CABLE & WIRELESS

SUPERANNUATION FUND

STATEMENT OF INVESTMENT PRINCIPLES

1 JULY 2008

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INTRODUCTION

Under section 35 of the 1995 Pensions Act, Cable and Wireless Pension Trustee Limited (the trustee) is required to prepare a statement of the investment principles adopted for the Cable and Wireless Superannuation Fund (CWSF). This document fulfils that requirement.

In drawing up this statement, the trustee has considered written advice from its investment consultant, Watson Wyatt, and has consulted the participating employers. The CWSF's investment managers receive copies of this statement.

The trustee will review this statement once a year, or more often in the event of a significant change in investment policy.

DESCRIPTION OF THE FUND

The CWSF is a hybrid arrangement, incorporating both a defined benefit section and a defined contribution section (known as the Lifetime Benefits Plan). The CWSF operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

The principles for the defined benefit section are set out on pages 3-12, and the principles specific to the defined contribution section are set out on pages 13-16.

DEFINED BENEFIT PLAN (CWSF SECTION)

RESPONSIBILITIES

The responsibility for deciding investment policy lies solely with the trustee. The trustee is supported by the investment consultant, and consults C&W plc when changing the investment strategy. The trustee will review this statement every year, and without delay after any significant change in investment policy.

Responsibility for the management of specific investments is delegated by the trustee to investment managers who are, where required, authorised under the Financial Services and Markets Act 2000. The trustee has issued guidelines, via the investment management agreements, in relation to the specific investments that are deemed suitable for the fund. The investment managers are responsible for ensuring that they adhere to these guidelines.

In particular, the investment managers are required by the trustee to have regard for the suitability of investments for the CWSF, and also the need for diversification as appropriate to the circumstances of the CWSF.

When choosing investments, the trustee and the investment managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement.

INVESTMENT OBJECTIVES

The trustee's investment objectives are:

- to acquire suitable assets of appropriate liquidity that will generate income and capital growth to meet the cost of both current and future benefits
- to limit the risk of the assets failing to meet the cost of benefits
- to maximise the return on the assets within the context of the above objective

The performance objective for the total assets is to out-perform the return of the overall asset allocation benchmark by 1% per year, annualised over rolling three-year periods. The benchmark return is a composite of indices in line with the benchmark asset allocation.

INVESTMENT POLICY

The trustee aims to achieve its investment objectives by relating investment policy to the CWSF liabilities through asset/liability modelling (ALM). ALM is conducted with the actuary and investment consultant (and the trustee consults with C&W plc as the principal employer on the resultant policy). Asset allocation is reviewed periodically and particularly after each actuarial valuation of the CWSF.

Inflation and interest rate swaps may be used to improve the matching of the fund's assets with the fund's liabilities. The trustee may also invest in bulk purchase annuity policies in order to further improve the degree of matching. The trustee has considered the risks associated with both methods of risk reduction, and has taken a series of steps to address these risks, as set out in the section titled 'Risk Management'.

POLICY IMPLEMENTATION

The trustee's current asset allocation benchmark is shown below. The allocation may deviate from the benchmark within ranges set by the trustee from time to time at the trustee's discretion.

	Allocation %	Expected real return %
UK equities	11.3	4.4
Overseas equities	13.0	4.8
Global equities	8.7	4.8
Absolute return equity	10.0	6.4
Private equity	5.0	3.3
UK corporate bonds	24.5	2.7
Cash (backing assets for swaps)	20.5	1.3
UK property	7.0	3.3
Total	100.0	

Source: Watson Wyatt 10-year median real return assumptions (annualised) at 31 March 2008

The inflation and interest rate swaps that have been implemented will be backed by the 45% allocation to UK corporate bonds, and cash.

The trustee has decided that the allocation to cash shall be managed within the client specific pooled vehicle that will house the inflation and interest rate swaps while the UK corporate bonds will be managed by separate investment managers.

RISK MANAGEMENT

The trustee undertakes detailed analysis with regard to the risk profile of the CWSF, in conjunction with both the triennial ALM and at any intermediate points at which a significant change in investment policy is deemed appropriate. In particular, the trustee considers the following risks:

SOLVENCY RISK & MISMATCHING RISK:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
- are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy

MORTALITY & OTHER DEMOGRAPHIC RISKS:

- are managed through analysis of the expected development of the liabilities, estimating deviations that might arise if the scheme actuary's demographic assumptions are not borne out in practice. These factors are considered as part of the ALM report.

MANAGER RISK:

- is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy
- is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the manager's investment process

LIQUIDITY RISK:

- is measured by the level of cashflow required by the CWSF over a specified period
- is managed by the CWSF's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy

CUSTODIAN RISK:

- is measured by assessing the credit-worthiness of the custodian bank and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody
- is managed by monitoring the custodian's activities and discussing the performance of the custodian with the segregated investment managers during annual review meetings

POLITICAL RISK:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy

SPONSOR RISK:

- is measured by the level of ability and willingness of the sponsor to support the continuation of the fund and to make good any current or future deficit
- is managed by assessing the interaction between the fund and the sponsor's business, as measured by a number of factors, including the credit-worthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor

RISKS ASSOCIATED WITH SWAPS:

- counterparty risk – addressed through the investment manager, banks and custodian guidelines with respect to cash management; in the use of swaps this risk is mitigated through the exchange of collateral (which is subject to minimum credit rating criteria) and diversifying exposure among a number of counterparty banks (also subject to suitable credit ratings).

- basis risk – the returns from the backing assets used to meet the payable leg of the swaps may not match exactly. This risk is addressed through the investment policy adopted by the trustee for the backing assets and the investment manager's asset management capabilities.

- liability risk – pension liabilities can only be estimated and there is a risk of unanticipated changes in the assumptions used to project the fund's liabilities, hence there may be a divergence between the performance of the swaps and the amount expected to be required to meet the liabilities.

- legal and operational risk – the successful operation of swaps is dependent on various legal documents governing the swap contracts and the correct completion of some operational tasks. The trustee is taking appropriate advice in putting in place legal documents, reviewing legal documents already in place between the swap overlay execution agent and the agreed panel of counterparty banks and appointing providers capable of carrying out the required operational tasks.

- the trustee is also aware of the risks relating to the initial terms of entry (purchasing the swap contracts at a competitive price) and the valuation of the swaps on an ongoing basis and, with the help of their advisors, the trustee is monitoring these positions on a regular basis.

RISKS ASSOCIATED WITH BULK PURCHASE ANNUITY (BPA) PROVIDER:

- counterparty risk – the trustee is aware that it is possible to implement measures to address counterparty risk.

The trustee will also consider risk in conjunction with the fund's deed and rules.

CUSTODY OF ASSETS

The assets of all portfolios are held by Northern Trust (except those assets held by sub-custodian banks who are agents of the custodian bank) in accounts segregated from the bank's own assets.

Northern Trust was directly appointed by the trustee and is independent of Cable and Wireless plc. In selecting Northern Trust the trustee took into account:

- the security of the CWSF's assets
- the custodian's credit rating
- the service level required by the trustee

The trustee has entered into a securities lending arrangement with Northern Trust. No more than 25% of the CWSF's assets can be on loan at any one time. The trustee's objective in lending these securities is to gain revenue without assuming significant incremental risk to the custodial arrangements.

INVESTMENT MANAGER APPOINTMENTS/TERMINATIONS

The trustee reviews the appointment of the investment managers from time to time. These reviews are based on the results of monitoring performance and process.

The trustee has identified the criteria by which investment managers should be selected. These include the quality of the investment process and the investment professionals, the risk controls within the organisation, past performance, and client service.

Investment managers may be replaced by the trustee at any time for any reason and specifically if:

- they fail to meet the performance objectives set and/or
- there are significant changes within the investment team, or a more fundamental change to the investment process
- there are significant changes within the wider organisation, or a change of ownership

FEE STRUCTURES

The trustee's preferred fee structure is to pay a flat rate fee with a performance fee for successful active investment mandates. Performance fees are related to returns achieved in excess of market indices and are detailed in investment management agreements. It has not always been possible to negotiate the preferred structure.

The majority of investment advice is paid for on a time-spent basis and includes research on investment managers. The trustee pays a performance-related fee for investment advice on the fund's active equity investments, with the exception of the allocation to private equity.

INVESTMENT RESTRICTIONS

Each mandate has its own specific restrictions, included within the individual investment manager agreements. However, no manager is permitted to invest directly in Cable and Wireless plc, although stock will be held indirectly via the unitised index-tracking UK equity fund managed by Legal & General.

No gearing or borrowing is permitted, although some investment managers do employ leverage within their unitised investment funds. However, in such cases the liability of the fund is restricted to the amount invested.

Investment in derivatives is permitted in certain portfolios, where such an investment contributes to the reduction of risk, or facilitates efficient portfolio management.

Where relevant, the swap overlay execution agent and collateral manager will execute swaps to improve liability management. The swap overlay execution agent and collateral manager will also operate the collateral management function, in accordance with the relevant section(s) of the International Swaps and Derivatives Association (ISDA) agreements in place between the swap overlay execution agent and the agreed panel of counterparty banks.

LIQUIDITY

The trustee will ensure that they hold sufficient cash to meet the likely benefit outflow from time to time. The trustee aims to hold sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the overall investment policy.

CORPORATE GOVERNANCE

The trustee views the rights (including voting rights) attached to its investments as an asset and exercises them.

Selection, retention and realisation of the CWSF's investments are delegated to the investment managers under the terms of written agreements.

Matters of corporate governance in general and voting in particular are viewed as integral to the investment management process, and as such are delegated to the individual investment managers. Nevertheless, the trustee recognises the responsibilities of shareholders as owners of capital. Accordingly, the trustee's objective as shareholder is to achieve a high long-term return on the CWSF's investments by the preservation and enhancement of shareholder value, which it believes good corporate governance promotes.

The investment managers are encouraged, but not directed, to vote on all resolutions at annual or extraordinary general meetings of companies in which the CWSF invests. The investment managers should exercise voting power with the objective of preserving and enhancing long-term shareholder value.

The trustee regularly monitors the voting records of the investment managers, in particular where the investment manager had voted against the incumbent management. Significant shareholder action other than voting against incumbent management (for example, the acceptance of a hostile take-over bid) should also be reported. Again, an immediate report to the trustee may be appropriate where an issue is particularly contentious or topical.

SOCIALLY RESPONSIBLE INVESTMENT

The trustee's attitude towards socially responsible investment reflects its overriding investment responsibility. This is to act in the best financial interests of the CWSF's beneficiaries.

The trustee does not believe that the introduction of any restrictions on the investment managers relating to social, environmental or ethical considerations would be in the best financial interests of the fund's members.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

AVCs are voluntary savings by CWSF members, with members carrying the investment risk.

Members may invest AVCs in the investment funds of the CWSF's defined contribution plan.

The trustee holds a policy with The Equitable Life Assurance Society where members' contributions are held separately from other CWSF assets. The policy provides members with a wide range of funds so that the degree of risk taken may be determined to meet members' own criteria. This policy is closed to new members.

MINIMUM FUNDING REQUIREMENT/STATUTORY FUNDING OBJECTIVE

The Pension Act 1995 requires that the value of the CWSF assets is not less than its liabilities. The basis for valuing the assets and liabilities is set out in statutory regulations. The trustee must obtain regular valuations from the actuary and interim certificates of the funding level.

The trustee considers that the investment policy, which is intrinsically linked to CWSF liabilities through ALM, is currently consistent with meeting its obligations under the minimum funding requirement.

In addition, the trustee will review its investment policy in the light of actuarial valuations, and will consider its policy concerning compliance with the statutory funding objective under the Pensions Act 2004, with certificates and schedules of contributions produced in order to comply with the Act.

DEFINED CONTRIBUTION PLAN (LBP SECTION)

RESPONSIBILITIES

The responsibility for deciding investment policy lies solely with the trustee. Responsibility for the selection of specific investments is delegated by the trustee to investment managers who are authorised under the Financial Services and Markets Act 2000. Incumbent investment managers are responsible for ensuring that their investment portfolios, as selected by the trustee, are operated in accordance with their objectives and guidelines. The trustee is supported in its role by the investment consultant.

RISK

The trustee recognises that members within a defined contribution plan face different risks to a member in a defined benefit plan. The following three risks (inflation risk, capital risk and pension conversion risk) are important to a defined contribution member and can be managed to some extent by the choice of investments. These risks and the trustee's objective for each risk are considered under the following headings:

INFLATION RISK

The risk that investments do not provide a return at least in line with inflation, so that the 'purchasing power' of the ultimate fund available to provide benefits is not maintained at retirement. The trustee's objective is to provide an investment option which is expected to provide a long-term rate of return in excess of price inflation, thus protecting the 'purchasing power' of a member's account.

CAPITAL RISK

The risk that the monetary value of a member's account falls. The trustee's objective is to provide an investment option that offers security of capital value.

PENSION CONVERSION RISK

The risk that the value of a member's account does not reflect the change in the cost of purchasing an annuity to provide a pension on retirement. At retirement, part of the defined contribution account may be used to provide tax-free cash, with the remainder being used to provide pension income (usually by the purchase of an annuity). The rate at which the account value can be converted into pension will depend on the price of pension annuities in the open market at the time of retirement. The trustees' objective is to provide an investment option which is expected to broadly match the change in the cost of purchasing an annuity.

INVESTMENT OBJECTIVES/POLICY

The trustee offers members a choice of two methods for investing contributions to help manage risk. There is no default option.

LIFESTYLE

This is for members who are less comfortable in making investment decisions and aims to achieve its investment objective by purchasing assets that will track the benchmark indices adopted by the trustee. The investment objective of this strategy is to acquire suitable assets of appropriate liquidity that will generate income and capital growth to obtain near market returns at low cost.

Investment risk is controlled by investing passively in pooled investment funds. No attempt is made to out-perform benchmark indices and assets held are highly representative of them. Investments are diversified by asset class and across geographical regions. The benchmark indices are appropriate to the age profile of members. Younger members have their contributions invested in an equity fund to capture long term returns derived from global economic growth. 30% are UK equities and 70% are overseas equities, with 50% of the overseas equity holdings hedged back to sterling.

Older members have their contributions invested in equities, bonds and cash. In order to minimise volatility, the proportion of contributions invested in equities is progressively reduced over a period of either five or eight years from retirement, depending on the date that the member joined the fund. The target allocation to equities is nil at age 64 (members may opt to re-allocate their contributions in this way at any time from age 42 if they plan to retire early).

FREESTYLE

This is for members who are confident in deciding the allocation of their contributions and who are comfortable with the risks inherent in the funds offered. The investment objective is to acquire suitable assets of appropriate liquidity that will generate income and capital growth. Equity and property investments aim to marginally exceed market indices. Bond and cash investments aim to achieve market returns.

Investment risk is controlled by investing passively in pooled bond and cash funds. For equity investments, control of investment risk is achieved by diversification across geographical regions. Members are provided with sufficient information to aid them in making appropriate asset allocation decisions. The funds are chosen by the trustee to allow members to allocate their pension contributions across an extensive range of investments within broadly focused funds that include domestic equities, overseas equities, property, domestic fixed interest securities, domestic index linked securities and cash.

FEE STRUCTURES

Ad valorem fees are charged on all of the fund's defined contribution plan investments. The trustee's decision to invest in pooled funds (in order to control risk and expense) has negated any real choice in determining fee structures. The trustee exploits economies of scale wherever possible to negotiate best value fees.

All investment advice is paid for on a time-spent basis.

POLICY MONITORING

The trustee monitors each investment mandate, and the investment committee meets regularly with the investment managers in order to discuss their management of the portfolios and investment performance.

Returns on individual portfolios and the total fund are measured at quarterly intervals. The investment committee reports quarterly at trustee board meetings.

The return of each fund is measured against its benchmark index.