

CABLE & WIRELESS EUROPE HOLDINGS LIMITED

Directors' report and financial statements

31 March 2009

**Registered Office:
Waterside House
Longshot Lane
Bracknell
Berkshire
RG12 1XL**



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Directors' report

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

Activities and review of developments

The Company's principal activity is to act as an investment holding company.

The loss for the year amounted to £326,568,000 (2008: £1,476,469,000) primarily as a result of a write down of intercompany loans receivable. No dividend is recommended.

No change in the Company's activities is envisaged in the foreseeable future.

The Company has met the requirements in Companies Act 1985 to obtain the exemption from the need to present an enhanced business review.

Directors

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

D J Platt
I J Gibson
N J Morgan – Alternate to IJ Gibson

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

Disclosure of information to auditors

The Directors who held office at the date of approval of this 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.

By order of the Board of Directors.



H. M. HANSCOMB
Company Secretary

Date: 28th August 2009

Statement of Directors' responsibilities in respect of 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 Europe Holdings Limited

We have audited the financial statements of Cable & Wireless Europe Holdings Limited for the year ended 31 March 2009 which comprise the Profit and loss account, the Reconciliation of movements in shareholders' funds, the Balance sheet, 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 2.

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.

Report of the independent auditor, KPMG Audit Plc, to the members of Cable & Wireless Europe Holdings Limited (*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

28 August 2009

8 Salisbury Square
London
EC4Y 8BB

Profit and loss account
for the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
Amounts written off investments	3	(1,692)	(8,779)
Amounts provided against loans	4	(369,124)	(1,540,004)
Other interest receivable and similar income	5	127,052	125,662
Interest payable and similar charges	6	(82,774)	(53,348)
Loss on ordinary activities before taxation		(326,538)	(1,476,469)
Tax on loss on ordinary activities	7	(30)	-
Loss for the financial year	12.	(326,568)	(1,476,469)

The results for the period are derived entirely from continuing operations.

There are no recognised gains and losses other than the result for the period above. Accordingly, no separate statement of total recognised gains and losses has been presented.

There is no difference between the reported result and that which would be reported under the historical cost convention.

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

	2009 £'000	2008 £'000
Opening shareholders' deficit	(364,434)	1,112,035
Loss for the financial period	(326,568)	(1,476,469)
Closing shareholders' deficit	(691,002)	(364,434)

Balance sheet
 as at 31 March 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	8	<u>4,077</u>	<u>498</u>
Current assets			
Debtors	9	766,452	628,323
Cash at bank and in hand		<u>67,761</u>	<u>-</u>
		834,213	628,323
Current liabilities			
Creditors – amounts falling due within one year	10	<u>(1,529,292)</u>	<u>(993,255)</u>
Net current liabilities		<u>(695,079)</u>	<u>(364,932)</u>
Net liabilities		<u>(691,002)</u>	<u>(364,434)</u>
Capital and reserves			
Called up share capital	11	-	-
Share premium reserve	12	1,148,524	1,148,524
Profit and loss reserve	12	<u>(1,839,526)</u>	<u>(1,512,958)</u>
Shareholders' deficit		<u>(691,002)</u>	<u>(364,434)</u>

The financial statements were approved by the Board of Directors on 28th August 2009 and signed on their behalf by:



I. J. GIBSON

Director

The accompanying notes form an integral part of these statements.

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 liabilities of £691.0m (2008:£364.4m). 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.

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 15.

Investments

Fixed asset investments are stated at cost less amounts written off in respect of any impairments.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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.

2. Information regarding Auditors, Directors and Employees

Directors' emoluments are borne by other group companies in the current and prior year.

The Company had no employees during the year (2008: nil).

In the current year and the prior year, the auditor's remuneration of £3,000 for the audit of these financial statements has been borne by another group company.

Notes to the financial statements (*continued*)

3. Amounts written off investments

The Company has reviewed the carrying value of its fixed asset investments in subsidiary undertakings. This resulted in a charge of £1,692,000 (2008: £8,779,000) being the impairment in value of the Company's fixed asset investments in subsidiary undertakings.

4. Amounts provided against loans

The Company has reviewed the carrying value of its loans to fellow subsidiary companies of Cable and Wireless plc. This resulted in a write down of £369,124,000 (2008: £1,540,004,000) of the Company's loan receivable balances due to a change in the way the Company values these loans.

5. Other interest receivable and similar income

	2009 £'000	2008 £'000
Interest received on loans to group undertakings	122,925	125,574
Third party interest received	1,621	-
Net foreign exchange gains	2,506	-
Profit on dissolution of subsidiary undertaking	-	88
	<u>127,052</u>	<u>125,662</u>

6. Interest payable and similar charges

	2009 £'000	2008 £'000
Interest expense on loans from group undertakings	80,710	49,615
Third party interest paid	2,064	-
Net foreign exchange losses	-	3,733
	<u>82,774</u>	<u>53,348</u>

7. Taxation

	2009 £'000	2008 £'000
<i>Analysis of charge in period</i>		
<i>UK corporation tax</i>		
Current tax for the period	30	-
Double tax relief	(30)	-
	<u>-</u>	<u>-</u>
Overseas withholding tax	30	-
	<u>30</u>	<u>-</u>
Total current tax charge	<u>30</u>	<u>-</u>

Notes to the financial statements *(continued)*

7. Taxation *(continued)*

Factors affecting the tax charge for the current period

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 £'000	2008 £'000
Loss on ordinary activities	<u>(326,538)</u>	<u>(1,476,469)</u>
Current tax at 28% (2008: 30%)	(91,431)	(442,941)
<i>Effects of:</i>		
Permanent differences	103,829	464,609
Group relief claimed without payment	(12,398)	(21,668)
Overseas withholding tax suffered	<u>30</u>	<u>-</u>
Total current tax charge	<u>30</u>	<u>-</u>

Factors that may affect future current and total tax charges

There were no recognised or un-recognised deferred tax balances as at 31 March 2009 or 31 March 2008.

Notes to the financial statements *(continued)*

8. Investments

	Shares in group undertakings £'000
Cost	
At 1 April 2008	46,426
Additions	5,303
Disposals	(32)
At 31 March 2009	<u>51,697</u>
Provision	
At 1 April 2008	(45,928)
Impairment charge	(1,692)
At 31 March 2009	<u>(47,620)</u>
Net book value at 31 March 2009	<u><u>4,077</u></u>
Net book value at 31 March 2008	<u>498</u>

During the year, the Company subscribed for new shares issued by Cable & Wireless S.p.A, a company registered in Italy, for a consideration of €3,722,866. The Company also subscribed for new shares issued by Digital Island (Belgium) B.V.B.A, a company registered in Belgium, for a consideration of €2,023,406.

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 £1,692,000 (2008: £8,779,000) to reflect identified impairments.

Notes to the financial statements (continued)

8. Investments (continued)

Brief details of principal operating subsidiary undertakings are given below:

	Country of incorporation	Type of Holding	Percentage Shareholding	Principal Activity
Cable & Wireless Austria GmbH	Austria	Ordinary shares	100%	Telecommunications
Cable & Wireless (Belgium) N.V.	Belgium	Ordinary shares	100%	Telecommunications
Cable & Wireless Global A/S	Denmark	Ordinary shares	100%	Telecommunications
Cable & Wireless SAS (France)	France	Ordinary shares	100%	Telecommunications
Cable & Wireless Luxembourg S.A.	Luxembourg	Ordinary shares	100%	Telecommunications
Cable & Wireless Netherlands B.V.	Netherlands	Ordinary shares	100%	Telecommunications
Cable & Wireless Telecommunications Services GmbH	Germany	Ordinary shares	100%	Telecommunications
Cable & Wireless S.p.A.	Italy	Ordinary shares	100%	Telecommunications
Cable & Wireless Sweden AB	Sweden	Ordinary shares	100%	Telecommunications
Cable & Wireless Switzerland AG	Switzerland	Ordinary shares	100%	Telecommunications
Cable & Wireless Europe (UK) Limited	United Kingdom	Ordinary shares	100%	Telecommunications
Cable & Wireless SLU	Spain	Ordinary shares	100%	Telecommunications
Digital Island (Belgium) B.V.B.A.	Belgium	Ordinary shares	99%	Telecommunications
European Networks B.V.	Netherlands	Ordinary shares	100%	Telecommunications

A full list of all subsidiary undertakings will be included with the Annual Return.

9. Debtors

	2009 £'000	2008 £'000
Amounts due from group undertakings	766,319	628,323
Prepayments and accrued income	133	-
	<u>766,452</u>	<u>628,323</u>

The amounts due from group undertakings bear interest of Libor plus 1.00%. The loans and any interest accrued thereon become repayable in full on the last day of each borrowing period or immediately upon demand.

Notes to the financial statements (continued)

10. Creditors – amounts falling due within one year

	2009 £'000	2008 £'000
Amounts due to group undertakings	1,529,008	993,255
Accruals and deferred income	284	-
	<u>1,529,292</u>	<u>993,255</u>

The amounts due to group undertakings are unsecured and bear interest of Libor. The loans and any interest accrued thereon become repayable in full on the last day of each borrowing period or immediately upon demand of the lender.

11. Called up share capital

	2009 £	2008 £
Authorised 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

12. Reserves

	Share Premium Account £'000	Profit and Loss Account £'000	Total £'000
At 1 April 2008	1,148,524	(1,512,958)	(364,434)
Loss for year	-	(326,568)	(326,568)
At 31 March 2009	<u>1,148,524</u>	<u>(1,839,526)</u>	<u>(691,002)</u>

13. 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.

14. 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.

Notes to the financial statements *(continued)*

15. Ultimate parent company

The Company's immediate parent undertaking is Cable & Wireless UK 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 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.