2007/08 Annual report

Our vision remains clear – to maximise shareholder value. We've made good progress during the year and there's still more to come.

Strength to strength

CABLE & WIRELESS

Cable & Wireless continues to go from strength to strength.

Our EBITDA is up 23%, our total operating profit has more than doubled and we're recommending an increase of 28% in the full year dividend.

And there'll be more progress in 2008/09.

EBITDA

£605m

Profit before tax

£267m

Full year dividend per share

7.5p

An overview of our business and performance during the year including a review by our Chairman.

Introduction

A review of our two business units – International and Europe, Asia & US – and our performance during the year.

Business review

How we manage our business including Board committees and Directors' biographies and remuneration.

Governance

Financial statements for the Group and Company including reports from the independent auditor.

Financial statements

Group

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What shareholders need to know to manage their shareholding in Cable & Wireless.

Shareholder information

Definitions

This report (Annual Report) comprises the Annual Report of Cable and Wireless plc prepared in accordance with United Kingdom legal and Listing Rules requirements. The Annual Review for the year ended 31 March 2008 is published as a separate document.

Unless otherwise stated in this Annual Report, the terms 'Cable & Wireless', the 'Group', 'it', 'we', 'us' and 'our' refer to Cable and Wireless plc and its subsidiaries, collectively. The term 'Company' refers to Cable and Wireless plc.

Cable & Wireless Group prepares its financial information in accordance with International Financial Reporting Standards (IFRSs) applicable for use in the European Union (EU). The Company prepares its financial information in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). Unless otherwise indicated, any reference in this report to financial statements is to the consolidated financial statements of Cable & Wireless on pages 67 to 119 of this report.

References to a year in this report are, unless otherwise indicated, references to the Company's financial year ending 31 March of that year. In this report, financial and statistical information is, unless otherwise indicated, stated on the basis of the Company's financial year.

EBITDA is defined as earnings before interest, tax, depreciation and amortisation, Cash Long Term Incentive Plan (LTIP) charge and net other operating income and expense. Unless otherwise stated, EBITDA excludes exceptional items.

Exceptional items are material items which derive from individual events that fall within the ordinary activities of the Group that are identified as exceptional items by virtue of their size, nature or incidence.

As the US dollar is the dominant currency for the International business, its results are reported in the International section in US dollars to give a better reflection of its underlying performance. The average US$:£ exchange rate for 2007/08 was 2.0041 compared to 1.8807 for 2006/07.

Information has been updated to the most practical date prior to the approval date of the document on 21 May 2008.

Cautionary statement regarding forward looking statements

This Annual Report contains forward looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'will', 'may', 'should', 'would', 'could' or other words of similar meaning. Undue reliance should not be placed on any such statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Cable & Wireless' plans and objectives, to differ materially from those expressed or implied in the forward looking statements.

There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. Summaries of some of the potential risks faced by Cable & Wireless are set out on pages 41 to 42.

Cable & Wireless cannot guarantee future results, levels of activity, performance or achievements.

Cable & Wireless undertakes no obligation to revise or update any forward looking statement contained within this Annual Report, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by applicable laws or regulation.

Companies Act 2006

Pages 6 to 42 constitute the Chairman's statement and business review of Cable and Wireless plc and, for the purposes of section 463 of the Companies Act 2006, are incorporated by reference into the Directors' report set out on pages 46 to 49 and shall be deemed to form part of that report.

Addressees of the Annual Report

This Annual Report is addressed solely to the members of Cable and Wireless plc as a body, to assist them in assessing the strategies adopted by the Company and the potential for those strategies to succeed. Neither the Company nor its Directors accept or assume responsibility to any person for this Annual Report (beyond the responsibilities arising from the production of this Annual Report under the requirements of the English company law) or any responsibility to update any statements in this Annual Report, save as required by applicable laws or regulation.

English law

Pages 6 to 64 inclusive consist of a Directors' report that has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Introduction

An overview of our business and performance during the year including a review by our Chairman.

At a glance

Cable & Wireless is one of the world's leading international communications companies. It operates through two standalone businesses – International and Europe, Asia & US – with a small Central team as portfolio manager.

International

Europe, Asia & US

Our International business operates full service telecommunications companies through four major operations in the Caribbean, Panama, Macau and Monaco & Islands.

Europe, Asia & US provides enterprise and carrier solutions to the largest users of telecom services across the UK, continental Europe, Asia and the US.

At a glance
We are the leading telecommunications provider in the majority of our markets. We offer mobile, broadband and domestic and international fixed line services to homes, small and medium-sized enterprises, corporate customers and governments. We operate in 39 countries through four major operations in the Caribbean, Panama, Macau and Monaco & Islands.

Strategy
Our aim is for every business within our portfolio to operate as a competitive enterprise – a 21st century telecoms business – so that we become the telecoms provider of choice in all our markets. To achieve our aim, we are leveraging our assets and capabilities, driving a more efficient business and offering great products, services and an enhanced service experience. The result will be better growth prospects and better quality of earnings.

Highlights
- Mobile customers up 27% to 6.4 million – market leader in 19 out of 26 markets
- Broadband customers up 16% to 466,000 – market leader in 28 out of 34 markets
- Fixed customers steady at 1.9 million – market leader in 26 out of 34 markets
- Mobile and broadband revenue up 17% to US$1.1 billion – now 43% of revenue
- EBITDA of US$830 million – 34% of total revenue
- Trading cash flow of US$416 million – US$243 million repatriated
- Services extended to six new markets
- First to launch 3G network in Macau – data traffic has more than tripled
- New mobile services launched in British Virgin Islands and Isle of Man

At a glance
We provide high quality managed IP services to the largest users of telecom services in the UK, continental Europe, Asia and the US. With our business focused on large enterprise customers, we are exceptionally well positioned to capitalise on the powerful trends that enterprise customers are experiencing such as globalisation, business complexity and the need for constantly improving business performance.

Strategy
Our aim is to be the first customer-defined global telecommunications services business in the world. To achieve our aim we're focusing on enterprise customers, delivering an unparalleled customer experience for them, with a market-leading product suite that matches their needs, together with exceptional service. The result will be a proposition that's valued by our customers and economic for us.

Highlights
- Service levels hitting new highs:
  - 90% of customer calls now answered within 20 seconds
  - Delivery on time 90% of the time
- Our multi-service platform is delivering:
  - Fixed mobile convergence
  - Digital marketing
  - Next generation video conferencing
- EBITDA of £219 million – more than double last year
- Revenue now back in growth – up £19 million in the second half of the year
- IP, data and hosting revenue up 8% to £774 million – now 40% of revenue
- We're generating cash with positive trading cash flow in the second half – the first time in many years

Good progress

2007/08 delivered further good progress, EBITDA grew by 23% and total operating profit has more than doubled. In 2008/09 there'll be more growth in EBITDA, which I expect to flow through into cash.

I'm pleased with what we have achieved in 2007/08, building on last year's solid foundations.

Europe, Asia & US continues to focus on the largest users of telecommunications whether at home or abroad which plays to our strengths, particularly our scale and reach. The high quality managed services that we offer are exactly what these customers require. It's something of a first for me to be able to say that our latest IP based product suite, supported by our next generation network, gives us a market lead that'll exist for some time. All of this at a time when our service levels are at an all time high.

In the second half of 2007/08, Europe, Asia & US passed two important milestones – it returned to revenue growth and it generated trading cash for the first time in many years.

International grew during 2007/08 but not by as much as we would have liked. There were stunning performances from Panama and Macau. These two businesses are thriving as truly competitive enterprises. In 2008/09 we will see more mobile competition in Panama but we've prepared diligently and are as ready as we can be. Elsewhere there were solid performances from the portfolio although Jamaica remains a blemish. With a new management team in Jamaica since August 2007, performance improvements are beginning to show through but there's still some way to go.

We wanted to refocus International on the drivers of value which we're doing. We have set our strategy and approach and as a result I expect International to deliver growing numbers of customers, improving customer service, increased EBITDA and better cash flow.

Two years after we introduced two standalone business units – Europe, Asia & US and International – to Cable & Wireless, it's clear that good progress has been made in our performance.

In 2008/09 I expect our performance to improve even further. Financially and operationally, we are showing the necessary momentum for the Board to consider the next steps to deliver further value to shareholders.

At the interim results I indicated that I'd recommend a 28% increase in the full year dividend to 7.50 pence per share subject to trading conditions. Trading conditions continue to be fine so I'm delighted to confirm that I am making that recommendation.

Finally, my congratulations go to our people because the success that I'm reporting on is a real credit to every one of them.

Richard Lapthorne
Chairman

Business review

A review of our two business units – International and Europe, Asia & US – and our performance during the year.


International

We're changing how we think about our business

Our customers demand world class service – we'll make sure they get what they want

The last year has been one of real contrasts – the performances of Panama and Macau were little short of spectacular. Jamaica was a disappointment, although in the second half, with new management, we saw a noticeable improvement in its performance.

Our revenue grew by 7% compared with 2006/07 and EBITDA grew by 3%. Excluding Jamaica, we'd have seen EBITDA growth of 12% – a good result by any standard. Our strategy of investing in the growth areas of mobile and broadband has served us well – mobile customers are up by 27% and broadband by 16% and along with enterprise, our growth segments now represent 67% of our revenue.

Our approach for the future is to ensure that every one of our businesses performs as well as our best do today. This will mean taking many of our businesses on a journey from solid performers to market-leading competitive enterprises, focused on the customer interface, on customer satisfaction and on the value and quality of our propositions. We have a kernel of businesses that are already there – Panama, Macau, Guernsey, Jersey and the Isle of Man – but the rest we need to sharpen up.

In the past we've managed our portfolio of businesses from afar. In future, we'll focus on agreeing the right targets and incentives for each of our businesses and ensuring they have the right resources. This will allow us to drive decision making down to the local business – much closer to the customer – and shrink our 'head office' costs.

We've done this before. In Panama five years ago our revenue was flat and we only had a 34% share of the mobile market. Today we've revenue growth of 14% and a mobile share of around 51% through market leading network coverage and customer satisfaction.

So, our results for this year only hint at what we can achieve. We have a firm foundation on which to build better businesses and deliver better performance and after six months in this business I know we have the people, the desire and the ability to do it.

For 2008/09 I expect much improved EBITDA – both in absolute terms and in the achievement of 35% EBITDA margins.

Our customers no longer accept 'good enough for this market', they demand world class service – we will make sure they get what they want.

John Pluthero
Executive Chairman,
International

… provider of choice in all our markets

Leading telecoms provider in the majority of our markets

– Caribbean
– Panama
– Macau
– Monaco & Islands

Cable & Wireless International is the leading telecommunications provider in the majority of its markets around the world. We offer mobile, broadband and domestic and international fixed line services through four major operations – the Caribbean, Panama, Macau and Monaco & Islands.

Nature of our business

We are the only full service telecoms provider in the majority of our markets, providing services to homes, small and medium-sized enterprises, corporate customers and governments. We aim to be the telecoms provider of choice in all our markets providing easy to use, good value services overlaid with a service experience that our competitors can't match. We are the market leader in 19 of our 26 mobile markets and in 28 of our 34 broadband markets.

We operate through four major operations across 39 markets – through 31 subsidiaries and eight joint ventures. Our ownership of these businesses varies – some are wholly owned and others are partly owned with either the public, the government or corporate partners.

Caribbean

In the Caribbean we are the broadband market leader in all 14 islands we serve and we lead the mobile market in nine of these. We have a unique selling point across the Caribbean – only we can offer a full package of mobile, broadband and fixed line services. The opportunity to offer customers a single bill and, where we are able, bundled propositions is a competitive advantage across the islands. With low market penetration, there remains enormous scope in the fast-growing broadband market and there is much we can do to drive average mobile revenue per customer via value added services like ringtones, BlackBerry and mobile internet.

We've taken action to tackle the problems that arose this year in our Jamaican business. Initially we've concentrated on the basics – putting new propositions and pricing in place and improving our customers' experience. We're refreshing our channels to market and we have a continuing infrastructure improvement plan, to ensure that we're everywhere we need to be. All of this will create a solid business and platform from which we can transform our Jamaican business.

The next generation of telecoms in Macau

In June 2007, our business in Macau, CTM, was the first telecoms supplier to complete a 3G mobile network roll out there.

In just six months, from design to implementation, and four months ahead of any competitive offer, CTM was providing video calling, mobile broadband and mobile email.

Take-up has been rapid with 14% of CTM's mobile customer base already using 3G services and data traffic volumes have more than tripled.

Panama
Cable & Wireless Panama is a market leader in every sense, offering mobile, broadband and fixed line services. Cable & Wireless Panama is the major player in a significant – and growing – market with more than 1.6 million mobile customers representing 51% market share. Its retail presence is second to none with market-leading products and propositions. Cable & Wireless Panama has 72% of the current broadband market, but with low penetration rates we see good opportunity for growth.

Macau
CTM, our business in Macau, is the exclusive provider of broadband and domestic fixed line services. In one of the most competitive mobile markets in the world, we've won a 37% market share, with over 300,000 customers.

Macau's economy continues to grow rapidly, fuelled by burgeoning tourism. This has helped drive EBITDA up 19% compared with 2006/07, with further growth opportunities, especially in the enterprise segment.

Monaco & Islands
Our Monaco & Islands portfolio includes Monaco and other operations, principally Bermuda, the Channel Islands, Isle of Man, the Maldives and Seychelles.

In Monaco we are the exclusive provider of broadband and fixed line services and have over 30% of the mobile market. Whilst mobile penetration is high, value added services offer growth potential in this sophisticated market. In the Channel Islands and the Isle of Man, our 'Sure' mobile and broadband services are growing market share and seeing significant enterprise customer opportunities, particularly with financial and gaming companies. Elsewhere in our Islands portfolio, we're the market leaders in all our services.

Our growth drivers
Many of our markets are experiencing strong economic growth. In Panama, expansion of the canal and Panama's increasing role as a hub for Latin America is driving impressive gross domestic product growth. Macau is enjoying similar growth and it's well documented that Macau has now surpassed Las Vegas as the gaming capital of the world. In addition, experience suggests that the rate of demand for telecoms in developing markets outstrips the rate of economic growth, so we would expect to see significant demand within developing markets – particularly as tourism, financial services and other sectors replace traditional island industries, such as agriculture.

Our aim is for every business within our portfolio to operate as a competitive enterprise – a 21st century telecoms business. We estimate that around 40% of our current portfolio is already there including Panama and Macau, leaving 60% that requires some reshaping to move from solid performer to market-leading competitive enterprise. Transforming these businesses offers significant growth potential.

Market leader in

19 of 26 mobile markets

28 of 34 broadband markets

26 of 34 fixed line markets

Over the past 12 months, the revenue we've earned from enterprise customers has grown 13% from US$507 million to US$573 million. Tourism, financial services and gaming are already fuelling growth and new areas – such as the provision of IP based security services – will see our enterprise opportunities increasing further.

The low levels of broadband penetration in some markets across our portfolio means that there is material growth potential. Whilst competition for new customers is growing, we are the leader in the majority of these markets and as the only full service provider we are well positioned to acquire new customers. At the same time, our existing customers are trading up to higher value packages so our broadband revenue growth has outstripped customer growth in 2007/08.

There is significant opportunity for growth from value added services. These services include video messaging, email, ringtones and internet browsing on mobile devices. In virtually all of our markets these services are in their infancy. In addition, there are further opportunities to up sell services to existing customers and bundle propositions where we are able, offering greater price and package flexibility to our customers.

Our competitive position

In the majority of our markets, the competition is local or regional in nature – from Jersey Telecom in the Channel Islands to Digicel in the Caribbean – and does not benefit from the expertise and scale that Cable & Wireless has at its disposal. However, in some markets we deal with global competitors (like Telefónica in Panama) and are able to bring our global experience to bear.

In some geographies we're gearing up for the arrival of new market entrants. In Panama in particular two new mobile licences were issued on 7 May 2008. But we're well prepared for new entrants and have already taken steps to ensure that, from propositions to distribution channels, we're in the right shape to retain our position as market leader.

Panama – a mobile first

Our team in Panama developed the first hybrid pre and postpaid service for corporate virtual private network (VPN) customers. This allows customers to load prepaid vouchers on to their corporate mobile handsets so they can make calls outside their closed corporate user group without having to change phones.

The mobile's sim card knows when to switch between the postpaid and prepaid service depending on the number dialled.

We launched the offer in November 2007 and within two months 83% of corporate VPN customers were using the service.

Our aim is for every one of our businesses to operate as a competitive enterprise

But even with new competition, we have a number of advantages that we can leverage to continue winning in our markets: we are in most cases the only full service provider in our markets – delivering mobile, broadband and fixed line services; we enjoy a proud history that has bound our business and the communities within which we operate tightly together; and we are often the main provider of critical national telecoms infrastructure.

Our strategy and objectives

Our aim is for every business within our portfolio to operate as a competitive enterprise – a 21st century telecoms business.

While we operate businesses at different stages of maturity in various markets around the globe, there are some common themes that shape the environment in which we operate and provide the framework within which we set our strategy. Most of our businesses started life as a monopoly – now, almost everywhere, we operate in a liberalised telecoms environment. We've generally coped well with the initial shock that liberalisation always causes and have reacted well to competition. Now, however, we are moving to the next phase of evolution, creating a portfolio of competitive 21st century telecoms providers. We're already there in some places – Panama, Macau and the Channel Islands are all firmly competitive enterprises – but, in the main, we now have to make the leap from just coping with liberalisation to building competitive, market-leading businesses.

In order to move to this next phase in our evolution, our aim is to become the telecoms provider of choice in all of our markets. We will achieve this by leveraging our assets and capabilities, driving a more efficient business and offering great products, services and an enhanced service experience that our competitors can't rival. Providing this customer experience means engineering everything our businesses do around customers, ensuring that the experience they have is fantastic, from the moment they first become aware of our offer, through purchase and the life cycle of the service we provide.

The logic behind this approach is compelling. Getting things right first time means fewer complaints (and lower costs for handling complaints). It means less rework, and fewer customers choosing competitors' services – reducing levels of churn and the high cost of replacing customers who have moved. Consequently, we incur lower costs and drive higher revenues allowing investment in improved service. The end result will be better growth prospects and higher quality earnings.

We've done well, but we'll do even better

27%
increase in mobile customers to 6.4 million

16%
increase in broadband customers to 0.5 million

International key performance indicators

	As at 31 March 2008 (000)	As at 30 Sept 2007 (000)	As at 31 March 2007 (000)
Total active[1] GSM mobile customers	**6,367**	**5,749**	**5,033**
Subsidiaries	**3,359**	2,989	2,611
Joint ventures	**3,008**	2,760	2,422
Total broadband customers	**466**	**439**	**401**
Subsidiaries	**434**	414	378
Joint ventures	**32**	25	23
Total fixed line connections	**1,875**	**1,909**	**1,902**
Subsidiaries	**1,522**	1,551	1,531
Joint ventures	**353**	358	371

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

Active GSM mobile customers

We had close to 6.4 million customers at the end of 2007/08, an increase of 27% compared with 31 March 2007. We operate in 26 mobile markets and are the market leader in 19.

Our subsidiary customer numbers grew 29% to approximately 3.4 million in the year to 31 March 2008, with all our subsidiaries growing their customer numbers.

Panama added 547,000 mobile customers in the year, a 50% increase, to reach over 1.6 million customers. This growth was mainly due to our increased network coverage and capacity provided by the installation of 177 new GSM cell sites, as well as market-leading distribution channels, promotions and provisioning. As a result, we have seen a significant increase in market penetration.

Caribbean customer numbers grew by 12% compared with the prior year to almost 1.3 million due to increased market penetration and market share, and our launch of mobile services in the British Virgin Islands (BVI) in June 2007 where we have won 49% market share from the incumbent in under a year.

US $830m EBITDA

In Macau, the 20% increase in customer numbers to 305,000 was largely due to successful promotions and our launch of Macau's first 3G network in June 2007 – by the end of 2007/08, 14% of our customers were using 3G services.

Customer numbers in our joint ventures grew 24% in the year to over three million. This is largely the result of 51% growth in Roshan's (Afghanistan) customers to more than 1.8 million. This growth was slightly offset by the 11% drop in customer numbers in TSTT (Trinidad and Tobago) to 899,000 following a reassessment of active customers in the first half of this year.

Broadband customers

Our broadband customers increased 16% in the year to 466,000. We are the market leader in 28 of our 34 broadband markets – the increase in our number of markets follows Monaco Telecom's acquisition of Connecteo which provides high speed broadband services to mainly corporate customers in six African countries.

As we improved the speed and quality of our broadband offering across the business, customers traded up to higher value packages. As a result, our subsidiaries' broadband customer numbers increased 15% to 434,000 in the year compared with broadband revenue growth of 26%.

In the Caribbean, customer numbers increased 15% to 187,000 in the year reflecting our improved service quality and network coverage. Customer numbers in Macau grew 17% to 119,000 as we rolled out higher speed services.

In our joint ventures, customer numbers increased by 39% to 32,000 largely driven by migration from dial-up to broadband services in TSTT.

Fixed line connections

Our total number of fixed line connections remained relatively steady over the year to 31 March 2008 at around 1.9 million. We provide fixed line services in 34 markets and we are the market leader in 26 of them.

19%
EBITDA growth
in Macau

18%
EBITDA growth
in Panama

International income statement

	2007/08 US$m	2006/07 US$m	Change[1] %
Mobile	**883**	764	16
Broadband	**183**	145	26
Domestic voice	**541**	578	(6)
International voice	**282**	316	(11)
Enterprise, data and other[2]	**573**	507	13
Total revenue	**2,462**	**2,310**	**7**
Cost of sales	**(847)**	(787)	(8)
Gross margin	**1,615**	**1,523**	**6**
Operating costs (excluding LTIP charge)	**(785)**	(715)	(10)
EBITDA[3]	**830**	**808**	**3**
LTIP charge	**(16)**	(19)	16
Depreciation and amortisation	**(284)**	(273)	(4)
Net other operating income	**3**	5	(40)
Operating profit before joint ventures and associates	**533**	**521**	**2**
Share of post-tax profit of joint ventures and associates	**77**	39	97
Operating profit before exceptional items	**610**	**560**	**9**
Exceptional items	**(101)**	(55)	(84)
Total operating profit	**509**	**505**	**1**
Capital expenditure	**(381)**	(315)	(21)
Headcount (full time equivalents at 31 March)	**8,048**	7,876	(2)

1 Positive percentages represent improvement.
2 Includes corporate solutions, international management contracts, internet hosting, leased circuits, legacy data services, directory services, equipment rentals, television services and dial-up internet.
3 Earnings before interest, tax, depreciation and amortisation, LTIP charge, net other operating income and exceptional items.

Revenue

Our revenue increased by 7% in the year ended 31 March 2008 to US$2,462 million as we recorded our fourth consecutive half of revenue growth and mobile and broadband contributed over US$1 billion for the first time.

Mobile revenue

Mobile revenue increased by 16% compared with the prior year to US$883 million and now represents 36% of our total revenue.

In the Caribbean, mobile revenue grew by 13% to US$367 million, largely as a result of increased network coverage, improved service quality and the launch of services in BVI. 21% of the growth came from non-voice services such as BlackBerry.

In Panama, mobile revenue increased by 16% to US$268 million due to improvements in our network coverage and distribution channels, and new promotions ahead of the entry of two new mobile competitors expected in the second half of 2008/09.

Monaco & Islands' mobile revenue increased by 25% to US$132 million in the year mainly due to the launch of services in Jersey and the Isle of Man and the introduction of new products and services in Monaco such as prepaid mobile, BlackBerry and other mobile data services.

Joint ventures

	Effective ownership as at 31 March 2008 %	Our share of post-tax profit 2007/08 US$m
Trinidad and Tobago (TSTT)	49	44
The Maldives (Dhiraagu)	45	24
Afghanistan (Roshan)	37	3
Fiji (Fintel)	49	3
Others		3
Total		77

Our share of the pre-exceptional post-tax profits increased by US$38 million to US$77 million. The result reflects an improved performance by TSTT, our joint venture in Trinidad and Tobago, which contributed a US$44 million profit in 2007/08 (including a US$9 million release of a centrally held provision) compared with a US$23 million loss in 2006/07 as a result of the success of restructuring efforts targeted at improving performance.

We also benefited from the US$9 million release of a centrally held accrual relating to prepaid cards.

Broadband revenue

Broadband revenue for the year increased by 26% to US$183 million, with growth in all our businesses, predominantly driven by our customers' demand for higher speed and higher value products.

In the Caribbean, broadband revenue grew by 19% to US$89 million mainly driven by improvements in service quality and increased network coverage.

In Macau, broadband revenue grew by 36% to US$38 million as we increased the speed of our offerings across our customer base with the launch of 10 Mbps broadband services to every household and up to 100 Mbps services to businesses.

Panama's broadband revenue increased by 29% to US$36 million in the year, principally from customers trading up to higher value packages, expanding our network coverage and improving our entry level offering.

Domestic and international voice revenue

Domestic voice revenue fell by US$37 million to US$541 million. US$29 million of this reduction was in Jamaica relating largely to the poor performance of a prepaid fixed line product which we withdrew from the market in July 2007.

International voice revenue declined by 11% to US$282 million primarily due to pressure on international interconnect pricing in the Caribbean and migration to mobile and broadband. On the upside, Panama's international voice revenue increased 18% to US$40 million primarily driven by the interconnection with new global voice carriers strengthening Panama's position as the hub of telecommunications in Latin America.

Enterprise, data and other revenue

Enterprise, data and other revenue increased by 13% in the year to US$573 million. Panama's enterprise services grew by 41% to US$96 million – US$15 million of this increase was attributable to large enterprise contracts in the first half of 2007/08.

Monaco & Islands' 16% increase in enterprise, data and other revenue to US$268 million was largely driven by growth from Monaco Telecom's international traffic management contracts, such as those with PTK in Kosovo and Roshan in Afghanistan. Following changes to the contract with Roshan, we expect to see a decline in enterprise revenue in Monaco & Islands in 2008/09 and we are working to replace this revenue.

Gross margin

Gross margin increased by US$92 million compared with the prior year to US$1,615 million and our gross margin as a percentage of revenue was unchanged at 66%.

All our businesses grew absolute gross margin with the exception of the Caribbean. The US$50 million fall in Jamaica's gross margin was due to the decline in their domestic voice revenue and increased mobile handset subsidies. Jamaica's performance was partially offset by the US$23 million increase in gross margin across the rest of the Caribbean.

We're continuing to invest in delivering a great mobile and broadband service

Operating costs

Our operating costs increased by 10% compared with 2006/07 to US$785 million. In the Caribbean, our operating costs grew by US$30 million, of which US$13 million relates to higher call centre and administration costs in Jamaica. The remaining US$17 million predominantly relates to additional support costs as we migrate to new data networks and additional costs following the launch of mobile services in BVI.

Operating costs in Panama as a percentage of revenue were steady at 24%, increasing by US$13 million to US$146 million in support of our rapid revenue growth there.

In Macau, operating cost control continued to be world class at 19% of revenue despite our strong growth. There, our operating costs increased by US$6 million to US$54 million.

Monaco & Islands' 24% increase in operating costs to US$177 million reflects the launch and growth of mobile businesses in Jersey and the Isle of Man and the previously disclosed provision release of US$13 million in Monaco in 2006/07.

We also benefited from a US$11 million net pension credit relating to the main UK defined benefit scheme in 2007/08 compared with a US$6 million net credit in 2006/07.

EBITDA

We grew our EBITDA by 3% compared with 2006/07 to US$830 million representing an EBITDA margin of 34%. Excluding Jamaica, our EBITDA would have increased 12% and our EBITDA margin would have been 37%.

EBITDA of US$830 million is in line with our revised EBITDA guidance range of US$820 million to US$840 million issued in November 2007, but less than our original guidance issued in May 2007 of US$840 million to US$860 million due to the weakness in the performance in Jamaica as highlighted above.

Our EBITDA increased by 9% in the second half of 2007/08 to US$432 million compared to the first half. The US$11 million improvement in Jamaica's EBITDA in the second half of 2007/08 compared with the first half is a sign of the early progress made by the new management team, appointed in August 2007, who are focused on transforming the business. We expect Jamaica's recovery to continue in 2008/09.

Exceptional items

Our net exceptional costs within operating profit were US$101 million (£50 million) as described on pages 38 and 39.

Capital expenditure and depreciation and amortisation

Capital expenditure for 2007/08 was US$381 million, a 21% increase compared with the prior year and 15% of 2007/08 revenue. This increase over our guidance of 12% to 14% of revenue is due to our US$29 million investment in new mobile spectrum in Panama ahead of the introduction of additional mobile competition. This additional spectrum will increase network capacity, reduce network congestion in key areas and add data functionality.

US $416m
trading cash inflow

We invested over 80% of our capital expenditure in mobile and broadband, launching 3G services in Macau and expanding our mobile and broadband networks in Panama, Monaco and the Caribbean. We enhanced our submarine cable network by laying a cable into Bermuda from the United States and increased our network capacity and resilience across the Caribbean.

Depreciation and amortisation increased 4% to US$284 million reflecting the increase in capital expenditure in recent years.

Reconciliation of International EBITDA to net cash flow before financing

	2007/08[1] US$m
EBITDA[2]	**830**
Exceptional items	**(27)**
EBITDA less exceptional items	**803**
Movement in exceptional provisions	**23**
Movement in working capital and other provisions	**(5)**
Income taxes paid	**(92)**
Purchase of property, plant, equipment and intangible assets	**(367)**
Investment income	**43**
Other income	**11**
Trading cash inflow	**416**
Acquisitions and disposals	**(43)**
Main UK defined benefit pension scheme cash top-up contribution	**(6)**
Net cash inflow before financing activities	**367**

1 Based on internal management accounts.
2 Earnings before interest, tax, depreciation and amortisation, LTIP charge, net other operating income and exceptional items.

We generated a trading cash inflow of US$416 million and net cash inflow of US$367 million before financing activities in 2007/08.

The US$27 million of exceptional items and US$23 million movement in exceptional provisions relate to restructuring and legal costs and the Seychelles cash repatriation.

The movement in working capital and other provisions of US$5 million reflects our continued focus on improving working capital management.

Capital expenditure of US$367 million mainly reflects our continued investment in mobile and broadband as described above. Investment income of US$43 million consists of US$30 million of dividends from our joint ventures and US$13 million of interest income. Other income of US$11 million primarily relates to the repatriation of cash from Seychelles.

Acquisitions and disposals of US$43 million includes the dividends paid to minority shareholders in Monaco, the acquisition of additional equity in our St. Kitts business and Monaco Telecom's acquisition of Connecteo.

We remitted US$243 million to Central in 2007/08. On an operational basis we repatriated US$213 million, 123% of our share of net cash flow generated by subsidiaries after external financing.

We're making a positive contribution

Our corporate social responsibility principles are to

- Contribute positively to the social and economic development of the communities where we operate
- Seek continuous improvement in our environmental performance
- Respect cultures, values and human rights throughout our operations
- Nurture best practice in all our activities

Our corporate and social responsibility principles set the framework for our core areas of support, but our activities generally take place at a local level based on the needs of our 39 markets.

Communities

We support our local communities through an array of different activities primarily focused on education, sport, health and culture. In the past 12 months we've given US$2.6 million to community initiatives. We also provide substantial in kind support and positively encourage our colleagues to work with their chosen charities.

Education

Addressing the digital divide is a core focus for us. Many of our businesses provide free broadband access to schools, libraries, children's homes and community centres. We also provide free computers to worthwhile causes – in Jamaica alone we donated 616 computers in 2007/08.

We've also created national spelling competitions and academic awards like the Knowledge Bowl in Grenada – the country's most prestigious academic competition – where we also provide 80 scholarships for underprivileged children. In Panama, working with the Ministry of Education, we've constructed three schools, installed 29 computer laboratories in schools and equipped 150 rural schools with satellite internet access.

Sport

Sport is an important way to teach team work, discipline and well being. We focus on youth and grass roots sports including athletics, cricket and football. From free soccer schools for deprived children on St. Kitts to softball tournaments in Antigua, we are at the heart of community sports, providing sponsorship and support in kind. In Panama, we've built or refurbished 25 basketball courts and instituted a nationwide youth basketball tournament. In 2008 we'll double the size of this tournament by building another 25 facilities.

Health

We support a range of local and global health issues. In the Caribbean we fund diabetes and AIDS organisations – including the HIV Business Council. In Jamaica, we've extended our support for the Ministry of Health and Environment's 'Learning for Life' programme to three years. This programme targets young men in violence-prone inner city communities, providing computer-based literacy training.

Our focus for 2008/09

We are investing in sustainable alternative energy sources and new energy efficient power units to replace legacy equipment, which is expected to reduce power consumption by up to 20%.

Our recycling programmes will be extended, key performance indicators will be introduced and we will continue to build beneficial community relationships wherever we operate.

Culture
Local cultural events contribute to the well being of any community. This year our support included the St. Lucia and Barbados jazz festivals and Creole in the Park, the biggest music festival on Dominica. In the Isle of Man our active support of the Peel Bay festival has led to the creation of the 2008 Sure Live! Music Festival.

Environment
Across our International business our annual greenhouse gas emissions are estimated at 160,000 tonnes of carbon dioxide (scope 1 and 2). Whilst our main electricity sources are fossil fuels and hydro-electricity, in the Maldives we've introduced solar powered mobile base stations.

In the Cayman Islands and Grenada we continue our growing participation in Earth Day activities, while in the Turks and Caicos Islands we sponsor Ozone Day and will host Tele-Gathering XIII – a community event around environmental issues.

During the rest of 2008 we'll be conducting conservation studies, focusing on energy consumption, recycling, waste disposal and water usage and determining our key performance indicators, including our carbon reduction targets.

In the Channel Islands and the Isle of Man we've launched a mobile recycling scheme and we have waste paper recycling schemes in place across most of our businesses.

Customers
We work with our customers to give them the products and services they want. In Panama, our pioneering telemedicine service enables local medical centres to carry out diagnosis under the supervision of specialist medics located elsewhere. Strong customer relationships from the outset provided invaluable input and ensured the service we delivered exceeded expectations. We would like to thank The Adan Rios Foundation, The Panamanian Society of Cardiology, Panamanian Society of Obstetrics and Gynaecology, Santo Tomas Hospital and the Children's Hospital.

Suppliers
We audit all our major suppliers and positively encourage high levels of understanding within the supply chain. This year our supply audit improved considerably to incorporate questions on carbon emissions and international standards, furthering our responsible procurement process.

Colleagues
Our colleague culture is well developed. Multiple communication channels, 'town hall' gatherings and global conferences bring colleagues together to discuss matters of interest. A colleague engagement programme across the entire portfolio provides profile updates every six months and our annual Gallup Great Manager programme provides training to improve skills. As a result, our colleague engagement level has doubled. Diversity is accentuated by our policy of localisation, which has reduced the number of UK expatriates from over 100 in 2004 to fewer than 30 today. Our health and safety records remain good with no fatalities or prosecutions to report.

In Panama we are an active member of the UN Global Compact, the world's largest global corporate citizenship initiative, a framework for businesses committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.

This is a summary of our full corporate social responsibility report which will be published in July 2008.

Europe, Asia & US

OUR SERVICE LEVELS HAVE HIT NEW HIGHS

115
EXTRA CUSTOMER SERVICE COLLEAGUES

90%
OF CUSTOMER CALLS ANSWERED IN LESS THAN 20 SECONDS

In 2007/08, we concluded the second stage of our three phase turnaround programme, the stage called 'Recovery'. The successful conclusion of this phase has seen the restoration of revenue growth, our network and operating costs reduced by £120 million and our service metrics at an all time high. EBITDA has increased 161% to £219 million and in the second half of the year we became trading cash flow positive for the first time in many years.

In particular, during the last year we've made large strides towards giving consistently great service to our customers. We've made a significant investment in customer service, with an extra 115 colleagues in customer-facing roles. We're delivering on time 90% of the time and dealing with 90% of customer calls in under 20 seconds. Our customers realise our service is where it needs to be, and it's still improving.

Our next generation network is out there and being used by customers right now. Not only does it allow us to support market-leading services, like fixed mobile convergence, but also new applications such as digital marketing and next generation video conferencing.

We're now in the position where the improvements in our revenue mix, in particular, a higher proportion of IP, data and hosting, are showing in our margins. We're winning more, bigger and longer contracts, which is also helping us gain market share.

For 2008/09, our agenda focuses on the third stage of our turnaround, 'Transformation'. This stage uses the solid foundation of good service and better economics that we have already created to drive more service and product innovation delivered off a much lower cost base. These plans are already being executed with vigour and ambition.

All of which, I believe, positions us well to withstand any economic slow down. So you can well imagine I am looking forward to 2008/09 with real excitement, commitment and enthusiasm.

My final words belong to our colleagues. In our industry it is easy to talk a good game. In practice, every percentage point improvement in our service and every pound of extra profit comes from the talents, passion and hard work of our colleagues. In 2007/08, once again, they have risen to the most challenging of agendas and delivered handsomely.

John Pluthero
Executive Chairman,
Europe, Asia & US

BUILDING ON GREAT SERVICE

WE'RE A GLOBAL ENTERPRISE PURE PLAY BUSINESS – SO WE CAN FOCUS ON DELIVERING AN UNRIVALLED SERVICE EXPERIENCE TO THESE CUSTOMERS.

Cable & Wireless Europe, Asia & US provides high quality managed IP services to the largest users of telecoms. We're focused on delivering great service, because that's what our customers want above all else.

Nature of our business
We're one of the world's leading international telecommunications organisations. We provide high quality managed IP services such as data, hosting and voice to the largest users of telecoms services around the world. Unlike our competitors, we focus solely on this market, which allows us to devote all our investments, processes and business culture to delivering market-leading services with the best customer experience tailored to their needs.

Our scale is truly global, providing connectivity to 153 countries. The products and services we provide have a positive impact on the lives of millions of people around the world each day. From providing Aviva, one of the world's largest insurers, with a fully managed communications solution to providing Tesco, the retail giant, with all their telecoms needs.

CASE STUDY AVIVA

We provide Aviva, one of the world's largest insurance companies, with a fully managed communications service. We manage their entire telecoms estate across the UK and India, including all internal and external phone calls, on and off-shore call centre services, forwarding and filtering of email, BlackBerry service, internet access and data network connectivity across the UK. We carry three million emails for Aviva each month. In addition, we delete about 20,000 viruses and block 250,000 spam emails every year.

We operate across the globe, but our presence is particularly strong in the UK and Asia, especially India. Whilst we concentrate primarily on large enterprise businesses, we're also proud to count many global carriers and the UK Government amongst our customers.

The markets our customers operate in are changing faster than ever. They face the challenges of growing revenue, whilst reducing costs and minimising carbon emissions. Our customers are the Chief Information Officers and Chief Technology Officers of the world's largest companies. Their job is getting harder every year as the complexity of technology increases and globalisation trends intensify. They want a partner they can trust to deliver their communications requirements, so they can concentrate on improving their business.

The products and services we offer help them do just that and we can deliver them through our Multi Service Platform (MSP), our next generation network, completed in October 2006. Our MSP improves quality and performance, reduces costs for both customers and us and provides a platform for new services. And unlike most of our competitors, our next generation network is operational and supporting our customers now.

The MSP lays the building blocks for transforming our service, providing customers with online ordering, a self-service portal, and faster, more predictable delivery times. Working in this way offers new opportunities for cost reduction and elimination of errors, providing enhanced standards of care and service.

It also enables greater product capability, such as fixed mobile convergence and managed applications. We're the first to market with our fixed mobile convergence product that lets customers use their mobile phone on their sites as normal, but with the calls going through their internal data network, rather than through a mobile network – the result is lower costs and better signal quality.

Hosting is another important aspect of our business. We've had a hosting business for some time, and we host many and varied applications for our big customers. For example, we host the email system for the UK's National Health Service, which carries between two and three billion emails every year. Our hosting proposition is evolving, and increasingly we're being asked by our customers to manage their data centres for them.

We also offer managed services to our customers, bundling together a number of individual service offerings, as we do for Aviva. This allows us to become a one-stop-shop for customers' telecommunication requirements.

Our market-leading products and applications and our service culture give us a strong competitive advantage and the means to grow our market share from the 16% share we currently have of the £7 billion UK enterprise market.

153
COUNTRIES CONNECTED BY OUR GLOBAL NETWORK

Our growth drivers
We see a number of growth drivers for our business as we redefine what it's like for customers to work with a telecoms company.

Our focus on great customer service
In an industry that's been synonymous with poor customer service for decades, we offer a refreshing and unique alternative. Customers want, and we can deliver, faster lead times and consistent delivery. Over the last two years, our lead times have improved 50% and our delivery on time has increased from 50% to 90%. And in just the last year we've improved call response times from an average of 90 seconds to under 20 seconds for 90% of all customer calls.

But we aren't resting on our laurels. Our MSP enables even faster and more predictable delivery times, higher service reliability and faster fix times.

We're also creating a culture where every colleague 'thinks customer'. From our CEO to our engineers at customers' sites – we put great service to our customers at the heart of everything we do. Our customers are seeing the difference this makes and they're telling us they like the new Cable & Wireless.

Innovative new products and solutions
The immediate availability of our full suite of next generation IP products, enabled by our MSP, gives us a distinct competitive advantage. These new products and our service focus are increasingly important in winning and retaining customers and helping those customers to develop and grow their businesses.

Future revenue growth will be driven by customers' adoption of fixed mobile convergence, new applications and managed services, as we build on our customer wins to date. We're the first and only company to market with a fixed mobile convergence solution in the corporate mobile market, estimated to be worth £500 million. Our new applications include digital marketing and next generation video conferencing, applications that are already being used by our major customers. Many of these applications rely heavily on our hosting capability which grew by 27% in 2007/08. Aviva and Royal & SunAlliance are just two of our customers that use our managed service capability where we provide and manage a whole range of products and services including IP contact centres, IP voice and data networking connectivity.

Growth from our international capability
We've significant global reach, connecting to 153 countries, and the capability to route traffic both ways around the world. We're particularly strong in Asia, where we've a number of long standing regional customers such as Standard Chartered Bank. We're using this capability in Asia to win new business here against the biggest telecom companies in the world.

There's one part of Asia that deserves a special mention – India. We've been here for more than 100 years and while we're helping many multinational companies who are off-shoring here, we're increasingly winning business with India-based enterprises such as Tata, Wipro and the State Bank of India.

CASE STUDY
TESCO

We provide retail giant Tesco with global voice and data communication services over our next generation multi service platform (MSP), giving them 40 times their previous network capacity and freeing Tesco from their communication constraints. We provide a global network connecting 14 countries and exclusively provide and manage their entire UK telecoms infrastructure. The new platform will enable Tesco to enhance their customers' experience whilst improving business processes and reducing costs – supporting Tesco's ambition of better, simpler, cheaper.

Our competitive position
We operate in a number of competitive markets around the world.

In our international markets, we compete with both major global players and dominant incumbent players. These global competitors include AT&T, BT Global Services, Orange and Verizon as well as the domestic carriers in the individual countries in which we operate. In the UK, although there are a number of participants in the market, for large enterprise customers their final choice will often be between us and BT.

Our strengths in these highly competitive markets derive from a number of areas. We're the only enterprise pure play business, so we can offer these customers a specialised service that's customised to their type of business, leading to strong, long-term relationships. Furthermore, our strategy places service at the heart of everything we do, which is allowing us to build a reputation based on the quality of our service. We have a strong, recognisable brand in many of our markets, coupled with a long and proud history of providing communications to the world. Finally, we've a truly worldwide network, with connectivity in the countries our customers need.

Our strategy and objectives
Our vision for our business is simple – to be the first customer-defined communications services business in the world. Our strategy to do this is as follows:

Specialise in enterprise pure play
We know who our customers are and what they want. By focusing on the enterprise market, we can deliver an unparalleled customer experience for these customers. This market provides us with the richest product set, has high operational barriers to entry for our competitors and is one we've many years' experience in serving. Our aim is to have about 3,000 customers, all of whom are amongst the world's largest users of telecoms services.

With a market-leading product suite
We've a clear set of products that are driven by the needs of our customers, rather than technology for technology's sake. Our new capability is already creating new possibilities and opportunities for customers in a wide variety of sectors.

Giving the best service
We're breaking the mould in an industry that's been synonymous with poor service. Customer service is our number one priority and we're creating a service-focused culture throughout our business.

Whilst offering the best value
We're creating a proposition that's valued by our customers and economic for us.

Our strategy is transforming every aspect of our business to give our customers the service, products and value they want, so large enterprise customers see us as the number one choice – and the only choice.

RETURN TO REVENUE GROWTH

OUR FOCUS ON BEING THE FIRST CUSTOMER-DEFINED GLOBAL TELECOMMUNICATIONS BUSINESS IS DELIVERING GREAT RESULTS.

Europe, Asia & US key performance indicators

	31 March 2008	30 September 2007	31 March 2007
Number of customers	**6,544**	6,902	9,992
IP, data and hosting revenue[1]	**42%**[2]	38%[2]	34%[2,3]
Gross margin[1]	**41%**	41%	38%
Operating costs[1]	**29%**	31%	33%
EBITDA[1]	**12%**	10%	6%

1 As a percentage of revenue calculated on the basis of six months ended.
2 Including LLU revenue.
3 Excluding WTG and Allnet which were sold in February and April 2007 respectively.

We have continued our programme to run off our sub-scale customers and now have just over 6,500 total customers, comprising large enterprises, resellers, carriers and public institutions.

IP, data and hosting revenue as a proportion of total revenue has increased to 42% in the second half of 2007/08 from 34% in the second half of 2006/07, driven by growth from new and existing customers and their migration from legacy products to IP, data and hosting services.

EBITDA HAS MORE THAN DOUBLED TO

£219m

Gross margin as a percentage of revenue has increased to 41% for the second half of 2007/08 from 38% in the second half of 2006/07, reflecting the change in our product mix towards higher margin IP, data and hosting products and activities to reduce cost of sales.

Operating costs as a percentage of revenue decreased to 29% for the second half of 2007/08 from 33% in the equivalent period in 2006/07. We delivered cost savings through renegotiating network maintenance contracts, driving efficiencies in support functions and off-shoring non-customer facing roles.

Our EBITDA as a percentage of revenue has increased to 12% in the six months ended 31 March 2008, double the EBITDA margin for the equivalent period in 2006/07.

Europe, Asia & US income statement

	2007/08 £m	2006/07 £m	Change[1] %
IP, data and hosting	**774**	718	8
Legacy products	**96**	191	(50)
Traditional voice	**1,071**	1,201	(11)
Consumer broadband	**–**	29	nm
Total revenue	**1,941**	2,139	(9)
Cost of sales	**(1,138)**	(1,351)	16
Gross margin	**803**	788	2
Operating costs (excluding LTIP charge)	**(584)**	(704)	17
EBITDA[2]	**219**	84	161
LTIP charge	**(19)**	(17)	(12)
Depreciation and amortisation	**(157)**	(128)	(23)
Net other operating income	**2**	8	(75)
Operating profit/(loss) before joint ventures	**45**	(53)	nm
Share of post-tax loss of joint ventures	**(1)**	(3)	67
Operating profit/(loss) before exceptional items	**44**	(56)	nm
Exceptional items	**13**	(89)	nm
Total operating profit/(loss)	**57**	(145)	nm
Capital expenditure	**(221)**	(235)	6
Headcount (full time equivalents at 31 March)	**5,019**	5,528	9

nm represents % change not meaningful.
1 Positive percentages represent improvement.
2 Earnings before interest, tax, depreciation and amortisation, LTIP charge, net other operating income and exceptional items.

Following the successful integration of C&W Access into the main enterprise business, the analysis of the Europe, Asia & US key performance indicators, income statement and cash flow reconciliation includes C&W Access, and comparatives have been reclassified accordingly.

WE HAVE RETURNED TO REVENUE GROWTH WITH MORE THAN 40% OF REVENUE FROM IP, DATA AND HOSTING

Revenue
Revenue in 2007/08 was £1,941 million compared with £2,139 million in 2006/07. This decrease reflects the strategy of Europe, Asia & US to focus on serving larger customers with higher margin IP services, whilst actively removing lower margin customers.

Revenue for the second half of 2007/08 increased by £19 million over the first half to £980 million, as we returned to revenue growth with demand for our IP, data and hosting products outstripping the decline in traditional voice revenue.

IP, data and hosting
We have a full suite of IP, data and hosting products enabled by our next generation network, the Multi Service Platform. This product set includes market-leading services and applications, such as fixed mobile convergence, digital marketing and next generation video conferencing.

IP, data and hosting revenue of £774 million in 2007/08 increased by 8%, despite the disposal of our web design business (WTG) on 1 February 2007 and our structured cabling business (Allnet) on 2 April 2007, which together contributed £66 million of revenue during 2006/07. The underlying growth rate of these products is therefore 19%. Within this, our hosting revenue grew by 27% to £121 million in 2007/08.

IP, data and hosting as a proportion of revenue has increased to 40% for the year ended 31 March 2008, up from 34%, 31% excluding Allnet and WTG, in the prior year.

Legacy products
Revenue from our legacy products has reduced from £191 million to £96 million over the last 12 months and now represents only 5% of revenue. This decline was expected as customers choose to migrate to more advanced services, such as IP-VPN.

Traditional voice
Traditional voice revenue has declined by 11%, from £1,201 million in 2006/07 to £1,071 million in 2007/08 as we move away from unprofitable routes and low margin traffic and customers migrate to other products such as email and IP voice.

Consumer broadband
In September 2006, we ceased to provide consumer broadband products and moved to a wholesale strategy. Accordingly, we did not generate any consumer broadband revenue in 2007/08, compared with £29 million in 2006/07.

41%
GROSS MARGIN UP FROM 37%

Gross margin
Gross margin increased by £15 million to £803 million, our fourth consecutive half of absolute gross margin growth. Gross margin as a percentage of revenue has increased from 37% to 41%, which reflects the change in our product mix towards IP, data and hosting, and activities to reduce cost of sales.

These activities include improving network utilisation, reducing our reliance on other network operators, and ongoing programmes relating to supplier renegotiations and process efficiencies.

Operating costs
Operating costs have reduced by £120 million compared with 2006/07 to £584 million. This reduction represents an improvement of 17% compared with the prior year, and operating costs now represent 30% of revenue, an improvement of three percentage points.

We delivered cost savings through a number of projects. These included driving efficiencies in support functions, by reducing total year end headcount by 9% and off-shoring some non-customer facing roles, such as finance. We have renegotiated network maintenance contracts, rationalised our network and fibre assets and worked with suppliers to use their services more cost effectively, reducing operating costs.

Further reductions resulted from the move to a wholesale strategy in the C&W Access business in 2006/07, the subsequent integration of C&W Access into the main enterprise business, and the disposal of our structured cabling and web design businesses.

Operating costs for 2007/08 include a £14 million net credit relating to our defined benefit pension scheme, compared with a £4 million net credit for 2006/07.

EBITDA
EBITDA before exceptionals has more than doubled from £84 million to £219 million – an increase of £135 million. As a percentage of revenue, EBITDA has improved from 4% to 11% with an EBITDA margin of 12% in the second half of 2007/08.

EBITDA of £219 million is above our revised guidance issued in November 2007 of £205 million to £215 million, and significantly better than guidance issued in May 2007 of £165 million to £185 million due to the continuing success of our turnaround plan.

44%

OF OUR CAPEX WAS DRIVEN BY CUSTOMER CONTRACTS

Exceptional items
Net exceptional income within operating profit for 2007/08 was £13 million as described on pages 38 and 39.

Capital expenditure and depreciation and amortisation
Capital expenditure of £221 million is £14 million lower than 2006/07 and represents 11% of revenue.

44% of the total capital expenditure relates to specific customer contracts compared with 27% for the prior year. This investment in equipment to deliver recently won long-term IP, data and hosting contracts has increased by 54% to £98 million.

Depreciation and amortisation is £157 million for 2007/08 compared with £128 million for the prior year, reflecting the level of capital expenditure in recent years.

Reconciliation of Europe, Asia & US EBITDA to net cash flow before financing

	2007/08[1] £m
EBITDA[2]	**219**
Exceptional items	(40)
EBITDA less exceptional items	**179**
Movement in exceptional provisions	(16)
Movement in working capital and other provisions	(46)
Income taxes paid	–
Purchase of property, plant, equipment and intangible assets	(222)
Finance and other income	2
Trading cash outflow	**(103)**
Acquisitions and disposals	46
Main UK defined benefit pension scheme cash top-up contribution	(16)
Net cash outflow before financing activities	**(73)**

1 Based on internal management accounts.
2 Earnings before interest, tax, depreciation and amortisation, LTIP charge, net other operating income and exceptional items.

Our net cash outflow of £73 million for the year includes a trading cash outflow of £103 million and a £30 million inflow from non-trading items.

The £103 million trading outflow represents £110 million trading outflow in the first half of 2007/08 followed by a trading cash inflow of £7 million in the second half. This cash generation is a significant milestone as Europe, Asia & US has not generated cash for many years.

Exceptional items of £40 million and movement in exceptional provisions of £16 million are largely attributable to restructuring costs including redundancies and property costs.

The movement in working capital and other provisions of £46 million for 2007/08 includes the impact of a £14 million net pension credit. The inflow of £22 million in the second half of 2007/08 reflects our improvement in working capital management.

Cash capital expenditure of £222 million reflects a mix of investments in both customer and infrastructure projects.

Acquisitions and disposals of £46 million predominantly relate to the sale and leaseback transaction completed on 2 April 2007 for £88 million partially offset by a £49 million payment of deferred consideration relating to the acquisition of Energis, payable to their long-term creditors.

The total cost of the turnaround for the Europe, Asia & US enterprise business before it returned to cash generation has been £242 million (excluding £88 million from the sale and leaseback transaction, and C&W Access to the extent it is separately identifiable). This represents a £38 million improvement over the £280 million guidance given at the May 2007 preliminary results.

IN THE SECOND HALF OF 2007/08 WE GENERATED TRADING CASH FOR THE FIRST TIME IN MANY YEARS

INVESTING RESPONSIBLY

CORPORATE SOCIAL RESPONSIBILITY IS INTEGRAL TO OUR PERFORMANCE. OUR PRINCIPLES ARE TO

- SEEK CONTINUAL IMPROVEMENT OF OUR ENVIRONMENTAL PERFORMANCE
- FACILITATE AND ENCOURAGE RESPONSIBLE AND INNOVATIVE PRODUCT AND SERVICE DESIGN
- UPHOLD FUNDAMENTAL HUMAN RIGHTS AND RESPECT CULTURES, CUSTOMS AND VALUES IN DEALING WITH COLLEAGUES AND OTHERS WHO ARE AFFECTED BY OUR ACTIVITIES
- CONTRIBUTE TO THE POSITIVE SOCIAL AND ECONOMIC DEVELOPMENT OF THE COMMUNITIES WHERE WE OPERATE

Environment

Our carbon policy is to reduce our greenhouse emissions by 20% below 1990 operational levels by 2010 and a further 60% by 2050. In the Carbon Disclosure Project 5, we are highlighted as one of the 'best reporting companies'. Our greenhouse gas emissions (scope 1 and 2) are equivalent to 113,157 tonnes of carbon dioxide, externally verified.

We've a number of large scale energy reduction initiatives under way, which will provide an energy saving against our 2007 baseline of 7.3% over the next two years. The first phase of our liquid pressure amplification programme is complete. Liquid pressure amplification improves the operational performance of air conditioning units, whilst using less electricity overall.

Raising colleagues' awareness of our improved office recycling facilities is helping us reduce waste. Up to 40% of our waste is recycled and 50% to 75% of our operations use recycled paper.

OUR FOCUS FOR 2008/09

- REDUCING OUR ENVIRONMENTAL FOOTPRINT
- DELIVERING GREAT CUSTOMER SERVICE
- DEVELOPING SOLUTIONS
- ADDRESSING CLIMATE CHANGE ISSUES
- INVESTING IN OUR COLLEAGUE CULTURE

Customers
We've invested heavily in customer service. In 2007/08 we've added another 115 colleagues into the service front line. Consequently, our service levels are at an all time high.

The investment we've made in our next generation network enhances the service we give to customers whilst supporting new products and services. As a supplier, we're focusing on technology solutions to reduce our customers' carbon footprints, such as next generation video conferencing. This offers high definition pictures, encourages remote collaborative working, provides a real alternative to meeting face to face and so reduces travel times and saves costs.

Our Lloyd's Register Quality Assurance ISO 9001:2000 certificate externally verifies our quality management systems standards. This audit is conducted annually.

Suppliers
Our procurement audit sets out our expectations in the supply chain including suppliers' labour policies, environmental management – such as whether they have assessed their carbon footprint – health and safety and corporate governance. We use internationally recognised benchmarks such as the ILO Charter, the Universal Declaration of Human Rights and the UN Global Compact and we audit our suppliers annually.

Colleagues
We've invested in a global culture change programme, known as 'Changes Are Made' (CAM). Its aim is to drive positive change at a local level.

From 2008 our Health, Safety and Environment Management System will include operations outside the UK. Our 2007 UK and Ireland report records no fatalities, no prosecutions, no enforcements action or notices and two reports of injuries, diseases and dangerous occurrences. Annual total incidents dropped from 61 (2006) to 51. During the year, we introduced new policies and new training courses.

Our monthly Employee Consultation Forum brings together employee representatives and senior management to discuss matters of business. These sessions are documented on our intranet for all to access.

Communities
We've a colleague-driven community agenda which encourages positive interaction with our local communities. We support them by providing: top-up funding; internal fund-raising activities; external programmes such as supporting community regeneration; secondment; and electronic community notice boards.

We help a number of different charities with both cash donations and in kind support. We've supported Télécoms Sans Frontières for six years. Our funding to Christel House, India, provides for two teachers and contributes towards core costs. We've provided ongoing support for the Internet Watch Foundation and our colleagues have completed ten Business in the Community projects.

Our two major in kind support programmes benefit Children in Need and we provide 11-14 year old students with the opportunity to advance their technology skills in our Bracknell ICT Academy.

This is a summary of our full corporate social responsibility report which will be published in July 2008.

Profitability

Our growth in operating profit reflects continuing progress in growing the business and cutting costs. This performance is supported by a good cash position giving us the flexibility we need to invest in our businesses.

The strategy of Europe, Asia & US to focus on serving larger customers with higher margin IP services, while actively removing lower margin customers, is the main reason for the fall in Group revenue to £3,152 million. In the second half of 2007/08, Europe, Asia & US was back in revenue growth as strength in our strategic product sets offset declines in legacy services.

Gross margin has increased to £1,609 million, predominantly driven by mobile and broadband growth in International. As a percentage of revenue, gross margin has improved by three percentage points to 51%, with Europe, Asia & US the main driver.

The success of our cost cutting efforts can be seen in the 9% or £102 million reduction in the Group's operating costs before exceptional items, a major achievement.

This year, EBITDA has increased by over £100 million to £605 million, mainly reflecting further progress in the turnaround of Europe, Asia & US and the portfolio effect of International where strong performances in Panama and Macau offset weakness in Jamaica.

Group operating profit has more than doubled to £247 million.

Our cash position remains good at the year end with Group cash and cash equivalents of £699 million and net cash of £243 million. This is after spending £190 million repurchasing our convertible bonds and paying £138 million in dividends to our shareholders.

We have completed our latest actuarial valuation of the main UK defined benefit scheme as at 31 March 2007. We have applied the most up to date longevity assumptions, and following a contribution of £19 million, the scheme is fully funded on an ongoing basis.

We are proposing a final dividend of 5.00 pence per share, which together with the interim dividend of 2.50 pence per share represents a 28% increase on the 2006/07 full year dividend, following on from a 30% increase over the previous year. The dividend was covered by earnings per share (before exceptionals) which are up from 4.00 pence to 7.90 pence in 2007/08.

Tony Rice
Group Finance Director and
Joint Group Managing Director, Central

Our performance over the last 12 months shows we're doing what we set out to do. But there is more to come.

Financial performance review

Group performance

	2007/08 Pre-exceptional £m	2007/08 Exceptional[1] £m	2007/08 Total £m	2006/07 Pre-exceptional £m	2006/07 Exceptional[1] £m	2006/07 Total £m
Revenue	**3,152**	**–**	**3,152**	3,348	–	3,348
Cost of sales	**(1,543)**	**–**	**(1,543)**	(1,750)	–	(1,750)
Gross margin	**1,609**	**–**	**1,609**	1,598	–	1,598
Operating costs (excluding LTIP charge)	**(1,004)**	**(53)**	**(1,057)**	(1,106)	(78)	(1,184)
EBITDA[2]	**605**	**(53)**	**552**	492	(78)	414
LTIP charge	**(27)**	**–**	**(27)**	(27)	–	(27)
Depreciation and amortisation	**(299)**	**(37)**	**(336)**	(273)	(13)	(286)
Net other operating income	**5**	**53**	**58**	11	2	13
Group operating profit/(loss)	**284**	**(37)**	**247**	203	(89)	114
Share of post-tax profit/(loss) of joint ventures and associates	**37**	**–**	**37**	18	(29)	(11)
Total operating profit/(loss)	**321**	**(37)**	**284**	221	(118)	103
Net finance expense	**(22)**	**(10)**	**(32)**	(28)	–	(28)
Gain on sale of non-current assets	**1**	**–**	**1**	–	153	153
Gain on termination of operations	**8**	**6**	**14**	3	18	21
Profit/(loss) before income tax	**308**	**(41)**	**267**	196	53	249
Income tax (expense)/credit	**(56)**	**9**	**(47)**	(44)	1	(43)
Profit/(loss) for the year from continuing operations	**252**	**(32)**	**220**	152	54	206
Profit for the year from discontinued operations	**–**	**–**	**–**	–	28	28
Profit/(loss) for the year	**252**	**(32)**	**220**	152	82	234
Attributable to equity holders of the Company	**191**	**(27)**	**164**	92	82	174
Attributable to minority interests	**61**	**(5)**	**56**	60	–	60
Profit/(loss) for the year	**252**	**(32)**	**220**	152	82	234

The income statement of the Group, which is prepared in accordance with International Financial Reporting Standards applicable for use in the EU, and from which the information above is extracted, is included in the consolidated financial statements on page 67 .

1 Exceptional items comprise items considered exceptional by virtue of their size, nature or incidence and include restructuring and impairment charges, the recognition and releases of certain provisions and certain profits and losses on disposal of non-current assets.
2 Earnings before interest, tax, depreciation and amortisation, Cash Long Term Incentive Plan (LTIP) charge and net other operating income.

Group results before exceptional items

The strategy of Europe, Asia & US is to focus on serving larger customers with higher margin IP services, whilst actively shedding lower margin customers. The fall in Group revenue for the year ended 31 March 2008 to £3,152 million is a direct result of our decision to remove these sub-scale, low margin customers from the network.

During the second half of 2007/08, Group revenue increased by £26 million as strong demand for IP, data and hosting products in Europe, Asia & US led that business back into revenue growth.

During the year, International revenue increased by 7% in US dollar terms as growth in mobile and broadband revenue more than offset declines in fixed line voice revenue. When translated into sterling, International revenue shows a lower increase, £1 million, due to the weakening of the US dollar over the year.

The £11 million increase in Group gross margin to £1,609 million is driven by the improving product mix and initiatives to reduce cost of sales within Europe, Asia & US. As a percentage of revenue, gross margin for the Group increased by three percentage points to 51%.

The decrease in Group operating costs by £102 million to £1,004 million principally reflects the £120 million cost savings achieved in the continuing turnaround of Europe, Asia & US, where operating costs have fallen to 30% of revenue.

International operating costs increased by £12 million to £392 million predominantly due to the increased costs to support the growth in Panama and Macau, increased call centre and administration costs in Jamaica and the additional costs associated with the launch of mobile services in three new markets.

Our operating costs benefited from an IAS 19 net pension credit of £19 million in relation to the main UK defined benefit scheme; £14 million in Europe, Asia & US and £5 million in International compared with £4 million and £3 million respectively for 2006/07. The increase in the net credit is due to an increase in the expected return on the assets of the fund, an increase in the discount rate applied to the fund's liabilities and a reduction in the service charge.

EBITDA
The trends in gross margin and operating costs described above resulted in a 23% improvement in EBITDA of £113 million to £605 million, in line with our EBITDA guidance range of £573 million to £608 million issued in May 2007.

Cash Long Term Incentive Plan (LTIP) charge
The full year LTIP charge of £27 million is the same as last year which broadly reflects our market capitalisation over the last 12 months. The 2007/08 charge was split between International and Europe, Asia & US as £8 million and £19 million respectively. The total amount recognised in the accounts reflects two years of service out of the four year LTIP period, payments made and the £1.1 billion increase in market capitalisation from 1 April 2006 to 31 March 2008. 10% of that increase goes into the LTIP reward pool after taking into account the equity hurdle rate, the notional interest charge and the cash flows in and out.

The LTIP accrual does not represent a committed amount to participants in the plan as the eventual payout is dependent on performance over the life of the plan and in accordance with its rules.

Depreciation and amortisation
The depreciation and amortisation charge including the amortisation of acquired intangibles increased by £26 million compared with the prior year to £299 million. This increase reflects the recent level of capital expenditure.

Share of post-tax profit of joint ventures and associates
Our share of post-tax profits of joint ventures and associates increased from £18 million to £37 million. The result reflects an improved performance by TSTT, our joint venture in Trinidad and Tobago, which contributed a £22 million profit in 2007/08, including the £5 million release of a centrally held provision, compared with a £12 million loss in 2006/07. This increase is partly offset by the loss of income from Batelco, our Bahraini associate sold in January 2007, which contributed £12 million of post-tax profit in 2006/07.

Net finance expense
The £22 million net finance expense for the year ended 31 March 2008 (£28 million expense for 2006/07) comprises finance income of £53 million (£52 million in 2006/07) and finance expense of £75 million (£80 million for 2006/07).

Finance income increased by £1 million due to higher average interest rates partially offset by lower cash balances. Finance expense has decreased by £5 million as a result of reduced interest expense following the repurchase and conversion of our convertible bonds in the year and reduced interest in 2007/08 relating to the put option on our Monaco business. This was partially offset by increased interest on the debt in our International business.

Group exceptional items

	2007/08 £m
Operating items	
Restructuring	(56)
Gain on Seychelles cash repatriation	14
Charge for legal fees	(11)
Jamaica asset write-down	(37)
Profit on sale and leaseback of properties	53
Exceptional items within total operating profit	**(37)**
Non-operating items	
Loss on repurchasing convertible bonds	(10)
Release of unused provisions related to our former insurance operation, Pender	6
Exceptional items below total operating profit	**(4)**
Total exceptional items before tax	**(41)**
Tax on exceptional items	9
Total exceptional items	**(32)**

In 2007/08, we recognised a £32 million loss in respect of exceptional items.

Restructuring costs totalled £56 million, comprising £40 million relating to redundancies and property rationalisation from the Europe, Asia & US turnaround programme and £16 million in International for redundancies and other restructuring costs as part of the programme to transform our service and brand reputation.

We successfully concluded a transaction to repatriate £24 million that had previously been blocked in the Seychelles due to exchange controls. As a result, International recorded a net gain before taxation of £14 million after the release of provisions held against these funds. As a consequence of this transaction, there was a £5 million tax charge.

In July 2007, we received a claim from our Caribbean competitor, Digicel, which we believe is without foundation and which we are vigorously defending. The claim alleges that Cable & Wireless delayed Digicel's entry into seven Caribbean markets by not providing interconnection between its networks and ours on a timely basis. We strongly reject this allegation. Based on legal advice, we expect to defend this claim successfully but have recorded a charge of £11 million for the legal and other fees related to our defence.

As part of our year end review of asset carrying values, we wrote down assets in Jamaica by £37 million reflecting the poor recent trading performance of the business and additional competition in the mobile market. A £14 million tax credit was recorded against this charge.

A sale and leaseback transaction was completed for nine freehold properties in Europe, Asia & US in April 2007. The disposal of the properties for £88 million resulted in a profit of £53 million.

During the year, convertible bonds with a par value of £138 million were repurchased for cash of £190 million. This resulted in an accounting loss of £10 million which is the difference between the carrying and fair value of the underlying debt component of the repurchased bonds.

Following progress in resolving historical claims and other risks, we have released £6 million of unused provisions relating to Pender, our former insurance operation.

Taxation

	2007/08 £m	2006/07 £m
Profit on ordinary activities before taxation[1]	**308**	196
Tax charge on ordinary activities[1]	**(56)**	(44)
Effective tax rate	**18%**	22%

1 Excludes exceptional items.

The effective Group tax rate has decreased to 18% from 22% last year as EBITDA from Europe, Asia & US, which was tax free, rises.

The tax charge of £56 million for continuing operations (£44 million for 2006/07) comprises a credit of £7 million (£10 million for 2006/07) in respect of UK tax and a charge of £63 million (£54 million for 2006/07) for overseas taxes. The increase of £12 million reflects the mix of profits and losses and tax rates across our businesses and the re-estimation and settlement at amounts different to those provided for prior years' current and deferred tax items.

Exchange rate movements

	2007/08	2006/07
US$:£		
Average	**2.0041**	1.8807
Year end	**1.9997**	1.9631
Jamaican$:£		
Average	**139.58**	124.72
Year end	**142.17**	132.74

Compared with last year, the US and the Jamaican dollars have weakened against sterling by 7% and 12% respectively.

A one US cent change in the US dollar to sterling exchange rate has approximately a £1.6 million impact on a full year's EBITDA of the International business, as approximately 75% of International EBITDA is earned in US dollar denominated or related economies.

A one dollar change in the Jamaican dollar to sterling exchange rate has approximately a £0.2 million impact on a full year's EBITDA of the International business.

We have hedged a proportion of our projected 2008/09 surplus US dollar cash flow arising from International repatriation by way of forward contracts.

Group earnings per share

	Before exceptionals £m	Exceptionals £m	Total £m
Profit for the year from continuing and discontinued operations	**252**	**(32)**	**220**
Attributable to equity holders	**191**	**(27)**	**164**
Attributable to minority interests	**61**	**(5)**	**56**
Earnings/(losses) per share from continuing operations attributable to the equity holders of the Company during the year (pence)	**7.9p**	**(1.1)p**	**6.8p**
2006/07	**4.0p**	**2.3p**	**6.3p**
Earnings/(losses) per share attributable to the equity holders of the Company during the year (pence)	**7.9p**	**(1.1)p**	**6.8p**
2006/07	**4.0p**	**3.5p**	**7.5p**

Financial performance review
continued

Group cash and debt

Group cash and cash equivalents at 31 March 2008 were £699 million, a decrease of £349 million from 31 March 2007.

During the year, the repurchase of the convertible bonds due in 2010 resulted in a cash outflow of £190 million. Additionally, we paid £34 million repurchasing bonds due in 2019 that had a nominal value of £32 million and paid £138 million for the 2007/08 interim dividend and the final dividend of the 2006/07 year.

The remaining net cash inflow of £13 million relates to cash generated by International and Central partially offset by the outflow in Europe, Asia & US.

Group debt at 31 March 2008 was £456 million, a decrease of £260 million from 31 March 2007. During the year, all of the convertible bonds in issue at 31 March 2007 (carrying value of £213 million) were either repurchased or converted. We also repurchased bonds due in 2019 with a carrying value of £32 million, reducing the carrying amount of those bonds outstanding to £147 million.

During the year, the improvement in the Group's cash flows and the progress of the Europe, Asia & US restructuring to date have led both Standard & Poor's and Moody's to improve the Group's credit rating outlook.

Reconciliation of Group EBITDA to net cash flow before financing activities

	2007/08[1] £m
EBITDA[2]	**605**
Exceptional items	**(53)**
EBITDA less exceptionals	**552**
Movement in exceptional provisions	**(8)**
Movement in working capital and other provisions	**(33)**
Income taxes paid	**(46)**
Investment income	**64**
Purchase of property, plant, equipment and intangible assets	**(405)**
Acquisitions and disposals	**14**
Other income	**12**
Main UK defined benefit pension scheme cash top-up contribution	**(19)**
Net cash inflow before financing activities	**131**

1 Based on internal management accounts.
2 Earnings before interest, tax, depreciation and amortisation, LTIP charge, net other operating income and exceptional items.

The Group net cash inflow before financing activities of £131 million represents inflows of £183 million (US$367 million) in International and £21 million in Central and an outflow of £73 million in Europe, Asia & US. Further details in respect of International and Europe, Asia & US are included on pages 19 and 32 respectively.

The net cash inflow before financing in Central of £21 million represents interest received of £40 million and working capital and other inflows of £9 million, offset by an EBITDA cost of £28 million.

Pensions

A full actuarial valuation of the main UK defined benefit scheme as at 31 March 2007 was completed during the year and we made a cash contribution of £19 million so that the scheme is fully funded on an ongoing basis.

The latest generally adopted mortality tables (PA92) were used for the funding valuation including a minimum annual rate of future improvement in life expectancy. Under these assumptions, the average life expectancy is 88 years for a man aged 60 and 89 years for a woman aged 60.

The IAS 19 surplus for the main UK scheme at 31 March 2008 is £375 million compared with a surplus of £43 million at 31 March 2007 mainly as a result of an increase in the discount rate used to value the scheme's liabilities. We have applied the asset ceiling provisions of IAS 19 and reduced the surplus to nil on the balance sheet. We have unfunded pension liabilities in the UK of £20 million (£22 million at 31 March 2007). Defined benefit schemes operated in a number of our overseas businesses have a net IAS 19 surplus of £6 million (£7 million surplus at 31 March 2007).

We continued to reduce risks in the main UK defined benefit scheme by rebalancing the asset portfolio towards bonds and cash. We also implemented a £900 million swap programme to match the fund's asset returns better to its liabilities. Fund assets are now 24% bonds, 45% equities, 6% property and 25% cash. We are in active discussions regarding options to further de-risk the pension scheme, although these options, including an insurance buyout, are not a precondition for value realisation.

Risk overview

We've made good progress over the last two years. However, like any business, there are a number of potential risks to our future success. Some of these are shared by all businesses, for example competitive and pricing pressures, whilst some of them are specific to our business. Here's an outline of the more specific risks we face as a Group, and what we're doing to mitigate them.

In addition to the other information contained in this Annual Report, investors in Cable & Wireless should consider carefully the risks described below.

Group-wide risks

The Group is organised into two businesses, with a Central team acting as portfolio manager. We believe this structure positions the Group better to deliver value to our shareholders. However, there is a risk that the organisational structure and incentive schemes that we have in place may not achieve the strategic goals that we have set out for our two business units. We are managing this risk through clear governance structures including Operating Boards for each business unit that formally review strategy, its execution and business performance to ensure that value is being added to the Group as a whole.

There is a risk that our plans to transform both our International and Europe, Asia & US business may fail or distract us from delivering value to shareholders. We are mitigating that risk via detailed transformation programmes, designed to drive efficiency and productivity through the change process.

We maintain defined benefit pension plans in the UK and overseas, although the main scheme is in the UK. This scheme is currently fully funded based on the 2007 triennial actuarial valuation. There is a risk that actual experience in the short term, regulatory changes or market movements may affect the value of the scheme's assets and liabilities. There is also a risk that an adverse change in the financial position of Cable & Wireless may result in changes to the long-term assumptions on which the current position is based – this may result in significant additional contributions to the scheme. We manage these risks through continuing dialogue with the scheme trustees and appropriate management of the scheme's assets with external advice.

Litigation is a general risk experienced in most large organisations, particularly those with operations in litigious markets such as Panama. Where litigation is decided adversely, it can significantly affect the financial performance or reputation of our business. Where and when litigation is brought against us, we defend our position robustly using appropriate legal services.

A significant percentage of Cable & Wireless' revenue is generated outside the UK. Accordingly, the value of that revenue and the associated investments will be affected by fluctuations of the pound against the currency in which the investments, financing and revenue are denominated, as reflected in the Group's financial statements. Where the Group's exposure to movements in exchange rates does not naturally offset in the short-term, the Group carries out foreign exchange hedging operations to manage its exposure in respect of material transactions. To the extent that this hedging activity does not cover the exposure then the Group's operating results and financial condition may be negatively affected by exchange rate movements.

Our tax charge comprises current and deferred tax charges. The calculation of these charges involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. As the Group operates in many countries worldwide, this process of estimation and judgement is especially complex and issues can take many years to resolve. The resolution of these items can give rise to material income statement variances. We manage these risks by employing suitably qualified employees and retaining professional advisers.

In the preparation of the consolidated financial statements, a number of estimates and assumptions have been made relating to the reporting of results of operations and the financial condition of the Group. Results may differ significantly from those estimates under different assumptions and conditions. The Directors have outlined those policies that address the Group's most critical accounting policies in note 3 to the consolidated financial statements. These particular policies require subjective and complex judgements, often as a result of the need to make estimates about the effect of matters that are uncertain.

Risks specific to our International business

This year we expect more competition, in particular in Panama and Jamaica. This will place some downward pressure on prices and growth in those parts of our business although typically the introduction of competition grows market penetration and therefore the total size of the market available. We are ready to deal with the competition and have invested in improving distribution, delivering better customer service and ensuring that we develop the propositions that customers want.

In parts of Asia and the Caribbean, natural disasters and severe weather such as hurricanes pose a risk. To address this risk, we have robust recovery plans in place including contingency equipment and suppliers, network monitoring and resilience, together with appropriate insurance cover.

Risk overview
continued

We believe we have all of the necessary regulatory licences and concessions needed to deliver our vision for our business. From time to time some of these come up for renewal and there is some risk attached to this process. Failure to renew regulatory licences and concessions could impair our result and operations. We liaise closely with governments and regulatory bodies to help them deliver a regulatory environment that best suits the needs of consumers and local governments whilst enabling continuing stability for, and investment in, our business. For example, our fixed line concession in Macau expires in 2011 and work has started on the review. Through the implementation of our 'Digital Macau' investment programme we are demonstrating our long-term commitment to Macau and strengthening these important relationships.

Whilst our relationships with unions and colleagues' representatives are strong, there's always the potential for industrial action. This may disrupt the service we provide to our customers and result in a negative impact on our financial performance. We have effective industrial relations programmes in place and continue to engage with colleague representatives in a constructive way. We have had formal and informal channels for colleague communication in place for many years and we regularly consult colleagues and their representatives on issues that affect them.

Finding and keeping good people is critical to our strategy as delivering a rich customer experience requires Cable & Wireless to employ the very best people available. In some geographies, there is a finite pool of such people available. In Macau for example, the growth of tourism continues to put strain on the local labour market. We manage this risk by actively engaging with our people and their representative bodies through regular surveys, feedback and forums.

There is a risk that our joint ventures may underperform. Without management control, we aren't always able to influence their performance. We manage this risk by maintaining regular dialogue with key stakeholders, active engagement with local management, operational involvement where practicable and we seek to gain management control wherever possible.

Risks specific to our Europe, Asia & US business
As part of our Europe, Asia & US transformation, we are outsourcing a number of non customer-facing operations to India in order to extend our service capability and provide more resource at a lower cost. In many cases, we are working with a partner organisation which means we are no longer in direct control. This leads to a risk that problems will occur that affect services to our customers. As a result, we have put in place a structured monitoring programme to ensure a consistently high quality of service is delivered. In addition, we have in place a management structure and governance framework to monitor performance.

Our strategy is to be the world's first customer-defined global communications business. This revolves around delivering a consistently superior service experience at every point of contact. A risk associated with this is the impact a single point of failure on our network or a failure in our IT systems can have on the service we provide to our customers. To mitigate this risk, we constantly improve our network and add capacity where a potential customer issue is identified. To ensure this is done in a timely and cost-effective way, we continue to strengthen our capacity management processes.

Another risk associated with customer service relates to the security of our customers' data, in particular where services are delivered outside the UK. With large amounts of sensitive data passing through our network, there are significant legal and regulatory implications should sensitive data fall into the wrong hands. As a result, we have implemented an IT security mitigation programme, including reviews of information systems and security policies, and major improvements to IT systems.

We operate in many international locations with differing and evolving laws and regulations. Breaches of regulations have the potential to affect our ability to trade in certain locations, jeopardising the service we supply to customers. To make sure we have the highest standard of compliance in all our markets, we have in place robust processes and governance to review continually our compliance with applicable laws and regulations, and take timely and effective action where necessary.

Like most businesses, we are exposed to the risk of an economic downturn. However, our growth is not predicated on growth in one market. In the UK, we expect to grow by taking an increasing share of the £7 billion telecoms enterprise market either by winning new customers or by winning a greater share of existing customers' telecoms budgets. Further, our new services mean we are able to take advantage of growth in adjacent UK market segments, for example in corporate mobile through fixed mobile convergence, and in the hosting and applications market. Outside our domestic market, for example in Asia, local economies are booming. And we are finding that large global companies increasingly want one supplier like Cable & Wireless to provide their telecoms solutions.

Governance

How we manage our business including Board committees and Directors' biographies and remuneration.

Your Board

Richard Lapthorne

Tony Rice

John Pluthero

George Battersby

Simon Ball

Clive Butler

Kate Nealon

Kasper Rorsted

Agnès Touraine

A Denotes membership of Audit Committee
N Denotes membership of Nominations Committee
R Denotes membership of Remuneration Committee

Richard Lapthorne N

Chairman of Cable and Wireless plc

Richard Lapthorne was appointed Chairman in January 2003. From 1999 to May 2003 Richard was Chairman of Amersham plc (now GE Healthcare) having joined its Board as a Non-executive Director in 1988. He was Finance Director of British Aerospace plc from July 1992 and Vice Chairman from April 1998 until his retirement in 1999. Richard is a Non-executive Director of Calibre Audio Library, Tommy's The Baby Charity and is HM The Queen's Trustee at The Royal Botanic Gardens, Kew. He was also Non-executive Chairman of Morse plc and New Look Group until 14 February 2008 and 22 November 2007 respectively.

Tony Rice

Joint Group Managing Director, Central; Group Finance Director

Tony Rice was appointed Joint Group Managing Director, Central and Group Finance Director in March 2006, having previously been a Non-executive Director. Tony was Chief Executive of Tunstall Holdings Ltd from March 2002 until its sale in September 2005 and he continued as a Non-executive Director of that company until 5 April 2008. Prior to Tunstall, Tony was Group Treasurer and then Group MD, Commercial Aircraft division of British Aerospace plc. Tony is a Trustee of Help the Aged and was appointed as a Non-executive Director of Punch Taverns plc on 6 December 2007.

John Pluthero

Joint Group Managing Director; Executive Chairman Europe, Asia & US; Executive Chairman, International

John Pluthero was appointed Joint Group Managing Director and Executive Chairman of Europe, Asia & US in April 2006 having previously been Executive Director of that business. He was appointed Executive Chairman of International in November 2007. From September 2002 until its acquisition by Cable & Wireless in November 2005, John was Chief Executive of Energis. Previously, he was founder and CEO of Freeserve (now part of Orange UK), leading it to its flotation. Prior to this, John held various strategy and operations positions within the Dixons Group. John is a Director of Merville Ltd.

George Battersby

Executive Director, Human Resources

George Battersby was appointed Executive Director of Human Resources in July 2004. Prior to joining Cable & Wireless, George was an Executive Director of Amersham plc (now GE Healthcare) responsible for human resources, pensions, health and safety and environment. Previously he held senior HR positions in a number of FTSE 100 companies, including Group HR Director appointments at Laporte plc and Fisons plc. George is a Non-executive Director and Chairman of the Remuneration Committee at Hogg Robinson Group plc and was previously Senior Independent Director and Remuneration Committee Chairman at SHL plc.

Simon Ball AR

Non-executive Director

Simon Ball was appointed as a Non-executive Director in May 2006 and is a member of the Audit and Remuneration Committees. Simon is Group Finance Director for 3i Group plc and has served on its main Board since April 2005. In this capacity, he is a member of both the Management Committee and the Investment Committee and is responsible for financial management and coordinating strategic direction at Group level. Prior to this, Simon held a series of senior finance and operational roles over 13 years at Dresdner Kleinwort Benson. He has also served as Group Finance Director for the Robert Fleming Group and, for two years, as Director General, Finance for the UK Government's then Department for Constitutional Affairs.

Clive Butler ANR

Senior Independent Director; Chairman of the Nominations Committee

Clive Butler was appointed a Non-executive Director in May 2005 and is the nominated Senior Independent Director. Clive is a member of the Audit and Remuneration Committees and was appointed as Chairman of the Nominations Committee on 26 July 2007. Clive was Corporate Development Director at Unilever plc, serving on its main Board from 1992 until his retirement in 2005. He also undertook the roles of Personnel Director and Category Director for the Home and Personal Care division having worked in a variety of marketing and general management roles since joining Unilever in 1970.

Kate Nealon ANR

Non-executive Director; Chair of the Remuneration Committee

Kate Nealon was appointed a Non-executive Director in January 2005 and is Chair of the Remuneration Committee. She is also a member of the Audit and Nominations Committees. Kate was Group Head of Legal and Compliance at Standard Chartered plc until 2004 having previously practised international banking and regulatory law in New York. Kate is a Non-executive Director of HBOS plc and Shire plc, a senior associate of the Judge Business School at Cambridge University and a member of the Advisory Council of the Institute of Business Ethics.

Kasper Rorsted ANR

Non-executive Director; Chairman of the Audit Committee

Kasper Rorsted was appointed a Non-executive Director in May 2003 and is Chairman of the Audit Committee. He is also a member of the Nominations and Remuneration Committees. Kasper is CEO of Henkel KGaA, Germany. Prior to joining Henkel in April 2005, Kasper was Senior Vice President and General Manager, EMEA for Hewlett Packard and held various senior management positions with Compaq. Kasper is a Non-executive Director of Ecolab, Inc. USA.

Agnès Touraine AR

Non-executive Director

Agnès Touraine was appointed a Non-executive Director in January 2005 and is a member of the Audit and Remuneration Committees. Based in France, Agnès is Managing Partner of Act III Consultants. She was previously Chairman and CEO of Vivendi Universal Publishing and has held various senior executive positions with the Lagardère Group and McKinsey. Agnès was appointed as a Non-executive Director of Neopost SA on 10 July 2007 and of ITV plc on 8 August 2007. She is a Board member of Fondation de France and Chairman of the Supervisory Board of SAIP/Libération.

Directors' report

The Directors present their Annual Report to shareholders, together with the audited financial statements, for the year ended 31 March 2008.

Principal activities, business review and results
The Group's principal activities are detailed on pages 4 to 5. Through this Annual Report, including the Chairman's statement and the business review section (pages 6 to 42) that precede this report, the Board seeks to present a balanced and clear assessment of the Group's activities, position and prospects. Each of these sections is incorporated by reference into this Directors' report. The Group's results for the financial year are shown in the consolidated income statement on page 67.

Directors
The names and biographical details of the present Directors are set out on page 45. All of these Directors were in office throughout the year. Harris Jones, previously Chief Executive, International, resigned from his post as a Director on 12 November 2007.

As advised last year, Richard Lapthorne has opted to seek annual re-election at each Annual General Meeting (AGM) and he will therefore retire at the 2008 AGM and offer himself for re-appointment. George Battersby, Kate Nealon, Tony Rice and Agnès Touraine will retire by rotation at the 2008 AGM in accordance with Article 90 of the Company's Articles of Association and will offer themselves for re-election.

The interests of the Directors and their connected persons in the shares of Cable and Wireless plc, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 54 to 63.

No Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.

The Company has granted an indemnity in favour of its Directors against personal financial exposure that they may incur in the course of their professional duties. This is a qualifying third party indemnity provision for the purpose of the Companies Act 2006.

Dividends
The Directors recommend a final dividend of 5.00 pence per ordinary share payable on 8 August 2008 to ordinary shareholders on the register at the close of business on 13 June 2008. An interim dividend of 2.50 pence per ordinary share was paid on 25 January 2008, resulting in a total dividend of 7.50 pence per ordinary share for the financial year.

Share capital and treasury shares
The authorised and called-up share capital of the Company, together with details of shares allotted during the year, are shown in note 33 to the consolidated financial statements. No additional treasury shares were acquired during the year. On the conversion of £119,829,000 (nominal value) of its 4% convertible bonds, the Company issued 53,356,547 new shares and re-issued 29,284,122 treasury shares. At 31 March 2008, a total of 45.7 million ordinary shares were held in treasury, representing 1.8% of called-up share capital.

Company's shareholders
As at 21 May 2008, we have been notified under Rule 5 of the Financial Services Authority's Disclosure and Transparency Rules of the following holdings of voting rights in the issued share capital of the Company:

	Holding
Newton Investment Management Limited	12.03%
The Trustees of BT Pension Scheme	5.07%
Legal & General Investment Management Limited	4.07%
Credit Suisse Securities (Europe) Limited & Credit Suisse International	4.05%
Orbis Investment Management Limited	3.03%

Charitable and political donations
During the year ended 31 March 2008, the Group gave £1.5 million (2006/07 – £1.4 million) to charitable organisations. More information about our support of the communities in which the Group operates is set out on pages 20 to 21 and 34 to 35.

The Group does not make political donations and has no intention of making donations to what are generally regarded as political parties within the European Union. As a precautionary measure and in the light of the wide definitions of European Union political organisations for the purposes of the Companies Act 2006 (the 2006 Act), a resolution to permit the Company to make political donations and incur political expenditure was passed at the 2007 AGM. The purpose of the resolution was to ensure that the Company did not unintentionally breach the 2006 Act. A resolution to renew this authority will be proposed at the 2008 AGM.

Supplier payment policy
We agree payment terms with suppliers when we enter into purchase contracts and we seek to abide fairly by these agreed terms. There is no specific code of practice used.

The average number of days between the invoice date and the date of payment by the Company (calculated by reference to the amount owed to suppliers at the year end as a proportion of the amount invoiced by suppliers during the year) was 18 days (2006/07 – 20 days).

Employee diversity
Cable & Wireless' employment policies 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 Group to retain employees who become disabled whilst in its service and to provide specialist training where appropriate.

Employee involvement
We are committed to ensuring that employees share in the success of the Group. Employees are encouraged to participate in share purchase schemes and have a substantial sum invested in the Group's shares.

Employees are kept informed of matters of concern to them in a variety of ways, including intranets and briefings. These communications help achieve a common awareness among employees of the financial and economic factors affecting the performance of the Group.

Change of control
The Group has a number of contracts that are subject to change of control clauses. These primarily relate to financing facilities, major customer contracts and licence and concession agreements. In the event of a change of control, these clauses may require consideration to determine their impact on the Group. At present, risks arising from a change of control are not considered to be significant. We will take appropriate action to mitigate any risks arising from these events should they occur. For change of control provisions in relation to the LTIP and Directors, refer to the Directors' remuneration report on pages 54 to 63.

Annual General Meeting
The AGM will be held at 11.00am on Friday 18 July 2008 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. Details of the resolutions to be proposed at the AGM are given in the Notice of Meeting.

Auditor
Resolutions to reappoint KPMG Audit Plc as our external auditor and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Internal control and risk management
Our Board is responsible for the Group's system of internal control and for reviewing its effectiveness on a continual basis. The Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of control procedures should not exceed the expected benefits.

The Group operates a risk management process, under which each business unit identifies the key risks to their plans, their likelihood and impact and the actions being taken to manage those risks. Consolidated risk registers for International and Europe, Asia & US are reviewed by their respective Operating Boards and these risk registers, together with a Central risk register, are presented to the Audit Committee on a rolling 12 month basis. The principal risks identified by the business are set out on pages 41 to 42.

The Executive Directors report to the Board, on behalf of management, significant changes in the Group's business and the external environment in which it operates. In addition, they provide the Board with monthly financial information, which includes key risk and performance indicators. The Group's key internal control and monitoring procedures include the following:

- Financial reporting: Each year, an annual budget is agreed and approved by the Board. At each Board meeting, actual results are reviewed and reported against budget and, when appropriate, revised forecasts.
- Investment appraisal: We have clearly defined policies for capital expenditure. These include annual budgets and detailed appraisal processes for such expenditure.
- Monitoring systems: Internal controls are monitored through a programme of internal audits. The Internal Audit function reports to the Audit Committee on its examination and evaluation of the effectiveness and adequacy of our systems of internal control.
- Financial controls: We have dedicated resource to embed processes and controls across our businesses. We operate a number of additional self-assessment exercises, which include monthly certification of compliance with key financial controls and an annual controls self-assessment. The latter exercise requires management to assess the effectiveness of its fundamental operating controls over all aspects of its operations, in addition to the other financial controls covered by our Financial Controls Toolkit. The results of this exercise are utilised by Internal Audit in planning its work for the forthcoming year.

Effectiveness of internal control
The Board has reviewed the effectiveness of the internal control systems in operation during the financial year in accordance with the revised Turnbull guidance, through the processes set out above which have been in place for the year under review and up to the date of approval of this Annual Report. Where appropriate, necessary action has been or is being taken to remedy any failings and weaknesses determined to be significant from the review of the system of internal control.

The responsibility for internal control procedures within our joint ventures rests with the senior management of these operations. We monitor our investments and exert our influence through Board representation.

Going concern
After reviewing budgets and other longer term plans, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Rights and obligations attaching to the ordinary shares
This section summarises certain provisions in the Company's Articles of Association relating to the ordinary shares of the Company.

Voting
In accordance with the Company's Articles of Association, each share (other than those held in treasury) entitles the holder to one vote at general meetings of the Company on votes taken on poll.

Dividends
The Company's shareholders can declare dividends by passing an ordinary resolution, but the payment cannot exceed the amount recommended by the Directors. The Directors may also pay interim dividends without shareholder approval if they consider that the financial position of the Company justifies it. Subject to shareholder approval, the Directors may pay dividends by distributing assets, may allow shareholders to receive new ordinary shares in lieu of cash dividends and can operate share dividend or distribution reinvestment plans.

No dividend carries a right to interest from the Company unless the specific rights of such shares specify. If dividends remain unclaimed for 12 years they are forfeited and revert to the Company.

Distribution of assets
If the Company is wound up, the liquidator may, with the authority of a resolution passed by a 75% majority vote of the shareholders, divide among the shareholders the whole or any part of the assets of the Company. However, no shareholder can be compelled to accept any shares or other property which carries a liability.

Partly paid shares
The Company has a lien on all partly paid shares (and dividends), which has priority over claims of others to such shares covering any money owed to the Company for the shares. The Directors may sell all or any of such shares where: (i) the money owed by the shareholder is payable immediately; (ii) the Directors have given notice demanding payment, stating the amount due and that the shares will be sold on non-payment; and (iii) the money has not been paid within 14 clear days of the service of the notice.

The Directors may make calls on shareholders to pay any money which has not yet been paid to the Company for their shares. If a call is unpaid, the shareholder will be liable to pay interest and all expenses incurred by the Company as a result of non-payment if the call remains unpaid for 14 clear days after the date of a notice. In addition, failure to comply with any such notice may result in forfeiture of any share which is the subject of the notice, including any unpaid dividends.

The Directors may decline to register the transfer of any shares that are not fully paid, provided that such refusal does not prevent dealings from taking place on an open and proper basis.

Sanctions
Unless the Directors decide otherwise, a shareholder shall not be entitled to vote at any general meeting of the Company or at any separate general meeting of the holders of any class of shares in the Company or exercise any other right conferred by membership in relation to general meetings if the shareholder has not paid all amounts relating to those shares which are due at the time of the meeting, the shareholder is given a notice or the shareholder has failed to comply with a notice under section 793 of the Companies Act 2006. Further, if a shareholder holding 0.25% or more of the issued shares of a class (excluding treasury shares) is in default of a section 793 notice, the Directors may also state in the notice that: (i) the payment of any dividend shall be withheld; (ii) the shareholder shall not be entitled to elect to receive shares in place of dividends withheld; and (iii) the transfer of the shares held by such shareholder shall be restricted.

Certificated shares
Unclaimed dividends
The Company can sell any certificated shares at the best price reasonably obtainable at the time of the sale if: (i) in a period of 12 years at least three dividends have become payable and no dividends have been claimed; (ii) the Company has published a notice after the 12 year period stating that it intends to sell the shares; and (iii) during the 12 year period and for three months after the last notice, the Company has not heard from the shareholder or any person entitled to sell the shares.

Transfers
The Directors may decline registration of certificated shares if: (i) a share transfer form is used to transfer more than one class of shares; (ii) transfers are in favour of more than four joint holders; or (iii) the share transfer form is not delivered to the office, or such other place decided on by the Directors, accompanied by the share certificate relating to the shares being transferred (unless the transfer is by a person to whom the Company was not required to, and did not, send a certificate) and any other evidence reasonably asked for by the Directors to show entitlement to transfer the shares.

Uncertificated shares
The Directors may decline registration of uncertificated shares if the transfer is in favour of more than four transferees or otherwise in accordance with the Uncertificated Securities Regulations 2001.

Interests in shares
Except where express rights are given by the Company's Articles of Association or by law, the Company will only be affected by, or recognise, a current and absolute right to whole shares even if the Company is aware of the ownership of the shares.

US Holders
The Directors may require a shareholder or other person appearing to be interested or having been interested in shares, to disclose information relating to the ownership of such shares or to show that such shares are not held by a US Holder (as defined in the Company's Articles of Association). The Directors may require a US Holder to sell their shares to someone who is not a US Holder, failing which, the Company may effect a sale of such shares on the US Holder's behalf.

Disputes
Any disputes between a shareholder in that shareholder's capacity as such and the Company and/or the Directors arising out of or in connection with the Company's Articles of Association shall be exclusively and finally resolved under the Rules of Arbitration of the International Chamber of Commerce, as amended from time to time, in accordance with the Company's Articles of Association.

Amendment of the Articles
The Articles of Association may be amended by a special resolution of the shareholders passed at a general meeting of the Company. The Company intends to alter its articles at the 2008 AGM, and further details of the proposal are set out in the AGM Notice. A copy of the current Articles can be accessed on the Company's website (www.cw.com).

Appointment and replacement of Directors
The rules about the appointment and replacement of Directors are contained in the Company's Articles of Association, including the rules for who is eligible to be elected as a Director and the procedure to be followed to nominate such persons. The Company's Articles must be approved by shareholders in accordance with the legislation in force from time to time.

The Articles provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in this way retires at the first AGM following his appointment.

The Articles also provide that at every AGM, Directors who have been in office at the time of the two previous annual general meetings retire by rotation, and detail the circumstances in which and how they may be re-elected. The Company's members may remove a Director by passing an ordinary resolution for which special notice has been given. A Director will automatically cease to be a Director if:
(i) they resign;
(ii) they offer to resign and the other Directors accept that offer;
(iii) all the other Directors (being at least three) require it;
(iv) they are suffering from mental ill health and the Directors require them to cease to be a Director;
(v) they have missed Directors' meetings for a continuous period of six months without permission and the other Directors resolve that they shall cease to be a Director;
(vi) a bankruptcy order is made against them, or they make an arrangement or composition with their creditors;
(vii) they are prohibited from being a Director by law; or
(viii) they cease to be a Director under the legislation or are removed from office under the Articles.

Powers of Directors
The powers of the Directors are determined by UK legislation and the Company's Memorandum and Articles of Association, available on the Company's website (www.cw.com). As provided in those Articles, the Directors may exercise all the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the members. The Directors have been authorised to issue and allot ordinary shares, pursuant to Articles 9-10 and have authority to make market purchases of shares pursuant to Article 6. The powers under Article 10 are referred to shareholders at the AGM for renewal. Shareholders are also requested to renew the Directors' power to make market purchases of shares at each AGM. Any shares purchased may be cancelled or held as treasury shares.

By order of the Board

Nick Cooper
Group General Counsel and Company Secretary
21 May 2008

Corporate governance report

Our Board is committed to ensuring that high standards of corporate governance are maintained by Cable & Wireless.

Our governing policies and practices are detailed in this report and in the reports of the Audit Committee on page 53 and Remuneration Committee on pages 54 to 63. Together, these reports provide shareholders with an insight into how our Board and senior management run the business to increase shareholder value.

Board membership and attendance
At 31 March 2008 our Board comprised the Chairman, three Executive Directors and five Non-executive Directors, who are collectively responsible for the success of Cable & Wireless. One Executive Director, Harris Jones, left during the period under review. Biographies of the current Directors and details of their Committee membership are shown on page 45.

Our Non-executive Directors bring a wide range of skills and experience to Cable & Wireless. They provide an independent view on matters of strategy, performance, risk and people through their contribution at Board and Committee meetings. The Board considers that all our Non-executive Directors are independent in character and judgement. Non-executive Directors are appointed for an initial three year term with the expectation that a further term will follow, subject to review by the Board. The terms and conditions of appointment of the Non-executive Directors are available for inspection at our registered office during normal business hours and at our AGM.

The Board met on eight occasions during 2007/08 and, in addition, attended meetings to consider the strategic direction of different parts of the business. Details of Directors' attendance at scheduled Board and Committee meetings are shown below.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Chairman				
Richard Lapthorne	8	–	–	2
Executive Directors				
George Battersby	8	–	–	–
John Pluthero	8	–	–	–
Tony Rice	8	–	–	–
Non-executive Directors				
Simon Ball	8	5	7	–
Clive Butler	8	5	7	2
Kate Nealon	7	4	7	2
Kasper Rorsted	8	5	6	2
Agnès Touraine	8	5	7	–
Former Executive Directors				
Harris Jones	3	–	–	–
Meetings held during the year	8	5	7	2

– Director is not a Committee member.

The Senior Independent Director is Clive Butler. Clive is charged with establishing a communication channel between the Chairman and the Non-executive Directors and ensuring that the views of each Non-executive Director are given due consideration. He is also a contact point for shareholders if they have reason for concern which contact through the normal channels of the Chairman or Executive Directors has failed to resolve, or for which contact is inappropriate.

Role of the Board
The Board leads Cable & Wireless and, either directly or through the operation of its Committees and delegated authority, brings an independent judgement on all matters of strategy, performance, resources (including key appointments) and standards of conduct. The Board Committees are constituted with appropriate written terms of reference that are reviewed annually and together with our Articles of Association are published on our website at www.cw.com. Each Director is entitled to one vote at Board meetings. All votes are equal in power.

The Board is responsible for the strategic aims of Cable & Wireless, which are then implemented through the approval and regular monitoring of performance against the budget and five year plan prepared by the Executive Directors. At its regular meetings, the Board deals with both those matters specifically reserved for its decision and any other material matters. Reserved matters include Group strategy, financial reporting and control, acquisitions and disposals, annual budgets and operating plans, customer contracts and expenditure over a certain financial limit, Board and Committee membership and other senior appointments, Director and senior executive remuneration, delegation of authority and corporate governance. Further detail of the Board's reserved powers may be found on our website at www.cw.com.

The Board and its Committees are provided with full and timely information prior to meetings, including detailed financial information. The Chairman, in consultation with the Company Secretary and Executive Directors, sets the agenda for Board meetings. Formal minutes recording decisions of all Board and Committee meetings are prepared and circulated to each Director as appropriate. If a Director objects to a particular proposal, this will be recorded in the minutes of the relevant meeting. During the year ended 31 March 2008, as for the previous year, there were no such objections.

The Chairman is responsible for ensuring that an appropriate induction is given to any new Board member. Directors receive appropriate training, briefings and information, both orally and in written form, to enable them to perform their roles both on the Board and its Committees. All Directors have access to the advice of the Company Secretary and in addition, the Board has established a procedure whereby any Director, wishing to do so in the furtherance of their duties, may take independent professional advice on any matter at the Company's expense.

During the year ended 31 March 2008, responsibility for the day-to-day management of Europe, Asia & US was delegated to John Pluthero and responsibility for management of the Central functions was delegated to Tony Rice. Until 12 November 2007, responsibility for the day-to-day management of International was delegated to Harris Jones. Subsequent to this date, John Pluthero was appointed as Executive Chairman of International and assumed day-to-day management of International in addition to Europe, Asia & US.

During the year under review, the Operating Boards for International and Europe, Asia & US continued to meet and operate. Until 12 November 2007, Lord Robertson of Port Ellen was the Non-executive Chairman of International and membership of the International Operating Board included Harris Jones, members of his senior management team and three Investor Directors. Subsequent to that date, John Pluthero became Executive Chairman of International and a number of changes were made to the International Operating Board following changes to the International senior management team. Throughout this time, continuity was provided by the three Investor Directors appointed by the Board, being Tony Rice (Joint Group Managing Director, Central and Group Finance Director), George Battersby (Group HR Director) and Nick Cooper (Group General Counsel and Company Secretary).

Membership of the Europe, Asia & US Operating Board includes John Pluthero as Executive Chairman, Jim Marsh as Chief Executive, and members of the senior management team, together with the three Investor Directors named above.

Separate schedules of reserved matters have been created for the two Operating Boards and the Board may delegate power to the Investor Directors to grant approval on any matter otherwise reserved for the Board.

Committees of the Board
Membership of Committees of the Board is reviewed annually. Reports on the purpose and activities of the Audit Committee and Remuneration Committee are included on pages 53 and 54 to 63 respectively.

A Nominations Committee has been established by the Board to ensure that appropriate procedures are in place for the nomination, selection, training and evaluation of Directors as well as ensuring that succession planning is being undertaken. The Nominations Committee reviews the balance of Board membership and the required blend of skills, knowledge and experience by considering its structure, size and composition. The Committee was active in making recommendations for changes to the Board during the year. Members of the Committee abstain when matters affecting their own appointments are discussed.

The Nominations Committee is chaired by Clive Butler (Senior Independent Director) and the other members are Richard Lapthorne (Chairman of Cable and Wireless plc), Kate Nealon (Chair of the Remuneration Committee) and Kasper Rorsted (Chairman of the Audit Committee). The majority of its members are independent Non-executive Directors. The Committee met twice during the year under review and its full terms of reference are available on our website at www.cw.com.

Performance evaluation
Since the last Annual Report, the Board has undertaken its annual evaluation of performance including a review of the performance and membership of its principal committees. Unlike the previous year when an external facilitator was appointed, the Board elected to undertake this year's evaluation in-house, led by the Chairman. The process included the completion of a detailed questionnaire by each Board member together with private meetings as appropriate. The conclusions of the Board evaluation, including a review of progress against points raised in previous years, were collated by the Company Secretary and then presented to, and considered by, the whole Board.

During the year, the Non-executive Directors again met privately both with and without the Chairman being present, to consider management performance and succession issues. The Non-executive Directors appraised the Chairman's performance and carefully reviewed the relationship between the Chairman and the Joint Group Managing Directors to ensure that the Board structure and relationships continued to promote the creation of shareholder value. As part of this evaluation the Senior Independent Director met with Executive Directors to discuss their views.

Compliance with the Combined Code (the Code)
Throughout the year ended 31 March 2008, we complied with all Code provisions set out in Section One of the 2006 FRC Combined Code on Corporate Governance with one exception. C.3.1 of the Code provides that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. As in previous years, our Board considers that there is a sufficient breadth of financial expertise across the Audit Committee and that, collectively, its members have the requisite skills and attributes to discharge its responsibilities properly. As a result, the Board has decided not to identify any one member as having such experience.

By order of the Board

Nick Cooper
Group General Counsel and Company Secretary
21 May 2008

Statement from the independent Non-executive Directors

The last year has proved to be a very challenging but also a very rewarding one for Cable & Wireless, and one in which we have seen significant progress in both of our business units.

We have continued to operate a governance system where the activities of the Group are divided into three – International, Europe, Asia & US and Central – each headed by a Joint Group Managing Director reporting to the Chairman of Cable and Wireless plc.

The Central function continues to act as portfolio manager of the two operating businesses. Three members of the Central function, including Tony Rice, Joint Group Managing Director, Central and Group Finance Director, sit as Investor Directors on the Operating Boards of each business which focus on the issues for that business unit – these Boards meet monthly. The Group Board sits above the Operating Boards to ensure that the strategy of both business units delivers shareholder value for the Group as a whole by holding the Joint Group Managing Directors of International and Europe, Asia & US and the Investor Directors to account and generally by ensuring a high standard of corporate governance.

Throughout the year the Chairman has continued to play a pivotal role, not only in his leadership of the Group Board, but also as architect of the model, ensuring that the Joint Group Managing Directors reporting to him perform their function in a manner which is consistent with the governance system. We have now had two years of the Cash Long Term Incentive Plan (LTIP) which was designed to be the glue that binds the model together and it has proved to be a powerful tool to drive management behaviours towards delivering shareholder value for the Group as a whole, whilst at the same time ensuring real focus at individual business unit level.

After two years of operating the Cable & Wireless governance system, we are satisfied that it not only complies with the provisions and, more importantly, the spirit of the Combined Code, but also that it is, and remains, the most effective system for Cable & Wireless in its current form.

Turning now to the four questions posed annually as part of Cable & Wireless's approach to measuring effective corporate governance:

1. What is the quality of the relationship between the Chairman and the Joint Group Managing Directors?
In a year in which we have seen some management change with Harris Jones leaving the business, the model has adapted to the change in circumstances with John Pluthero appointed as Executive Director of both International and Europe, Asia & US but acting in a very different capacity in each case. Each of the Joint Group Managing Directors reports to the Chairman. So far as we can see, the relationship between them is stronger than ever perhaps driven by belief in the governance model, which over the last two years has provided a framework for the delivery of real progress in both business units.

2. How open are the Joint Group Managing Directors with the Board?
The Joint Group Managing Directors are very open with the Board. The Board receives excellent insight into what is happening in the business units from John Pluthero. This is supplemented by insights from the Investor Directors who attend all business unit Boards and from the minutes of those meetings. The Non-executive Directors have a high level of transparency as a result of the feedback from several perspectives – which reduces any filtering effect that could arise in circumstances where there is a single Chief Executive. The Board can also observe where issues may exist between the Executive Directors and follow up accordingly.

3. What is the visibility of checks and balances between the Executive Directors?
Checks and balances between Executive Directors are substantially hard-wired into the governance system through the Investor Directors and the Executive Directors sitting on both the Operating Boards and the Group Board. The Investor Directors keep a check on the Executive Directors on the Operating Boards, and the Executive Directors keep a check on the Investor Directors in their functional roles on the Group Board. The Chairman is a check and balance on the Joint Group Managing Director, Central and Group Finance Director. This works well.

4. Have all questions asked by the Independent Directors in Board and Committee Meetings been appropriately addressed?
Questions asked by the Independent Directors are well addressed as a matter of course. The Independent Directors are comfortable that they are dealt with professionally and for the benefit of the Company within the comprehensive framework established for running Cable & Wireless.

The Independent Directors are satisfied that the Company's corporate governance controls have been effective during the year ended 31 March 2008.

Clive Butler
Senior Independent Director
21 May 2008

Report of the Audit Committee

This report sets out the membership, purposes and activities of the Audit Committee during the year.

Membership and terms of reference
Membership of the Audit Committee consists solely of the Company's Non-executive Directors: Kasper Rorsted (Committee Chairman), Simon Ball, Clive Butler, Kate Nealon and Agnès Touraine.

During the year under review, the Audit Committee undertook a full review of its objectives and terms of reference. Following that review, the Committee's objectives were confirmed as: assisting the Board in meeting its responsibilities to create an effective system of internal control and compliance; providing accurate external financial reporting; and overseeing, reviewing and monitoring management's conduct and reporting of effective risk management.

The Committee's full terms of reference are published on our website (www.cw.com) and summarised below:

- To review and, where necessary, challenge the actions and judgements of management in relation to the full year and half year financial statements before submission to the Board. Particular attention is paid to critical accounting policies, the overall quality of earnings, the clarity of disclosure and compliance with accounting standards;
- To review compliance with legal and regulatory requirements arising from our listing on the London Stock Exchange;
- To review material complaints regarding accounting, internal controls and auditing raised by employees and monitor whistle blowing procedures;
- To review the policies and process for identifying, assessing and managing business risks;
- To review the internal audit programme and consider the effectiveness of the internal audit function; and
- To make recommendations to the Board about the appointment, reappointment or removal of the external auditor, their remuneration, terms of engagement and the approval process for non-audit services.

Meetings
The Audit Committee held five scheduled meetings during the year ended 31 March 2008, together with an additional meeting in May 2007 to consider any issues arising from the full year audit.

The agenda for scheduled meetings is prepared by the Committee Chairman, in conjunction with the Group Finance Director, Group Financial Controller and external auditors.

Each scheduled meeting receives reports from the Group Finance Director, the external auditor and the Director of Internal Audit. In addition, during the year, the Committee considered the business set out below, making recommendations to the Board where appropriate:

- Preliminary results and press release for the year ended 31 March 2007, the 2006/07 Annual Report together with the Directors' statement on compliance with Turnbull guidance on internal controls and risk management and interim results and press release for the six months ended 30 September 2007;
- Review of risk management within Europe, Asia & US, International and the Central function;
- Review of insurance cover;
- Review of the effectiveness of the internal and external auditors;
- Review of litigation;
- Review of the Group's accounting and tax policies;
- Review of key corporate governance developments; and
- Self-evaluation of the effectiveness of the Committee.

Disclosure Committee
To assist the Audit Committee with the above, responsibility for identifying and considering disclosure matters in connection with the preparation of all market releases containing material financial information has been delegated to a Disclosure Committee comprising senior management from finance, legal and external affairs.

During the preparation of the Annual Report, the Disclosure Committee requests and obtains confirmatory statements from contributors prior to the document's review by the Committee and approval by the Board.

Internal Audit
The Internal Audit function, headed by the Director of Internal Audit, is supported by a team of auditors based in the UK and Jamaica. The function has a formal charter approved by the Board that describes its purpose, authority and responsibility. The function's annual audit plan is approved by the Audit Committee.

External audit
KPMG Audit Plc has acted as auditor since 1991. The audit engagement partner was assigned to the Company in 2005/06. A policy to maintain the independence of the auditor and its personnel, governing the provision of audit and non-audit services provided by the auditor and its associates has been established by the Audit Committee. The policy clearly identifies permitted and prohibited services and sets out the procedure to be followed for the approval of all audit and non-audit services. All engagements with an expected value in excess of £250,000 require the prior approval of the Chairman of the Audit Committee.

For the year ended 31 March 2008 the Committee approved fees for audit services of £3.3 million (including £0.3 million relating to the prior year) together with fees for audit-related regulatory reporting of £0.4 million and non-audit work of £1.1 million. The nature of the services provided is set out in note 6 to the consolidated financial statements. There is no limitation of liability in the terms of appointment of KPMG as auditors to the Company.

Kasper Rorsted
Chairman, Audit Committee
21 May 2008

Directors' remuneration report

This report sets out the policy and disclosures in relation to Directors' remuneration. As usual, this report will be subject to an advisory vote at the AGM on 18 July 2008.

Membership and terms of reference

During the year ended 31 March 2008, the Remuneration Committee comprised the five Non-executive Directors: Kate Nealon (Chair), Simon Ball, Clive Butler, Kasper Rorsted and Agnès Touraine.

The Committee makes recommendations to the Board, within agreed terms of reference, on the framework of executive remuneration and on the specific remuneration of the Chairman, Executive Directors and other senior executive management. The terms of reference for the Committee may be found on our website at www.cw.com or obtained from the Company Secretary.

During the year, the Board approved all recommendations from the Committee without amendment. In forming their recommendations, the Committee received input and information from the Chairman, the Group HR Director, the Group Director of Performance and Reward and other Executive Directors. The Committee has appointed independent consultants, Hewitt New Bridge Street (HNBS), to provide advice on remuneration and share plans both for Executive Directors and the wider senior management population. In addition, they provide us with measurement of our relative total shareholder return (TSR) performance. HNBS's terms of engagement are available on request from the Company Secretary.

The Chairman, Executive Directors and any officers attending meetings of the Committee abstain from any discussion on their own remuneration.

Remuneration philosophy

As an international company operating in many countries around the world, attracting, retaining and motivating high quality people is key to our success. Remuneration arrangements are designed to enable us to maintain a competitive position in each country in a cost effective way. These arrangements are reviewed annually against best practice.

Our remuneration philosophy for Executive Directors is based upon creating a strong link between performance and reward, underpinned by the following guiding principles:

- The reward package should be aligned to our organisational strategy and shareholders;
- The reward structures should reflect the different characteristics and strategies of the two operating businesses – International and Europe, Asia & US – and the Central function;
- Total reward levels should reflect the markets in which we operate. Our competitive position is regularly monitored by independent analysis against groups of comparable companies selected on the basis of relevant size, business and geographic focus;
- The majority of total remuneration for senior managers should only be receivable as a result of achieving demanding performance targets;
- Fixed salaries and benefits should be set with reference to the mid-market level compared with similar companies to ensure they remain appropriately competitive;
- An appropriate mix of short and long-term incentives should be set so that Directors are incentivised to maximise performance over both the short and medium to long-term; and
- The remuneration structure for Directors should be cascaded to other senior managers in a consistent manner.

Summary of Executive Directors' remuneration

The current remuneration structure for Executive Directors and other senior management was reviewed and implemented on 1 April 2006 following the creation of two standalone businesses (International and Europe, Asia & US) within Cable & Wireless. A key feature of this remuneration structure was the grant of one-off long-term incentive awards in 2006/07 with no further awards to be granted for at least three years. Base salaries were frozen and the maximum annual bonus opportunity was reduced from 150% to 100% of base salary.

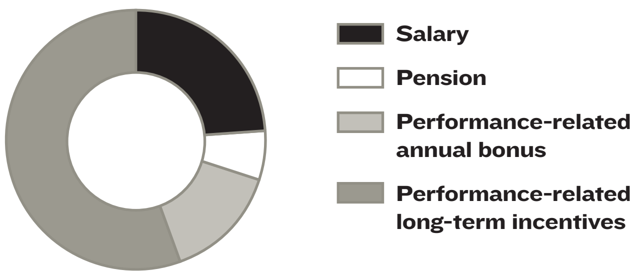
The chart below illustrates the average proportion of Executive Directors' potential remuneration for 2008/09 that will be performance related. The long-term incentives segment in this chart represents one third of the value of the awards made in 2006/07, and 2007/08 in the case of John Pluthero.

Figures reflect 'on-target' payment potential under the annual bonus plan and the expected value of long-term incentive awards at their time of grant.

Base salary

Base salaries are periodically reviewed by reference to the mid-market level of equivalent roles in companies selected on the basis of comparable size, geographic spread and business focus. Individual salary decisions take into account personal contribution and business performance.

Split of potential total remuneration for 2008/09



Part of the terms of the revised remuneration structure outlined above was that salaries for Executive Directors would be fixed from 1 April 2006 with no further increases for three years. Accordingly, salaries for 2008/09 remain unchanged at the following levels:

	Salary
George Battersby	£420,000
John Pluthero	£600,000
Tony Rice	£600,000

Pension and other benefits

Executive Directors are not members of any Cable & Wireless pension scheme, but instead receive a cash allowance of 25% of their base salary.

The Executive Directors are eligible to participate in employee benefit programmes including life, disability and health insurance plans and, where appropriate, receive relocation expenses. The value of these benefits is included in the Directors' remuneration table on page 60.

Annual bonus

Individual awards under the annual bonus scheme for 2008/09 will be based solely on financial performance, using business specific (Group, International or Europe, Asia & US as relevant) targets. The maximum bonus opportunity for all Executive Directors will be unchanged from 2006/07 and 2007/08 at 100% of salary and 'target' financial performance will continue to generate a bonus payment of 60% of maximum. Bonuses will be paid in cash.

The financial measures and targets within the bonus plans are reviewed annually by the Committee and reflect the differing nature of the businesses.

Long-term incentive awards

As outlined above, Executive Directors received one-off long-term incentive awards in 2006/07 (or, in the case of Tony Rice, at the end of 2005/06). In November 2007, John Pluthero received additional units in the Cash Long Term Incentive Plan as a result of his appointment to the additional role of Executive Chairman of International.

Awards have been granted in the following three forms:

i) Restricted share plan (RSP)

In order to encourage Directors' investment in shares so aligning their interests to shareholders', in 2005/06 all of the Executive Directors invested their own money in Cable & Wireless shares. They also received a matching award of restricted shares dependent on TSR performance and underlying financial performance conditions (see performance conditions for share-based awards on page 56).

ii) Share option plan (SOP)

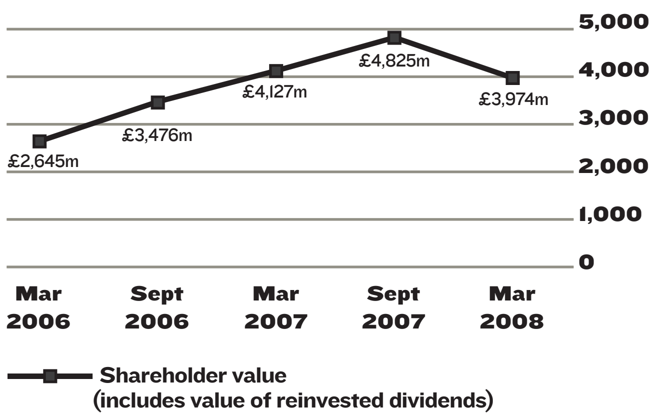
Executive Directors in the Central function received a one-off award of share options in 2005/06 (Tony Rice) and 2006/07 (George Battersby). The vesting of share options granted under the SOP is subject to relative TSR performance and underlying financial performance conditions (see performance conditions for share-based awards on page 56).

iii) Cash Long Term Incentive Plan (LTIP)

The LTIP creates a reward pool for each of the two businesses (International and Europe, Asia & US) over a four year period from 1 April 2006 to 31 March 2010 (or until a vesting event, if earlier) depending on the extent to which the businesses have grown in value from their base valuations at the start of the period. This plan directly aligns management incentives with shareholder interests so that it only pays out if shareholder value has increased substantially.

The graph below shows the increase in shareholder value since 31 March 2006.

Cable & Wireless shareholder value £m



Base point is market capitalisation of Cable & Wireless on 31 March 2006

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 a hurdle rate being the notional weighted average cost of capital of the business (which will be at least 8% per annum compounded).

If a business value is lower than its adjusted base valuation at the end of the performance period, there will be no reward pool for that business. To the extent that a business' value exceeds its adjusted base valuation at the end of the performance period, 10% of the growth in value goes into the reward pool. 75% of the reward pool will be payable to participants at the end of year three (31 March 2009), and 100% payable (less payments already made) at the end of year four (31 March 2010). Measurement of the size of the reward pool is carried out as at every September and March coinciding with the Company's accounting period ends. Apart from good leavers, nothing vests to the participants until the end of year three.

Governance

Directors' remuneration report
continued

The total return for shareholders since the start of the performance period is £1.3 billion.

At the 2007 AGM, an amendment was approved by shareholders whereby the cap of £20 million for any individual payment was removed subject to the Remuneration Committee having discretion to defer any excess reward for up to one year and to make the payment in Cable & Wireless shares rather than cash.

John Pluthero will receive 20% of the reward pool for Europe, Asia and US. In November 2007, following his additional appointment as Executive Chairman of International, John Pluthero was awarded 50% of the units in the International LTIP held by the former Chief Executive, International. The payment made to the former Chief Executive on these units will be deducted from any future LTIP payment to John Pluthero in relation to these units.

Following a takeover of the Company, a sale of either business or a demerger the LTIP will vest in full. The value of a unit following the accelerated vesting will be determined by the Remuneration Committee by reference to the overall market capitalisation of the Company on the vesting date. Participants will receive the full value of their awards following the vesting event, but the Remuneration Committee has discretion to defer payment of up to 50% of the award for up to six months in the case of a sale and up to 12 months in the case of a demerger.

Irrespective of the above, payments to Executive Directors will be scaled back if the Committee is not satisfied that there has been an improvement in the underlying financial performance of their business or if the Group's TSR is not positive over the performance period.

Other share plans
Cable & Wireless operates a number of other executive share plans, principally the performance share plan, the deferred short-term incentive plan (STIP) and the stock appreciation rights plan. No awards have been granted under these plans to Executive Directors in the last year. Executive Directors are eligible to participate in the Cable & Wireless all employee share purchase plan – further details can be found in note 35 to the consolidated financial statements.

Performance conditions for share-based awards
Total shareholder return (TSR) is the main performance measure used in the Group's share-based awards, as it provides an objective external measure of financial performance.

TSR is share price growth adjusted for dividends and capital actions. TSR performance is averaged over a three month period at the beginning and end of the performance period. This moderates the effect of short-term share price volatility.

The Committee believes that it is important to measure and reward relative performance against an appropriate set of companies. Our relative TSR performance is assessed against the FTSE Global Telecoms Sector Index (FTSE GTSI), which provides a global benchmark of independently selected industry peers.

Awards vest depending upon the Company's TSR ranking relative to the FTSE GTSI at the end of a single three year performance period.

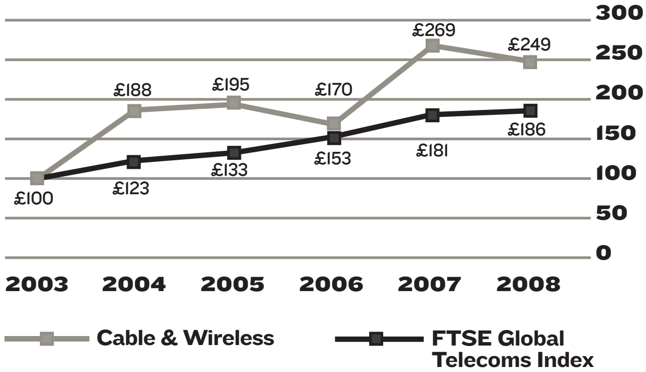
The following summarises the vesting schedules for those outstanding share awards granted to Executive Directors that are subject to a TSR performance condition.

	Performance shares %	Deferred STIP %	Restricted shares %	Share options %
Below median	0	0	0	0
Median	33.33	25	25	33.33
Upper quartile	100	100	100	100

The vesting schedule for share options and performance shares is based on a sliding scale whereas for the deferred STIP and restricted shares, vesting is on a staged basis. In order for any of the awards above to vest, the Committee must also be satisfied that the underlying financial performance of Cable & Wireless warrants the release of the shares determined by our TSR performance. Specific Committee decisions will be explained in future remuneration reports.

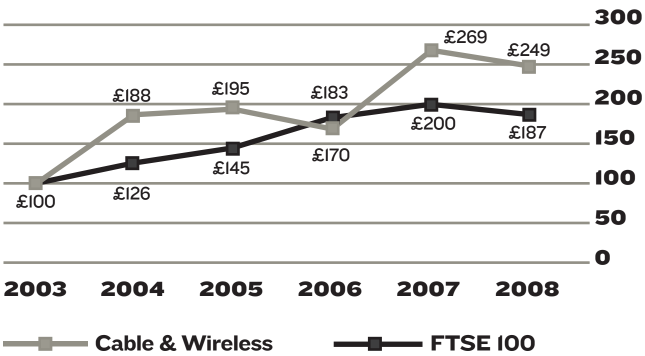
Performance graphs
The graph below shows the change in value of a £100 holding in Cable & Wireless ordinary shares over five years against the FTSE GTSI.

Total shareholder return v FTSE GTSI
Value in £ on 31 March



The graph below shows the change in value of a £100 holding in the Company's ordinary shares over five years relative to a broad equity market index. The FTSE 100 index was considered by the Committee to be the most relevant index for this purpose as Cable & Wireless has been a constituent of the index for the majority of the five year period.

Total shareholder return v FTSE 100
Value in £ on 31 March



Dilution

The Committee ensures that at all times the number of new shares which may be issued under any share option or share-based plans, including all employee plans, does not exceed the dilution limit of 10% of the Company's issued share capital over any ten year rolling period. As at 31 March 2008, 6% of the issued share capital was available for issue under our share-based plans.

Awards under the various share plans are funded by a mix of purchased and newly issued shares, as determined by the Committee. Newly issued shares are subject to the dilution limit outlined above. Purchased shares, which are held by the Cable & Wireless Employee Share Ownership Trust, are subject to a limit of 5% of the issued ordinary share capital of the Company.

Executive Directors' service contracts

The Committee's policy is that Executive Directors' service contracts should include a maximum notice period of one year. However, a longer notice period may apply initially where this is required to secure the services of executives in exceptional circumstances. In all cases the notice period will reduce to one year or less after two years.

	Date of contract	Notice period
George Battersby	27 July 2004	One year
John Pluthero	14 November 2005	One year
Tony Rice	30 March 2006	One year

Directors' service contracts continue until their normal retirement date.

The Executive Directors' contracts provide that, in the event of a change of control of the Company and a Director's employment is adversely changed, then he will receive a payment equal to the notice period and a time pro rated annual bonus.

The Executive Directors' service contracts contain no other provisions for compensation payable on early termination. In the event of early termination, the Committee will, within legal constraints, determine the approach to be taken according to the circumstances of each individual case, taking full account of the departing Executive Director's obligation to mitigate loss. Except in cases of early termination for cause, the Committee will take into account the relevant Executive Director's current salary, notice period and contractual benefits when calculating any liability of Cable & Wireless. The principal contractual benefits provided in addition to salary are pension and life insurance. Annual bonuses and long-term incentives are granted at the discretion of the Committee and therefore would be dealt with in accordance with the rules of the relevant schemes. A significant proportion of each Executive Director's total remuneration is subject to performance conditions and therefore will not be payable to the extent that the relevant targets have not been met.

Harris Jones stepped down from the role of Chief Executive of International and from the Board of Directors on 12 November 2007. He received his basic contractual entitlement on leaving, having delivered value creation on behalf of International of over £1 billion since he joined in November 2004, of which three quarters of a billion was created since the start of the LTIP. He received one year's base salary as his contract had a notice period of one year. His LTIP payment calculated in accordance with the Plan rules and agreed by the Committee, was £4,289,980 with his original LTIP allocation pro rated for 20 months employed out of 48 months for the full life of the Plan. He also received his contractual entitlement under the respective share plans with his share options and performance shares (granted in August 2005) and restricted shares (granted in May 2006) pro rated to reflect the proportion of service in the plans and they will continue to be subject to performance conditions up to the end of the share plan performance period.

Directors' shareholdings

Cable & Wireless operates a policy of encouraging Executive Directors to align their interests closely with those of shareholders by requiring them to build up and maintain a holding of ordinary shares to a value of at least twice their base salary. Where this target has not already been attained, it is required to be achieved through the retention of any net awards received from outstanding share awards.

Currently the Chairman, John Pluthero and Tony Rice have shareholdings of approximately 13, four and eight times their base salaries respectively. George Battersby has shareholdings of over one times his base salary.

Chairman
The contract terms for the Chairman, Richard Lapthorne, were amended in June 2007 to reflect his pivotal role in the turnaround of Cable & Wireless and leading the Company on to further value creation. His fixed three year contract has been replaced with a new contract effective from 6 June 2007 with 12 months' notice on either side and annual re-election at the AGM. Richard Lapthorne's annual fee of £386,000 remains unchanged and will not be reviewed for a further three years.

The Chairman was also awarded 5.5 million Cable & Wireless shares under the Cable & Wireless share incentive plan 2001 with vesting of the award subject to demanding performance conditions. No shares vest for TSR at or below the mid point of the comparator group of companies in the FTSE GTSI, through to 100% vesting for performance in the top 10% of this comparator group, on a straight line scale. The award is based on a three year performance period, starting from the date of the award on 6 June 2007. For the period 6 June 2007 to 31 March 2008, Cable & Wireless TSR is ranked below median in the comparator group having been placed in the upper decile since the appointment of the Chairman in January 2003. The award will be deferred for one year if earlier vesting is triggered by an event such as a sale of a business unit or demerger. The award was conditional upon the Chairman's re-election at the 2007 AGM and the retention of his personal holding of 3.5 million Cable & Wireless shares for the duration of the performance period.

Non-executive Directors
The Non-executive Directors do not have service contracts with the Company, but instead have letters of appointment. Their fees are determined by the Board, within the limits set out in the Company's Articles of Association, with Non-executive Directors abstaining from any discussion or decision on their fees. Fee levels were reviewed in December 2007 to take into account the market in general and the roles of the Non-executive Directors at Cable & Wireless. As a result there was no increase to the basic fee, but the additional fees for the roles of Senior Independent Director and the Chair of the Remuneration Committee were increased from £10,000 to £20,000 per annum. The Non-executive Directors do not receive any incentive payments or pension provision.

Fees payable to each Non-executive Director for 2008/09 are as follows:

	Base fees
Simon Ball	£65,000
Clive Butler	£85,000[1]
Kate Nealon	£85,000[2]
Kasper Rorsted	£90,000[3]
Agnès Touraine	£65,000

1 Includes £20,000 for role as Senior Independent Director.
2 Includes £20,000 for role as Chair of the Remuneration Committee.
3 Includes £25,000 for role as Chairman of the Audit Committee.

Kate Nealon and Agnès Touraine were appointed for a second three year term commencing on 18 January 2008 and Clive Butler was appointed for a second three year term on 1 May 2008. Kasper Rorsted was appointed for a second three year term commencing on 24 May 2006, and Simon Ball's first three year term will end on 1 May 2009.

After two three year terms, the continued appointment of any Non-executive Director may be extended on an annual basis at the invitation of the Chairman. Termination of the appointment may be earlier at the discretion of either party on one month's written notice. None of the Non-executive Directors is entitled to any compensation if their appointment is terminated. All appointments will be subject to re-election at the AGM in accordance with the Articles of Association.

External directorships
The Company allows Executive Directors to hold external directorships and retain the fees received from those roles.

Details of directorships held and the annual fees received for the financial year 2007/08 are given below:

	Annual fees £
George Battersby	
Non-executive Director of Hogg Robinson Group plc and Chairman of the Remuneration Committee	£35,000
John Pluthero	
Director of Merville Ltd	No fee
Tony Rice	
Non-executive Director of Tunstall Holdings Ltd	£20,000
Non-executive Director of Punch Taverns plc (from December 2007)	£9,100

This report, including the tables on pages 59 to 63, has been approved on behalf of the Board by:

Kate Nealon
Chair, Remuneration Committee
21 May 2008

Directors' shareholdings

The beneficial interests of the Directors and their connected persons as notified to the Company in the ordinary shares of the Company were as follows:

	As at 1 April 2007	Shares acquired	As at 31 March 2008
Chairman			
Richard Lapthorne	3,000,000	500,000	3,500,000
Executive Directors[1]			
George Battersby[2,3]	356,562	3,466	360,028
John Pluthero	1,062,402	537,932	1,600,334
Tony Rice[3]	3,000,000	500,824	3,500,824
Non-executive Directors			
Simon Ball	190,000	–	190,000
Clive Butler	30,000	27,000	57,000
Kate Nealon	29,459	5,501	34,960
Kasper Rorsted	190,000	–	190,000
Agnès Touraine	5,000	5,000	10,000

1 In addition, as potential beneficiaries from outstanding awards, which may be satisfied by shares held by the Cable & Wireless Employee Share Ownership Trust, the Executive Directors are deemed to have an interest in all of the ordinary shares held by the Trust, which at 31 March 2008 amounted to 26,859,407 shares.

2 Included in the shares acquired during the year are shares purchased under the deferred STIP and any dividends received on the purchased shares which are converted into additional shares.

3 Between 31 March 2008 and 21 May 2008 George Battersby and Tony Rice each acquired a further 987 ordinary shares under the terms of the Cable & Wireless share purchase plan.

Directors' remuneration

The following sections of the Directors' remuneration report have been subject to audit.

	Salaries and fees £	Bonuses[2] £	Other benefits[3] £	Payments made at termination £	Pension cash allowance[4] £	**Total 2007/08 £**	Total 2006/07 £
Chairman							
Richard Lapthorne	386,000	–	96,001	–	–	**482,001**	456,850
Executive Directors							
George Battersby	420,000	247,800	31,179	–	105,000	**803,979**	1,033,566
John Pluthero	600,000	447,000	58,294	–	150,000	**1,255,294**	1,381,494
Tony Rice	600,000	354,000	50,570	–	150,000	**1,154,570**	1,377,399
Non-executive Directors							
Simon Ball	65,000	–	1,418	–	–	**66,418**	59,583
Clive Butler	78,333	–	1,214	–	–	**79,547**	72,975
Kate Nealon	78,333	–	1,214	–	–	**79,547**	75,475
Kasper Rorsted	90,000	–	5,870	–	–	**95,870**	95,681
Agnès Touraine	65,000	–	3,586	–	–	**68,586**	69,485
Sub-total	2,382,666	1,048,800	249,346	–	405,000	**4,085,812**	4,622,508
Former Director							
Harris Jones[5]	421,428	–	456,320	4,889,980	105,357	**5,873,085**	1,670,299
Total	2,804,094	1,048,800	705,666	4,889,980	510,357	**9,958,897**[1]	6,292,807

1 The aggregate emoluments of the Directors which include employer pension contributions were £9,958,897 (2006/07 – £8,268,041 including £1,975,234 relating to Directors who left office in 2006/07). Continuing costs for salaries/fees for the Board in 2008/09 will be £2,396,000 and salaries/fees for 2007/08 were £2,804,094.

2 Directors' bonuses for the 2007/08 financial year were based on profit related to the individual Director's area of responsibility. These profit measures were partially achieved and resulted in the bonus payments outlined above. The maximum bonus potential available was 100% of salary for achievement of all measures.

3 In compliance with the Companies Act 1985, 'Other benefits' includes the value of benefits in kind relating to Company provided life assurance, professional advice, chauffeur travel and the reimbursement of costs associated with accommodation and relocation (including schooling).

4 Company pension contributions in 2007/08 have been paid to the Directors as an annual cash allowance. An amount of £13.1m (2006/07 – £14.6m) is included in the provisions to cover the cost of former Directors' pension entitlements.

5 Harris Jones was paid up to 13 December 2007 and received an early termination payment of £4,889,980 which consisted of one year's salary (£600,000) and a payment of £4,289,980 in accordance with the early leaver rules under the Cash Long Term Incentive Plan.

Directors' share options

Name and scheme	Grant date	Date from which first exercisable	Date of expiry of option	Exercise price (pence)	Shares under option at 1 April 2007	Granted between 1 April 2007 and 31 March 2008	Exercised	Lapsed, cancelled or forfeited	**Shares under option at 31 March 2008 (or date of leaving if earlier)**
George Battersby									
SOP Approved	3/8/04	3/8/07	2/8/11	108.00	27,777	–	–	5,786	**21,991**[1]
SOP Unapproved	3/8/04	3/8/07	2/8/11	108.00	783,223	–	–	163,146	**620,077**[1]
SOP Unapproved	25/8/05	25/8/08	24/8/12	153.90	568,551	–	–	–	**568,551**
SOP Unapproved	2/6/06	2/6/09	1/6/13	101.25	4,148,148	–	–	–	**4,148,148**
					5,527,699	–	–	168,932	**5,358,767**
John Pluthero									
SOP Approved	3/3/06	3/3/09	2/3/13	107.40	27,932	–	–	–	**27,932**
SOP Unapproved	3/3/06	3/3/09	2/3/13	107.40	1,135,941	–	–	–	**1,135,941**
					1,163,873	–	–	–	**1,163,873**
Tony Rice									
SOP Approved	30/3/06	30/3/09	29/3/13	110.50	27,260	–	–	–	**27,260**
SOP Unapproved	30/3/06	30/3/09	29/3/13	110.50	5,424,807	–	–	–	**5,424,807**
					5,452,067	–	–	–	**5,452,067**
Former Director									
Harris Jones									
SOP Approved	1/12/04	1/12/07	30/11/11	113.55	26,420	–	–	4,756	**21,664**[2]
SOP Unapproved	1/12/04	1/12/07	30/11/11	113.55	1,734,918	–	–	312,285	**1,422,633**[2]
SOP Unapproved	25/8/05	25/8/08	24/8/12	153.90	812,215	–	–	203,054	**609,161**
					2,573,553	–	–	520,095	**2,053,458**

Notes

These are Inland Revenue approved and unapproved grants made under the SOP (see note 35 of the consolidated financial statements for details). The vesting of options awarded under the SOP is subject to relative TSR performance conditions, see page 56 for details.

No amounts were paid by Directors for the award of the options listed in the table above.

The closing mid-market price of an ordinary share on 31 March 2008 was 148.90 pence.

The highest closing mid-market price of an ordinary share during the year was 201.50 pence and lowest closing mid-market price was 136.50 pence.

All Directors' share options will be time pro rated up to the termination date and will continue to be subject to TSR performance conditions up to the end of the performance period.

1 Award granted on 3 August 2004 partially vested on 3 August 2007. Cable & Wireless TSR was 76% which is a ranking of 9 out of 24 which equates to 79% of the award vesting.

2 Award granted on 1 December 2004 partially vested on 1 December 2007. Cable & Wireless TSR was 86% which is a ranking of 9 out of 25 which equates to 82% of the award vesting.

Directors' share awards

Name and scheme	Award date	Vesting date	Market price on date of award (pence)	Shares under award at 1 April 2007	Awarded between 1 April 2007 and 31 March 2008	Shares vested	Shares, lapsed, cancelled or forfeited	**Shares under award at 31 March 2008 (or date of leaving if earlier)**
Chairman								
Richard Lapthorne								
Restricted Shares	6/06/07	5/06/10	194.80	–	5,500,000[1]	–	–	**5,500,000**
				–	5,500,000	–	–	**5,500,000**
Executive Directors								
George Battersby								
Performance Shares	25/8/05	30/6/08	153.90	113,710[2]	–	–	–	**113,710**
Deferred STIP[MS]	30/9/05	1/10/08	146.30	258,373[3]	–	–	–	**258,373**
Deferred STIP[MDS]	27/1/06	1/10/08	114.80	3,046[3]	–	–	–	**3,046**
Performance Shares[DS]	27/1/06	30/6/08	114.80	1,340[2]	–	–	–	**1,340**
Restricted Shares[MS]	30/3/06	29/3/09	108.98	917,570[4]	–	–	–	**917,570**
Deferred STIP[MDS]	11/8/06	1/10/08	109.20	7,334[3]	–	–	–	**7,334**
Performance Shares[DS]	11/8/06	30/6/08	109.20	3,228[2]	–	–	–	**3,228**
Deferred STIP[MDS]	19/1/07	1/10/08	158.35	2,773[3]	–	–	–	**2,773**
Performance Shares[DS]	19/1/07	30/6/08	158.35	1,220[2]	–	–	–	**1,220**
Deferred STIP[MDS]	10/8/07	1/10/08	198.46	–	5,402[3]	–	–	**5,402**
Performance Shares[DS]	10/8/07	30/6/08	198.46	–	2,377[2]	–	–	**2,377**
Deferred STIP[MDS]	25/1/08	1/10/08	181.22	–	3,564[3]	–	–	**3,564**
Performance Shares[DS]	25/1/08	30/6/08	181.22	–	1,568[2]	–	–	**1,568**
Share Purchase Plan[MS]	8/5/07	8/5/12	189.43	–	792	–	–	**792**
Share Purchase Plan[MDS]	10/8/07	10/8/12	169.60	–	19	–	–	**19**
Share Purchase Plan[MDS]	25/1/08	25/1/13	163.90	–	12	–	–	**12**
				1,308,594	13,734	–	–	**1,322,328**
John Pluthero								
Restricted Shares[MS]	3/3/06	3/3/09	107.40	1,000,000[4]	–	–	–	**1,000,000**
Performance Shares	3/3/06	2/3/09	107.40	232,774[2]	–	–	–	**232,774**
Performance Shares[DS]	11/8/06	2/3/09	109.20	6,608[2]	–	–	–	**6,608**
Performance Shares[DS]	19/1/07	2/3/09	158.35	2,498[2]	–	–	–	**2,498**
Performance Shares[DS]	10/8/07	2/3/09	198.46	–	4,867[2]	–	–	**4,867**
Performance Shares[DS]	25/1/08	2/3/09	181.22	–	3,211[2]	–	–	**3,211**
				1,241,880	8,078	–	–	**1,249,958**
Tony Rice								
Restricted Shares[MS]	30/3/06	29/3/09	108.98	1,000,000[5]	–	–	–	**1,000,000**
Restricted Shares[MS]	30/3/06	29/3/09	108.98	2,000,000[4]	–	–	–	**2,000,000**
Share Purchase Plan[MS]	8/5/07	8/5/12	189.43	–	792	–	–	**792**
Share Purchase Plan[MDS]	10/8/07	10/8/12	169.60	–	19	–	–	**19**
Share Purchase Plan[MDS]	25/1/08	25/1/13	163.90	–	12	–	–	**12**
				3,000,000	823	–	–	**3,000,823**

DS Dividend Shares
MDS Matching Dividend Shares
MS Matching Shares

Directors' share awards continued

Name and scheme	Award date	Vesting date	Market price on date of award (pence)	Shares under award at 1 April 2007	Awarded between 1 April 2007 and 31 March 2008	Shares vested	Shares, lapsed, cancelled or forfeited	**Shares under award at 31 March 2008 (or date of leaving if earlier)**
Former Director								
Harris Jones								
Restricted Shares[MS]	1/12/04	1/12/07	113.55	220,750	–	220,750	–	**–**
Performance Shares	1/12/04	1/12/07	113.55	441,500[6]	–	322,295[6]	119,205[6]	**–**
Performance Shares	25/8/05	30/6/08	153.90	162,443[2]	–	–	40,611	**121,832**
Performance Shares[DS]	27/1/06	30/6/08	114.80	1,915[2]	–	–	479	**1,436**
Restricted Shares[MS]	26/5/06	26/5/09	100.25	997,506[7]	–	–	443,336	**554,170**
Performance Shares[DS]	11/8/06	30/6/08	109.20	4,611[2]	–	–	1,153	**3,458**
Performance Shares[DS]	19/1/07	30/6/08	158.35	1,743[2]	–	–	436	**1,307**
Performance Shares[DS]	10/8/07	30/6/08	198.46	–	3,396[2]	–	849	**2,547**
Performance Shares[DS]	25/1/08	30/6/08	181.22	–	2,240[2]	–	560	**1,680**
Share Purchase Plan[MS]	8/5/07	8/5/12	189.43	–	791	–	–	**791**
Share Purchase Plan[MDS]	10/8/07	10/8/12	169.60	–	19	–	–	**19**
Share Purchase Plan[MDS]	25/1/08	25/1/13	163.90	–	12	–	–	**12**
				1,830,468	6,458	543,045	606,629	**687,252**

DS Dividend Shares
MDS Matching Dividend Shares
MS Matching Shares

1 Full vesting of the restricted shares only occurs if the TSR performance of the Company is in the top 10% when compared with the FTSE GTSI, on a straight line scale. No shares vest for TSR at or below the mid-point of the comparator group of companies.
2 Full vesting of the performance shares, and any associated dividend reinvestment shares, only occurs if the TSR performance of the Company meets or exceeds the upper quartile when compared against the FTSE GTSI during the performance period. Where TSR meets the median, 33.33% of the performance shares vest and a sliding scale operates between median and upper quartile. No performance shares vest for TSR performance below the median.
3 Deferred STIP matching shares are based on one matching share for two purchased shares for median TSR performance, rising to two matching shares for one purchased share for performance at upper quartile or above. No matching shares are awarded for below median performance. A dividend award supplement also operates on the plan. Dividends that would have been paid on purchased shares and the actual award of matching shares during the performance period are reinvested in additional shares.
4 Subject to the Director remaining an employee of the Company and retaining beneficial ownership of the shares purchased as per below, the shares under award will be delivered to the Director at the third anniversary of grant:
- George Battersby purchased 275,000 ordinary shares on 30 March 2006
- John Pluthero purchased 1,000,000 ordinary shares on 3 March 2006
- Tony Rice purchased 1,000,000 ordinary shares on 30 March 2006

Performance conditions apply to these shares and vesting will only occur if the TSR performance of the Company meets or exceeds the upper quartile measured against the constituents of the FTSE GTSI.
5 Subject to Tony Rice remaining an employee of the Company and retaining beneficial ownership until 29 March 2009, the Company will deliver these restricted shares to him.
6 The Performance Period for the Award ended on 18 November 2007 where Cable & Wireless TSR was 86% which is a ranking of 9 out of 25 companies equating to the award partially vesting at 73%. The share price at date of vesting was 187 pence.
7 Share awards unvested for Harris Jones have been time pro rated up to the termination date and will continue to be subject to TSR performance conditions up to the end of the performance period.

Statement of Directors' responsibilities in respect of the preparation of the Annual Report, the Directors' remuneration report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements (Group and Company) in accordance with applicable laws and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law. Further, they have elected to prepare the Company financial statements in accordance with UK accounting standards and applicable law (UK GAAP). The financial statements are required by law to give a true and fair view of the assets, liabilities and financial position of the Group and the Company and of the Group's income statement for that period.

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

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- For the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors confirm that the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 1985 and, with regard to the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for the system of internal control for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

A copy of the financial statements of the Company is posted on the Cable and Wireless plc website (www.cw.com). The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditor is unaware, and the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Nick Cooper
Group General Counsel and Company Secretary
21 May 2008

Financial statements

Financial statements for the Group and Company including reports from the independent auditor.

Independent auditor's report to the members of Cable and Wireless plc

We have audited the consolidated financial statements of Cable and Wireless plc for the year ended 31 March 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Cable and Wireless plc for the year ended 31 March 2008 and on the information in the Directors' remuneration report that is described as having been audited.

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 auditor
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 64. Our responsibility is to audit the consolidated 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 consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Business Review that is cross referred from the Directors' report.

In addition we report to you if, in our opinion, 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 review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

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 Group's financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group's financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion
In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the consolidated financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

21 May 2008

Consolidated income statement
For the year ended 31 March 2008

	Note	2007/08 Pre-exceptional items £m	2007/08 Exceptional items £m	2007/08 Total £m	2006/07 Pre-exceptional items £m	2006/07 Exceptional items £m	2006/07 Total £m
Continuing operations							
Revenue	5	**3,152**	**–**	**3,152**	3,348	–	3,348
Operating costs before depreciation and amortisation	6	**(2,574)**	**(53)**	**(2,627)**	(2,883)	(78)	(2,961)
Amortisation	18	**(47)**	**–**	**(47)**	(39)	(11)	(50)
Depreciation	17, 19	**(252)**	**(37)**	**(289)**	(234)	(2)	(236)
Other operating income	7	**9**	**53**	**62**	13	13	26
Other operating expenses	8	**(4)**	**–**	**(4)**	(2)	(11)	(13)
Group operating profit/(loss)		**284**	**(37)**	**247**	203	(89)	114
Share of post-tax profit/(loss) of joint ventures and associates	20	**37**	**–**	**37**	18	(29)	(11)
Total operating profit/(loss)		**321**	**(37)**	**284**	221	(118)	103
Gains and losses on sale of non-current assets	10	**1**	**–**	**1**	–	153	153
Gain on termination of operations	11	**8**	**6**	**14**	3	18	21
Finance income	12	**53**	**–**	**53**	52	–	52
Finance expense	12	**(75)**	**(10)**	**(85)**	(80)	–	(80)
Profit/(loss) before income tax		**308**	**(41)**	**267**	196	53	249
Income tax (expense)/credit	13	**(56)**	**9**	**(47)**	(44)	1	(43)
Profit/(loss) for the year from continuing operations		**252**	**(32)**	**220**	152	54	206
Discontinued operations							
Profit for the year from discontinued operations	14	**–**	**–**	**–**	–	28	28
Profit/(loss) for the year		**252**	**(32)**	**220**	152	82	234
Attributable to:							
Equity holders of the Company		**191**	**(27)**	**164**	92	82	174
Minority interest		**61**	**(5)**	**56**	60	–	60
		252	**(32)**	**220**	152	82	234
Earnings per share attributable to the equity holders of the Company during the year (pence per share)	15						
– basic				**6.8p**			7.5p
– diluted				**6.6p**			7.4p
Earnings per share from continuing operations attributable to the equity holders of the Company during the year (pence per share)	15						
– basic				**6.8p**			6.3p
– diluted				**6.6p**			6.2p
Earnings per share from discontinued operations attributable to the equity holders of the Company during the year (pence per share)	15						
– basic				**–**			1.2p
– diluted				**–**			1.2p

The notes on pages 71 to 119 are an integral part of these financial statements. Further detail on exceptional items is set out in the relevant notes.

Consolidated balance sheet
As at 31 March 2008

	Note	31 March 2008 £m	31 March 2007 £m
ASSETS			
Non-current assets			
Intangible assets	18	**807**	745
Property, plant and equipment	19	**1,488**	1,465
Investments in joint ventures and associates	20	**142**	117
Available-for-sale financial assets	21	**27**	15
Deferred tax asset	30	**26**	28
Retirement benefit asset	32	**32**	75
Other receivables	22	**60**	62
Other non-current assets		**–**	11
		2,582	2,518
Current assets			
Inventories	23	**17**	23
Trade and other receivables	22	**856**	855
Cash and cash equivalents	24	**699**	1,043
		1,572	1,921
Non-current assets and disposal groups held for sale	25	**5**	52
		1,577	1,973
Total assets		**4,159**	4,491
Current liabilities			
Trade and other payables	26	**1,219**	1,221
Financial liabilities at fair value	28	**59**	60
Current tax liabilities		**130**	122
Loans and obligations under finance leases	27	**59**	77
Provisions	31	**92**	72
		1,559	1,552
Liabilities associated with disposal groups held for sale	25	**–**	10
		1,559	1,562
Net current assets		**18**	411
Non-current liabilities			
Trade and other payables	26	**40**	65
Financial liabilities at fair value	28	**73**	75
Loans and obligations under finance leases	27	**397**	639
Deferred tax liabilities	30	**30**	59
Provisions	31	**135**	154
Retirement benefit obligations	32	**46**	47
		721	1,039
Net assets		**1,879**	1,890
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Share capital	33	**634**	615
Share premium	34	**156**	56
Reserves	34	**897**	1,010
		1,687	1,681
Minority interest	36	**192**	209
Total equity		**1,879**	1,890

The notes on pages 71 to 119 are an integral part of these financial statements. These financial statements on pages 67 to 70 were approved by the Board of Directors on 21 May 2008 and signed on its behalf by:

Richard Lapthorne Chairman **Tony Rice** Group Finance Director and Joint Group Managing Director, Central

Consolidated statement of recognised income and expenses
For the year ended 31 March 2008

	Note	2007/08 £m	2006/07 £m
Actuarial (losses)/gains in the value of defined benefit retirement plans	32	**(100)**	105
Exchange differences on translation of foreign operations		**(8)**	(172)
Fair value gains on available-for-sale assets	21	**2**	–
Tax on items taken directly to or transferred from equity		**11**	(5)
Amounts recognised directly in equity		**(95)**	(72)
Profit for the year		**220**	234
Total recognised income and expense for the year		**125**	162
Attributable to:			
Equity holders of the Company		**81**	138
Minority interest		**44**	24
		125	162

The notes on pages 71 to 119 are an integral part of these financial statements.

Consolidated cash flow statement
For the year ended 31 March 2008

	Note	2007/08 £m	2006/07 £m
Cash flows from operating activities			
Cash generated from continuing operations	37	**504**	299
Cash generated from discontinued operations	37	**–**	–
Income taxes paid		**(46)**	(46)
Net cash from operating activities		**458**	253
Cash flows from investing activities			
Continuing operations			
Finance income		**49**	43
Other income		**–**	9
Dividends received		**15**	23
Increase in available-for-sale financial assets		**(10)**	–
Proceeds on disposal of non-current assets held for sale		**93**	–
Proceeds on disposal of property, plant and equipment		**5**	15
Purchase of property, plant and equipment		**(342)**	(338)
Purchase of intangible assets		**(63)**	(40)
Disposal of credit linked notes		**–**	40
Proceeds on disposal of associates		**–**	256
Acquisition of subsidiaries (net of cash received) and minority interests	40	**(74)**	(15)
Net cash used in continuing operations		**(327)**	(7)
Discontinued operations		**–**	–
Net cash used in investing activities		**(327)**	(7)
Net cash flow before financing		**131**	246
Cash flows from financing activities			
Continuing operations			
Dividends paid to shareholders		**(138)**	(83)
Dividends paid to minority interests		**(58)**	(93)
Repayments of borrowings		**(258)**	(212)
Interest paid		**(49)**	(55)
Proceeds from borrowings		**12**	122
Proceeds on issue of ESOP trust shares		**6**	3
Purchase of ESOP trust shares		**(2)**	–
Proceeds on issue of ordinary share capital		**8**	15
Net cash used in continuing operations		**(479)**	(303)
Discontinued operations		**–**	–
Net cash used in financing activities		**(479)**	(303)
Net decrease in cash and cash equivalents		**(348)**	(57)
Cash and cash equivalents at 1 April		**1,043**	1,127
Exchange gains/(losses) on cash and cash equivalents		**4**	(22)
Cash and cash equivalents at 31 March		**699**	1,048
Less: Cash included in disposal groups held for sale		**–**	(5)
Net cash and cash equivalents	24	**699**	1,043

The notes on pages 71 to 119 are an integral part of these financial statements.

Notes to the consolidated financial statements
For the year ended 31 March 2008

1 General information
Cable and Wireless plc (the Company) and its subsidiaries (together Cable & Wireless or the Group) is an international telecommunications company incorporated and domiciled in the United Kingdom. It operates through two standalone businesses – International and Europe, Asia & US.

International operates integrated telecommunications companies in 39 countries offering mobile, broadband and domestic and international fixed line services to residential and business customers. It has major operations in the Caribbean, Panama, Macau, Monaco and the Channel Islands.

Europe, Asia & US provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia. This business now incorporates the former C&W Access business which provided wholesale broadband and telephony services to commercial and residential end users through wholesale agreements.

2 Summary of significant accounting policies
2.1 Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as published by the International Accounting Standards Board (IASB). They are also in accordance with IFRSs and IFRIC interpretations as adopted by the European Union (EU).

These financial statements are presented in sterling (£) and rounded to the nearest million. They are prepared on the historical cost basis except for certain financial instruments held at fair value. Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell. The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. They form the basis of judgements about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a continuing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Critical judgements and areas where the use of estimates is significant are discussed in note 3.

The accounting policies have been applied consistently by Group entities.

2.2 Application of recently issued International Financial Reporting Standards
The Group has considered the following amendments to IFRSs in these financial statements.

New and amended Standards effective at 1 April 2007 adopted by the Group

Title	Description
IFRS 7 *Financial Instruments: Disclosure*	The IFRS requires the disclosure of the significance of financial instruments for the Group's financial position and performance. It also requires qualitative and quantitative information about exposure to risks arising from financial instruments. The standard did not have any impact on the classification or valuation of the Group's financial instruments.
IAS 1 *Presentation of Financial Statements – Capital Disclosures*	The amended IFRS requires disclosures in relation to the Group's approach to managing its capital. It did not have an impact on the classifications or valuation of the Group's capital.

New Standard effective for the Group from 1 April 2009 not adopted early

IFRS 8 *Operating Segments*	The IFRS requires disclosures in respect of the operating segments of the Group. This standard requires segmental disclosures presented on the basis upon which management views the Group. It will not have a material impact on the Group.

New and amended Standards and Interpretations not yet adopted by the European Union and the Group

IFRIC 12 *Service Concession Arrangements*	The interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. The Group is considering the implications of this interpretation.
IFRIC 13 *Customer Loyalty Programmes*	The IFRIC clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The Group does not expect this interpretation to have a material impact.
IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	IFRIC 14 clarifies three issues: ■ how entities should determine the limit placed by IAS 19 *Employee Benefits* on the amount of a surplus in a pension plan they can recognise as an asset; ■ how a minimum funding requirement affects that limit; and ■ when a minimum funding requirement creates an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under IAS 19. The impact of the interpretation is being considered by the Group.
Amendments to IAS 23 *Borrowing Costs*	The amendments remove the option to expense interest on qualifying assets. This amendment is consistent with current Group policy.
Amendments to IAS 1 *Presentation of Financial Statements: A Revised Presentation*	The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.
Revised IFRS 3 *Business Combinations*	The main changes in the revised IFRS 3 include the separate accounting of acquisition related costs, changes to business combinations achieved in stages and changes to the accounting for business combinations where less than 100% of the equity is acquired. These changes will be effective for businesses purchased by the Group after 31 March 2009. As such, no assessment can be determined of their impact.
Revised IAS 27 *Consolidated and Separate Financial Statements*	The revisions to IAS 27 specify that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions.This amendment is consistent with current Group policy.
Amendments to IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations*	The amendment clarifies that vesting conditions are service conditions and performance conditions only. also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment, which results in the acceleration of the charge. The Group is considering the implications of the amendment.
Amendments to IFRS 32 and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation*	The amendments require some puttable financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendments do not affect the Group.

2.3 Basis of consolidation

The consolidated financial statements comprise a consolidation of the accounts of the Company and its subsidiaries and include the Group's share of the results and net assets of its joint ventures and associates. The accounts of the Group's main trading subsidiaries, joint ventures and associates have been prepared to align with the Group's reporting date.

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the existence and effect of potential voting rights that are currently exercisable are considered. Subsidiaries are consolidated from the date on which the Group effectively takes control until the date that control ceases. Accounting policies of subsidiaries are aligned with the policies adopted by the Group to ensure consistency.

The cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed and equity instruments issued at the date of exchange plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Joint ventures and associates

Investments in joint ventures and associates are accounted for using the equity method of accounting and are initially recognised at cost. Joint ventures are entities over which the Group exercises joint control. Associates are entities over which the Group has significant influence but not control over the financial and operating policies. This generally accompanies a shareholding of between 20% and 50%. The Group's investment in joint ventures and associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Accounting policies of joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement. Its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in a joint venture or associate exceeds its interest or participation (including any other unsecured long-term receivables), the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the investee.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest or participation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Segmental reporting
The Group discloses its primary segment reporting by business segment. The Directors consider that this is the most appropriate distinction between the source and nature of risks and returns associated with its activities. A business segment is defined as a component of the Group engaged in providing services that are subject to risks and returns that are different from those of other business segments. Revenues and expenses are allocated to business segments based on the type of service to which they relate. Assets, liabilities and capital expenditure are allocated to particular business segments if they substantially relate to a single identifiable segment. Assets and capital expenditure that relate to a range of services falling under different business segments are reported as unallocated.

The Group discloses its secondary segment reporting by geographical segment. A geographical segment is defined as a component of the Group engaged in providing services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments. Revenues are allocated to geographical segments based on the location where the telecommunication services are delivered. Assets, liabilities and capital expenditure are allocated to geographical segments based on their location.

2.5 Foreign currency translation
(a) Functional currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(b) Foreign currency translation
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Foreign operations
The results and financial position of all the Group entities that have a functional currency different from the Group's presentation currency are translated into sterling as follows:

(i) assets and liabilities are translated at the closing rate at the reporting date;
(ii) income and expenses are translated at rates closely approximating the rate at the date of the transactions; and
(iii) resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. Since 1 April 2004, the Group's date of transition to IFRS, exchange differences have been recognised in a foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

There are no Group entities operating in a hyperinflationary economy.

2.6 Property, plant and equipment
Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment includes labour and overhead costs arising directly from the construction or acquisition of an item of property, plant and equipment.

The estimated costs of dismantling and removing the asset and restoring the site on which it is located are included in the cost of property, plant and equipment. The corresponding obligation is recognised as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other subsequent costs (primarily repairs and maintenance) are charged to the income statement during the financial period in which they are incurred.

Interest costs of borrowings made to finance separately identifiable major capital projects incurred up to the time that those projects are ready for service are capitalised as part of the cost of assets when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

Depreciation is not recognised on freehold land or assets under construction. On other property, plant and equipment, depreciation is recognised on the difference between the cost of an item and its estimated residual value, on a straight-line basis over the estimated useful lives of the assets as follows:

	Lives
Cables	up to 20 years
Network equipment	3 to 25 years
Ducting	40 years
Freehold buildings	40 years
Leasehold buildings	up to 40 years or term of lease if less

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down to its recoverable amount if the carrying amount is greater than its recoverable amount through sale or use.

Gains and losses on the sale of property, plant and equipment are determined by reference to the proceeds and net book values. These gains and losses are recognised in the income statement.

Engineering spares held for use by the Group over a period exceeding one year are included in assets under construction. They are stated at cost and include an appropriate allocation of labour and overheads. The cost is determined on a weighted average basis. Provision is made for deterioration and obsolescence.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, joint venture or associate. It is not amortised. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures and associates is included in those investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.

(b) Other intangible assets

Costs that are directly associated with the purchase and implementation of identifiable and unique software products by the Group are recognised as intangible assets. Expenditures that enhance and extend the benefits of computer software programs beyond their original specifications and lives are recognised as a capital improvement and added to the original cost of the software.

Intangible assets relating to licences and customer contracts have been obtained as part of the Group's business combinations. They are recorded initially at their fair values.

Expenditure is only capitalised if costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group has sufficient resources to complete development and to use the asset.

Other intangible assets are amortised over their respective lives. The useful lives of licences (including concessions to provide telecommunication services) are determined based on the terms of the agreements (including renewal periods if there is evidence to support renewal by the Group without significant cost).

Other intangible assets are stated at cost less amortisation on a straight-line basis over the following periods:

	Lives
Licences	25 years or less if the licence term is shorter
Software	3 to 5 years
Customer contracts	4 to 15 years
Other	3 to 5 years

2.8 Financial assets and liabilities

Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through the income statement, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the assets are held. The basis of determining fair values is set out in note 2.9.

Management determines the classification of its financial assets at initial recognition in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and re-evaluates this designation at every reporting date for financial assets other than those held at fair value through the income statement.

Financial assets at fair value through the income statement
This category has two sub-categories: financial assets held for trading and those designated at fair value through the income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within a year of the balance sheet date.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Purchases and sales of investments are recognised on trade-date (the date on which the Group commits to purchase or sell the asset).

Financial assets at fair value through the income statement are recognised and subsequently carried at fair value. Available-for-sale financial assets are recognised and subsequently carried at fair value plus any directly attributable transaction costs. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Financial assets not carried at fair value through the income statement are initially recognised at fair value plus transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains and losses (both realised and unrealised) arising from changes in the value of financial assets held at fair value through the income statement are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised on these instruments are not reversed through the income statement if the fair value of the instrument increases in a later period.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date. The Group does not designate derivatives as hedge instruments. All gains and losses on derivative instruments are recognised immediately in the income statement.

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a third party with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than one year after the balance sheet date (these are classified as non-current assets). Receivables are included in trade and other receivables in the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Amortised cost is determined using the effective interest method less an allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows (discounted at the effective interest rate). The allowance is initially recognised in the income statement.

Borrowings
Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Convertible bonds issued by the Group were initially recognised at fair value. The bond was separated into liability and equity components. The liability component was recognised at amortised cost. The equity component represents the residual of the fair value of the bond less the liability. The liability portion was subsequently measured on an amortised cost basis until it was extinguished.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.9 Fair value estimation for financial instruments
The fair value of financial instruments traded in active markets (such as publicly traded derivatives or trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for traded financial assets held by the Group is the current bid price. The appropriate quoted market price for traded financial liabilities is the current offer price. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models which reflect the specific instrument.

The nominal value less estimated impairments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities measured at amortised cost for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Discounted cash flows are used to determine the fair value for the majority of remaining financial instruments.

2.10 Impairment of assets (excluding financial instruments)
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. All other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment reviews involve management making assumptions and estimates, which are highly judgmental and susceptible to change. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The expected cash flows generated by the assets are discounted using asset specific discount rates that reflect the risks associated with the groups of assets. These risks vary with the nature and the location of the cash generating units.

2.11 Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in, first-out (FIFO) principle. For inventories held for resale, net realisable value is determined as the estimated selling price in the ordinary course of business less selling expenses. For materials and consumables, provision is made for obsolete and slow moving inventories as required.

The cost of inventory held for resale comprises acquisition costs and associated expenses determined on a weighted average basis.

2.12 Cash and cash equivalents
Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand and at bank, short-term deposits and marketable securities. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

2.13 Share capital
Incremental costs directly attributable to the issue of new shares or standalone options are recognised in equity as a deduction from the issue proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of acquisition.

2.14 Leases
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other long-term payables. These payments are split between capital and interest elements using the annuity method. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases comprising a lease of land and a lease of buildings within a single contract are split into the two component parts. Each component part is then tested to determine whether the lease is a finance or operating lease and treated accordingly.

All other leases are classified as operating leases and are not recognised in the balance sheet. Payments made under operating leases, net of lease incentives or premiums received, are charged to the income statement on a straight-line basis over the period of the lease.

2.15 Non-current assets and disposal groups held for sale

When the value of non-current assets is expected to be recovered principally through sale rather than through continuing usage, they are classified as non-current assets held for sale. With the exception of deferred tax assets, assets arising from employee benefits and financial instruments, these assets are classified as current and are stated at the lower of carrying amount and fair value less costs to sell.

Disposal groups are groups of assets and liabilities to be disposed of together as a group in a single transaction. They are recognised as held for sale at the reporting date and are separately disclosed as current assets and liabilities on the balance sheet.

Measurement differences arising between the carrying amount and fair value less cost of disposal are treated as impairment charges but separately disclosed.

2.16 Employee benefits

Defined contribution pensions

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that 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 each defined benefit pension plan represents the fair value of plan assets less the present value of the defined benefit obligations 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 obligations for each scheme are calculated annually by independent actuaries using the projected unit credit method. The present value of these obligations are determined by discounting the estimated 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 will have terms to maturity approximating the terms of the related pension liability.

The Group 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 recognised income and expenses. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees 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.

When defined benefit funds have an IAS 19 surplus, they are recorded at the lower of that surplus and the future economic benefits available in the form of a cash refund or a reduction in future contributions. Any adjustment to the surplus is recorded directly in equity.

Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are dealt with in the same way as for defined benefit pension schemes. Independent qualified actuaries value these obligations annually. Current service costs are charged to the income statement.

Share-based compensation

The Group operates various equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, which excludes the impact of any non-market vesting conditions (for example, service, profitability and sales growth targets). Non-market vesting conditions are included in estimates about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original non-market estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Where continuing employees withdraw from share-based compensation plans the remaining charge is recognised immediately.

2.16 Employee benefits continued

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to the action leading to the employee's termination. Termination benefits falling due more than a year after balance sheet date are discounted to present value.

Bonus plans

The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

Cash Long Term Incentive Plan

The Group operates a Cash Long Term Incentive Plan. The plan rewards Executive Directors responsible for, and certain senior employees in, International and Europe, Asia & US. The plan is accounted for as an 'other long term employee benefit' in accordance with IAS 19 *Employee Benefits*. The amount recognised as a liability represents the estimated present value of the obligation at the balance sheet date.

2.17 Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates that have been enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except where the difference arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction other than a business combination, affecting neither accounting nor taxable profit.

Deferred tax is calculated using tax rates that are expected to apply to the period when the temporary differences reverse, based on rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Provisions

Provisions are liabilities of uncertain timing or amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources 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 estimated future outflows expected to be 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 income statement. Discount unwinding is recognised as a finance expense.

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 sub-let. Redundancy provisions, relating to both continuing and discontinued operations, comprise employee termination payments. Legal provisions comprise legal fees and expected settlement costs.

2.19 Puttable instruments

Puttable instruments on minority interests issued as part of a business combination are accounted for by the acquirer as a financial liability. The liability is based on the present value of the redemption amount as if the puttable instrument had been exercised at the balance sheet date. Movements in the value of the liability together with dividends paid to minority interests are recognised as adjustments to goodwill with the unwind of the discount on the fair value calculation being recognised in the income statement.

2.20 Revenue recognition

Group revenue, which excludes discounts, value added tax and similar sales taxes, represents the amount receivable in respect of services provided to customers. It includes sales to joint ventures and associated companies but does not include sales by joint ventures and associated companies or sales between Group companies. Revenue is recognised only when payment is probable.

Revenue from services is recognised as the services are provided. Revenue from service contracts that cover periods of greater than 12 months is recognised in the income statement 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 other telecommunications operators are recognised as the 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.

Mobile revenue comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, and the provision of other mobile telecommunications services. This includes data services and information provision and revenue from the sale of equipment (including handsets).

Mobile monthly access charges are invoiced and recorded as part of a periodic billing cycle. Airtime, either from contract customers as part of the invoiced amount or from prepaid customers through the sale of prepaid cards, is recorded in the period in which the customer uses the service. Unbilled revenue resulting from mobile services provided to contract customers from the billing cycle date to the end of each period is accrued. Unearned monthly access charges relating to periods after each accounting period are deferred.

The Group earns revenue from the transmission of content and traffic on its network originated by third party providers. The Group 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 Group 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 upon 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.

2.21 Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income is included within finance income.

2.22 Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

2.23 Exceptional items

Exceptional items are material items which derive from individual events that fall within the ordinary activities of the Group that are identified as exceptional items by virtue of their size, nature or incidence.

3 Critical accounting estimates and judgements

In the preparation of the consolidated financial statements, a number of estimates and assumptions have been made relating to the reporting of results of operations and the financial condition of the Group. Results may differ significantly from those estimates under different assumptions and conditions. The Directors consider that the following discussion addresses the Group's most critical accounting policies, which are those that are most important to the presentation of its consolidated financial condition and results. These particular policies require subjective and complex judgements, often as a result of the need to make estimates about the effect of matters that are uncertain.

3.1 Valuation of assets for purchase accounting

Where the Group undertakes business combinations, the cost of acquisition is allocated to tangible and other identifiable intangible assets and liabilities acquired and assumed by reference to their estimated fair values at the time of acquisition. The remaining amount is recorded as goodwill. Any value assigned to the identifiable assets is determined by reference to an active market, independent appraisal or estimate by management based on cash flow projections. The latter situation includes estimates and judgements regarding expectations for the economic useful lives of the products and technology acquired. In this situation, where appropriate, third party valuation specialists are involved.

3.2 Depreciation of property, plant and equipment
The Group assigns useful lives and residual values to property, plant and equipment based on periodic studies of actual asset lives and the intended use for those assets. Changes in circumstances such as technological advances, prospective economic utilisation and physical condition of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Where the Group determines that the useful life of property, plant and equipment should be shortened or residual value reduced, it depreciates the net book value in excess of the residual value over the revised remaining useful life, thereby increasing depreciation expense. Any change in an asset's life or residual value is reflected in the Group's financial statements when the change in estimate is determined.

3.3 Impairment of property, plant and equipment and intangible assets
The Directors assess the impairment of property, plant and equipment and intangible assets (excluding goodwill) whenever events or changes in circumstances indicate that the carrying value may not be recoverable or otherwise as required by accounting standards. Factors that are considered important and which could trigger an impairment review include the following:

- obsolescence or physical damage;
- significant changes in technology and regulatory environments;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the use of its assets or the strategy for its overall business;
- significant negative industry or economic trends; and
- significant decline in its stock price for a sustained period and its market capitalisation relative to net book value.

In addition, the Directors test goodwill, which is not amortised, at least annually for impairment.

The identification of impairment indicators, the estimation of future cash flows and the determination of the recoverable amount for assets or cash generating units requires significant judgement concerning the identification and validation of impairment indicators, the timing and amount of expected cash flows and applicable discount rates.

The Group determines any impairment by comparing the carrying values of each of the Group's cash generating units to their recoverable amounts which is the higher of net realisable value and the value in use. Net realisable value represents market value in an active market less cost to sell. Value in use is determined by discounting future cash flows arising from the asset (or the cash generating unit to which it refers). Future cash flows are determined with reference to the Group's own projections using discount rates which represent the estimated weighted average cost of capital for the respective businesses. The approach, assumptions and results of the impairment test are set out in note 17.

3.4 Revenue recognition
Revenue, which excludes discounts, value added tax or other sales taxes, represents the amount receivable in respect of services provided to customers and is accounted for on the accruals basis to match revenue with the provision of service. Revenue is recognised monthly as services are provided. Revenue in respect of services invoiced in advance is deferred and recognised on provision of the service. Revenue in respect of unbilled services is accrued.

Judgement is required in assessing the application of these principles and the specific guidance in respect of Group revenues, including the presentation of revenue as principal or as agent in respect of income received from transmission of content provided by third parties.

3.5 Impairment of receivables
The allowance for impairment of trade receivables reflects the Group's estimates of losses arising from the failure or inability of the Group's customers to make required payments. The allowance is based on the ageing of customer accounts, customer credit worthiness and the Group's historical write-off experience. Changes to the allowance may be required if the financial condition of its customers improves or deteriorates. An improvement in financial condition may result in lower actual write-offs. Historically, changes to the estimate of losses have not been material to the Group's financial position and results.

3.6 Customer and supplier commitments
The nature of the telecommunications industry is such that estimates are often required to be made in relation to customer or supplier commitments, the final outcome of which may not be known for some time. It uses estimates of price or usage to determine the revenue and expense recognised in any period. These estimates are periodically adjusted to reflect actual pricing or usage as such information becomes available or is agreed. As issues arise or are resolved, accruals are created or released as appropriate – the net impact of this is included in operating profit within the relevant line item.

3.7 Interconnection with other operators
As part of the normal course of business, the Group interconnects with other telecommunications operators. In certain instances it uses estimates to determine the amount of revenue receivable from or expense payable 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.

Adjustments to interconnect estimates are taken to operating profit in the period in which the adjustments are made.

3.8 Taxation

The tax charge is the sum of the total current and deferred tax charges or credits. The calculation of the Group's total tax charge involves a degree of estimation and judgement in respect of certain items where the tax treatment cannot be finally determined until a resolution has been reached with the relevant tax authority or, if necessary, through a formal legal process. The final resolution of some of these items may give rise to material income statement and/or cash flow variances.

The resolution of issues is not always within the control of Cable & Wireless and is often dependent on the efficiency of the administrative and legal processes in the relevant tax jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the tax charge in the income statement and tax payments.

3.9 Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

3.10 Provisions

A provision is recognised when there is a present (legal or constructive) obligation in respect of a past event as explained in the accounting policy in note 2.18. Judgement is required to quantify such amounts.

3.11 Pensions

The Group provides several defined benefit pension schemes for its employees. The asset (or liability) recognised in the balance sheet in respect of defined benefit pension plans represents the fair value of plan assets less the present value of the defined benefit obligations at the reporting date. The expected cost of providing these defined benefit pensions will depend on an assessment of such factors as:

- the life expectancy of the members;
- the length of service;
- the rate of salary progression;
- the rate of return earned on assets in the future;
- the rate used to discount future pension liabilities; and
- future inflation rates.

The assumptions used by Cable & Wireless are set out in note 32 and are estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice but are comparable to the median estimates in this regard used by other FTSE 100 companies. Changes to these assumptions could materially affect the size of the defined benefit schemes' liabilities and assets disclosed in note 32.

3.12 Fair value estimation

The basis of determining fair values is set out in note 2.9. Where market values are not available, fair values are based on valuation methodologies which require inputs and forecasts to be made. Judgement is required in determining the appropriate assumptions underlying those inputs and forecasts.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3.13 Cash Long Term Incentive Plan (LTIP)

The charge calculated in accordance with IAS 19 *Employee Benefits* requires estimates of the valuation of International and Europe, Asia & US to determine the obligation for the LTIP. The estimates require the use of a number of assumptions which, by their nature, are subjective.

4 Segment information

Primary reporting format – business segments

Cable & Wireless is an international telecommunications service provider. During the year Cable & Wireless operated two primary business segments – International and Europe, Asia & US.

The International business operates integrated telecommunications companies in 39 countries offering mobile, broadband, domestic and international fixed line services to residential and business customers. It has principal operations in the Caribbean, Panama, Macau, Monaco and the Channel Islands.

The Europe, Asia & US business provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia. This business now incorporates the former C&W Access business which provided wholesale broadband and telephony services to commercial and residential end users through wholesale agreements. C&W Access was presented as a separate segment in the prior year. It is now included in the Europe, Asia & US segment and the comparatives have been adjusted to show the effect of this.

Continuing operations

The segment results for the years ended 31 March 2008 and 31 March 2007 are presented below:

2007/08	International £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations				
Revenue	**1,229**	**1,941**	**(18)**	**3,152**
Pre-exceptional operating costs	**(963)**	**(1,896)**	**(9)**	**(2,868)**
Exceptional operating (costs)/income	**(50)**	**13**	**–**	**(37)**
Group operating profit/(loss)	**216**	**58**	**(27)**	**247**
Share of post-tax profit/(loss) of joint ventures	**38**	**(1)**	**–**	**37**
Total operating profit/(loss)	**254**	**57**	**(27)**	**284**
Other income				**15**
Net finance expense				**(32)**
Profit before income tax				**267**
Tax				**(47)**
Profit for the year from continuing operations				**220**

2006/07	International £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations				
Revenue	1,228	2,139	(19)	3,348
Pre-exceptional operating costs	(951)	(2,192)	(2)	(3,145)
Exceptional operating costs	–	(89)	–	(89)
Group operating profit/(loss)	277	(142)	(21)	114
Share of post-tax (loss) of joint ventures and associates	(8)	(3)	–	(11)
Total operating profit/(loss)	269	(145)	(21)	103
Other income				174
Net finance expense				(28)
Profit before income tax				249
Tax				(43)
Profit for the year from continuing operations				206

1 Other includes Central expenses.

Inter-segment sales are not significant and are charged at arm's length prices.

4 Segment information continued

The segment assets and liabilities, capital expenditure and other items as at and for the year ended 31 March 2008 and 31 March 2007 are:

2007/08	International £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations				
Segment assets	**1,537**	**1,859**	**621**	**4,017**
Joint ventures	**150**	**(8)**	**–**	**142**
Total assets	**1,687**	**1,851**	**621**	**4,159**
Total liabilities	**(686)**	**(1,053)**	**(541)**	**(2,280)**
Capital expenditure	**(190)**	**(221)**	**–**	**(411)**
Acquisitions	**(12)**	**(9)**	**–**	**(21)**
Depreciation and amortisation	**(142)**	**(157)**	**–**	**(299)**
Impairment	**(37)**	**–**	**–**	**(37)**
Increase/(decrease) in provisions	**48**	**(9)**	**(32)**	**7**

2006/07	International £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations				
Segment assets	1,578	1,840	956	4,374
Joint ventures	129	(12)	–	117
Total assets	1,707	1,828	956	4,491
Total liabilities	(717)	(1,074)	(810)	(2,601)
Capital expenditure	(168)	(235)	–	(403)
Acquisitions	–	–	(15)	(15)
Depreciation and amortisation	(145)	(128)	–	(273)
Assets written off	–	(13)	–	(13)
(Decrease)/increase in provisions	(3)	(76)	1	(78)

1 Other includes Central and non-operating assets and liabilities.

Goodwill of £431 million (2006/07 – £421 million) relating to the acquisition of Energis is included in the Europe, Asia & US segment. Goodwill of £108 million (2006/07 – £102 million) relating to the acquisition of Monaco Telecom and £10 million (2006/07 – £nil) relating to Connecteo, is included in the International segment.

Other and eliminations includes assets and liabilities held centrally by the Group, primarily cash and borrowings, and other non-operating items including tax balances.

Discontinued operations

Discontinued operations represent those businesses which have been disposed of or are classified as held for sale at the year end. There were no operations held for sale at 31 March 2008 and 31 March 2007.

Details of the results of operations disposed of in prior periods are set out in note 14.

The segment results of the discontinued operations for the year ended 31 March 2008 are £nil. The releases of unutilised provisions resulting in a profit of £28 million in 2006/07 related primarily to the Group's exit from its former US operations in a prior financial year. This profit is included in the Other and eliminations segment.

4 Segment information continued

Secondary reporting format – geographical segments

Cable & Wireless is an international telecommunications company with continuing operations in six geographical segments: Europe, Asia & US (including the UK, Europe, US and Asia), Caribbean, Panama, Macau, Monaco and Rest of the World (ROW).

The segment results for the year ended 31 March 2008 and 31 March 2007 are presented below:

2007/08	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Revenue	**510**	**308**	**145**	**145**	**121**	**1,941**	**(18)**	**3,152**
Operating costs	**(421)**	**(218)**	**(100)**	**(129)**	**(95)**	**(1,896)**	**(9)**	**(2,868)**
Exceptional operating (costs)/income	**(44)**	**–**	**–**	**(2)**	**(4)**	**13**	**–**	**(37)**
Group operating profit/(loss)	**45**	**90**	**45**	**14**	**22**	**58**	**(27)**	**247**
Share of post-tax profit/(loss)of joint ventures	**21**	**–**	**–**	**2**	**15**	**(1)**	**–**	**37**
Total operating profit/(loss)	**66**	**90**	**45**	**16**	**37**	**57**	**(27)**	**284**
Other income								**15**
Net finance expense								**(32)**
Profit before income tax								**267**
Tax								**(47)**
Profit for the year from continuing operations								**220**

2006/07	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Revenue	554	289	143	136	106	2,139	(19)	3,348
Operating costs	(428)	(211)	(102)	(116)	(94)	(2,192)	(2)	(3,145)
Exceptional operating (costs)/income	–	(1)	–	–	1	(89)	–	(89)
Group operating profit/(loss)	126	77	41	20	13	(142)	(21)	114
Share of post-tax (loss)/profit of joint ventures and associates	(41)	–	–	2	31	(3)	–	(11)
Total operating profit/(loss)	85	77	41	22	44	(145)	(21)	103
Other income								174
Net finance expense								(28)
Profit before income tax								249
Tax								(43)
Profit for the year from continuing operations								206

1 Other includes Central and non-operating assets.

Inter-segment sales are not significant and are charged at arm's length prices.

4 Segment information continued

The segment assets and liabilities, capital expenditure and other items as at and for the year ended 31 March 2008 and 31 March 2007 are:

2007/08	Caribbean £m	Panama £m	Macau £m	Monaco £m	ROW £m	Europe, Asia & US £m	Other[1] and eliminations £m	Total £m
Continuing operations								
Segment assets	**652**	**314**	**103**	**313**	**155**	**1,859**	**621**	**4,017**
Joint ventures	**93**	**–**	**–**	**10**	**47**	**(8)**	**–**	**142**
Total assets	**745**	**314**	**103**	**323**	**202**	**1,851**	**621**	**4,159**
Total liabilities	**(205)**	**(141)**	**(34)**	**(211)**	**(95)**	**(1,053)**	**(541)**	**(2,280)**
Capital expenditure	**(88)**	**(52)**	**(18)**	**(4)**	**(28)**	**(221)**	**–**	**(411)**
Acquisitions	**–**	**–**	**–**	**(12)**	**–**	**(9)**	**–**	**(21)**
Depreciation and amortisation	**(59)**	**(37)**	**(17)**	**(14)**	**(15)**	**(157)**	**–**	**(299)**
Impairment	**(37)**	**–**	**–**	**–**	**–**	**–**	**–**	**(37)**
Increase/(decrease) in provisions	**9**	**1**	**–**	**1**	**37**	**(9)**	**(32)**	**7**
2006/07								
Continuing operations								
Segment assets	697	317	104	283	177	1,840	956	4,374
Joint ventures and associates	73	–	–	5	51	(12)	–	117
Total assets	770	317	104	288	228	1,828	956	4,491
Total liabilities	(267)	(143)	(36)	(195)	(76)	(1,074)	(810)	(2,601)
Capital expenditure	(77)	(31)	(19)	(10)	(31)	(235)	–	(403)
Acquisitions	–	–	–	–	–	–	(15)	(15)
Depreciation and amortisation	(61)	(38)	(15)	(14)	(17)	(128)	–	(273)
Assets written off	–	–	–	–	–	(13)	–	(13)
(Decrease)/increase in provisions	–	(2)	–	11	(12)	(76)	1	(78)

1 Other includes Central and non-operating assets.

Revenue is based on the location where the telecommunication services were delivered. It does not follow necessarily that the international telecommunication traffic transiting the Group's networks originates in that location. The Group does not have access to information on the original source or ultimate destination of all international telecommunication traffic.

Goodwill of £431 million (2006/07 – £421 million) relating to Energis is included in the Europe, Asia & US segment. Goodwill of £108 million (2006/07 – £102 million) relating to Monaco Telecom is included in the Monaco segment. Goodwill of £10 million (2006/07 – £nil) relating to Connecteo is included in the Rest of the World segment.

Other and eliminations includes assets and liabilities held centrally by the Group, primarily cash and borrowings, and other non-operating items including tax balances.

Discontinued operations
There was no revenue or segment assets for discontinued operations as at and for the years ended 31 March 2008 and 31 March 2007.

5 Revenue

	2007/08 £m	2006/07 £m
Continuing operations		
Sales of telecommunication services and related operations	**3,095**	3,266
Sales of telecom equipment and accessories	**57**	82
Total revenue	**3,152**	3,348

There was no revenue from discontinued operations during the current and prior years.

6 Operating costs

The split of the operating costs incurred by the Group, in accordance with the nature of cost, is presented below:

	2007/08			2006/07		
	Pre-exceptional £m	**Exceptional £m**	**Total £m**	Pre-exceptional £m	Exceptional £m	Total £m
Outpayments and direct costs	**1,541**	**–**	**1,541**	1,730	–	1,730
Employee and other staff expenses	**480**	**44**	**524**	536	41	577
Operating lease rentals						
– networks	**23**	**–**	**23**	51	–	51
– property	**65**	**–**	**65**	46	–	46
– plant and equipment	**1**	**–**	**1**	1	–	1
Other administrative expenses	**189**	**1**	**190**	195	–	195
Network costs	**201**	**2**	**203**	242	–	242
Property and utility costs	**74**	**6**	**80**	82	37	119
Operating costs before depreciation and amortisation	**2,574**	**53**	**2,627**	2,883	78	2,961
Amortisation and impairment of intangible assets	**47**	**–**	**47**	39	11	50
Depreciation and impairment of property, plant and equipment	**252**	**37**	**289**	234	2	236
Operating costs	**2,873**	**90**	**2,963**	3,156	91	3,247

Operating costs are stated net of credits or charges arising from the release or establishment of accruals.

	Note	**2007/08 £m**	2006/07 £m
Exceptional items within operating costs			
Staff costs	(i)	**44**	41
Property costs	(ii)	**6**	37
Other costs	(iii)	**6**	–
Legal costs	(iv)	**11**	–
Gain on Seychelles cash repatriation	(v)	**(14)**	–
Impairment/assets written off	(vi)	**37**	13
Total exceptional operating costs		**90**	91

(i) Staff costs principally relate to redundancy costs arising from the restructuring of the Group's operations in continuing businesses. In 2007/08 the expenses relate to International (£14 million) and Europe, Asia & US (£30 million net of a £1 million provision release (see note 31) and a redundancy related pension curtailment credit of £2 million). In 2006/07, the expenses related to International (£13 million net of a £2 million provision release – see note 31) and Europe, Asia & US (£28 million net of a redundancy related pension curtailment credit of £6 million).

(ii) Property costs include provisions relating to vacant property in Europe, Asia & US and is net of £4 million of provision releases (see note 31). In 2006/07 property costs of £37 million in Europe, Asia & US were net of £16 million of provision releases (see note 31).

(iii) Other costs relate to the provision for onerous network costs, and other restructuring costs in International (£2 million) and Europe, Asia & US (£4 million).

(iv) In July 2007, the Group received a legal claim from Digicel, a competitor in the Caribbean. Exceptional legal costs relate to the legal and other fees for the Group's defence against the claim.

(v) The Group concluded a transaction with the Seychelles government to repatriate £24 million of funds that had previously been blocked due to exchange controls. The gain arising on the release of provisions held against these funds was £14 million. As a consequence of this transaction, there was a £5 million tax charge on the exceptional amount.

(vi) An impairment review was conducted by C&W Jamaica, which resulted in an impairment of mobile network assets by £37 million. In 2006/07, redundant IT assets of £13 million (£11 million software, £2 million fixed assets) were written off following the change in C&W Access strategy from a consumer to a wholesale business.

6 Operating costs continued

Auditor's remuneration

The remuneration of the auditor and its associates for services provided to the Group during the year was £4.8 million including £0.3 million relating to the prior year (2006/07 – £4.7 million including £0.5 million relating to 2005/06).

	2007/08 £m	2006/07 £m
Audit services		
Statutory audit services – in respect of the Group's accounts	**1.9**	1.9
Audit services in respect of prior years – in respect of Group accounts	**0.2**	0.2
Audit of the Group's annual accounts	**2.1**	2.1
Amounts receivable by auditors and their associates:		
Statutory audit services – in respect of other statutory accounts	**1.1**	0.9
Audit services of prior years – in respect of other statutory accounts	**0.1**	0.3
Audit-related regulatory reporting	**0.4**	0.4
	3.7	3.7
Tax services – compliance	**0.4**	0.6
Tax services – advisory	**0.1**	0.1
Other services	**0.6**	0.3
	4.8	4.7

Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis.

7 Other operating income

Other operating income relates to gains on disposal of property, plant and equipment of £5 million and cash received in respect of hurricane insurance claims of £4 million. Exceptional other operating income relates to the sale and leaseback of nine freehold properties in the Europe, Asia & US business in April 2007. The disposal of these properties for £88 million resulted in a profit of £53 million.

In 2006/07 other operating income primarily related to gains on disposal of property, plant and equipment. Exceptional other operating income included cash received in respect of hurricane insurance claims of £8 million and the reversal of £5 million unused provisions relating to natural disaster costs recognised in a prior year.

8 Other operating expenses

The other operating expense of £4 million relates to £2 million of losses on disposal of property, plant and equipment and £2 million of costs relating to hurricane damage.

In 2006/07, other operating expenses included £2 million relating to losses on disposal of property, plant and equipment. Exceptional other operating expenses in 2006/07 related to the net loss on disposal of the retail customer base of C&W Access to Pipex. Proceeds of £9 million were offset by a write-off of £20 million relating to goodwill.

9 Employee and other staff expenses

Costs of employees and contract staff of the Group

The pre-exceptional employee and other staff expenses are set out below:

	2007/08 £m	2006/07 £m
Wages and salaries	**437**	455
Social security costs	**32**	39
Share-based payments	**16**	25
Cash Long Term Incentive Plan	**27**	27
Pension (credit)/expense		
– defined benefit plans	**(21)**	(11)
– defined contribution plans	**15**	13
Temporary labour and recruitment	**22**	31
	528	579
Less: Staff costs capitalised	**(48)**	(43)
Staff costs	**480**	536

Exceptional employee and other staff expenses of £44 million (2006/07 – £41 million) are set out in note 6.

Average number of employees

The average monthly number of persons, including Executive Directors employed by the Group in continuing operations during the year was:

	2007/08	2006/07
International		
– International headquarters	**151**	145
– Caribbean	**3,964**	3,697
– Panama	**1,885**	1,846
– Macau	**919**	944
– Monaco	**502**	487
– Rest of the World	**685**	773
Total International	**8,106**	7,892
Europe, Asia & US	**5,318**	5,876
Other	**86**	83
Total Group	**13,510**	13,851

There were no employees in discontinued operations.

Key management's remuneration

Key management includes Directors and any senior staff that have regular access to inside information and have the power to make managerial decisions affecting the future development and business prospects of Cable & Wireless. Included in staff costs are key management expenses, including £10 million (2006/07 – £8 million) aggregate Directors' emoluments, as follows:

	2007/08 £m	2006/07 £m
Salaries and short-term employment benefits	**9**	9
Termination and relocation benefits	**3**	1
Share-based payments	**7**	5
Cash Long Term Incentive Plan	**15**	16
	34	31

Directors' remuneration is disclosed in the Directors' remuneration report on pages 54 to 63.

10 Gains and losses on the sale of non-current assets

	2007/08			2006/07		
	Pre-exceptional £m	**Exceptional £m**	**Total £m**	Pre-exceptional £m	Exceptional £m	Total £m
Gains and losses on the sale of non-current assets	**1**	**–**	**1**	–	153	153

Gains and losses on the sale of non-current assets arise on the sale of businesses that do not meet the definition of discontinued operations or investments. In 2007/08 the gain on disposals of non-current assets of £1 million reflects the release of a provision related to the sale of the Group's interest in Bahrain Telecommunications Company BSC (Batelco).

In 2006/07, exceptional gains on disposals of non-current assets of £153 million reflects the gain on the sale of the Group's interest in Batelco. The net cash proceeds received were £256 million. The tax charge attributable and minority interest share were both £nil.

11 Gain on termination of operations

	2007/08			2006/07		
	Pre-exceptional £m	**Exceptional £m**	**Total £m**	Pre-exceptional £m	Exceptional £m	Total £m
Gain on termination of operations	**8**	**6**	**14**	3	18	21

The pre-exceptional gain of £8 million (2006/07 – £3 million) represents the results of the activities of the Group's former insurance operation, Pender Insurance Limited (Pender), which ceased taking on new business in April 2003.

The exceptional gain of £6 million (2006/07 – £18 million) arose from the resolution of claims and other matters in respect of Pender.

12 Finance income and expense

	2007/08			2006/07		
	Pre-exceptional £m	**Exceptional £m**	**Total £m**	Pre-exceptional £m	Exceptional £m	Total £m
Finance income						
Interest on cash and deposits	**52**	**–**	**52**	51	–	51
Investment income	**1**	**–**	**1**	1	–	1
Total finance income	**53**	**–**	**53**	52	–	52
Finance expense						
Loss on convertible bonds repurchase	**–**	**10**	**10**	–	–	–
Interest on bank loans	**13**	**–**	**13**	2	–	2
Interest on other loans	**46**	**–**	**46**	61	–	61
Finance charges on leases	**2**	**–**	**2**	3	–	3
Unwinding of discounts on provisions	**8**	**–**	**8**	6	–	6
Unwinding of discount on Monaco put option liability	**8**	**–**	**8**	10	–	10
	77	**10**	**87**	82	–	82
Less: Interest capitalised	**(2)**	**–**	**(2)**	(2)	–	(2)
Total finance expense	**75**	**10**	**85**	80	–	80

Tax relief of £1 million is available on interest capitalised in the year ended 31 March 2008 (2006/07 – £1 million). Interest has been capitalised within property, plant and equipment at a rate of 7% (2006/07 – 7%).

During the period, convertible bonds with a par value of £138 million were repurchased for cash of £190 million. This resulted in an exceptional accounting loss of £10 million being the difference between the carrying and fair value of the underlying debt component of the repurchased bonds. For further information, refer to note 27.

13 Income tax expense

	2007/08 £m	2006/07 £m
Current tax charge		
UK tax at 30%	**63**	39
Double tax relief	**(63)**	(39)
	–	–
Overseas tax	**63**	52
Adjustments relating to prior years	**(1)**	(6)
Total current tax charge	**62**	46
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	**(13)**	9
Effect of change in tax rates	**–**	1
	(13)	10
Adjustments relating to prior years	**(2)**	(13)
Total deferred tax credit	**(15)**	(3)
Total tax charge	**47**	43

There was no tax charge relating to discontinued operations (2006/07 – £nil).

The £47 million (2006/07 – £43 million) tax charge is net of a £14 million (2006/07 – £1 million) credit in respect of the exceptional operating costs included in note 6 and includes a £5 million (2007 – £nil) charge for Seychelles withholding tax on dividends remitted.

The Group's effective tax rate differs from the UK statutory tax rate as follows:

	2007/08 %	2006/07 %
UK statutory tax rate	**30.0**	30.0
Effect of overseas tax rates	**(5.7)**	(3.3)
Effect of accounting for associates	**(3.3)**	1.5
Effect of branches and intra-group dividends less double tax relief	**7.8**	14.8
Net effect of disallowed expenditure/income not taxable	**(3.7)**	(20.3)
Effect of other temporary differences	**–**	11.6
Effect of changes in unrecognised deferred tax assets	**(6.7)**	(12.3)
Adjustments relating to prior years	**(0.8)**	(6.5)
Effective tax rate	**17.6**	15.5

14 Discontinued operations

There were no businesses discontinued during the year (2006/07 – none).

In 2007/08, the net profit of £nil from discontinued operations includes the reversal of unutilised provisions of £5 million (see note 31) relating to the Group's former US operations and businesses disposed of in prior periods and the write-off of a £5 million receivable relating to the Group's former US operations. In 2006/07 the profit from discontinued operations in prior periods of £28 million comprised the reversal of unutilised provisions relating to the US operations discontinued in a prior financial year.

15 Earnings per share

Basic earnings per ordinary share is based on the profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

	2007/08 £m	2006/07 £m
Profit for the financial year attributable to ordinary shareholders	**164**	174
Weighted average number of ordinary shares outstanding (millions)	**2,424**	2,324
Dilutive effect of share options	**42**	36
Number of ordinary shares used to calculate diluted earnings per share	**2,466**	2,360
Basic earnings per share (pence per share)	**6.8p**	7.5p
Diluted earnings per share (pence per share)	**6.6p**	7.4p
Continuing operations		
Profit (and adjusted profit) from continuing operations for the financial year attributable to shareholders	**164**	146
Basic earnings per share from continuing operations (pence per share)	**6.8p**	6.3p
Diluted earnings per share from continuing operations (pence per share)	**6.6p**	6.2p
Discontinued operations		
Profit (and adjusted profit) from discontinued operations for the financial year attributable to shareholders	**–**	28
Basic earnings per share from discontinued operations (pence per share)	**–**	1.2p
Diluted earnings per share from discontinued operations (pence per share)	**–**	1.2p

The convertible bond was excluded from the number of ordinary shares used to calculate diluted earnings per share in both years as it was not dilutive.

16 Dividends declared and paid

	2007/08 £m	2006/07 £m
Final dividend in respect of the prior year	**100**	71
Interim dividend in respect of the current year	**61**	40
Total dividends paid	**161**	111

During the year ended 31 March 2008 the Group declared and paid a final dividend of 4.15 pence per share (2006/07 – 3.10 pence per share) in respect of the year ended 31 March 2007. The Group has also declared and paid an interim dividend of 2.50 pence per share (2006/07 – 1.70 pence per share) in respect of the year ended 31 March 2008.

In respect of the year ended 31 March 2008 the Directors have proposed a final dividend of 5.00 pence per share (2006/07 – 4.15 pence per share), totalling £123 million (2006/07 – £100 million) for approval by shareholders at the AGM to be held on 18 July 2008 in respect of the year ended 31 March 2008. These financial statements do not reflect the proposed dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 March 2009.

The number of shareholders electing to take all or part of their dividends in shares varies from dividend to dividend. 12,379 shareholders (2006/07 – 13,009 shareholders) owning 708 million shares (2006/07 – 370 million shares) elected to take the interim dividend wholly or partly in shares. 12,531 shareholders (2006/07 – 13,278 shareholders) owning 122 million shares (2006/07 – 689 million shares) elected to take the final dividend wholly or partly in shares. Consequently, total shares were issued with a value of £23 million (2006/07 – £28 million). The Cable & Wireless Employee Share Ownership Plan Trust waived its right to dividends on the shares held in the trust.

17 Impairment review

The Group assesses the impairment of property, plant and equipment and intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable or otherwise as required by accounting standards. Factors that are considered important, which could trigger an impairment review, are set out in note 3.3.

Goodwill

As required by IFRS 3, a review of the carrying value of goodwill has been performed as at 31 March 2008 and at 31 March 2007. In performing these reviews, the recoverable amount of goodwill has been determined by reference to the higher of the fair value less costs to sell and the value in use of the continuing operations of the related businesses. No impairments were required. There was no review of the goodwill relating to Connecteo which was acquired in January 2008.

Europe, Asia & US

Europe, Asia & US has one cash generating unit. Goodwill of £431 million is allocated to this business at 31 March 2008. A discounted cash flow analysis using the approved five year business plan reflecting a terminal value growth rate of 1% and a discount rate of 9% indicated that the carrying value of the goodwill was supported and no impairment charge was required. The key assumptions in the calculation of value in use relate to revenue growth and the level of capital expenditure required to maintain the network at its current level.

Monaco Telecom

Goodwill of £108 million is allocated to Monaco Telecom at 31 March 2008. Three relevant cash generating units were identified for the purposes of assessing the carrying value of Monaco Telecom's network assets (domestic including the cable television business, international business and other services). Goodwill has been allocated to this group of cash generating units based on the fair value at the time of acquisition. The value in use was determined for each cash generating unit by discounting future cash flows (based on the approved five year business plan extrapolated at long-term growth rates of between 0% and 5%) at discount rates of between 9% and 13% (dependent on the risk adjusted cost of capital of different parts of the business). No impairment was required. The key assumptions in the calculation of value in use relate to revenue growth, operating margin and the level of maintenance capital expenditure required to maintain the network at its current level. Monaco Telecom operates under an exclusive concession in Monaco and management's forecasts were based on historical experience for the business.

Other non-current assets and other intangibles

Year ended 31 March 2008

There were no events or changes in circumstances during the year to indicate that the carrying value of property, plant and equipment and intangible assets had been impaired, except as noted below:

Cable & Wireless Jamaica

A review of the carrying value of the property, plant and equipment of Cable & Wireless Jamaica Ltd, a subsidiary of the Group, was conducted at year end in the light of the poor trading performance during the year.

The value in use was determined for each of the four cash generating units of the business (mobile, fixed, data and internet) by discounting estimated future cash flows (based on the company's five year forecast) at a US dollar equivalent discount rate of 11.7%. The key assumptions in the calculation of value in use relates to:

- Revenue – a terminal growth rate of 0% to 2% depending on the cash generating unit;
- Maintenance capital expenditure – assumed at an average of 5% of revenue in perpetuity;
- Operating costs – estimated to remain at broadly the same level throughout the projection (before inflation).

These assumptions reflect the recent introduction of competition in the local market.

The impairment charge recognised in Cable & Wireless Jamaica Ltd that has been reflected in the Group income statement is £37 million.

Year ended 31 March 2007

There were no events or changes in circumstances during the year to indicate that the carrying value of property, plant and equipment and other intangible assets had been impaired, except as noted below:

TSTT

The Group reviewed the carrying value of its investment in its joint venture Telecommunications Services of Trinidad and Tobago Limited (TSTT) during the 2006/07 year in the light of the poor trading performance and the introduction of competition during that year.

The value in use was determined for each of the three cash generating units of the business (fixed line, GSM mobile and CDMA mobile) by discounting estimated future cash flows (based on the Group's view) at a local currency discount rate of 14.2%. The key assumptions in the calculation of value relate to:

- Revenue – a decline of 18% has been assumed to reflect the impact of liberalisation for the first time;
- Maintenance capital expenditure – assumed at 7% of revenue;
- Operating costs – estimated to remain at broadly the same level throughout the projection (before inflation).

These assumptions reflect the further impact of competition and fixed to mobile substitution in the local market. The Group's share of the impairment charge that has been reflected in the Group income statement was £29 million.

18 Intangible assets

	Goodwill £m	Software £m	Licences and concessions £m	Customer contracts and relationships £m	Other £m	Total £m
Cost						
At 1 April 2006	473	672	74	132	21	1,372
Business combinations (note 40)	71	–	–	–	–	71
Additions	–	37	–	–	3	40
Disposals	(20)	(2)	–	–	(1)	(23)
Transfers between categories	–	(12)	1	–	11	–
Transfers to property, plant and equipment	–	(10)	–	–	–	(10)
Exchange differences	(1)	(7)	(1)	–	(1)	(10)
At 1 April 2007	523	678	74	132	33	1,440
Business combinations (note 40)	19	–	–	–	–	19
Additions	–	51	15	–	2	68
Disposals	–	(1)	–	–	–	(1)
Transfers between categories	–	(4)	4	–	–	–
Transfers from property, plant and equipment	–	7	–	–	–	7
Exchange differences	7	(2)	9	–	5	19
At 31 March 2008	**549**	**729**	**102**	**132**	**40**	**1,552**
Amortisation and impairment						
At 1 April 2006	–	629	7	5	9	650
Charge for the year	–	16	4	12	18	50
Exchange differences	–	(5)	–	–	–	(5)
At 1 April 2007	–	640	11	17	27	695
Charge for the year	–	24	5	13	5	47
Disposals	–	(1)	–	–	–	(1)
Exchange differences	–	(1)	2	1	2	4
At 31 March 2008	**–**	**662**	**18**	**31**	**34**	**745**
Net book value						
At 31 March 2008	**549**	**67**	**84**	**101**	**6**	**807**
At 31 March 2007	523	38	63	115	6	745

The goodwill recognised during the year relates to acquired goodwill in Energis (£10 million) and Connecteo (£10 million) and a reduction to the goodwill acquired in Monaco Telecom (£1 million) (see note 40). The balances of goodwill for Energis, Monaco Telecom and Connecteo at 31 March 2008 are £431 million, £108 million and £10 million respectively. The goodwill recognised during 2006/07 related to Monaco Telecom (£34 million) and Energis (£37 million) (see note 40).

19 Property, plant and equipment

	2007/08				2006/07			
	Land and buildings £m	**Plant and equipment £m**	**Assets under construction £m**	**Total £m**	Land and buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost								
At 1 April	**461**	**6,583**	**204**	**7,248**	533	6,570	333	7,436
Additions	**8**	**26**	**309**	**343**	5	40	318	363
Business combinations	**–**	**2**	**–**	**2**	–	–	–	–
Disposals	**(3)**	**(93)**	**(1)**	**(97)**	(1)	(120)	(64)	(185)
Transfers	**42**	**316**	**(358)**	**–**	19	358	(377)	–
Transfer (to)/from intangibles	**–**	**–**	**(7)**	**(7)**	–	–	10	10
Transfer to held for sale assets	**–**	**–**	**–**	**–**	(68)	(4)	–	(72)
Exchange differences	**(3)**	**–**	**(2)**	**(5)**	(27)	(261)	(16)	(304)
At 31 March	**505**	**6,834**	**145**	**7,484**	461	6,583	204	7,248
Depreciation								
At 1 April	**315**	**5,468**	**–**	**5,783**	345	5,550	52	5,947
Charge for the year	**11**	**241**	**–**	**252**	15	221	–	236
Impairment	**–**	**37**	**–**	**37**	–	–	–	–
Disposals	**(2)**	**(90)**	**–**	**(92)**	(1)	(120)	(52)	(173)
Transfers	**11**	**(11)**	**–**	**–**	–	–	–	–
Transfer to held for sale assets	**–**	**–**	**–**	**–**	(34)	(3)	–	(37)
Exchange differences	**4**	**12**	**–**	**16**	(10)	(180)	–	(190)
At 31 March	**339**	**5,657**	**–**	**5,996**	315	5,468	–	5,783
Net book value at the end of the year	**166**	**1,177**	**145**	**1,488**	146	1,115	204	1,465

Included in the net book value of property, plant and equipment at 31 March 2008 is £14 million (2006/07 – £11 million) of assets held under finance leases.

Additions during the year include interest and own work capitalised during the construction of certain assets of £2 million (2006/07 – £2 million) and £49 million (2006/07 – £48 million) respectively.

20 Investments in joint ventures and associates

	2007/08			2006/07
	Interest in joint ventures £m	Interest in joint ventures £m	Interest in associates £m	Total £m
Gross carrying amount				
At 1 April				
– Cost	**63**	68	–	68
– Equity loans	**–**	–	1	1
– Share of post-acquisition reserves	**100**	158	(1)	157
	163	226	–	226
Share of post-tax profit	**37**	(27)	12	(15)
Dividends	**(15)**	(16)	(7)	(23)
Disposals	**–**	–	(5)	(5)
Exchange differences	**3**	(20)	–	(20)
At 31 March	**188**	163	–	163
Impairment provision				
At 1 April	**(46)**	(46)	(4)	(50)
Impairment charge	**(1)**	–	–	–
Provision release	**1**	–	4	4
At 31 March	**(46)**	(46)	–	(46)
Net carrying amount at 31 March	**142**	117	–	117

The Group's total interest in its joint ventures and associates is presented below:

	Joint ventures		Associates
	31 March 2008 £m	31 March 2007 £m	31 March 2007 £m
Non-current assets	**237**	217	–
Current assets	**107**	75	–
Non-current liabilities	**(113)**	(110)	–
Current liabilities	**(89)**	(65)	–
Share of net assets	**142**	117	–
Revenue	**190**	200	52
Operating costs	**(148)**	(193)	(40)
Exceptional impairment relating to TSTT	**–**	(29)	–
Operating profit/(loss)	**42**	(22)	12
Net interest financing costs	**(1)**	(3)	–
Share of profit/(loss) before tax	**41**	(25)	12
Taxation charge	**(4)**	(2)	–
Dividends paid to Group companies	**(15)**	(16)	(7)
Share of retained profit/(loss)	**22**	(43)	5

The disposal on 16 January 2007 of the Group's investment in Batelco resulted in a profit on disposal of £153 million as set out in note 10.

Investments in joint ventures and associates (see note 44) are accounted for using the equity method. The investment comprises the cost of the investment together with the Group's share of post-acquisition profit or loss less any impairments.

There are no significant restrictions on joint ventures' ability to transfer funds to the Group. The joint ventures have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interests in joint ventures. The Group's joint ventures have not discontinued any operations during the year ended 31 March 2008 (2006/07 – nil).

21 Investments

	2007/08	2006/07		
	Available for sale £m	Fair value through income statement £m	Available for sale £m	Total £m
At 1 April	**15**	39	15	54
Additions	**10**	–	–	–
Disposals	**–**	(39)	–	(39)
Fair value gain recorded in equity	**2**	–	–	–
At 31 March	**27**	–	15	15

At 31 March 2008 available for sale financial investments comprise UK Government gilts and cash held as collateral (2006/07 – UK Government gilts).

22 Trade and other receivables

	31 March 2008 £m	31 March 2007 £m
Gross trade receivables	**639**	616
Valuation allowance	**(72)**	(98)
Net trade receivables	**567**	518
Other receivables	**87**	86
Prepayments and accrued income	**193**	242
Taxation and social security receivables	**6**	7
Amounts owed by joint ventures and associates	**3**	2
Trade and other receivables – current	**856**	855
Other receivables	**33**	42
Prepayments and accrued income	**27**	20
Trade and other receivables – non-current	**60**	62
Total trade and other receivables	**916**	917

The maximum exposure to credit risk for receivables is equal to the carrying value of those financial instruments. There is no material difference between the carrying value and fair value of receivables at 31 March 2008.

Concentrations of credit risks with respect to trade receivables are small as the Group customer base is large and unrelated. Receivables predominantly relate to retail customers, Governments and corporate entities as well as other telecoms operators.

Customer risk procedures 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 receivables that are neither past due nor impaired as low risk. There have been no significant changes to the composition of receivables counterparties within the Group that indicate this would change in the future. There have been no material changes in the markets in which the Group operates that would indicate an increased credit risk on receivables that are neither past due nor impaired.

22 Trade and other receivables continued

An ageing analysis of the current net trade and other receivables that are not impaired is as follows:

	2007/08 Total £m	2006/07 Total £m
Not yet due	**312**	299
Overdue 30 days or less	**101**	115
Overdue 31 to 60 days	**40**	50
Overdue 61 to 90 days	**41**	28
Overdue 91 days to 180 days	**43**	37
Overdue 181 days or more	**117**	75
Current net trade and other receivables	**654**	604

Due to the nature of the telecommunications industry, balances relating to interconnection with other carriers often have lengthy settlement periods. Generally, interconnection agreements with major carriers result in receivables and payables balances with the same counterparty. Industry practice is that receivable and payable amounts relating to interconnection revenue and costs for a defined period are agreed between counterparties and settled on a net basis. Included within receivables are amounts relating to interconnection with other carriers of £244 million (2006/07 – £228 million).

There are no amounts held as collateral for trade and other receivables balances.

An analysis of the trade receivables valuation allowance for the period is as follows:

	31 March 2008 £m	31 March 2007 £m
At 1 April	**98**	81
Bad debts written off	**(36)**	(14)
Increase in allowance	**6**	34
Exchange differences	**4**	(3)
At 31 March	**72**	98

All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services, network and access charges. There were no material transactions with joint ventures and associated companies during the year.

23 Inventories

Inventories of £17 million (2006/07 – £23 million) are presented net of a provision of £2 million (2006/07 – £5 million) made against slow moving or obsolete items.

The cost of equipment, consumables and accessories held for sale that were expensed within operating costs in 2007/08 was £79 million (2006/07 – £71 million). During the year, the Group recorded no additional inventory valuation allowances (2006/07 – £1 million).

Inventories of the Group are not pledged as security or collateral against any of the Group's borrowings.

24 Cash and cash equivalents and other non-current assets

Cash and cash equivalents typically include bank deposits, money market funds, commercial paper and government securities.

	31 March 2008 £m	31 March 2007 £m
Cash in bank and hand	**106**	116
Short-term bank deposits	**593**	927
Cash and cash equivalents	**699**	1,043

Short-term bank deposits include money market and fixed income instruments, which can be readily converted to cash at short notice. The effective interest rate on short-term bank deposits is 5.1% (2006/07 – 4.9%). These deposits have an average maturity of 42 days (2006/07 – 68 days).

The maximum exposure to credit risk for cash and cash equivalents is equal to the carrying value of those financial instruments.

25 Non-current assets and disposal groups held for sale

At the end of 2007/08, bonds of £5 million were identified as non-current assets held for sale. At the end of 2006/07, certain freehold property of £34 million was identified as non-current assets held for sale.

At the end of the 2006/07 year, Cable & Wireless Allnet Ltd had been identified as a disposal group held for sale. The assets and liabilities of this business were carried in the balance sheet at the lower of their carrying value or the expected proceeds less cost to sell as set out below:

	31 March 2007 £m
Assets of disposal groups held for sale	
Property, plant and equipment	1
Other current assets	12
Cash and cash equivalents	5
Total assets of disposal groups held for sale	18
Liabilities directly associated with disposal groups held for sale	
Trade and other payables	(10)
Total liabilities of disposal groups held for sale	(10)

26 Trade and other payables

	31 March 2008 £m	31 March 2007 £m
Trade payables	**441**	403
Payments received on account	**3**	4
Other taxation and social security costs	**57**	46
Other payables	**62**	113
Accruals	**503**	547
Deferred income	**193**	173
Total trade and other payables	**1,259**	1,286
Trade and other payables – current portion	**1,219**	1,221
Trade and other payables – non-current portion	**40**	65

There is no material difference between the carrying value and fair value of trade and other payables at 31 March 2008.

27 Loans and obligations under finance leases

	31 March 2008 £m	31 March 2007 £m
Loans and bonds		
4% convertible unsecured bonds extinguished during the year	–	213
Sterling unsecured bonds repayable in 2012 and 2019	**308**	340
US dollar loans repayable at various dates up to 2038	**81**	125
Other currency loans repayable at various dates up to 2012	**48**	18
	437	696
Loans and bonds – current	**45**	68
Loans and bonds – non-current	**392**	628
Finance lease payables		
Obligations under finance leases	**19**	20
Current portion of obligations under finance leases	**14**	9
Non-current portion of obligations under finance leases	**5**	11
Loans and obligations under finance leases – current	**59**	77
Loans and obligations under finance leases – non-current	**397**	639

The Group's borrowings are not secured, except for £20 million of the other currency loans (2006/07 –£18 million of the US dollar loans).

The repayment profile of loans and obligations is:

	31 March 2008 £m	31 March 2007 £m
Loans and bonds		
Due in less than one year	**45**	68
Due in more than one year but not more than two years	**21**	10
Due in more than two years but not more than five years	**213**	265
Due in more than five years	**158**	353
Total loans and bonds	**437**	696

Interest is payable on loans and obligations falling due after more than five years at rates of between 6.55% and 8.63%.

	31 March 2008 £m	31 March 2007 £m
Finance leases – minimum lease payments		
Due in less than one year	**15**	11
Due in more than one year but not more than two years	**3**	12
Due in more than two years but not more than five years	**2**	–
Total obligations under finance leases	**20**	23
Less future finance charges on finance leases	**(1)**	(3)
Present value of finance lease liabilities	**19**	20

27 Loans and obligations under finance leases continued

The present value of net finance lease liabilities is as follows:

	31 March 2008 £m	31 March 2007 £m
Due in less than one year	**14**	9
Due in more than one year but not more than two years	**3**	11
Due in more than two years but not more than five years	**2**	–
Due in more than five years	**–**	–
Present value of finance lease liabilities	**19**	20

Convertible unsecured bond

On 16 July 2003, £257,714,000 of 4% convertible unsecured bonds were issued at par. Each bond entitled the holder to convert the amount of such bond into fully paid ordinary shares of 25 pence each at an amended rate of 689.655 ordinary shares for each £1,000 held at an initial conversion price of 145 pence per ordinary share at any time prior to 9 July 2010. Full conversion of the bonds would have resulted in an additional 177,733,748 shares being issued.

During the period, all of the convertible bonds in issue at 31 March 2007 were either repurchased or converted (carrying value of £213 million).

Convertible bonds with a par value of £138 million were repurchased for cash of £190 million. At the time of repurchase, the debt component of these convertible bonds had a carrying value of £117 million. The fair value of the debt component of these bonds at the date of repurchase was £127 million. This transaction resulted in a loss of £10 million. The difference between the fair value of the debt and the cash consideration (£63 million) was allocated to the repurchase of the equity component of the convertible bond.

The remaining convertible bonds, with a par value of £120 million, were converted into 83 million ordinary shares (including 29 million treasury shares). The debt component of these convertible bonds had a carrying value of £103 million.

In April 2005, a cash settlement feature within the convertible bonds was removed. The liability relating to this cash settlement feature was reclassified to equity at its fair value at that time (£47 million). As a result of extinguishing the convertible bonds, this amount was reclassified to retained earnings.

	£m
Face value of convertible bonds issued on 16 July 2003	258
Issue costs	(6)
Equity conversion component on initial recognition	(75)
Previous years' amortisation of the liability component	25
Liability component at 1 April 2006	202
Interest expense	21
Interest paid	(10)
Liability component at 31 March 2007	213
Interest expense	7
Liability component of convertible bonds repurchased or converted	(220)
Liability component at 31 March 2008	**–**

Interest expense on the bond was calculated on the effective yield basis by applying the effective interest rate (10.7%) for an equivalent non-convertible bond to the liability component of the convertible bond.

27 Loans and obligations under finance leases continued

Sterling bonds

The Group has the following sterling bonds:

(a) £200 million listed bond due in 2012 with a balance at 31 March 2008, net of costs, of £161 million (2006/07 – £161 million). Interest is payable at 8.750% per annum.

(b) £200 million listed bond due in 2019 with a balance at 31 March 2008, net of costs, of £147 million (2006/07 – £179 million). Interest is payable at 8.625% per annum. During the year ended 31 March 2008, the Group repurchased but did not cancel £32 million of this bond at an average price of 102.1 pence.

US dollar loans

Various US dollar-based loans of approximately £81 million (2006/07 – £125 million) are held by various subsidiaries across the Group. Interest on these loans ranges between 0% and 6.86%. The loans are repayable over a period up to 2038.

The effective interest rates at the balance sheet date were as follows:

	31 March 2008		31 March 2007	
	Currency	Interest rate %	Currency	Interest rate %
4% convertible unsecured bond due in 2010	–	–	GBP	10.7
Sterling unsecured bonds repayable in 2012 and 2019	**GBP**	**8.7**	GBP	8.7
US dollar loans repayable at various dates up to 2038	**USD**	**4.6**	USD	6.3
Other currency loans repayable at various dates up to 2012	**Other**	**12.0**	Other	5.3
Obligations under finance leases	**GBP**	**8.4**	GBP	9.2

28 Financial liabilities at fair value

	31 March 2008 £m	31 March 2007 £m
Monaco Telecom put option liability		
Current	**59**	60
Non-current	**73**	75

The balance within financial liabilities held at fair value represents the fair value of the put option held by the minority shareholders of Monaco Telecom. Although the Group considers there to be only a remote likelihood of this put option being exercised, IAS 32 requires the present value of the amount payable to be recognised as a liability regardless of the probability of exercise, as this is not within the Group's control. As this put option was issued as part of a business combination, any change in remeasuring the derivative to fair value is recorded as an adjustment to goodwill (refer to note 40).

The put option held by the Principality is exercisable in two tranches. The first tranche enables the Principality to put 20% of the shares of Monaco Telecom to the Group at various periods from 1 January 2008. The second tranche enables the Principality to put 25% of the shares of Monaco Telecom to the Group three years after the first has been exercised.

Forward exchange contracts

The Group held forward exchange contracts of US$50 million (£25 million) at 31 March 2008 hedging currency exposures in US dollars (2006/07 – US$83 million (£42 million) hedging US and Jamaican dollars). The Group did not apply hedge accounting to the forward exchange contracts. The contracts are revalued to fair value at each reporting date. Gains and losses on the contracts are recognised in the income statement.

29 Fair value and currency analysis

A comparison by category of carrying amounts and fair values of all of the Group's loans and obligations under finance leases is set out below (refer to note 27 for further information):

	31 March 2008		31 March 2007	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial liabilities				
Convertible bond due in 2010 extinguished during the period	**–**	**–**	213	311
Sterling unsecured bonds repayable in 2012 and 2019	**308**	**304**	340	355
US dollar loans repayable at various dates up to 2038	**81**	**81**	125	125
Other currency loans repayable at various dates up to 2012	**48**	**48**	18	18
Obligations under finance leases	**19**	**19**	20	20

Market values obtained from third parties have been used to determine the fair value of the sterling bonds and convertible bond. For all other financial liabilities the carrying amount has been used as it closely approximates fair value.

The carrying amounts of the Group's cash and cash equivalents, loans and borrowings are denominated in the following currencies:

	31 March 2008		31 March 2007	
	Financial assets £m	**Financial liabilities £m**	Financial assets £m	Financial liabilities £m
Sterling	**447**	**308**	551	553
US dollar	**142**	**81**	338	125
Euro	**49**	**–**	112	–
Other currencies	**61**	**48**	47	18
	699	**437**	1,048	696

30 Deferred tax

The movements in deferred tax asset and liabilities during the year are as follows:

	Capital allowances on non-current assets £m	Tax losses £m	Pensions £m	Other £m	Balance sheet offset £m	Total £m
Deferred tax assets	17	13	1	7	(21)	17
Deferred tax liabilities	(56)	–	(11)	(5)	21	(51)
At 1 April 2006	(39)	13	(10)	2	–	(34)
Profit and loss credit/(charge)	14	–	(6)	(5)	–	3
Tax charged to equity	–	–	(4)	(1)	–	(5)
Exchange differences	5	(1)	2	(1)	–	5
At 31 March 2007	(20)	12	(18)	(5)	–	(31)
Deferred tax assets	34	12	–	3	(21)	28
Deferred tax liabilities	(54)	–	(18)	(8)	21	(59)
At 31 March 2007	(20)	12	(18)	(5)	–	(31)
Profit and loss credit	2	9	3	1	–	15
Tax charged to equity	–	–	11	–	–	11
Exchange differences	3	(1)	–	(1)	–	1
At 31 March 2008	**(15)**	**20**	**(4)**	**(5)**	**–**	**(4)**
Deferred tax assets	30	20	1	1	(26)	26
Deferred tax liabilities	(45)	–	(5)	(6)	26	(30)
At 31 March 2008	**(15)**	**20**	**(4)**	**(5)**	**–**	**(4)**

30 Deferred tax continued

Deferred tax assets have not been recognised in respect of the following temporary differences:

	Capital allowances available on non-current assets £m	Tax losses £m	Pensions £m	Other £m	Total £m
At 1 April 2007	3,796	14,769	6	125	18,696
At 31 March 2008	**3,721**	**14,696**	**23**	**118**	**18,558**

Tax losses of £11 million (2006/07 – £18 million) expire within one year, £22 million (2006/07 – £28 million) expire within three years, £5 million (2006/07 – £14 million) expire within five years, £70 million (2006/07 – £72 million) expire within ten years and £40 million (2006/07 – £23 million) expire after more than ten years. Other deferred tax assets are not subject to expiry.

The £14,696 million (2006/07 – £14,769 million) tax losses include UK capital losses of £2,635 million (2006/07 – £2,746 million).

Other losses principally arise in overseas holding companies and the opportunity to realise benefits from them is considered remote.

Deferred tax is not provided on unremitted earnings of subsidiaries, joint ventures and associates where the Group controls the timing of remittance and it is probable that the temporary difference will not reverse in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries, branches and joint ventures for which deferred tax liabilities have not been recognised is £475 million (2006/07 – £475 million). These temporary differences relate to unremitted earnings.

31 Provisions for other liabilities and charges

					2007/08					2006/07
	Property £m	**Redundancy costs £m**	**Network and asset retirement obligations £m**	**Other £m**	**Total £m**	Property £m	Redundancy costs £m	Network and asset retirement obligations £m	Other £m	Total £m
At 1 April	**82**	**7**	**77**	**60**	**226**	55	36	91	100	282
Charged to income statement										
– Additional provision	**10**	**35**	**10**	**33**	**88**	53	39	7	17	116
– Amounts used	**(19)**	**(28)**	**(13)**	**(15)**	**(75)**	(8)	(65)	(7)	(28)	(108)
– Unused amounts reversed	**(6)**	**(2)**	**–**	**(14)**	**(22)**	(19)	(2)	(14)	(28)	(63)
Discount unwind	**2**	**–**	**6**	**–**	**8**	1	–	1	1	3
Exchange differences	**–**	**–**	**1**	**1**	**2**	–	(1)	(1)	(2)	(4)
At 31 March	**69**	**12**	**81**	**65**	**227**	82	7	77	60	226
Current portion	**17**	**12**	**14**	**49**	**92**	25	7	12	28	72
Non-current portion	**52**	**–**	**67**	**16**	**135**	57	–	65	32	154

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

Property provisions released in the year relate to Europe, Asia & US (£4 million – see note 6) following the reassessment of its property portfolio and a release in respect of the Group's former US operations (£2 million – see note 14).

In 2006/07, property provisions released related to Europe, Asia & US (£16 million – see note 6) following the reassessment of its property portfolio and a release in respect of the Group's former US operations (£3 million – see note 14).

31 Provisions for other liabilities and charges continued

Redundancy
Provision has been made for the total employee related costs of redundancies announced prior to the reporting date. Amounts provided for and spent in the year primarily relate to the restructuring in Europe, Asia & US and International. The provision is expected to be used within one year.

Redundancy cost provisions released in the year relate to International (£1 million) and Europe, Asia & US (£1 million – see note 6). In 2006/07, redundancy cost provisions released related to International (see note 6).

Network and asset retirement obligations
Provision has been made for the best estimate of the unavoidable costs associated with redundant leased network capacity. The provision is expected to be used over the shorter of the period to exit and the lease contract life.

Provision has also been made for the best estimate of the asset retirement obligation associated with office sites, technical sites, domestic and sub-sea cabling. This provision is expected to be used at the end of the life of the related asset on which the obligation arises. Amounts utilised in the year relate predominantly to cash expenditure against unavoidable costs associated with redundant network capacity.

In 2006/07, network and asset retirement obligations provision releases related to International (£13 million) following the resolution of contractual disputes and Europe, Asia & US (£1 million).

Other
Other provisions include amounts relating to specific legal claims against the Group, the disposal of the previously discontinued US businesses, amounts relating to specific claims held against the Group's former insurance operation, Pender, and amounts relating to acquisitions and disposals of Group companies and investments. The release of unused amounts reflect the resolution of claims and other risks during the year.

Other provisions released in the year include an amount of £6 million in Central following a reassessment of provisions made in respect of the Group's former insurance operation, Pender (see note 11), and £3 million in Central following a reassessment of provisions relating to disposals made in previous years (see note 14). In addition, provisions of £1 million and £4 million were released in Europe, Asia & US and International respectively following resolution of claims.

In 2006/07, other provisions released included an amount of £25 million in Central following a reassessment of provisions made in respect of the Group's former US operation (see note 14), £2 million in Europe, Asia & US and £1 million in International.

32 Retirement benefits obligations
The Company and its principal subsidiaries 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 the employee's 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.

Defined contribution schemes
The pension cost for the year for the defined contribution schemes of the Group was £15 million (2006/07 – £13 million), of which £12 million (2006/07 – £10 million) was for the main UK scheme.

Defined benefit schemes
Main UK scheme – funding valuation
The latest triennial actuarial valuation was carried out by Watson Wyatt Limited as at 31 March 2007. The projected unit credit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 3.1% and that future increases in pensionable earnings would be 4.1% per annum; investments held in respect of pensions before they become payable would average 6.2% annual rate of return; investments held in respect of pensions after they become payable would average 4.9% annual rate of return; and pensions would increase at an annual rate of 3% for fixed guarantee pensions and 3.1% for inflation related pensions. As at 31 March 2007, the value of the assets represented approximately 99% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings.

The assumptions regarding current mortality rates in retirement were set having regard to the actual experience of the Fund's pensioners and dependents over the five years ended 31 March 2007. 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%.

32 Retirement benefits obligations continued

Based on these assumptions, the life expectancies of pensioners aged 60 on the date of the last actuarial valuation, 31 March 2007, and in 10 and 20 years' time are as follows:

Life expectancy of pensioners aged 60

	On 31 March 2007 (years)	On 31 March 2017 (years)	On 31 March 2027 (years)
Males	27.4	28.8	30.3
Females	28.7	30.2	31.7

The actuarial valuation revealed that the deficit at 31 March 2007 in the defined benefit section was £15 million on the basis of the funding assumptions adopted by the actuary. A £19 million contribution made to the scheme by Cable & Wireless on 28 March 2008 was calculated on the basis of the £15 million deficit at 31 March 2007, together with the interest cost that accrued on this amount during the year and the back-dating of the increased employer's contribution rate to the valuation date. As a result of the £19 million contribution, the scheme is fully funded on an ongoing basis, based on the 2007 valuation.

The actuarial valuation showed that based on long-term financial assumptions the contribution rate required to meet the future benefit accrual was 33.2% of pensionable earnings (28.5% employer's and 4.7% employee's). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be based on the position at 31 March 2010. The terms of the Cable & Wireless Superannuation Fund Trust Deed also allow the Trustees or the Company to call for a valuation at any time. The future service contribution rate includes an allowance of 3% for administration expenses, excluding the Pension Protection Fund (PPF) levy. The PPF levy due for 2007/08 was £339,000. Employers therefore paid a total contribution rate of 29.3% in 2007/08, or £11.8 million.

As part of the agreement of the valuation assumptions with the Trustees, the Group has agreed to provide certain financial information on a semi-annual basis to allow the Trustees to monitor the Group's financial performance. Should the Group's projected EBITDA fall below an agreed level, and the cash and committed facilities (net of any prior ranking creditors) available to the Group also fall below an agreed level, the Group would provide security to the Trustees in the form of an escrow arrangement or bank letter of credit for an amount equal to the shortfall against the agreed level of cash and committed facilities (net of any prior ranking creditors).

Main UK scheme and other schemes – IAS 19 valuation

The actuarial valuations of the major defined benefit schemes and medical plans operated by the Group have been updated to 31 March 2008 by qualified independent actuaries for all subsidiaries. Watson Wyatt Limited prepared the valuation for the main UK scheme and unfunded schemes, and reviewed the actuarial valuations prepared for subsidiaries. Other schemes include unfunded liabilities in the UK relating to pension provisions for former Directors and other senior employees in respect of their earnings in excess of the previous Inland Revenue salary cap. Also included are the Group's overseas schemes in Macau, Jamaica, Barbados, Guernsey, Hong Kong and Ireland. The main financial assumptions applied in the valuations and an analysis of schemes' assets are as follows:

	2007/08				2006/07			
	Main UK scheme		Other schemes		Main UK scheme		Other schemes	
	Assets £m	Assumption %	Assets £m	Assumption %	Assets £m	Assumption %	Assets £m	Assumption %
Inflation assumption		3.5		4.9		3.0		4.3
Salary increases		4.0		6.5		3.5		6.0
Pension increases		2.3-3.4		4.9		2.2-3.0		4.2
Discount rate		6.8		8.3		5.3		7.5
Medical cost trends for post-retirement medical plans				9.8				10.3
Long-term expected rate of return on plan assets								
– Equities	944	8.0	88	8.1	1,113	7.8	87	7.9
– Bonds and gilts	500	5.2	73	5.1	777	5.0	69	5.0
– Property	125	7.0	45	8.4	164	6.5	37	7.0
– Cash	546	4.4	21	4.3	25	4.5	17	4.4
	2,115		227		2,079		210	

The main UK scheme 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 assumptions shown above for Other schemes represent a weighted average of the assumptions used for the individual schemes, which similarly may not be borne out in practice.

A one year increase or decrease in the life expectancy assumptions would have changed the main UK scheme liabilities by around £36 million. A 0.25% change in the discount rate used to value the scheme liabilities would have changed the liabilities by around £85 million. A 0.25% change in the assumed rate of salary increases would have changed the liabilities required by around £5 million.

32 Retirement benefits obligations continued

The overall expected rate of return for each 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 the country in question having regard to investment yields on the measurement date.

The main UK defined benefit 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.

The assets and liabilities of the defined benefit schemes and post-retirement medical plans operated by the Group are presented below:

	31 March 2008			31 March 2007			31 March 2006		
	Main UK scheme £m	**Other schemes £m**	**Total £m**	Main UK scheme £m	Other schemes £m	Total £m	Main UK scheme £m	Other schemes £m	Total £m
Total fair value of plan assets	**2,115**	**227**	**2,342**	2,079	210	2,289	1,978	236	2,214
Present value of funded obligations	**(1,740)**	**(175)**	**(1,915)**	(2,036)	(162)	(2,198)	(2,067)	(200)	(2,267)
Excess of assets/(liabilities) of funded obligations	**375**	**52**	**427**	43	48	91	(89)	36	(53)
Present value of unfunded obligations	**–**	**(36)**	**(36)**	–	(40)	(40)	–	(38)	(38)
Effect of asset ceiling	**(375)**	**(30)**	**(405)**	–	(23)	(23)	–	(11)	(11)
Net (deficit)/surplus	**–**	**(14)**	**(14)**	43	(15)	28	(89)	(13)	(102)
Liabilities									
Defined benefit pension plans in deficit	**–**	**(30)**	**(30)**	–	(33)	(33)	(89)	(39)	(128)
Post-retirement medical plans (unfunded)	**–**	**(16)**	**(16)**	–	(14)	(14)	–	(15)	(15)
Total	**–**	**(46)**	**(46)**	–	(47)	(47)	(89)	(54)	(143)
Assets									
Defined benefit pension plans in surplus	**–**	**32**	**32**	43	32	75	–	41	41
Actuarial gains/(losses) on plan liabilities	**346**	**(2)**	**344**	77	3	80	(224)	(14)	(238)
Actuarial (losses)/gains on plan assets	**(63)**	**1**	**(62)**	32	5	37	206	–	206

Included within these liabilities is an amount of £13 million (2006/07 – £15 million) to cover the cost of former Directors' pension entitlements.

When defined benefit funds have an IAS 19 surplus, they are recorded at the lower of that surplus and the future economic benefits available in the form of a cash refund or a reduction in future contributions. Any adjustment to the surplus is recorded directly in equity. The effect of these adjustments (described as asset ceiling adjustments) was £405 million in the period (2006/07 – £23 million).

The amounts recognised in the income statement are as follows:

	31 March 2008			31 March 2007		
	Main UK scheme £m	**Other £m**	**Total £m**	Main UK scheme £m	Other £m	Total £m
Current service cost	**10**	**6**	**16**	14	6	20
Interest cost	**106**	**15**	**121**	101	16	117
Expected return on plan assets	**(135)**	**(20)**	**(155)**	(121)	(21)	(142)
Gains on curtailment or settlement	**(2)**	**(3)**	**(5)**	(6)	–	(6)
Total (income)/expense	**(21)**	**(2)**	**(23)**	(12)	1	(11)

The defined benefit expense has been included in employee benefit expenses (note 9).

The actual return on plan assets was £93 million (2006/07 – £179 million).

Net actuarial gains amounting to £282 million (2006/07 – gains of £117 million) have been recognised directly in equity and are presented in the statement of recognised income and expenses. In addition an actuarial loss of £382 million (2006/07 – loss of £12 million) has been recognised in the statement of recognised income and expenses due to the change in the effect of asset ceilings. The total amount recognised in the statement of recognised income and expenses in the current financial year and cumulatively to 31 March 2008 is a loss of £100 million (2006/07 – gain of £105 million) and gain of £72 million (2006/07 – gain of £172 million) respectively.

32 Retirement benefits obligations continued

Changes in the present value of the defined benefit obligations are as follows:

	2007/08			2006/07		
	Main UK scheme £m	**Other £m**	**Total £m**	Main UK scheme £m	Other £m	Total £m
Obligation at 1 April	**(2,036)**	**(202)**	**(2,238)**	(2,067)	(238)	(2,305)
Service cost	**(10)**	**(6)**	**(16)**	(14)	(6)	(20)
Interest cost	**(106)**	**(15)**	**(121)**	(101)	(16)	(117)
Actuarial gains/(losses) recognised in equity	**346**	**(2)**	**344**	77	3	80
Employee contributions	**(2)**	**(2)**	**(4)**	(2)	(2)	(4)
Settlement/curtailments	**2**	**3**	**5**	6	28	34
Exchange differences on foreign plans	**–**	**3**	**3**	–	19	19
Benefits paid	**66**	**10**	**76**	65	10	75
Obligation at 31 March	**(1,740)**	**(211)**	**(1,951)**	(2,036)	(202)	(2,238)

Changes in the fair value of defined benefit assets are as follows:

	2007/08			2006/07		
	Main UK scheme £m	**Other £m**	**Total £m**	Main UK scheme £m	Other £m	Total £m
Fair value of assets as at 1 April	**2,079**	**210**	**2,289**	1,978	236	2,214
Expected return	**135**	**20**	**155**	121	21	142
Actuarial (losses)/gains recognised in equity	**(63)**	**1**	**(62)**	32	5	37
Contributions by employer	**28**	**7**	**35**	11	7	18
Employee contributions	**2**	**2**	**4**	2	2	4
Settlement/curtailments	**–**	**–**	**–**	–	(28)	(28)
Exchange differences on foreign plans	**–**	**(3)**	**(3)**	–	(23)	(23)
Benefits paid	**(66)**	**(10)**	**(76)**	(65)	(10)	(75)
Fair value of assets as at 31 March	**2,115**	**227**	**2,342**	2,079	210	2,289

Experience gains for the period are as follows:

	31 March 2008		31 March 2007		31 March 2006		31 March 2005	
	Main UK scheme £m	**Other £m**	Main UK scheme £m	Other £m	Main UK scheme £m	Other £m	Main UK scheme £m	Other £m
Defined benefit obligation	**(1,740)**	**(211)**	(2,036)	(202)	(2,067)	(238)	(1,787)	(206)
Plan assets	**2,115**	**227**	2,079	210	1,978	236	1,611	215
Surplus/(deficit) excluding the effects of the asset ceiling	**375**	**16**	43	8	(89)	(2)	(176)	9
Experience gains/(losses) on plan liabilities	**14**	**(8)**	(7)	5	(15)	(14)	36	(9)
Experience (losses)/gains on plan assets	**(63)**	**1**	32	5	206	–	43	15

The best estimate of contributions for 2008/09 is:

	Main UK scheme £m	Other £m	Total £m
Employer contributions excluding one-off contributions	10	4	14
Employee contributions	2	2	4

The pension disclosures above include three post-retirement medical plans, one in Jamaica and two in Barbados. An increase/(decrease) in the assumed medical cost trend of 1% would have no material effect on the aggregate of current service costs and interest costs (2006/07 – no material effect) and would increase/(decrease) the accumulated defined benefit obligation by £3 million/£(3) million (2006/07 – £3 million/£(2) million).

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33 Share capital

	31 March 2008 £m	31 March 2007 £m
Authorised	**875**	875
2007/08 – 3,500,000,000 ordinary shares of 25 pence each		
(2006/07 – 3,500,000,000 ordinary shares of 25 pence each)		
Issued, called-up and fully paid	**634**	615
2007/08 – 2,536,623,051 ordinary shares of 25 pence each		
(2006/07 – 2,460,483,642 ordinary shares of 25 pence each)		

	Number of shares	£m
Issued, called-up and fully paid		
At 1 April 2006	2,421,046,668	605
Allotted under share options scheme	15,906,014	4
Allotted under scrip dividends	23,530,960	6
At 31 March 2007	2,460,483,642	615
Allotted under share options scheme	10,439,382	3
Allotted under scrip dividends	12,343,480	3
Allotted under convertible bonds	53,356,547	13
At 31 March 2008	**2,536,623,051**	**634**

The aggregate nominal value of the shares allotted in the year was £19 million (2006/07 – £10 million). The Company did not repurchase any shares in 2007/08 or 2006/07.

In addition to 53 million new shares issued as part of the bond conversion in 2007/08, the Company issued 29 million treasury shares. No treasury shares were cancelled during the year.

The nominal value and market value of treasury shares (excluding those held by the ESOP trust) held at 31 March 2008 was £11 million (2006/07 – £19 million) and £68 million (2006/07 – £125 million) respectively.

In accordance with the Company's Articles of Association, each share (other than those held in treasury) entitles the holder to one vote at General Meetings of Cable and Wireless plc. The Company's shareholders can declare dividends by passing an ordinary resolution, but the payment cannot exceed the amount recommended by the Directors.

Allotments of ordinary shares of 25 pence each were made during the year in respect of the following:

	31 March 2008		31 March 2007	
	Number of allotted shares	Gross consideration received £	Number of allotted shares	Gross consideration received £
Savings Related Share Option Scheme	**5,085,150**	**2,506,801**	4,839,092	3,561,002
Global Savings Related Share Option Scheme	**1,461,876**	**1,066,300**	2,129,125	1,154,318
Share Option Plan – Approved	**166,781**	**194,162**	569,680	626,337
Share Option Plan – Unapproved	**3,725,575**	**3,998,381**	8,368,117	9,325,263
Scrip dividends[1]	**12,343,480**	**–**	23,530,960	–
Convertible bonds[2]	**53,356,547**	**–**	–	–
Total	**76,139,409**	**7,765,644**	39,436,974	14,666,920

1 Shares with a cash equivalent value of £23 million (2006/07 – £28 million) were issued during the year as payment for dividends by scrip. This is a non-cash transaction.
2 Shares with a cash equivalent value of £106 million were issued during the year as part of the conversion of bonds. This is a non-cash transaction.

33 Share capital continued

The Group defines capital as share capital, share premium, special reserve, capital reserve, minority interest and retained earnings. The Group's objective in managing capital is to maintain a capital structure that optimises returns to shareholders having regard to the liquidity requirements and the relative cost of debt and equity. It does not have any externally imposed requirement for managing capital, other than those imposed by Company Law.

The Group manages its capital position in such a way as to optimise the weighted average cost of debt and equity taking into account:

- the liquidity required in the light of the projected funding requirements of the Group's operating businesses with an appropriate level of contingency;
- the level of financial strength required to maintain the Group's terms of trade taking account of its operational cash generation;
- the relative post-tax cost of debt and equity; and
- the extent to which external debt finance is, or is likely to be, available to the Group on acceptable terms.

This strategy is unchanged from the prior year.

The Articles of Association of the Company permit borrowing up to two and a half times the capital and reserves of the Group.

During the period, the Group actively managed its capital position by repurchasing a proportion of its convertible bonds so as to limit the dilution to existing shareholders. The Group also ensures that sufficient funds and distributable reserves are held to allow payments of projected dividends to shareholders. This process is managed through the Group's budget and five year forecast process.

34 Share premium and other reserves

	Share premium £m	Special reserve £m	Other reserves £m	Fair value reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
At 1 April 2006	24	1,714	152	3	10	(923)	980
Premium on shares issued during the year	32	(42)	–	–	–	42	32
ESOP Trust shares issued to satisfy share awards	–	–	–	–	–	3	3
Profit for the year	–	–	–	–	–	174	174
Net actuarial gains recognised – net of deferred taxation	–	–	–	–	–	103	103
Foreign currency translation reserves	–	–	–	–	(140)	–	(140)
Share-based payment costs	–	–	–	–	–	25	25
Dividends	–	–	–	–	–	(111)	(111)
At 31 March 2007	56	1,672	152	3	(130)	(687)	1,066
Cash received in respect of employee share schemes	–	–	–	–	–	6	6
Own shares purchased	–	–	–	–	–	(2)	(2)
Fair value gain on available-for-sale assets	–	–	–	2	–	–	2
Acquisition of minority interest	–	–	(4)	–	–	–	(4)
Tax on items in equity	–	–	–	–	–	11	11
Profit for the year	–	–	–	–	–	164	164
Net actuarial losses recognised – net of deferred taxation	–	–	–	–	–	(98)	(98)
Foreign currency translation reserve	–	–	–	–	2	–	2
Share-based payment costs	–	–	–	–	–	16	16
Conversion of convertible bonds	75	(88)	–	–	–	124	111
Repurchase and conversion of convertible bonds	–	–	(47)	–	–	(38)	(85)
Dividends	–	–	–	–	–	(161)	(161)
Shares allotted under share option schemes	5	(8)	–	–	–	8	5
Shares allotted under scrip dividend scheme	20	(23)	–	–	–	23	20
At 31 March 2008	**156**	**1,553**	**101**	**5**	**(128)**	**(634)**	**1,053**

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34 Share premium and other reserves continued

Special reserve
The special reserve relates to the cancellation of the share premium account at February 2004 which was approved by the Company at the 2003 AGM and confirmed by the Court in February 2004. It is reduced from time to time by the amount of any increase in the paid-up share capital and share premium account of the Company after 20 February 2004 resulting from the issue of new shares for cash or other new consideration or upon a capitalisation of distributable reserves. The special reserve will not be treated as realised profits of the Company until any debt or claim against the Company outstanding as at 20 February 2004 has been repaid or remedied.

Foreign currency translation reserve
The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than that of the Company.

Other reserves
In 2007/08, other reserves included a capital redemption reserve of £105 million (2006/07 – £105 million) and a reserve relating to transactions with minority interests of £4 million (2006/07 – £nil).

In 2006/07, included in other reserves was an equity reserve of £47 million resulting from the transfer of the conversion element of the Group's convertible bond from derivative financial instruments to equity in 2005/06. This reserve was transferred to retained earnings during the period upon extinguishment of the convertible bonds.

35 Share-based payments

Share option schemes
The share option schemes operating as at 31 March 2008 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 option 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 the Company, which are issued at a discount of 20% to the market value of the Company's ordinary shares at the date of grant. The Company 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 considerations.

Cable & Wireless Revenue approved share option scheme and Cable & Wireless Senior employees' share option scheme
Prior to July 2001, Cable & Wireless granted share options under the Cable & Wireless Senior employees' share option scheme (SESOS) and the Cable & Wireless Revenue approved share option scheme (RESOS). Options awarded under these plans between June 1999 and July 2001 are subject to performance conditions based on Cable & Wireless' TSR performance relative to the FTSE 100 Index, underpinned by real growth in EBITDA and revenue. TSR is share price growth adjusted for dividends and capital actions. TSR performance is averaged over a three month period at the beginning and end of the performance period. This moderates the effect of short-term share price volatility. For full vesting, Cable & Wireless' TSR must achieve at least upper quartile level against the FTSE 100 between the third and fifth anniversaries of the date of grant. Half vesting applies for TSR at the median level, with a sliding scale between median and upper quartile. If the performance conditions are not met by the fifth anniversary of the date of grant, the options lapse. As at the date of this report, none of these options have achieved their performance conditions.

Options granted under RESOS and SESOS before June 1999 became exercisable if growth in the Company's published earnings per share (excluding exceptional items) measured over any period of three consecutive financial years, commencing not earlier than the financial year in which the option was granted, exceeded by not less than 6% of the percentage growth of the Retail Price Index over the same three year period. All such options became exercisable in full. No further grants will be made under the RESOS and SESOS plans.

Cable & Wireless Share option plan (approved and unapproved)
The level of any share option award is determined by the 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.

The vesting of share options awarded to the Executive Directors and to all employees outside the US is subject to relative TSR performance conditions. For options granted before May 2004, full vesting occurs only if the TSR performance of the Company 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 Remuneration Committee is satisfied that the underlying financial performance of the Group warrants the release of the shares.

35 Share-based payments continued

Performance conditions are applied in determining the level of awards to employees in the US, but do not normally apply to the vesting of such awards. In addition, 25% of awards to employees in the US vest on the first anniversary of the date of the grant with a further 25% on each subsequent anniversary. These terms reflect normal practice in the US.

The Cable & Wireless Employee Share Ownership Plan (ESOP) Trust

The Cable & Wireless ESOP Trust is a discretionary trust, which has been funded by loans from the Company to acquire shares in Cable and Wireless plc. At 31 March 2008 the Trust holds 26,859,407 shares with a cost of £73 million and a market value of £40 million.

The costs of running the Trust are included in the profit and loss account as they accrue. The Trustees of the plan may notionally allocate ordinary shares in the Company annually to Executive Directors or other senior executives and other key staff. Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the performance share plan, the restricted share plan, the deferred short-term incentive plan and the share option plan, details of which are given below. The shares will be provided from existing ordinary shares in issue acquired by the Trustees. Surplus shares may be held to satisfy future awards. The Trust has waived its rights to dividends. At 31 March 2008, there were 1,341,077 shares under contingent awards in relation to the performance share plan, 22,206,013 shares under restricted share awards in relation to the restricted share plan, 767,880 shares under the deferred short-term incentive plan, 554,988 shares under the stock appreciation rights plan, and 6,634,719 shares under options in relation to the share option plan.

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 the Company, 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 the Company measured over a three year period (see performance conditions for share-based awards on page 56). 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.

Deferred bonus scheme

Executive Directors and selected senior executives were able voluntarily to defer between 10% and 50% of their post-tax senior management bonus to purchase shares in the Company, which will be held in trust. Half of the purchased shares will be held in trust for a two year deferral period and the remaining half will be held in trust for a three year deferral period. Participants will be awarded matching shares when the purchased shares vest at the end of the deferral periods.

No award has been made under the deferred bonus scheme since June 2004.

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 on page 56). 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 executives and selected employees below the Executive Directors, primarily as a retention or a recruitment tool to compensate for the forfeiture of long-term incentive arrangements when transferring to the Company. Generally, 50% of any restricted shares awarded under this plan vest after one year with the remaining 50% vesting after three years.

Restricted shares are also used to award matching shares with performance conditions to Executive Directors who invested their own funds into Company 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.

35 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 Remuneration Committee will also consider the underlying financial performance of the Company at the end of the performance period.

The Remuneration Committee considers that it is important to measure and reward relative performance against an appropriate set of companies. The Company'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 the Company's TSR ranking relative to the comparative group at the end of a single three year performance period.

Cash-based awards

Stock appreciation rights plan (SARs)

The SARs plan is used to replicate exactly the plans described above, but rewards are delivered as a cash equivalent. It is used in exceptional cases for countries in which tax or legal issues preclude the use of real shares or share options.

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 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 the Company, and the Company 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 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 and matching shares are reinvested in additional dividend shares.

High Performance Incentive Plan (HPIP)

The HPIP provides for share awards at nil cost to senior managers in International. It is a three year incentive plan and the scheme is worth up to 100% of a participant's salary at the date they entered the plan.

The awards are based on performance periods years one and two that then vest after years two and three respectively, with the financial year 2006/07 being year one. The performance targets are based on EBITDA and cash flow. On vesting the shares are worth the maximum of the prevailing market value and the grant price.

A relatively small element of the HPIP is formed as a 'Phantom' HPIP whereby the payments under the plan are made in cash rather than in shares.

UK Share Award

On 25 July 2006, all permanent employees and fixed-term contractors of Europe, Asia & US based in the UK were awarded £1,000 in Cable and Wireless plc shares as a one-off gift.

Share options

Options are exercised on a regular basis throughout the year. Options exercised during the year ended 31 March 2008 resulted in 14.3 million shares (31 March 2007 – 18.6 million shares) being issued at the average exercise price of 84 pence each (31 March 2007 – 94 pence each). The related market weighted average share price at the time of the exercise was 169 pence per share (31 March 2007 – 141 pence per share).

Movements in the number of share options outstanding and their related weighted average exercise prices are shown below:

	2007/08		2006/07	
	Average exercise prices (pence/share)	**Options (000)**	Average exercise prices (pence/share)	Options (000)
At 1 April	**116**	**63,225**	164	101,322
Granted	**–**	**–**	103	13,315
Forfeited	**165**	**(8,115)**	152	(2,927)
Exercised	**84**	**(14,305)**	94	(18,632)
Expired	**321**	**(2,198)**	285	(29,853)
At 31 March	**106**	**38,607**	116	63,225
Exercisable	**104**	**12,042**	175	14,321

35 Share-based payments continued

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

Range of exercise prices (pence)	31 March 2008 Number of options outstanding	31 March 2008 Weighted average exercise price (pence/share)	31 March 2008 Weighted average remaining life (rounded to nearest year)[1]	31 March 2007 Number of options outstanding	31 March 2007 Weighted average exercise price (pence/share)	31 March 2007 Weighted average remaining life (rounded to nearest year)[1]
0-49	**2,367,297**	**37**	**1**	7,360,879	37	2
50-99	**2,068,067**	**90**	**1**	2,721,814	90	2
100-149	**30,934,523**	**107**	**4**	42,964,492	108	5
150-199	**3,172,097**	**154**	**4**	3,682,982	155	5
200-249	**–**	**–**	**–**	4,739,422	204	2
250-299	**10,599**	**275**	**1**	282,699	275	1
300-349	**–**	**–**	**–**	1,064,439	340	1
350-399	**6,876**	**358**	**1**	42,588	354	2
550-599	**–**	**–**	**–**	284,180	553	–
600-1,250	**48,036**	**717**	**0**	81,445	762	1

1 Weighted average remaining life relates to legal life of options not expected life.

There were no share options granted in 2007/08. In 2006/07, 13 million options were granted with a weighted average fair value at the measurement date of 22 pence. The Group computed the fair value of share option awards using the Monte Carlo pricing model. The expected volatility was determined based on the statistical analysis of daily share prices over a historical period equal to the expected lives of the options. Performance and other market conditions attached to awards were reflected in the calculation of fair value as part of the Monte Carlo simulations.

Other awards granted during 2007/08

Award	2007/08 Shares	2007/08 Weighted average fair value (pence/share)	2007/08 Features incorporated in schemes	2006/07 Shares	2006/07 Weighted average fair value (pence/share)	2006/07 Features incorporated in schemes
RSP	**7,604,396**	**114**	**TSR conditions**	11,242,072	117	TSR conditions
HPIP	**6,026,558**	**123**	**–**	10,579,140	123	–
Cash Settled 'Phantom' HPIP	**538,465**	**148**	**–**	1,512,806	160	–
SARs	**368,667**	**182**	**–**	–	–	–
SPP scheme (matching shares)	**1,208,361**	**184**	**–**	–	–	–
UK share award	**–**	**–**	**–**	4,039,895	111	–

Of the 7.6 million restricted share plan grants made during the period, 5.5 million had TSR conditions applicable (2006/07 – nil million). The remaining 2.1 million grants have no performance criteria attached (2006/07 – none). A fair value exercise was completed at 31 March 2008 for grants made during 2007/08 using the Monte Carlo method.

In the SPP scheme, shares are bought each month by the Halifax Corporate Trust on behalf of the Company, to match the investment of the employees. Matching shares are awarded to the employee after three years, or earlier if a good leaver.

Monte Carlo pricing model assumptions used in the pricing of restricted share plan grants (2007/08) and option grants (2006/07)

	2007/08 (pence/share)	2006/07 (pence/share)
Weighted average share price	**195**	135
Weighted average exercise price	**N/A**	103
Dividend yield	**3.0%**	3.9% to 4.3%
Expected volatility	**25.6%**	30.4% to 31.4%
Risk-free interest rates	**5.1%**	4.7%
Expected lives of the options	**3 years**	4 years

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

The total expense relating to share-based payments which are equity settled transactions was £16 million (2006/07 – £25 million).

36 Minority interests

	2007/08 £m	2006/07 £m
Balance as at 1 April	**209**	281
Share of total recognised income and expenditure for the year	**44**	24
Dividends paid	**(58)**	(96)
Disposals	**(3)**	–
Balance as at 31 March	**192**	209

37 Cash flows from operating activities

Reconciliation of net profit to net cash inflow from operating activities:

	Note	2007/08 £m	2006/07 £m
Continuing operations			
Profit for the year		**220**	206
Adjustments for:			
Tax expense	13	**47**	43
Depreciation	17,19	**289**	236
Amortisation	18	**47**	50
Gain on termination of operations	11	**(9)**	(15)
Gains and losses on sale of non-current assets	10	**(1)**	(153)
Net loss on sale of Bulldog brand and retail customer base		**–**	11
Gain on disposal of property, plant and equipment		**(56)**	(11)
Finance income	12	**(53)**	(52)
Finance expense	12	**85**	80
Decrease in provisions		**(9)**	(28)
Employee benefits		**5**	41
Defined benefit pension scheme top-up contributions	32	**(19)**	–
Defined benefit pension scheme other contributions	32	**(16)**	(18)
Share of post-tax results of joint ventures and associates	20	**(37)**	11
Operating cash flows before working capital changes		**493**	401
Changes in working capital (excluding effects of acquisition and disposal of subsidiaries)			
Decrease in inventories		**6**	8
(Increase)/decrease in trade and other receivables		**(5)**	76
Increase/(decrease) in payables		**5**	(186)
Decrease in other assets		**5**	–
Cash generated from continuing operations		**504**	299
Discontinued operations			
Profit for the year		**–**	28
Adjustments for:			
Decreases in provisions and changes in working capital		**–**	(28)
Cash generated from discontinued operations		**–**	–
Cash generated from operations		**504**	299

38 Commitments

The Group had capital commitments at the end of the financial year relating to the purchase of property, plant and equipment of £70 million (2006/07 – £75 million). No provision has been made for these commitments. £13 million (2006/07 – £11 million) of these commitments relate to the Group's share of the capital commitments of its joint ventures.

In addition, the Group has a number of operating commitments arising in the ordinary course of the Group's business. The most significant of these relate to network operating and maintenance costs. In the event of default of another party, the Group may be liable to additional contributions under the terms of the agreements.

The Group leases land and buildings and networks under various lease agreements. The leases have varying terms, escalations, clauses and renewal rights.

The operating lease expenditure related to the year ended 31 March 2008 is disclosed in note 6. The aggregate future minimum lease payments under operating leases are:

	31 March 2008 £m	31 March 2007 £m
No later than one year	**114**	95
Later than one year but not later than five years	**134**	140
Later than five years	**200**	147
Total minimum operating lease payments	**448**	382

During the year the Group entered into operating lease committments of £96 million relating to property sold to a third party as part of a sale and leaseback transaction.

39 Guarantees and contingent liabilities

Guarantees at the end of the financial year for which no provision has been made in the financial statements are as follows:

	31 March 2008 £m	31 March 2007 £m
Trading guarantees	**102**	117
Other guarantees	**57**	59
Total guarantees	**159**	176

Trading guarantees principally comprise performance bonds or contracts issued in the normal course of business, guaranteeing that the Group will meet its obligations to complete projects in accordance with the contractual terms and conditions. The nature of contracts includes projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

Other guarantees include guarantees for financial obligations principally in respect of borrowings, leases and letters of credit.

Whilst Pender, the Group's former insurance operation, ceased to underwrite new business from April 2003, it has in the past written policies in favour of the Group and third parties. Potentially significant insurance claims have been made against Pender under certain of these third party policies, which have also given rise to uncertainties and potential disputes with reinsurers. Significant progress has been made in resolving these claims. Detail of these insurance claims and potential claims are not disclosed as such disclosure may be prejudicial to the outcome of such claims.

In addition the Group has, as is considered standard practice in such agreements, given guarantees and indemnities in relation to a number of disposals of subsidiary undertakings in prior years. Generally, liability has been capped at no more than the value of the sales proceeds, although some uncapped indemnities have been given. The Group also gives warranties and indemnities in relation to certain agreements including facility sharing agreements. Some of these agreements do not contain liability caps.

Whilst the Group ceased participation in the Merchant Navy Officers Pension Fund, it may be liable for future contributions to fund a portion of any future funding deficits. Currently, the amount of these potential liabilities cannot be quantified.

40 Business combinations and acquisitions of minority interests
The only subsidiaries acquired in 2007/08 were those in the Connecteo Group. There were no subsidiaries acquired during 2006/07.

Connecteo Group
In January 2008, the Group purchased a 49% stake in the Connecteo Group and gained management control of the holding company for cash consideration of £7 million. The Connecteo Group provides satellite, data and internet services in Benin, Burkina Faso, Cameroon, Guinea, Niger and Senegal. The Group is committed to a further 16% purchase by 31 December 2008 for £4 million of cash consideration.

The Directors have performed a preliminary assessment of the fair values of the assets and liabilities acquired as property, plant and equipment (£2 million) and net working capital liabilities (£1 million). The excess of consideration over the fair value of the acquired assets and liabilities has been allocated to goodwill. An exercise will be conducted over the course of the next six months to identify and value any other intangibles acquired.

The contribution from Connecteo to revenues and operating profit from the date of acquisition to 31 March 2008 was less than £1 million and £nil respectively. If the acquisition had occurred on 1 April 2007 the contribution to Group revenue would have been £3 million and the contribution to operating profit would have been £nil.

St Kitts
On 21 September 2007, the Group purchased an additional 17% shareholding in Cable & Wireless St Kitts and Nevis Limited (St Kitts) for cash consideration of £7 million. The shares were previously held by the Government of the Federation of St Kitts & Nevis (the Federation). As a result of the acquisition, the Group's effective interest in St Kitts is increased from 65% to 82%. This transaction has resulted in £3 million of minority interests transferred to retained earnings and a £4 million increase in other reserves. As part of the purchase agreement with the Government, the Group has committed to offer 5% of the shares acquired to residents of the Federation.

Monaco Telecom
Goodwill in connection with the Group's investment in Monaco Telecom SAM increased by £6 million during the year (2006/07 – £33 million increase). The goodwill balance increased as a result of dividends and exchange movements offset by changes in the fair value of the put option.

As part of the acquisition of Monaco Telecom a put option was issued (see note 28). Changes in the fair value of this put option are treated as contingent consideration and adjusted against goodwill. During the year, this change in the fair value of the put option resulted in a £12 million reduction in goodwill (2006/07 – £19 million increase). A cash dividend of £11 million (2006/07 – £15 million) was paid to the Principality of Monaco during the year. This dividend reflected an increase in the Group's investment in Monaco Telecom and therefore an increase to goodwill. The goodwill balance was also increased by £7 million as a result of exchange movements during the year (2006/07 – £1 million decrease).

Energis
As part of the Energis acquisition on 11 November 2005, Cable & Wireless agreed to pay contingent consideration of between £nil and a maximum of £80 million. The amount of contingent consideration is linked to the Company's share price and may be satisfied, at the Group's option, in either cash or shares of the Company. Payments are based on a ratio of £1.25 million for every one penny by which the maximum three month volume weighted average Cable and Wireless plc share price exceeds the reference price of 135 pence. Payments began in March 2008 and are payable monthly until December 2008. The payments are based upon Cable & Wireless' volume weighted average share price for the three months prior to any relevant payment date.

Additional goodwill of £47 million (2006/07 – £37 million) has been recognised in connection with the contingent consideration paid to date. Payment of £49 million of contingent consideration was made during the period representing £47 million of additional goodwill and £2 million of interest unwind on the consideration.

In the event of a change of control of Cable & Wireless, or in the event of its shares ceasing to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities, a sum calculated in accordance with the terms of the contingent consideration will be payable in cash within ten business days.

41 Related party transactions
Transactions with joint ventures and associates
All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless' products and services, network and access charges. There were no material trade transactions with joint ventures during the year.

The Group received dividends of £15 million from joint ventures (2006/07 – £16 million) and no dividends from associates (2006/07 – £7 million) during the year ended 31 March 2008 as set out in note 20. Amounts owed by joint ventures and associates in respect of trading balances are set out in note 22.

Transactions with key management personnel
There were no material transactions with key management personnel, including loans advanced to Directors or other key managers, except for those relating to remuneration, disclosed in notes 9 and 35, and shareholdings.

41 Related party transactions continued

Transactions with other related parties
There are no controlling shareholders of the Group.

There have been no material transactions with the shareholders of the Company. Other than the parties disclosed above, the Group has no other material related parties.

42 Licences and concessions

In a number of countries the Group holds licences or concessions to operate. These licences take a variety of forms and their terms, rights and obligations vary significantly. The Group assumes that it will renew licences as they expire. Previous history indicates this is the most likely outcome. Were renewal not to occur, in most cases the business or its assets would be transferred to the new operator or government at fair or net book value. In a small number of locations, transfer is at a value below net book value. In these places the Group monitors closely the likelihood of licence renewal in order to ensure that should a licence not be renewed, the business' assets have been written down to their recoverable value at the point of transfer.

There were no significant changes to the terms of the Group's licences in the year.

43 Legal proceedings

In the ordinary course of business, the Group is engaged in litigation proceedings, regulatory claims, investigations and reviews. The Group consider adequate allowance has been made in respect of these matters and does not expect the ultimate resolution of the actions to which it is a party to have a materially adverse impact on the financial position of the Group.

In July 2007, Cable & Wireless received a claim from a Caribbean competitor, Digicel, which the Group believes is without foundation and which is being vigorously defended. The claim alleges that Cable & Wireless delayed Digicel's entry into seven Caribbean markets by not providing interconnection between their networks and Group's on a timely basis. Based on legal advice, Cable & Wireless expect to defend this claim successfully, but have recorded a charge of £11 million for legal and other fees related to our defence.

44 Subsidiaries and joint ventures

The Group comprises a large number of companies and it is not practical to include all of them in this list. The list therefore only includes those companies whose results or financial position, in the opinion of the Directors, principally affects the figures shown in the financial statements.

	Local currency	Issued share capital (million)	Ownership percentage %	Class of shares	Country of incorporation	Area of operation
Subsidiaries						
Cable & Wireless UK	GBP	3,033	100	Ordinary	England	UK
Cable & Wireless Jamaica Ltd	J$	16,817	82	Ordinary	Jamaica	Jamaica
Cable & Wireless Panama, SA[1]	Balboa	316	49	Ordinary	Panama	Panama
Companhia de Telecomunicacoes de Macau, SARL[2]	Pataca	150	51	Ordinary	Macau	Macau and China
Cable & Wireless (Barbados) Ltd	B$	72	81	Ordinary	Barbados	Barbados
Cable and Wireless (West Indies) Ltd	GBP	5	100	Ordinary	England	Caribbean
Monaco Telecom SAM[3,4]	Euro	2	49	Ordinary	Monaco	Monaco
Joint ventures						
Telecommunications Services of Trinidad and Tobago Ltd[3]	T$	283	49	Ordinary	Trinidad and Tobago	Trinidad and Tobago
Dhivehi Raajjeyge Gulhun Private Ltd[2]	Rufiya	190	45	Ordinary	Maldives	Maldives

1 The Group regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.
2 This company has a financial year end of 31 December due to the requirements of the shareholders' agreement.
3 This company is audited by a firm other than KPMG and its international member firms.
4 The Group holds an economic interest of 55% in Monaco Telecom SAM via a subsidiary.

Cable and Wireless plc does not have any direct investment in the above subsidiaries and joint ventures.

44 Subsidiaries and joint ventures continued

On 18 June 2004 Cable & Wireless acquired 55% of Monaco Telecom, a Monaco based telecommunication service provider, from Vivendi Universal. Simultaneously with the acquisition, Cable & Wireless transferred legal ownership of 6% of the shares of Monaco Telecom to an unrelated third party. Cable & Wireless contractually retained voting and economic rights in the shares as part of the arrangement. In addition, the 6% interest is subject to certain put and call options that, together with the retained voting and economic rights, provide full management control of Monaco Telecom to Cable & Wireless.

Cable & Wireless has also entered into a shareholders' agreement with the Principality of Monaco, which contains, among other provisions, a prohibition on either Cable & Wireless or the Principality (subject to certain limited exceptions) selling their shares in Monaco Telecom for five years, mutual pre-emption rights on transfer of shares and certain other limited rights in favour of the Principality. The Principality has a put option entitling it to put its 45% shareholding in Monaco Telecom to Cable & Wireless at certain times after 1 January 2008. The exercise price under the put option is fair market value, taking into account the nature of the minority stake in Monaco Telecom.

Full details of all subsidiary undertakings, joint ventures, associates and trade investments will be attached to the Company's Annual Return, to be filed with the Registrar of Companies in England and Wales.

45 Financial risk management

Treasury policy

The Group's treasury operations are managed on the basis of policies and authorities approved by Cable and Wireless plc's Board of Directors. Day to day management of treasury activities is delegated to the Group Finance Director and the Director of Treasury and Corporate Finance, within specified financial limits for each type of transaction and counterparty.

To the extent that subsidiaries undertake treasury transactions, these are governed by Group policies and delegated authorities. Material subsidiary positions are monitored by the Central treasury function. Where appropriate, transactions are reported to the Board. All subsidiaries are required to report details of their cash and debt positions to Central Treasury on a monthly basis.

The key responsibilities of the Treasury function include funding, investment of surplus cash and the management of interest rate and foreign currency risk. The majority of the Group's cash resources and borrowings are managed centrally.

The Group uses derivatives including forward foreign exchange contracts, interest rate swaps, cross-currency swaps and options in the management of its foreign currency and interest rate exposures. The use of these instruments is in accordance with strategies agreed from time to time by the Treasury Management Committee (comprising the Group Finance Director, Group Financial Controller, Director of Treasury and Corporate Finance and other senior financial managers as required) and subject to policies approved by the Board. Derivatives are not used for trading or speculative purposes and all derivative transactions and positions are monitored and reported to the Board on a regular basis.

Exchange rate risk

The Group trades in several countries and a large portion of its revenue is generated in US dollars or currencies linked to the US dollar. The Group is exposed to movements in exchange rates in relation to foreign currency payments, dividend income from foreign subsidiaries, reported profits of foreign subsidiaries and the net asset carrying value of foreign investments. Exchange risk is measured on the basis of forecast cash repatriation from foreign subsidiaries.

Where appropriate the Group manages its exposure to movements in exchange rates on a net basis and uses forward foreign exchange contracts and other derivative and financial instruments to reduce the exposures created where currencies do not naturally offset in the short term. The Group will undertake hedges to minimise the exposure to individual transactions that create significant foreign exchange exposures for the Group where appropriate. Where possible, overseas subsidiaries are financed in their domestic currency to minimise the impact of translation of foreign currency denominated borrowings.

At 31 March 2008, the Group had in place a forward exchange contract amounting to US$50 million. The contract mitigates risks in forecast cash repatriation expected over the near term.

The reported profits of the Group are translated at average rates of exchange prevailing during the year. Overseas earnings are predominantly in US dollars or currencies linked to the US dollar. In broad terms, based on the 2007/08 mix of profits, the impact of a unilateral 10% weakening of sterling would have been to increase the operating profit before exceptional items by approximately £23 million and increase total equity by £99 million. The Group had approximately £39 million of net financial assets denominated in US dollar or US dollar linked currencies at the end of the year.

As part of the overall policy of managing the exposure arising from foreign exchange movements relating to the net carrying value of overseas investments, the Group may, from time to time, elect to match certain foreign currency liabilities against the carrying value of foreign investments. Currently there are no external foreign currency liabilities matched against the carrying value of foreign investments.

45 Financial risk management continued

Interest rate risk

The Group is exposed to movements in interest rates on its surplus cash balances. The Treasury function 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 2008.

The majority of the Group's borrowings are at a fixed rate. A reduction in interest rates would have an unfavourable impact upon the fair value of the Group's fixed rate borrowings. However, no debt is held for trading purposes and it is intended that it will be kept in place until maturity. As a result, the exposure to fair value loss has not been modelled.

A one percentage point lowering of interest rates will have a £7 million impact on the income received from the surplus cash balances of the Group and a £1 million impact on the floating rate borrowings of the Group. The impact on equity is limited to the impact on the income statement.

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 seeks to reduce this risk by ensuring the counterparties to all but a small proportion of the Group's financial instruments are entities rated A1 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.

The types of instrument used for investment of funds are prescribed in Group treasury policies approved by the Board. These policies contain limits on exposure to any one counterparty.

Credit risk on receivables is discussed in note 22.

Liquidity risk

At 31 March 2008, Cable & Wireless had cash and cash equivalents of £699 million. These amounts are highly liquid and are a significant component of the Group's overall liquidity and capital resources. An analysis of the maturity of our financial instruments is contained in notes 21, 22, 24 and 26 to 28.

Approximately 81% of the Group's cash is held centrally and is predominantly invested in short-term bank deposits and AAA-rated money market funds.

During 2006/07 the Group sold at par £40 million of credit linked notes issued by AA-rated banks and referenced to the Company's £200 million bond, which matures in 2012.

Certain foreign subsidiaries operate in jurisdictions which restrict the ability to repatriate cash to the Company. Where restrictions are severe, local cash balances are excluded from cash and cash equivalents.

Independent auditor's report to the members of Cable and Wireless plc

We have audited the parent company financial statements of Cable and Wireless plc for the year ended 31 March 2008 which comprise the Company balance sheet, the reconciliation of movements in equity shareholders' funds for the Company and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the consolidated financial statements of Cable and Wireless plc for the year ended 31 March 2008. 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 Annual Report, the Directors' remuneration report and the parent company 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 64.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Annual Report that is cross referenced from the principal activities, business review and results section of the Directors' report. 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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements.

Our responsibilities do not extend to any other information.

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 parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company 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 parent company financial statements and the part of the Directors' remuneration report to be audited 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 parent company financial statements and the part of the Directors' remuneration report to be audited.

Opinion
In our opinion:

- the parent company 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 2008;
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

21 May 2008

Company balance sheet
As at 31 March 2008

	Note	31 March 2008 £m	31 March 2007 £m
Fixed assets			
Tangible assets	6	**–**	9
Fixed asset investments			
Investments in subsidiaries	7	**19,831**	19,950
Investments in joint ventures and associates	7	**4**	3
Available-for-sale financial assets	9	**27**	15
		19,862	19,977
Current assets			
Debtors			
– due within one year	8	**61**	60
– due after more than one year	8	**–**	8
		61	68
Available-for-sale financial assets	9	**554**	870
Cash at bank and in hand		**15**	6
		630	944
Current liabilities			
Creditors: amounts falling due within one year		**15,424**	15,519
Net current liabilities		**14,794**	14,575
Total assets less current liabilities		**5,068**	5,402
Creditors: amounts falling due after more than one year			
Creditors	10	**–**	37
Convertible debt	11	**–**	213
Loans	11	**161**	161
		161	411
Provisions for liabilities and charges	14	**31**	62
Retirement benefit obligations	17	**20**	22
		212	495
Net assets		**4,856**	4,907
Capital and reserves			
Called-up share capital	15	**634**	615
Share premium account	16	**156**	56
Reserves	16	**4,066**	4,236
Equity shareholders' funds		**4,856**	4,907

The accompanying notes on pages 123 to 134 are an integral part of the financial statements of the Company.

The financial statements of the Company on pages 121 to 134 were approved by the Board of Directors on 21 May 2008 and signed on its behalf by:

Richard Lapthorne Chairman **Tony Rice** Group Finance Director and Joint Group Managing Director, Central

Reconciliation of movements in equity shareholders' funds for the Company

For the year ended 31 March 2008

	2007/08 £m	2006/07 (restated) £m
Profit for the financial year	**15**	246
Dividends – interim in respect of the current year	**(61)**	(40)
– final in respect of the prior year	**(100)**	(71)
(Loss)/profit for the year carried forward	**(146)**	135
Cash received in respect of employee shares	**6**	–
Own shares purchased	**(2)**	–
Fair value gain on available-for-sale asset	**2**	–
Actuarial gain in the value of defined benefit retirement plans	**3**	–
Share-based payment costs	**16**	11
Conversion of convertible bonds	**111**	–
Repurchase and conversion of convertible bonds	**(85)**	–
Shares allotted under share option schemes	**5**	–
Shares allotted under scrip dividend schemes	**20**	–
Other recognised gains relating to the year	**–**	3
New share capital issued	**19**	42
Reversal of impairment in investment in subsidiaries	**–**	1,448
Revaluation of investments in subsidiaries	**–**	121
Unrealised gain on disposal of investments	**–**	20
(Decrease)/increase in equity shareholders' funds	**(51)**	1,780
Opening equity shareholders' funds	**4,907**	3,127
Closing equity shareholders' funds	**4,856**	4,907

The accompanying notes on pages 123 to 134 are an integral part of the financial statements of the Company.

1 Statement of accounting policies

1.1 Basis of preparation

The Company's financial statements have been prepared in accordance with accounting standards applicable under generally accepted accounting principles in the United Kingdom (UK) and the provisions of the Companies Act. They have been prepared on the historical cost basis where appropriate.

These financial statements set out the position of the Company and not the Cable & Wireless Group (the Group) which it heads. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except as detailed below.

Prior year adjustment

Investments at valuation

The Company has a policy of carrying investments in subsidiary undertakings held at valuation. At 31 March 2007 the valuation of subsidiary investments in the Company was increased by £1,569 million as a result of this policy and this was reflected in the prior year as an increase in the revaluation reserve. At 1 April 2007 the revaluation reserve has been amended to exclude that part of the increase in valuation previously recorded as an impairment within the profit and loss account (£1,448 million).

Adoption of UITF Abstract 41 (Scope of FRS 20 (IFRS 2))

Employees of subsidiaries of the Company are granted rights to equity instruments of the Company as consideration for services provided to those subsidiaries. During the year the Company adopted UITF Abstract 41 and amended its accounting policy with regard to these transactions and now recognises these as increases in the investment in the subsidiary with a corresponding increase recognised in reserves. Adoption of the revised policy has resulted in an opening balance adjustment between the Revaluation reserve and Other reserves of £34 million.

The Company is exempt from adopting FRS 29 *Financial Instruments: Disclosures*. Under FRS 29, the Company is exempt from the requirement to provide its own financial instruments disclosures, on the grounds that it is included in publicly available consolidated financial statements which include disclosures that comply with that standard.

1.2 Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

FRS 18 *Accounting Policies* requires that a description of the impact of any change in estimation techniques should be provided where the change has a material impact on the reported results for the period.

1.3 Asset impairment

Intangible and tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset 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.

1.4 Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries are included in the balance sheet at valuation. This valuation is performed using a discounted cash flow based valuation. The Directors believe this method is the most appropriate method of valuation for these assets. Investments in joint ventures and associates are included in the balance sheet at cost.

1.5 Financial assets and liabilities

The Company classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the assets are held. The basis of determining fair values is set out in note 1.6.

Management determines the classification of its financial assets at initial recognition in accordance with FRS 26 *Financial Instruments: Recognition and Measurement* and re-evaluates this designation at every reporting date for financial assets other than those held at fair value through profit and loss.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a third party with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than one year after the balance sheet date (these are classified as non-current assets). Receivables are included in trade and other receivables in the balance sheet.

1.5 Financial assets and liabilities continued

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Amortised cost is determined using the effective interest method less allowance for impairment. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows (discounted at the original effective interest rate). The amount of the allowance is recognised in the profit and loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Purchases and sales of investments are recognised on trade-date (the date on which the Company commits to purchase or sell the asset).

Available-for-sale financial assets are recognised and are subsequently carried at fair value. Receivables are carried at amortised cost using the effective interest method. Financial assets not carried at fair value through the profit and loss are initially recognised at fair value plus transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss as gains and losses from investment securities.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss – is removed from equity and recognised in the profit and loss. Impairment losses recognised on available-for-sale equity instruments are not reversed through the profit and loss if the fair value of the instrument increases in a later period.

Borrowings

Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

Convertible bonds issued by the Company were initially recognised at fair value. The bond was separated into a liability and equity component. The liability component was initially recognised at fair value and subsequently at amortised cost. The equity component represents the residual of the fair value of the bond less the liability. The liability portion was subsequently measured on an amortised cost basis until extinguished.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

1.6 Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The nominal value less estimated impairments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. Discounted cash flows are used to determine the fair value for the majority of remaining financial instruments.

1.7 Pensions

The Company is a member of the Group's defined benefit pension scheme but is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 *Retirement Benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Company's profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Company also operates an unfunded pension plan to cover the costs of former Directors' and other senior employees' pension entitlements. Provision is made in accordance with FRS 17 in the Company's financial statements for the expected costs of meeting the associated liabilities. These costs are recorded in operating expenses.

Costs in respect of the Company's defined contribution pension schemes are charged to the profit and loss account on an accruals basis as contributions become payable.

1.8 Tax
The charge for tax is based on the result for the year and takes into account tax deferred due to timing differences between the treatment of certain items for tax and accounting purposes.

Deferred tax assets are recognised to the extent that they are regarded as recoverable. Deferred tax assets are regarded as recoverable to the extent that on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences that have arisen but not reversed at the balance sheet date.

1.9 Share-based compensation
The Company operates various equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, which excludes the impact of any non-market vesting conditions (for example, service, profitability and sales growth targets). Non-market vesting conditions are included in estimates about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original non-market estimates, if any, in the profit and loss, and a corresponding adjustment to equity over the remaining vesting period. The expense recognised by the Company relates only to the Company employees.

Share-based expenses relating to grants of the Company's equity made to employees of subsidiary companies are recognised in the profit and loss of the subsidiary. The Company recognised these as increases in the investment in the subsidiary with a corresponding increase recognised in reserves.

Where new shares are issued, the proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Where continuing employees withdraw from share-based compensation plans the remaining charge is recognised immediately.

1.10 Employee Share Ownership Plan (ESOP) and purchase of own shares by the Company
The financial statements of the Company include the assets and related liabilities of the Group's Employee Share Ownership Plan Trust (the Trust), which holds shares for the Group's ESOP. Under the requirements of UITF 38 *Accounting for ESOP trusts*, the shares held by the Trust are stated at cost and deducted from shareholders' funds.

Shares purchased by the Company are held as treasury shares at cost and deducted from shareholders' funds until they are cancelled, sold for cash or transferred out of treasury pursuant to an employees' share scheme. Treasury shares do not carry voting rights and no dividends will be paid on these shares.

2 Company's profit and loss account and cash flow statement
The Company has taken advantage of the exemption contained in section 230 of the Companies Act 1985 and has not presented its own profit and loss account. The profit for the year of the Company amounted to £15 million (2006/07 – £246 million).

The Company has taken advantage of the exemption contained in FRS 1 (revised) *Cash Flow Statements* and has not presented its own cash flow statement, as its cash flows are included in the consolidated cash flow statement of the Group, set out on page 70.

3 Remuneration of Directors
Information covering Directors' remuneration, interests in shares, share options and pension benefits is set out in the Directors' remuneration report on pages 54 to 63.

4 Staff numbers and costs

The average monthly number of persons employed by the Company (including Directors) during the year was:

	2007/08	2006/07
Average number of persons employed by the Company	**72**	298

	2007/08 £m	2006/07 £m
Costs for the year		
Wages and salaries	**12**	31
Share-based payments	**6**	11
Social security costs	**1**	2
Other pension costs	**2**	2
	21	46

5 Employee share schemes

The details of share option schemes and other share-based plans are disclosed in note 35 to the consolidated financial statements. The cost of such options and awards is borne by participating businesses and the Company has borne its charge as set out in note 4.

Movements in the number of share options outstanding and their related weighted average exercise prices are presented below:

	31 March 2008		31 March 2007	
	Weighted average exercise price (pence/share)	Number of options (000)	Weighted average exercise price (pence/share)	Number of options (000)
Outstanding at 1 April	**111**	**31,329**	133	31,550
Granted in the period	**–**	**–**	102	13,023
Forfeited in the period	**132**	**(2,304)**	100	(84)
Exercised in the period	**107**	**(3,596)**	111	(6,655)
Lapsed in the period	**298**	**(33)**	196	(6,505)
Outstanding at 31 March	**110**	**25,396**	111	31,329
Exercisable at 31 March	**115**	**4,766**	131	3,628

The Company has applied the requirement of FRS 20 *Share-based Payment* and has elected to adopt the exemption to apply FRS 20 only to awards made after 7 November 2002.

6 Tangible fixed assets

The Company has property, plant and equipment and projects under construction at 31 March 2008 with a cost of £nil (2006/07 – £9 million) and accumulated depreciation of £nil (2006/07 – £nil). During the year additions were £nil (2006/07 – £9 million), disposals £9 million (2006/07 – £36 million) and depreciation charged to the profit and loss account £nil (2006/07 – £2 million). The net book value of the tangible fixed assets at 31 March 2008 is £nil (2006/07 – £9 million).

7 Fixed asset investments

	Joint ventures £m	Subsidiary undertakings £m	Total £m
Cost/valuation			
At 1 April 2007	8	17,897	17,905
Additions	–	18	18
At 31 March 2008	**8**	**17,915**	**17,923**
Loans			
At 1 April 2007	–	11,370	11,370
Loans repaid and transferred	–	(90)	(90)
At 31 March 2008	**–**	**11,280**	**11,280**
Provisions and amounts written off			
At 1 April 2007	(5)	(9,317)	(9,322)
Additions	–	(47)	(47)
Releases	1	–	1
At 31 March 2008	**(4)**	**(9,364)**	**(9,368)**
Net book value			
At 31 March 2008	**4**	**19,831**	**19,835**
At 31 March 2007	3	19,950	19,953

The Company's investment in joint ventures comprised £4 million of unlisted shares (2006/07 – £3 million of unlisted shares).

8 Debtors

	2007/08 £m	2006/07 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**52**	45
Other taxation and social security	**4**	4
Other debtors	**4**	3
Prepayments and accrued income	**1**	8
	61	60
Amounts falling due after more than one year		
Other debtors	**–**	8
Total debtors	**61**	68

The fair value of all receivables is not materially different from their carrying value.

9 Available-for-sale assets

	Euro bonds £m	Cash collateral £m	UK Government gilts £m	Short-term deposits £m	Total £m
At 31 March 2007	–	–	15	870	885
Additions	5	10	–	–	15
Disposals	–	–	–	(321)	(321)
Fair value gain recorded in equity	–	–	2	–	2
At 31 March 2008	**5**	**10**	**17**	**549**	**581**
Current portion	5	–	–	549	554
Non-current portion	–	10	17	–	27

10 Creditors

	2007/08 £m	2006/07 £m
Amounts falling due within one year		
Trade creditors	**1**	1
Amounts owed to subsidiary undertakings	**15,300**	15,374
Other taxation and social security	**99**	97
Other creditors	**4**	23
Accruals and deferred income	**20**	24
	15,424	15,519
Amounts falling due after more than one year		
Accruals and deferred income	**–**	37
Total creditors	**15,424**	15,556

11 Convertible debt, bonds and loans

	Note	31 March 2008 £m	31 March 2007 £m
4% convertible unsecured bonds due end 2010	(a)	**–**	213
Sterling bond due in 2012	(b)	**161**	161
		161	374
Less current portion		**–**	–
Non-current portion of loans, bonds and convertible bonds		**161**	374

The payment profile of loans and obligations is:

	31 March 2008 £m	31 March 2007 £m
Due in less than one year	**–**	–
Due in more than one year but not more than two years	**–**	–
Due in more than two years but not more than five years	**161**	213
Due in more than five years	**–**	161
Total loans and convertible bonds	**161**	374

(a) Convertible unsecured bonds
On 16 July 2003, £257,714,000 of 4% convertible unsecured bonds were issued at par. Each bond entitled the holder to convert the amount of such bond into fully paid ordinary shares of 25 pence each at an amended rate of 689.655 ordinary shares for each £1,000 held at an initial conversion price of 145 pence per ordinary share at any time prior to 9 July 2010. Full conversion of the bonds would have resulted in an additional 177,733,748 shares being issued.

During the period, all of the convertible bonds in issue at 31 March 2007 were either repurchased or converted (carrying value of £213 million). These bonds, repayable in 2010, had a par value of £258 million.

Convertible bonds with a par value of £138 million were repurchased for cash of £190 million. At the time of repurchase, the debt component of these convertible bonds had a carrying value of £117 million. The fair value of the debt component of these bonds at the date of repurchase was £127 million. This transaction resulted in a loss of £10 million. The difference between the fair value of the debt and the cash consideration (£63 million) was allocated to the repurchase of the equity component of the convertible bonds.

The remaining convertible bonds, with a par value of £120 million, were converted into 83 million ordinary shares (including 29 million treasury shares). The debt component of these convertible bonds had a carrying value of £103 million.

In April 2005, a cash settlement feature within the convertible bonds was removed. The liability relating to this cash settlement feature was reclassified to equity at its fair value at that time (£47 million). As a result of extinguishing the convertible bonds, this amount was reclassified to retained earnings.

11 Convertible debt, bonds and loans continued

The movements in these bonds were:

	£m
Face value of convertible bonds issued on 16 July 2003	258
Issue costs	(6)
Equity conversion component on initial recognition	(75)
Previous years' amortisation of the liability component	25
Liability component at 1 April 2006	202
Interest expense	21
Interest paid	(10)
Liability component at 31 March 2007	213
Interest expense	7
Liability component of convertible bonds repurchased or converted	(220)
Liability component at 31 March 2008	–

Interest expense on the bond was calculated on the effective yield basis by applying the effective interest rate (10.7%) for equivalent non-convertible bonds to the liability component of the convertible bond.

(b) Sterling bond
The sterling bond consists of a £200 million listed bond due in 2012 with a balance at 31 March 2008, net of costs, of £161 million (2006/07– £161 million). Interest is payable at 8.75% per annum.

At 31 March 2008, the effective interest rates at the balance sheet date were as follows:

	31 March 2008		31 March 2007	
	Currency	**Interest rate %**	Currency	Interest rate %
4% convertible unsecured bond due end 2010	**GBP**	**–**	GBP	10.7
Sterling repayable due in 2012	**GBP**	**8.7**	GBP	8.7

12 Derivative financial liabilities
The fair value of the Company's derivative financial instruments was £nil (2006/07 – £nil).

The Company held forward exchange contracts of US$50 million (£25 million) at 31 March 2008 hedging currency exposures in US dollars (2006/07 – US$83 million (£42 million) hedging US and Jamaican dollars). The Company did not apply hedge accounting to the forward exchange contracts. The contracts are revalued to fair value at each reporting date. Gains and losses on the contracts are recognised in the profit and loss statement.

13 Fair value and currency analysis
A comparison of carrying amounts and fair values of the financial liabilities of the Company that are not measured at fair value at the reporting date is set out below:

	31 March 2008		31 March 2007	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial liabilities				
Convertible bond	**–**	**–**	213	311
Sterling repayable due in 2012	**161**	**161**	161	170
	161	**161**	374	481

13 Fair value and currency analysis continued

Market values obtained from third parties have been used to determine the fair value of all financial liabilities.

The carrying amounts of the Company's cash and cash equivalents, loans and borrowings are denominated in the following currencies:

	31 March 2008		31 March 2007	
	Financial assets £m	**Financial liabilities £m**	Financial assets £m	Financial liabilities £m
Sterling	**435**	**161**	532	374
US dollar	**124**	**–**	286	–
Euro	**5**	**–**	58	–
	564	**161**	876	374

14 Provisions for liabilities and charges

	Note	At 31 March 2007 £m	Additions £m	Releases £m	Amounts used £m	**At 31 March 2008 £m**
Redundancy	(i)	1	–	(1)	–	**–**
Property	(ii)	8	–	(2)	(2)	**4**
Other	(iii)	53	11	(35)	(2)	**27**
		62	11	(38)	(4)	**31**

(i) Redundancy
In 2006/07, provision was made for the cost of redundancies announced during the year. The provision was released in 2007/08.

(ii) Property
Provision has been made for the lower of the best estimate of the unavoidable lease payments or cost of exit in respect of vacant properties. Unavoidable lease payments represent the difference between the rentals due and any income expected to be derived from the vacant properties being sub-let. The provision is expected to be utilised over the shorter of the period to exit and the lease contract life. The release in the year relates to amounts no longer required in respect of lease obligations of the Group's former US operations.

(iii) Other
Other provisions include amounts relating to the disposal of the previously discontinued US businesses, amounts relating to specific claims held against the Group's former insurance operation, Pender, amounts relating to specific legal claims against the Company and amounts relating to acquisitions and disposals of Group companies and investments. The increase to Other principally reflects a provision for legal costs. The release in Other reflects the transfer of a legal provision to another Group company and the reversal of unused amounts following the resolution of claims and other risks during the year.

Deferred taxation
No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, joint ventures and associates. Due to the availability of losses and other reliefs, no tax is expected to be payable on them in the foreseeable future.

As at 31 March 2008, the Company had unrecognised deferred tax timing differences in the UK relating to capital allowances of £27 million (2006/07 – £13 million) and other timing differences of £67 million (2006/07 – £75 million).

15 Called-up share capital

	31 March 2008 £m	31 March 2007 £m
Authorised		
3,500,000,000 ordinary shares of 25 pence each (2006/07 – 3,500,000,000 ordinary shares of 25 pence each)	**875**	875
Allotted, called-up and fully paid		
2,536,623,051 ordinary shares of 25 pence each (2006/07 – 2,460,483,642 ordinary shares of 25 pence each)	**634**	615

15 Called-up share capital continued

Purchases and allotments of ordinary shares of 25 pence each were made during the year in respect of the following:

	Number of shares allotted	Gross consideration received £
Savings Related Share Option Scheme	5,085,150	2,506,801
Global Savings Related Share Option Scheme	1,461,876	1,066,300
Share Option Plan – Approved	166,781	194,162
Share Option Plan – Unapproved	3,725,575	3,998,381
Scrip dividends[1]	12,343,480	–
Convertible bonds[2]	53,356,547	–
Total	**76,139,409**	**7,765,644**

1 As payment of dividends by scrip, shares with a cash equivalent value of £23 million (2006/07 – £28 million) were issued during the year. This represents a non-cash transaction.
2 As part of the conversion of convertible bonds, shares with a cash equivalent value of £106 million were issued during the year. This represents a non-cash transaction.

For more information on called-up share capital refer to note 33 in the consolidated financial statements.

16 Reserves

	Share premium £m	Special reserve £m	Revaluation reserve £m	Other reserves £m	Fair value reserve £m	Profit and loss account £m	Total £m
At 1 April 2007 (as previously stated)	56	1,672	1,569	172	3	820	4,292
Prior year adjustment – investments at valuation (see note 1)	–	–	(1,448)	–	–	1,448	–
Adoption of UITF Abstract 41 (see note 1)	–	–	(34)	34	–	–	–
At 1 April 2007 (as restated)	56	1,672	87	206	3	2,268	4,292
Profit for the year	–	–	–	–	–	15	15
Dividends	–	–	–	–	–	(161)	(161)
Cash received in respect of employee shares	–	–	–	–	–	6	6
Own shares purchased	–	–	–	–	–	(2)	(2)
Fair value gain on available-for-sale assets	–	–	–	–	2	–	2
Actuarial gains recognised – net of deferred taxation	–	–	–	–	–	3	3
Share-based payment costs	–	–	–	10	–	6	16
Conversion of convertible bonds	75	(88)	–	–	–	124	111
Repurchase and conversion of convertible bonds	–	–	–	(47)	–	(38)	(85)
Shares allotted under share option schemes	5	(8)	–	–	–	8	5
Share allotted under scrip dividend schemes	20	(23)	–	–	–	23	20
At 31 March 2008	**156**	**1,553**	**87**	**169**	**5**	**2,252**	**4,222**

The aggregate nominal value of the shares allotted in the year was £19 million (2006/07 – £10 million). The nominal and market value of treasury shares at 31 March 2008 was £11 million and £68 million (2006/07 – £19 million and £125 million) respectively. Also included in treasury shares are 27 million (2006/07 – 37 million) shares acquired by the Cable & Wireless ESOP Trust (the Trust) for consideration of £73 million (2006/07 – £100 million). The nominal value and market value of the Trust's shares held at 31 March 2008 was £7 million and £40 million (2006/07 – £9 million and £61 million) respectively. All shares in the Trust are held to satisfy the Company's obligation in respect of share options granted.

The special reserve relates to the cancellation of the share premium account approved at the 2003 AGM and confirmed by the Court in February 2004. It will be reduced from time to time by the amount of any increase in the paid-up share capital and share premium account after 20 February 2004 resulting from the issue of new shares for cash or other new consideration. The special reserve will not be treated as realised profits until any debt or claim outstanding as at 20 February 2004 has been repaid or remedied.

Other reserves include a capital redemption reserve of £105 million (2006/07 – £105 million), £20 million (2006/07 – £20 million) relating to unrealised gains on disposal of investments, £44 million (2006/07 – £34 million) relating to rights granted to equity instruments of the Company to the employees of subsidiaries of the Company and £nil (2006/07 – £47 million) relating to the transfer of the conversion element of the convertible bonds to equity.

17 Pension 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 triennial actuarial valuation was carried out by Watson Wyatt as at 31 March 2007. The ordinary contribution for the year was £9 million (2006/07 – £11 million)[1]. It has been agreed that an employer contribution rate of 28.5% (2006/07 – 22.3%) of pensionable pay will apply from 1 April 2007. Further details of the scheme are set out in note 32 of the consolidated financial statements.

The Company also operates unfunded pension plans to cover the costs of former Directors' and other senior employees' pension entitlements. Provision is made in the Company's financial statements for the expected costs of meeting the associated liabilities and is disclosed as the retirement benefit obligation on the Company's balance sheet.

The major assumptions used in this valuation at the end of the year were:

	2007/08 %	2006/07 %
Inflation assumption	**3.5**	3.0
Rate of increase in salaries	**4.0**	3.5
Rate of increase in pensions in payment and deferred pensions	**2.3 to 3.4**	2.2 to 3.0
Discount rate applied to scheme liabilities	**6.8**	5.3

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

1 A further contribution of £19 million was made in March 2008 to fund the scheme fully on an actuarial basis.

Scheme assets and liabilities

The fair value of the scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Unfunded value 2008 £m	Unfunded value 2007 £m	**Funded value 2008 £m**	Funded value 2007 £m
At 31 March				
Equities	**–**	–	**944**	1,115
Bonds and gilts	**–**	–	**500**	777
Property	**–**	–	**125**	167
Cash	**–**	–	**546**	25
Total market value of assets	**–**	–	**2,115**	2,084
Present value of scheme liabilities	**(20)**	(22)	**(1,736)**	(2,030)
(Deficit)/surplus in the scheme – pension (liability)/asset	**(20)**	(22)	**379**	54
Effect of asset ceiling	**–**	–	**(379)**	–
Related deferred tax (liability)/asset	**–**	–	**–**	–
Net pension (liability)/asset	**(20)**	(22)	**–**	54

Long-term rate of return

	2007/08 %	2006/07 %
Equities	**8.0**	7.8
Bonds and gilts	**5.2**	5.0
Property	**7.0**	6.5
Cash	**4.4**	4.5

17 Pension scheme continued

Movement in (deficit)/asset during the year

	Unfunded 2007/08 £m	Unfunded 2006/07 £m	**Funded 2007/08 £m**	Funded 2006/07 £m
Deficit in scheme at 31 March	**(22)**	(23)	**54**	(77)
Current service cost	**–**	–	**(10)**	(14)
Contributions paid	**1**	1	**28**	11
Curtailment surplus	**–**	–	**1**	4
Other finance (cost)/income	**(2)**	–	**30**	19
Actuarial gain/(loss)	**3**	–	**(103)**	111
(Deficit)/surplus in the scheme at 1 April	**(20)**	(22)	**–**	54

18 Related party transactions

Under FRS 8 *Related Party Disclosures*, 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.

Transactions with joint ventures and associates

All trade transactions with joint ventures and associates arise in the normal course of business and primarily relate to fees for use of Cable & Wireless products and services and network and access charges. There were no material trade transactions with joint ventures and associates during the year.

The Company received dividends of £4 million from joint ventures (2006/07 – £3 million) and £nil (2006/07 – £7 million) from associates for the year ended 31 March 2008.

Transactions with other related parties

There are no controlling shareholders of the Company.

There were no material transactions with Directors, except for those relating to remuneration and shareholdings.

There were no material transactions with the shareholders of the Company. Other than the parties disclosed above, the Company has no other material related parties.

19 Subsidiaries and joint ventures

	Local currency	Issued share capital (million)	Ownership	Class of shares	Country of incorporation	Area of operation
Subsidiaries						
Cable & Wireless UK	GBP	3,033	100%	Ordinary	England	UK
Cable & Wireless Jamaica Ltd	J$	16,817	82%	Ordinary	Jamaica	Jamaica
Cable & Wireless Panama, SA[1]	Balboa	316	49%	Ordinary	Panama	Panama
Companhia de Telecomunicacoes de Macau, SARL[2]	Pataca	150	51%	Ordinary	Macau	Macau and China
Cable & Wireless (Barbados) Ltd	B$	72	81%	Ordinary	Barbados	Barbados
Cable and Wireless (West Indies) Ltd	GBP	5	100%	Ordinary	England	Caribbean
Monaco Telecom SAM[3,4]	Euro	2	49%	Ordinary	Monaco	Monaco
Dhivehi Raajjeyge Gulhun Private Ltd[2]	Rufiya	190	45%	Ordinary	Maldives	Maldives
Joint ventures						
Telecommunications Services of Trinidad and Tobago Ltd[3]	T$	283	49%	Ordinary	Trinidad and Tobago	Trinidad and Tobago

1 The Company regards this company as a subsidiary because it controls the majority of the Board of Directors through a shareholders' agreement.
2 This company had a financial year end of 31 December due to the requirements of the shareholders' agreement.
3 This company is audited by a firm other than KPMG and its international member firms.
4 The Company holds an economic interest of 55% in Monaco Telecom via a subsidiary.

19 Subsidiaries and joint ventures continued

The Company does not have any direct investments in the above subsidiaries and joint ventures.

The list above only includes those companies whose results or financial position, in the opinion of the Directors, principally affect the figures shown in the financial statements.

Full details of all subsidiary undertakings, joint ventures, associates and trade investments will be attached to the Company's Annual Return, to be filed with the Registrar of Companies in England and Wales.

20 Dividends

Refer to note 16 in the consolidated financial statements.

21 Commitments

The Company had no capital commitments at the end of the financial year or previous year.

22 Guarantees and contingent liabilities

Guarantees given by the Company at the end of the financial year for which no provision has been made in the financial statements are as follows:

	31 March 2008 £m	31 March 2007 £m
Trading guarantees	**102**	117
Other guarantees	**203**	204
Total guarantees	**305**	321

Trading guarantees principally comprise performance bonds or contracts issued in the normal course of business, guaranteeing that the Group companies will meet their obligations to complete projects in accordance with the contractual terms and conditions. The nature of contracts includes projects, service level agreements, installation of equipment, surveys, purchase of equipment and transportation of materials. The guarantees contain a clause that they will be terminated on final acceptance of work to be done under the contract.

Other guarantees include guarantees for financial obligations principally in respect of borrowings, leases and letters of credit. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

The principal other guarantee by the Company is for the outstanding portion (£147 million) of the £200 million 2019 bond issued by Cable & Wireless International Finance BV.

Whilst Pender, the Group's former insurance operation, ceased to underwrite new business from April 2003, it has in the past written policies in favour of the Group and third parties. Potentially significant insurance claims have been made against Pender under certain of these third party policies, which have also given rise to uncertainties and potential disputes with reinsurers. Significant progress has been made in resolving these claims in the year. Detail of these insurance claims and potential claims are not disclosed as such disclosure may be prejudicial to the outcome of such claims.

In addition the Company has, as is considered standard practice in such agreements, given guarantees and indemnities in relation to a number of disposals of subsidiary undertakings in prior years. Generally, liability has been capped at no more than the value of the sales proceeds, although some uncapped indemnities have been given. The Company also gives warranties and indemnities in relation to certain agreements including facility sharing agreements and general commercial agreements. Some of these agreements do not contain liability caps.

Whilst the Company ceased participation in the Merchant Navy Officers Pension Fund, it may be liable for future contributions to fund a portion of any future funding deficits. Currently, the amount of these potential liabilities cannot be quantified.

Shareholder information

What shareholders need to know to manage their shareholding in Cable & Wireless.

Shareholder information

Registrar
If you have any questions regarding your shareholding in Cable and Wireless plc, please contact:

Equiniti Ltd
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Tel: 0871 384 2104* (UK shareholders)
+44 (0)121 415 7047 (overseas shareholders)
*Calls to this number are charged at 8 pence per minute from a BT landline. Other telephone providers' charges may vary.

Shareholders can view up-to-date information about their shareholding by viewing Shareview (www.shareview.co.uk).

Financial calendar

Ex-dividend date	11 June 2008
Record date	13 June 2008
Last date for election to join scrip dividend	11 July 2008
Annual General Meeting	18 July 2008
Payment of final dividend	8 August 2008
Announcement of interim results for 2008/09	11 November 2008

Dividends
The table below sets out the sterling amounts of the interim, final and total gross dividends paid per ordinary share.

	Pence per ordinary share		
Year ended 31 March	Interim	Final	Total
2007	1.70	4.15	5.85
2008	2.50	5.00	7.50

A scrip dividend scheme will be offered in respect of the final dividend. Those shareholders who have already elected to join the scheme will automatically have their final dividend sent to them in this form. Shareholders wishing to join the scheme for the final dividend (and all future dividends) should return a completed mandate form to the Registrar, Equiniti Ltd, by 11 July 2008. Copies of the mandate form, and the scrip dividend brochure, can be obtained from Equiniti Ltd (UK callers: 0871 384 2268, overseas callers: +44 (0)121 415 7047) or from the Company's website (www.cw.com).

If your dividend is paid directly into your bank or building society account, you will receive one consolidated tax voucher each year which is sent to you in January at the time that the interim dividend is paid. If you would prefer to receive a tax voucher with each dividend, please contact our shareholder helpline on 0871 384 2104.

If your dividend is not currently paid directly into your bank or your building society account and you would like to benefit from this service, please contact Equiniti on 0871 384 2104 who will be pleased to assist. By receiving your dividends in this way you can avoid the risk of cheques getting lost in the post. It is also now possible for shareholders in over 30 countries worldwide to benefit from a similar service. Further information can be obtained from www.shareview.co.uk or by calling +44 (0)121 415 7047.

Cable and Wireless plc trading market
The Company's ordinary shares are traded on the London Stock Exchange. As at 31 March 2008, the Company had a market capitalisation of approximately £3,974 million.

The table below details the high and low middle market quotations for the ordinary shares on the London Stock Exchange as reported on its Daily Official List.

	Pence per ordinary share	
	High	Low
Year ended 31 March 2007	179.50	97.50
Year ended 31 March 2008	201.50	136.50

LSE ticker: CW.
ISIN: GB0001625572

Distribution and classification of Cable and Wireless plc ordinary shareholdings

Shares at 31 March 2008	Number of accounts	% of total	Number of shares	% of total
Up to 1,000	74,993	68.52	32,252,838	1.27
1,001-10,000	31,977	29.22	79,044,426	3.12
10,001–100,000	1,833	1.67	43,401,458	1.71
100,001–1,000,000	401	0.37	139,540,842	5.50
1,000,001 and over	238	0.22	2,242,383,487	88.40
Total	109,442	100.0	2,536,623,051	100.0

At 21 May 2008, the Company had 108,484 shareholders of record.

Capital gains tax
The market value of an ordinary share of the Company at 31 March 1982, for the purpose of capital gains tax indexation allowance, was 243 pence (40.5 pence when adjusted for capitalisation or rights issues).

Registered Office and Company Secretary
The Company's Registered Office and Head Office is:
3rd Floor, 26 Red Lion Square, London WC1R 4HQ
Tel: +44 (0)20 7315 4000

Nick Cooper is the Group General Counsel and Company Secretary.

Documents on display
Shareholders can view the service contracts of Executive Directors and letters of appointment of Non-executive Directors at the Company's Registered Office. Shareholders may also obtain copies of the Company's Memorandum and Articles of Association at the Company's Registered Office.

Investor relations
Enquiries may be directed to:

Investor Relations Director
3rd Floor, 26 Red Lion Square, London WC1R 4HQ
Tel: +44 (0)20 7315 4000
or email: investor-relations.c&wplc@cw.com

Electronic communication
Together with Equiniti, Cable & Wireless are able to offer shareholders the option to manage their shareholding online and receive communications from the Company electronically as an alternative to receiving documents through the post. To make use of this facility, please register at www.shareview.co.uk following the on-screen instructions.

Unsolicited mail
Company law requires the Company to make its share register publicly available. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. For more information on unauthorised investment firms targeting UK investors, you should visit the website of the Financial Services Authority (www.moneymadeclear.fsa.gov.uk).

If you wish to limit the amount of unsolicited mail you receive, please contact:

The Mailing Preference Service
DMA House, 70 Margaret Street, London W1W 8SS
Tel: 0845 703 4599
Online: www.mpsonline.org.uk

ShareGift
If you have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to charity. ShareGift is a registered charity (no. 1052686) which collects and sells unwanted shares and uses the proceeds to support a wide range of UK charities. Further information about ShareGift and the charities supported is available at www.ShareGift.org or by contacting them at 17 Carlton House Terrace, London SW1Y 5AH (+44 (0)20 7930 3737).

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