**(1.7)**	(0.3)
Actuarial gains in the value of defined benefit retirement plans	23	**0.2**	-
New share capital subscribed		**1,354.0**	-
Closing shareholders' funds/(deficit)		**787.0**	(492.3)

Balance sheet
as at 31 March 2009

	Note	**2009** **£m**	2008 £m
Fixed assets			
Intangible assets	*9*	**771.4**	460.2
Tangible assets	*10*	**924.7**	591.5
Investments	*11*	**11.5**	44.5
		1,707.6	1,096.2
Current assets			
Stocks	*12*	**1.6**	1.3
Debtors – including £65.7m (2008: £14.7m) due after more than one year	*13*	**668.4**	580.5
Cash at bank and in hand		**59.4**	14.1
		729.4	595.9
Creditors: amounts falling due within one year	*14*	**(1,452.5)**	(2,060.7)
Net current liabilities		**(723.1)**	(1,464.8)
Total assets less current liabilities		**984.5**	(368.6)
Creditors: amounts falling due after more than one year	*14*	**(17.7)**	(5.3)
Provisions for liabilities and charges	*16*	**(176.2)**	(118.4)
Net assets/(liabilities) excluding pension liability		**790.6**	(492.3)
Pension liability	*23*	**(3.6)**	-
Net assets/(liabilities) including pension liability		**787.0**	(492.3)
Capital and reserves			
Called up equity share capital	*17*	**3,466.2**	3,032.9
Share premium account	*18*	**921.5**	0.8
Foreign exchange translation reserve	*18*	**(1.3)**	0.4
Profit and loss account	*18*	**(3,599.4)**	(3,526.4)
Shareholders' funds/(deficit)		**787.0**	(492.3)

These accounts were approved by the Board of Directors on 18 September 2009 and signed on its behalf by:

I GUNATILLEKE
Director

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

Statement of total recognised gains and losses
for the year ended 31 March 2009

	Note	2009 £m	2008 £m
Loss for the financial year		**(78.1)**	(88.2)
Actuarial gains in the value of defined benefit retirement plans	*23*	**0.2**	-
Currency translation difference arising on consolidation of branch account		**(1.7)**	(0.3)
Total gains and losses recognised relating to the year		**(79.6)**	(88.5)

Notes to the financial statements

1. Accounting policies

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

Basis of preparation

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

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

The financial statements have been prepared on a going concern basis, notwithstanding net current liabilities of £723.1m (2008: £1,464.8m). The Directors have reviewed the financial position of the Company, including the arrangements with group undertakings, and believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Revenue recognition

Revenue, which excludes discounts and value added tax, represents the amount receivable in respect of services provided to customers and is accounted for on the accruals basis. Revenue is only recognised when payment is probable.

Revenue from services is recognised as the services are provided. Revenue from service contracts that cover periods greater than twelve months is recognised in the profit and loss account in proportion to the services delivered at the reporting date. In respect of services invoiced in advance, amounts are deferred until provision of the service.

Amounts payable by and to telecommunications operators are recognised as services are provided. Charges are negotiated separately and are subject to continual review. Revenue generated through the provision of these services is accounted for gross of any amounts payable to other telecommunications operators for interconnect fees. In certain instances the Company uses estimates to determine the amount of income receivable from or payments to these other operators. The prices at which these services are charged are sometimes regulated and may be subject to retrospective adjustment. Estimates are used in assessing the likely impact of these adjustments. In a similar way, the Company enters into supply agreements. In certain instances it uses estimates of price or usage to determine the expense charged in any period. These estimates are periodically adjusted to reflect actual pricing or usage as such information becomes available or is agreed with suppliers. Credits and charges on adjustments to both interconnect and other supply arrangements are taken to operating profit in the year in which the adjustments are made.

The Company earns revenue from the transmission of content and traffic on its network originated by third-party providers. The Company assesses whether revenue should be recorded gross as principal or net as agent, based on the features of such arrangements including the following indicators:

- whether the Company holds itself out as an agent;
- establishment of the price;
- provision of customer remedies;
- performance of part of the service; and
- assumption of credit risk.

Revenue from sales of telecommunication equipment is recognised on delivery to the customer.

The total consideration on arrangements with multiple revenue-generating activities (generally the sale of telecom equipment and ongoing service) is allocated to those components that are capable of operating independently based on the estimated fair value of the components.

Revenue arising from the provision of other services, including maintenance contracts, is recognised evenly over the periods in which the service is provided.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Intangible fixed assets

Intangible fixed assets are recorded at cost and amortised on a straight line basis over their estimated useful lives, not exceeding 20 years. The directors estimate the useful economic life of the goodwill relating to each acquisition on an individual basis. Goodwill is being amortised to nil over a period 20 years. Intangible fixed assets comprise goodwill arising on the acquisition of businesses.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The cost of fixed assets includes materials, direct labour and other incremental costs applicable to the design, construction and connection of the telecommunications networks and equipment. Where the Company has a legal or constructive obligation to dismantle and remove its assets and restore the relevant sites, a provision is made for the estimated costs of the asset retirement obligation. The present value of the asset retirement obligation is capitalised as part of the initial cost of the asset.

Depreciation

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

Land and buildings:	
Freehold buildings	40 years
Leasehold land and buildings	up to 40 years or term of lease if less
Plant and equipment:	
Cables and other assets	up to 20 years
Network equipment	3 to 25 years
Ducting	40 years
Computer Software:	
Computer Software	3 – 5 years

Depreciation is not provided on freehold land, where the cost is distinguishable from the cost of the building thereon, or projects under construction.

Asset impairment

Intangible and tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value of the fixed assets may not be recoverable. Where an impairment indicator is identified, the carrying value of the income generating unit is compared with its recoverable amount. Where the recoverable amount is less than the carrying value an impairment is recognised.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Pensions

Defined contribution pension plan
A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid.

Defined benefit pension plan
A defined benefit plan is a pension plan that defines an amount of pension benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. These schemes are generally funded through payments to insurance companies or Trustee-administered funds, determined by periodic actuarial calculations.

The asset (or liability) recognised in the balance sheet in respect of the defined benefit plan represents the fair value of plan assets less the present value of the defined benefit liabilities at the reporting date. Assets are recognised as the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Defined benefit liabilities for the scheme are calculated annually by independent actuaries using the projected unit credit method. The present value of these liabilities is determined by discounting the estimate future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid. The bonds used have terms to maturity approximating the terms of the related pension liability.

The Company recognises actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, in the period in which they occur in the statement of total recognised gains and losses. Past service costs are recognised immediately in the profit and loss account, unless the changes to the pension plan are conditional on the employee remaining in service for a specified period of time (the vesting period). In these cases, the past service costs are amortised on a straight-line basis over the vesting period.

Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities less the expected return on plan assets, are included within operating costs.

Multi-employer pension scheme
The Company is also a member of a pension scheme operated by the group and provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for in these financial statements as if it were a defined contribution scheme.

The amounts charged to the profit and loss account include the cost of the contributions payable to the above scheme in respect of the accounting period.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Cash long term incentive plan

The Cable & Wireless group of companies operates a Cash Long Term Incentive Plan ('LTIP'). The plan rewards Directors, and certain senior employees, responsible for the Company.

The LTIP creates a reward pool over a four year period from 1 April 2006 (or until a vesting event, if earlier) depending on the extent to which the business has grown in value from its base valuation at the start of the period. Base valuations are adjusted over the performance period (i) to reflect additional capital notionally treated as borrowed by the business (ii) to reflect capital notionally treated as returned by the business and (iii) increased by the notional weighted average cost of capital of the business (which will be at least 8% per annum compounded).

If the business' value is lower than its adjusted base valuation at the end of the performance period, there will be no reward pool. To the extent that the business' value exceeds its adjusted base valuation at the end of the performance period, 10% of the excess growth in value goes into the reward pool.

75% of the reward pool is payable to the participants at the end of year three (April 2009), and 100% payable (less payments made at end of year three) to all participants at the end of year four (April 2010). Measurement of the size of the reward is carried out every six months to correspond with the Company's accounting period. However, apart from good leavers nothing vests to the participants until the end of year three.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Depreciation on the relevant assets and interest are charged to the profit and loss account.

All other leases are operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

Fixed asset investments

Investments are stated at cost less amounts written off for impairment.

Foreign currencies

Transactions in foreign currency are recorded in sterling at the rate of exchange ruling on the date of the transaction, except for those for which forward cover has been purchased. All monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date and gains or losses on translation are dealt with through the profit and loss account.

The assets and liabilities of overseas branches are translated at the closing exchange rates. Profit and loss accounts of such undertakings are translated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves.

Cash flow statement

Under FRS1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking. A consolidated cash flow statement is included in the financial statements of Cable and Wireless plc in which the Company is consolidated and which are publicly available from the address in note 27.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

Stocks

Stocks represent equipment and other items for resale and are stated at the lower of cost and net realisable value.

Provisions

Provisions are liabilities of uncertain timing or amount. They are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that a transfer of economic benefit will be required to settle the obligation and the amount can be reliably estimated.

Provisions are presented in the balance sheet at the present value of the expenditure required to settle the obligation. The discount rate is the pre-tax rate reflecting the assessment of the settlement date. Provision charges and reversals are recognised in the profit and loss account. Discount unwinding is recognised as an interest charge.

Provisions are recognised for unavoidable lease payments in onerous contracts as the difference between the rentals due and any income expected to be derived from the vacant properties being sublet. Redundancy provisions, relating to both continuing and discontinued operations, comprise employee termination payments.

Share based payments

The share option schemes allow employees to acquire shares of the ultimate parent company, Cable and Wireless plc. For equity-settled share based payments, the fair value of equity instruments (options and shares) granted after 7 November 2002 and not vested by 1 April 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the equity instruments. The fair value of the options granted is measured using the Black-Scholes-Merton and Monte Carlo pricing models for option pricing, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

There are no grants to employees of equity instruments in the Company and there is no policy of the ultimate parent company making linked-clearly recharges to the Company for the provision of these equity instruments.

Where the parent, Cable and Wireless plc grants options over its own shares to the employees of its subsidiaries, including Cable & Wireless UK, it recognises an increase in the cost of investment in its subsidiaries equivalent to the share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity. The subsidiary records a compensation expense and a corresponding credit to shareholders' equity.

2. Turnover

The Company's operations are all considered to fall into a single class of business, namely telecommunications, and accordingly no segmental analysis of operating profit or net assets is shown.

In both the current and prior years, turnover was generated predominately by operations in the United Kingdom.

Acquisition turnover comprises the trade of Thus plc, which transferred to the Company on 1 January 2009, and the trade of Cable & Wireless Access Limited which transferred to the Company on 31 May 2008.

Turnover on Discontinued activities relates to Mid Market business contracts transferred to Thus Limited, a subsidiary undertaking, on 1 April 2009. See note 25 for further details.

Notes to the financial statements *(continued)*

3. Operating expenses

	2009 £m	2008 £m
Outpayments and network costs	**1,834.0**	1,569.2
Staff costs (note 4)	**273.1**	290.8
Trading foreign exchange	**1.7**	(5.6)
Hire of other assets – land and buildings	**37.4**	29.3
Hire of plant and machinery	**37.4**	18.6
Other operating expenses	**128.9**	121.5
	2,312.5	2,023.8
Exceptional operating costs (note 5)	**69.2**	165.8
Depreciation of tangible assets	**178.2**	116.4
Amortisation of intangible assets	**29.8**	25.8
	2,589.7	2,331.8

Auditor's remuneration

	2009 £m	2008 £m
Audit of these financial statements	**0.5**	0.5

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent Cable and Wireless plc.

4. Information regarding Directors and employees

	2009 £000	2008 £000
Remuneration of Directors:		
Directors' emoluments	**487.7**	682.4
Company contributions to money purchase pension schemes	**40.0**	29.0
Compensation for loss of office	**-**	445.2
Amounts receivable under long-term incentive scheme	**-**	923.8
	527.7	2,080.4

There are three (2008: one) Directors accruing benefits under the Company's pension scheme.

The aggregate emoluments and amounts receivable under long term incentives schemes of the highest paid Director was £439,334 (2008: £1,141,165), and Company pension contributions of £33,750 (2008: £nil) made to the money purchase scheme on his behalf.

No Directors' exercised share options under the Cable and Wireless plc plans during the year ended 31 March 2009 (2008: one).

Notes to the financial statements *(continued)*

4. Information regarding Directors and employees *(continued)*

The aggregate remuneration and associated costs of employees were:	**2009 £m**	2008 £m
Salaries and wages	**217.2**	225.3
Share based payment (note 24)	**4.9**	5.2
Social security costs	**21.6**	22.4
Pension costs		
Defined benefit plans	**0.5**	-
Defined contribution plans	**10.8**	10.2
Multi-employer pension plans	**18.1**	27.7
	273.1	290.8

	2009 Number	2008 Number
The average monthly number of persons employed during the year was:	**4,244**	4,280

5. Exceptional items

	2009 £m	2008 £m
Operating items		
Redundancy and restructuring (i)	**51.0**	33.3
Provision for onerous network contracts (ii)	**13.4**	3.1
Write down of investments (iii)	**-**	0.4
Write off of pension prepayment (iv)	**-**	129.0
Past service costs	**5.8**	-
Pension curtailment credit	**(1.0)**	-
	69.2	165.8
Non – Operating items		
Write back of intercompany provisions	**(13.0)**	-
Write back of investments (iii)	**-**	(34.1)
	(13.0)	(34.1)
Total Exceptional Costs	**56.2**	131.7

(i) Exceptional costs in the period of £51.0m (2008: £33.3m) relate to restructuring and comprise £13.7m (2008: £6.9m) in respect of net property costs, £20.6m (2008: £15.3m) in respect of redundancy costs and £16.7m (2008: £11.1m) of other costs.

(ii) A total of £13.4m provision was created (2008: £3.1m) during the year for operations and maintenance charges relating to onerous cable systems.

(iii) The Company has carried out a review to determine whether there has been an impairment in the carrying values of its fixed asset investments. This has resulted in a write-back of £nil (2008: £34.1m) and a write down of £nil (2008: £0.4m) to reflect identified reversals and impairments.

(iv) Exceptional costs in the prior year of £129.0m relate to the Directors' reassessment of the pension prepayment associated with the Cable & Wireless Group defined benefit scheme. The decision to align the position of the Company with the Group in light of the latest full actuarial valuation at 31 March 2008 resulted in a write off of the pension prepayment.

Notes to the financial statements *(continued)*

6. Interest receivable and other similar income

	2009 £m	2008 £m
Third party interest received	0.3	2.6
Foreign exchange gains arising on loans from group undertakings	-	2.6
	0.3	5.2

7. Interest payable and other similar charges

	2009 £m	2008 £m
Interest payable to group undertakings	44.6	24.0
Bank loans and overdrafts	0.2	-
Discount unwind (see note 16)	5.3	6.5
Foreign exchange losses arising on loans from group undertakings	48.6	-
Finance charges payable in respect of finance leases and hire purchase contracts	1.9	1.8
	100.6	32.3

8. Taxation

Analysis of charge/(credit) for the period	2009 £m	2008 £m
Current tax		
UK corporation tax on loss for the year	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	54.0	-
Total deferred tax (see note 15)	54.0	-
Tax on loss on ordinary activities	54.0	-

Notes to the financial statements *(continued)*

8. Taxation *(continued)*

The current tax charge is higher (2008: higher) than the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are explained below:

	2009 £m	2008 £m
Current tax reconciliation:		
Loss on ordinary activities	(132.1)	(88.2)
Current tax credit at 28% (2008: 30%)	(37.0)	(26.5)
Effects of:		
Permanent differences	11.7	(15.5)
Depreciation in excess of Capital Allowances	2.7	7.0
Other timing differences	22.6	(3.7)
Write off of pension prepayment	-	38.7
Current tax charge for the period	-	-

Factors that may affect future tax charges

Deferred tax assets of £884.8m (2008: £900.7m) on timing differences resulting from depreciation in excess of capital allowances and £59.3m (2008: £40.4m) in respect of other timing differences and £40.1m (2008: £30.5m) for losses, have not been recognised, as these are not considered recoverable in the foreseeable future.

9. Intangible assets

	Goodwill £m
Cost	
At 1 April 2008	512.7
Additions	341.0
At 31 March 2009	853.7
Amortisation	
At 1 April 2008	52.5
Charge for year	29.8
At 31 March 2009	**82.3**
Net book value	
At 31 March 2009	**771.4**
At 31 March 2008	460.2

Notes to the financial statements *(continued)*

9. Intangible assets *(continued)*

On 1 January 2009 Cable & Wireless UK acquired certain trade and assets of Thus plc, a subsidiary company. This transaction generated £341.0m of goodwill, which is being amortised over a 20 year period. This period has been determined after taking into account the nature of the business acquired and the expected period over which it is anticipated it will generate value for the Company.

10. Tangible assets

	Land and buildings £m	Plant and Equipment £m	Computer Software £m	Assets under construction £m	Total £m
Cost					
At 1 April 2008	242.5	3,635.7	636.1	62.6	4,576.9
Additions	0.1	42.0	5.5	169.0	216.6
Movements in asset retirement obligations	3.2	4.4	-	-	7.6
Business combinations	10.4	261.4	11.8	3.7	287.3
Disposals	-	(3.4)	-	-	(3.4)
Transfers between categories	10.6	162.2	11.1	(183.9)	-
Exchange differences	-	0.5	-	-	0.5
At 31 March 2009	**266.8**	**4,102.8**	**664.5**	**51.4**	**5,085.5**
Depreciation					
At 1 April 2008	211.2	3,166.7	607.5	-	3,985.4
Charge for the year	5.1	153.0	20.1	-	178.2
Disposals	-	(2.9)	-	-	(2.9)
Exchange differences	-	0.1	-	-	0.1
At 31 March 2009	**216.3**	**3,316.9**	**627.6**	**-**	**4,160.8**
Net book value					
At 31 March 2009	**50.5**	**785.9**	**36.9**	**51.4**	**924.7**
At 31 March 2008	31.3	469.0	28.6	62.6	591.5

Assets under construction are not depreciated. Freehold land amounting to £0.4m (2008: £0.4m) is not depreciated.

Included in the total net book value of plant and machinery is £18.5m (2008: £14.0m) in respect of assets held under finance leases. Depreciation for the year on these assets was £8.0m (2008: £6.0m).

	2009 £m	2008 £m
The net book value of land and buildings comprised:		
Freehold	**8.6**	8.9
Short leasehold	**33.2**	22.4
Long leasehold	**8.7**	-
	50.5	31.3

Notes to the financial statements *(continued)*

11. Fixed asset investments

	Subsidiary undertakings £m	Other investments £m	Total £m
Cost			
At 1 April 2008	79.2	-	79.2
Additions	-	1.1	1.1
Disposals	(35.0)	-	(35.0)
At 31 March 2009	**44.2**	**1.1**	**45.3**
Impairment provision			
At 1 April 2008	34.7	-	34.7
Disposals	(0.9)	-	(0.9)
At 31 March 2009	**33.8**	**-**	**33.8**
Net book value			
At 31 March 2009	**10.4**	**1.1**	**11.5**
At 31 March 2008	44.5	-	44.5

During the year a subsidiary undertaking was dissolved at nil profit.

The Company has carried out a review to determine whether there has been an impairment in the carrying values of its fixed asset investments in line with FRS 11 'Impairment of fixed assets and goodwill'. The review was based on a combination of discounted cash flow analysis using the approved five year business plan reflecting a terminal growth rate of 1% and a discount rate of 10%, and net asset values. This exercise has resulted in a write-down of £nil (2008: £0.4m) to reflect identified impairments.

Principal subsidiary undertakings

Details of principal operating subsidiary undertakings are given below:

Subsidiary undertaking	Class	Ownership %	Country of incorporation	Principal activities
Cable & Wireless Ireland Holdings Limited	Ordinary	100	Ireland	Telecommunications provider
Cable & Wireless Services (Ireland) Limited	Ordinary	100*	Ireland	Telecommunications provider
Cable & Wireless (Ireland) Limited	Ordinary	100*	Ireland	Telecommunications provider
Cable & Wireless Capital Limited	Ordinary	100	England	Leasing company
Cable & Wireless Holdco Limited	Ordinary	100	England	Holding company
Thus Limited	Ordinary	100*	England	Telecommunications provider
Thus Group plc	Ordinary	100*	Scotland	Holding company
Thus Group Holdings plc	Ordinary & preference	100*	Scotland	Telecommunications provider

*Denotes indirect holding

A full list of all subsidiary undertakings within the Cable & Wireless Group of Companies is included with the Cable and Wireless plc Annual Return.

Notes to the financial statements *(continued)*

12. Stocks

	2009 £m	2008 £m
Finished goods		
Network equipment and items for resale	1.6	1.3

13. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Trade debtors	457.3	405.0
Amounts owed by fellow group undertakings	29.2	90.6
Other debtors	41.7	14.1
Prepayments and accrued income	74.5	56.1
	602.7	565.8
Amounts falling due after more than one year:		
Other debtors	2.8	2.1
Deferred tax assets (see note 15)	54.0	-
Prepayments and accrued income	8.9	12.6
	65.7	14.7
Total debtors	668.4	580.5

14. Creditors

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank overdrafts and loans	3.7	14.2
Trade creditors	390.5	326.9
Net obligations under finance leases	10.0	13.3
Amounts owed to fellow group undertakings	479.3	1,259.1
Taxation and social security	34.9	45.9
Other creditors	12.6	10.1
Accruals and deferred income	521.5	391.2
	1,452.5	2,060.7

	2009 £m	2008 £m
Amounts falling due after more than one year:		
Net obligations under finance leases	12.0	5.3
Accruals and deferred income	5.7	-
	17.7	5.3

	2009 £m	2008 £m
The maturity of obligations under finance leases and hire purchase contracts is as follows:		
Within one year	10.0	13.3
In the second to fifth years	12.0	5.3
	22.0	18.6

Notes to the financial statements *(continued)*

14. Creditors *(continued)*

Amounts owed to fellow group undertakings includes a loan with Cable & Wireless Europe Holdings Limited which bears interest of LIBOR plus 1.00%. The loan and any interest accrued thereon become repayable in full on the last day of each borrowing period or immediately upon demand by the lender.

15. Deferred tax

The movements in deferred tax assets and liabilities during the year were as follows:

	2009 £m	2008 £m
Depreciation in excess of capital allowances	**54.0**	-
Total recognised deferred tax asset	**54.0**	-
At 1 April	-	-
Deferred tax credit in profit and loss account (see note 8)	**54.0**	-
At 31 March (see note 13)	**54.0**	-

Deferred tax assets have been recognised in the year as the Company has forecast sufficient profits in the foreseeable future against which to offset these amounts.

Deferred tax assets of £884.8m (2008: £900.7m) on timing differences resulting from depreciation in excess of capital allowances and £59.3m (2008: £40.4m) in respect of other timing differences and £40.1m (2008: £30.5m) for losses, have not been recognised, as these are not considered recoverable in the foreseeable future.

16. Provisions for liabilities and charges

	Note	At 1 April 2008 £m	Transfers in £m	Additions £m	Utilised £m	Discount Unwind £m	At 31 March 2009 £m
Redundancy	(i)	3.6	-	20.6	(17.1)	-	**7.1**
Property	(ii)	60.2	1.4	13.7	(14.8)	2.5	**63.0**
Network	(iii)	5.6	-	13.4	(10.3)	0.1	**8.8**
Other	(iv)	-	0.6	16.7	(16.8)	-	**0.5**
ARO	(v)	49.0	37.5	7.6	-	2.7	**96.8**
		118.4	39.5	72.0	(59.0)	5.3	**176.2**

(i) Redundancy
The provision for the cost of redundancies announced during the year is expected to be utilised within the next twelve months of the balance sheet date.

(ii) Property
A provision has been made for the best estimate of the unavoidable lease payments on vacant properties, being the difference between the rental due and any income expected to be derived from their being sub-let. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

(iii) Network
A provision has been made for the best estimate of the unavoidable costs associated with redundant network capacity. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life.

Notes to the financial statements *(continued)*

16. Provisions for liabilities and charges *(continued)*

(iv) Other

This provision is related to restructuring costs and is expected to be utilised in the year.

(v) Asset Retirement Obligation

A provision has been made for the best estimate for unavoidable cost associated with returning leasehold properties to their original state on exiting the property and retiring network assets from use. The provisions for property will be utilised over a period of 23 years as property leases expire and the network provision will be utilised over a period of 18 years.

17. Share capital

	2009 £m	2008 £m
Authorised:		
3,949,680,250 ordinary shares of £1 each	**3,949.7**	3,949.7
849,319,750 fixed rate irredeemable preference shares of £1 each	**849.3**	849.3
500,000 non-voting redeemable participating shares of £1 each	**0.5**	0.5
500,000 voting redeemable fixed rate preference shares of £1 each	**0.5**	0.5
	4,800.0	4,800.0
Allotted, called up and fully paid:		
3,466,219,951 (2008: 3,032,942,458) ordinary shares of £1 each	**3,466.2**	3,032.9

433,277,493 ordinary shares of £1 were issued during the year to the existing immediate parent company for a consideration of £1,354m. This consideration was settled through the intercompany account.

18. Reserves

	Foreign exchange translation reserve £m	Profit and loss Account £m	Share premium account £m
At 1 April 2008	0.4	(3,526.4)	0.8
Loss for the year	-	(78.1)	-
Premium on share issue	-	-	920.7
Foreign exchange translation	(1.7)	-	-
Actuarial gains in the value of defined benefit retirement plans	-	0.2	-
Share based payments	-	4.9	-
At 31 March 2009	**(1.3)**	**(3,599.4)**	**921.5**

The share based payments of £4.9m is the credit in shareholders' equity matching to the fair value of equity instruments recognised as an employee expense in the year to 31 March 2009. See note 24 for further details of the share based payment charges.

Notes to the financial statements *(continued)*

19. Contingent liabilities

During the year, the Company and other fellow group companies, entered into a £200,000,000 multi-currency revolving facility agreement with a consortium of banks. The facility is secured by a fixed charge over the shares held in certain subsidiaries including the Company and a floating charge over the Company's and certain other fellow group companies' assets.

20. Operating lease commitments

At 31 March 2009 the Company had annual commitments under non-cancellable operating leases as follows:

	2009		2008	
	Land and buildings	**Other**	Land and buildings	Other
	£m	**£m**	£m	£m
Leases which expire:				
Within one year	**7.1**	**20.3**	7.3	22.8
Between two and five years	**16.6**	**14.7**	8.8	4.3
After five years	**29.7**	**2.6**	25.6	1.8
	53.4	37.6	41.7	28.9

21. Commitments

Capital commitments at the year-end amounted to £70.2m (2008: £48.6m).

In addition to the capital commitments above the Company has a number of operating commitments arising in the normal course of business. The most significant of these relate to network operation and maintenance costs, and outsourcing arrangements for the provision of certain services including information technology systems management. In respect of operation and maintenance costs, in the event of the default of another party, the Company may be liable to additional contributions under the terms of the agreements.

22. Acquisitions

On 31 May 2008 Cable & Wireless UK acquired the trade and assets of Cable & Wireless Access Limited, a subsidiary undertaking.

The Company also purchased certain trade and assets of Thus plc, an indirect subsidiary undertaking on 1 January 2009. Thus plc continues to provide telecommunications and related services to customers where contracts could not be legally novated to the Company. However, Thus plc has contracted with the Company for the provision of services relating to these contracts.

The acquisitions were accounted for using the acquisition method of accounting.

Notes to the financial statements *(continued)*

22. Acquisitions *(continued)*

The book and fair values of the consideration and assets were as follows:

	Cable & Wireless Access Limited £m	Thus plc £m	Total £m
Purchase Consideration	69.7	448.0	517.7
Fixed Assets	(77.3)	(210.0)	(287.3)
Stock	-	(0.4)	(0.4)
Debtors	(4.1)	(108.9)	(113.0)
Cash	(0.6)	(7.5)	(8.1)
Creditors	10.8	181.8	192.6
Provisions	1.5	38.0	39.5
Goodwill	-	341.0	341.0

Cable & Wireless Access Limited contributed £14.1m to Company turnover and £25.4m loss to the Company's operating loss. In it's last financial year to 31 March 2008, Cable & Wireless Access Limited made a loss after taxation of £77.9m.

Thus plc contributed £62.1m to Company turnover and £19.6m loss to the Company's operating loss. In it's financial year to 31 March 2008, Thus plc made a loss after taxation of £19.7m.

For the period since the date of their last financial statements up to the date of acquisition, the results of Cable & Wireless Access Limited and Thus plc are shown below:

	Cable & Wireless Access Limited £m	Thus plc £m
Turnover	2.5	350.8
Operating loss	(8.8)	(381.8)
Loss before taxation	(13.2)	(386.8)
Taxation	-	(60.8)
Gain on sale of discontinued operations	-	340.9

23. Pension scheme

The Cable & Wireless Group of companies operate pension and other retirement schemes, which cover the majority of employees in the Group. These schemes include both defined benefit schemes, where retirement benefits are based on employees' remuneration and length of service, and defined contribution schemes, where retirement benefits reflect the accumulated value of agreed contributions paid by, and in respect of, employees. Contributions to the defined benefit schemes are made in accordance with the recommendations of independent actuaries who value the schemes. The main UK defined benefit scheme was closed to new members in 1998.

Notes to the financial statements *(continued)*

23. Pension scheme *(continued)*

Defined contribution schemes

The pension cost for the year represents contributions payable by the Company to the schemes described in note 1. During the year these contributions amounted to £10.8m (2008: £10.2m). No amounts were outstanding at the end of the financial year in respect of this charge.

Defined benefit schemes

Thus scheme – funding valuation

The Thus Group plc pension scheme (Thus scheme) is a funded defined benefit scheme, which was acquired during the year. The assets of the Thus scheme are held in a Trust fund which is independent of the Company's assets. The most recent actuarial valuations of the Thus scheme was carried out by Watson Wyatt Limited as at 31 December 2008, using the projected unit credit method.

The assumptions regarding current mortality rates in retirement were set having regard to the actual experience of the Thus scheme pensioners. In addition, allowance was made for future mortality improvements in line with medium cohort projections of the 1992 mortality series tables published by the Institute and Faculty of Actuaries, subject to a minimum annual rate of improvement of 1.5%.

The main financial assumptions applied in the valuations and an analysis of schemes' assets are as follows:

	2009 Thus scheme	
	Assets	**Assumption**
	£m	**%**
Inflation assumption		**3.0**
Salary increases		**3.5**
Pension increases		**3.0**
Discount rate change		**6.7**
Long-term expected rate of return on plan assets		
- Equities	**37.2**	**8.0**
- Bonds	**29.6**	**5.1**
- Other assets	**0.3**	**4.7**

Assumptions used by the actuary are best estimates from a range of possible actuarial assumptions, which may not necessarily be borne out in practice.

The overall expected rate of return for the pension scheme is a weighted average of the expected asset return for each asset class. The expected asset return for each asset class has been set as a best estimate of the long-term return that will be achieved for the particular asset class in question having regard to investment yields on the measurement date.

The Thus scheme is closed to new entrants. Under the projected unit credit method used for the valuation of liabilities, the current service cost will increase when expressed as a percentage of pensionable payroll as the members of the scheme approach retirement.

Notes to the financial statements *(continued)*

23. Pension scheme *(continued)*

The assets and liabilities of the Thus scheme are presented below:

	2009 Thus scheme £m
Total market value of assets	67.1
Present value of scheme liabilities	(70.7)
Net pension deficit	(3.6)
Actuarial gains on scheme liabilities	0.7
Actuarial losses on scheme assets	(6.5)

The amounts recognised in the profit and loss account are as follows:

	2009 £m Thus scheme
Current service cost	0.6
Interest cost	1.1
Expected return on plan assets	(1.2)
Net cost included in staff salaries (note 4)	0.5
Curtailment	(1.0)
Past service costs	5.8
Net cost included in exceptionals (note 5)	4.8
Total net cost	5.3

The actual return on Thus scheme assets was a loss of £5.3m.

Net actuarial losses amounting to £5.8m have been recognised directly in equity and are presented in the statement of recognised gains and losses.

A gain of £6.0m has been recognised in the statement of recognised gains and losses for the difference between the net assets acquired in the scheme during the year of £6.0m, and their fair value at acquisition of £nil. This was a result of the effects of asset ceiling.

The total amount recognised in the statement of recognised gains and losses in the year to 31 March 2009 is a gain of £0.2m.

Notes to the financial statements *(continued)*

23. Pension scheme *(continued)*

Changes in the present value of scheme liabilities are as follows:

	2009 £m Thus scheme
Opening scheme liabilities	-
Liabilities acquired	(65.5)
Service cost	(0.6)
Interest cost	(1.1)
Actuarial gains recognised in equity	0.7
Employee contributions	(0.2)
Curtailments	1.0
Past service costs	(5.8)
Benefits paid	0.8
Closing scheme liabilities	(70.7)

Changes in the fair value of scheme assets are as follows:

	2009 £m Thus scheme
Opening scheme assets	-
Assets acquired	71.5
Expected return	1.2
Actuarial losses recognised in equity	(6.5)
Contributions by employer	1.5
Employee contributions	0.2
Benefits paid	(0.8)
Closing scheme assets	67.1

Experience gains for the period are as follows:

	2009 £m Thus scheme
Scheme liabilities	(70.7)
Scheme assets	67.1
Pension deficit	(3.6)
Experience gains on scheme liabilities	0.7
Experience losses on scheme assets	(6.5)

The best estimate of contributions for the year ended 31 March 2010 is:

	£m
Employer contributions	7.9
Employee contributions	0.7

Notes to the financial statements *(continued)*

23. Pension scheme *(continued)*

Main UK scheme – Multi-employer defined benefit scheme

The Company is a member of a group-wide pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 Retirement Benefits, the scheme has been accounted for, in these financial statements, as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out as at 31 March 2007 and was updated for FRS 17 purposes to 31 March 2009 by a qualified external independent actuary – Watson Wyatt Limited. The contribution for the year was £18.1m (2008: £27.7m). It has been agreed that an employer contribution rate of 28.5% (2008 – 28.5%) with a further 3.0% (2008: 0.8%) for the Pension Protection Fund levy of pensionable pay.

The Company is not able to separate the performance of the group-wide scheme to give the element that relates solely to the Company's employees. As an indication, however, the group-wide scheme had a net pension deficit of £32m as at 31 March 2009. (2008: no recorded surplus or deficit).

More details are included in the financial statements of Cable and Wireless plc for the year ended 31 March 2009 and can be obtained from the address in note 27.

24. Share-based payments

Share option schemes

The share option schemes operating as at 31 March 2009 or having options outstanding as at this date, are as follows:

Cable & Wireless savings related share option scheme and Cable & Wireless Global savings related share option scheme

Under the Cable & Wireless savings related share options scheme ('SAYE scheme'), UK employees were invited to enter a savings contract with a bank to save regular monthly sums of between £5 and £250 for a period of either three, five or seven years. At the end of the savings contract, the participant receives interest from the bank on their savings. The savings and the interest may then be used to exercise an option over ordinary shares of Cable and Wireless plc, which are issued at a discount of 20% to the market value of Cable and Wireless plc's ordinary shares at the date of grant. Cable and Wireless plc extended the SAYE scheme to its overseas employees by the Cable & Wireless Global savings related share option scheme ('GSAYE scheme'). The GSAYE scheme was last offered in December 2004. In various of the Group's territories (excluding the UK) it operated along similar lines to the SAYE scheme with local variations to accommodate local legal and tax consideration.

Cable & Wireless Share option plan (approved and unapproved)

The level of any share option award is determined by the Cable and Wireless plc Remuneration Committee each year by reference to total remuneration within a market peer group, subject to an overriding annual limit of ten times salary for Executive Directors.

Notes to the financial statements *(continued)*

24. Share-based payments *(continued)*

The vesting of share options awarded to the Executive Directors and to all employees outside the US is subject to relative Total Shareholder Return ('TSR') performance conditions. For options granted before May 2004, full vesting occurs only if the TSR performance of Cable and Wireless plc meets or exceeds the upper quartile between the third and fifth anniversaries of the date of grant. Where TSR performance meets the median, 50% of the initial award vests. A sliding scale operates between median and upper quartile, and nothing vests for TSR performance below the median. If performance conditions have not been met by the fifth anniversary of the date of grant, the option lapses. For options granted from May 2004, the re-testing of performance conditions for share options granted from that date will cease. If performance conditions for these options have not been met by the third anniversary of the date of grant the option lapses. For options granted from June 2005, 33.33% of options vest where TSR performance meets the median and if the Cable and Wireless plc Remuneration Committee is satisfied that the underlying financial performance of the group warrants the release of the shares.

Other equity instrument awards

Deferred short-term incentive plan ('Deferred STIP')

The Deferred STIP is designed to encourage participants to invest in shares to align their interests more closely with those of shareholders. Under this plan any bonus deferred is used to purchase shares in Cable and Wireless plc, which are held in trust for three years before being released to the participant.

Participants may also be awarded up to two matching shares for every one purchased share based on the relative TSR performance of Cable and Wireless plc measured over a three-year period (see Performance conditions for share-based awards). A dividend award supplement also operates on the Deferred STIP. Dividends that would have been paid on the purchased shares and the actual award of matching shares during the performance period are reinvested in additional shares.

For the 2005/06 financial year, Executive Directors were able to elect to pay up to two-thirds of any net annual bonus and senior executives could elect to pay up to one-third of any net bonus into the Deferred STIP. Conditional matching shares were awarded on a gross basis, i.e. for every £100 of net bonus invested in the Deferred STIP, participants have the potential to receive matching shares with a face value on grant of £333. No award has been made under the deferred STIP since 30 September 2005.

Performance share plan ('PSP')

Under the PSP, Executive Directors and other senior executives can receive awards of performance shares at nil cost.

The plan rules limit the value of shares that can be granted to an individual in any year to 100% of salary.

The vesting of performance shares is subject to relative TSR performance conditions (see Performance conditions for share-based awards). A dividend award supplement operates on the PSP. Dividends that would have been paid on the performance shares, which vest, will be regarded as having been re-invested in additional shares.

Restricted share plan ('RSP')

The RSP provides for awards of restricted shares to Executive Directors and selected employees, primarily as a retention or a recruitment tool. Generally, restricted shares awarded under this plan vest of periods of one to three years.

Restricted shares are also used to award matching shares with performance conditions to Executive Directors who invested their own funds into Cable and Wireless plc shares. Attainment of these matching shares is dependent on the Executive Director continuing to hold the invested shares and on meeting the required TSR performance conditions (if applicable). 100% of any shares awarded under this plan vest after three years.

Notes to the financial statements *(continued)*

24. Share-based payments *(continued)*

Performance conditions for share-based awards

TSR is the main performance measure used in share plans where performance conditions apply as it provides an objective external measure of financial performance. The Cable and Wireless plc Remuneration Committee will also consider the underlying financial performance of Cable and Wireless plc at the end of the performance period.

The Cable and Wireless plc Remuneration Committee considers that it is important to measure and reward relative performance against an appropriate set of companies. The Cable and Wireless plc's relative TSR performance is assessed against a comparative group comprising the FTSE Global Telecoms Sector Index ('FTSE GTSI'), which provides a global benchmark of independently selected industry peers. Awards vest depending upon Cable and Wireless plc's TSR ranking relative to the comparative group at the end of a single three-year performance period.

Other schemes

Cable & Wireless share purchase plan ('SPP')

The Company also offers its employees who are chargeable to income tax, under Section 15 Income Tax (Earnings and Pensions) Act 2003, the Cable & Wireless share purchase plan ('the Plan') which is a Revenue approved share incentive plan. Under the SPP, employees can contribute up to a value of £1,500 or 10% of salary each tax year (whichever is the lower), to buy partnership shares in Cable and Wireless plc, and Cable and Wireless plc will offer a match of one share for each partnership share purchased.

Shares are held in a UK resident trust and can be withdrawn from the trust at any time, but there may be pay as you earn (PAYE) taxation and national insurance contributions payable in such events if the shares have not been held in the trust for five years. Dividends on the partnership shares are reinvested in additional dividend shares.

Share options

Options are exercised on a regular basis throughout the year. Options exercised during the year ended 31 March 2009 resulted in 1.6 million shares (2008 – 4.4 million shares) being issued at the average exercise price of 74 pence each (2008 – 49 pence). The related market weighted average share price at the time of the exercise was 160 pence per share (2008 – 159 pence per share).

Movements in the number of share options granted to employees of the Company and outstanding, together with their related weighted average exercise prices are shown below:

	2009		2008	
	Weighted average exercise prices	**Options**	Weighted average exercise price	Options
	Pence/share	**Quantity**	Pence/share	Quantity
At beginning of the period	**82.75**	**4,639,827**	67.84	8,960,905
Granted	**-**	**-**	-	-
Transfer within Cable & Wireless group companies	**87.24**	**(45,666)**	183.26	1,037,852
Forfeited	**96.66**	**(22,669)**	207.87	(869,291)
Exercised	**73.73**	**(1,640,816)**	49.20	(4,443,267)
Expired	**103.70**	**(70,863)**	320.00	(46,372)
At end of period	**87.68**	**2,859,813**	82.75	4,639,827
Exercisable	**108.94**	**1,641,526**	70.00	882,291

Notes to the financial statements *(continued)*

24. Share-based payments *(continued)*

Share options outstanding at the end of the year have the following exercise prices:

	2009			2008		
Range of exercise prices (pence)	**Number of options outstanding at 31 March 2009**	**Weighted average exercise price**	**Weighted average remaining life (rounded to nearest year) (i)**	Number of options outstanding at 31 March 2008	Weighted average exercise price	Weighted average remaining life (rounded to nearest year) (i)
	Quantity	**Pence/share**	**Years**	Quantity	Pence/share	Years
0-49	768,374	36.96	1	1,343,300	36.96	2
50-99	199,143	89.00	2	1,182,379	89.00	1
100-149	1,868,974	106.06	3	2,080,612	106.04	4
150-199	15,209	158.36	1	16,571	158.36	2
200-249	-	-	-	-	-	-
250-299	8,113	274.64	0	10,599	274.64	1
300-349	-	-	-	-	-	-
350-399	-	-	-	4,824	357.92	1
400-599	-	-	-	-	-	-
600-799	-	-	-	1,542	761.76	0
800-999	-	-	-	-	-	-

(i) Weighted average remaining life relates to legal life of options not expected life.

In both the current and previous period no share options were granted

Other awards

	2009			2008		
	Shares	**Weighted average fair value**	**Features incorporated in schemes**	Shares	Weighted average Fair value	Features incorporated in schemes
Award	**Quantity**	**Pence/share**	**Years**	Quantity	Pence/share	Years
RSP	536,107	150.84	-	1,501,334	187.78	-
SPP scheme (matching shares)	1,306,472	156.38	-	1,029,569	184.48	-

No share-based payment arrangements were modified during the year.

The total expense relating to share-based payments, which are all equity settled transactions, was £4,949,412 (2008: £5,197,577).

As the Company has taken advantage of the transitional provisions of FRS 20, the charge only includes grants made after 7 November 2002 that had not vested by 1 April 2005.

Notes to the financial statements *(continued)*

25. Post balance sheet events

On 1 April 2009 the Company entered in to a transfer agreement for the Mid Market business with another Group company, Thus Limited, for £8.9m (£6.0m attributable to the assets and £2.9m for working capital). The Mid Market business has been shown as a discontinued operation in these financial statements.

26. Related party transactions

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

27. Ultimate parent company and controlling party

The Company's immediate parent company is Cable & Wireless Waterside Holdings Limited, a company registered in England and Wales.

The Directors regard Cable and Wireless plc, a company registered in England and Wales, as the ultimate parent company and controlling party.

The smallest and largest group in which the results of the Company are consolidated is that of Cable and Wireless plc, the parent company. The consolidated financial statements of Cable and Wireless plc may be obtained from the Secretary, Cable and Wireless plc, 3rd Floor, 26 Red Lion Square, London, WC1R 4HQ.