



AT&T ISTEEL

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

Registered No 3531467



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AT&T ISTELE**REPORT OF THE DIRECTORS****for the year 31 December 2000**

The directors submit their report and audited financial statements for the year ended 31 December 2000.

Principal activities

The principle activity of the group at the end of the year was the provision of computer and communication services to third party customers and the provision of accounting and administrative support to AT&T Corp. group companies in the Europe, Middle East and Asia (EMEA) region.

Review of the business and future developments

The consolidated profit and loss account for the period is set out on page 5.

The group's business was aligned with that of its parent company in 1998 through a series of disposals of non-core activities. The activities the company intends to take forward have continued to develop satisfactorily during the year. The group's research and development activities, through the company's AT&T Labs UK division, ceased during the year. These are shown as discontinued operations in the financial statements.

The business will continue trading for the foreseeable future.

Dividends

The directors do not recommend the payment of a dividend.

Fixed assets

The changes in fixed assets are detailed in notes 9 & 10 to the financial statements.

Directors and their interests

The directors who served during the period are:

	Appointed	Resigned
K C Evans	1 April 1998	-
D S Hall	1 October 1998	7 April 2000
R C Scott	2 February 2000	-
M K Taylor	7 April 2000	-

No director had any disclosable interest in the share capital of the company, or any other member of the AT&T Corp. group, during the period.

Employees

Consultation and communications

In common with other UK subsidiaries of AT&T Corp., a range of consultation and communication arrangements are in place to ensure that where possible employees' views are sought on matters likely to affect their interests and that they are kept informed of the performance of the company. These arrangements include regular briefings of employees at all levels, publication of in-house information bulletins and a newspaper, holding of site-based communication meetings and formal arrangements with recognised trade unions.

Disabled persons

The company has a policy of giving every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by those persons. With regard to existing employees who are or have become disabled, the company has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training and career development wherever possible.

Employee stock option and share purchase plans

Qualifying employees may participate in the AT&T Employee Stock Purchase Plan. Under the terms of the plan, employees may have up to 10% of their salary withheld to purchase AT&T common stock. Certain employees may also be participating in a stock option scheme originally launched by AT&T Corp. in the United States during 1997, in which the options vested on 1 August 2000 and are exercisable until 1 August 2007 at a price of \$24.50.

Euro

On 1 January 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the European Union's currency ("Euro"). The transition period is anticipated to extend between 1 January 1999 and January 2002. The company has assessed the impact of the conversion on information technology systems, currency exchange rate risk, derivatives and other financial instruments, continuity of material contracts as well as income tax and accounting issues. At this time, the company does not expect the effect of the Euro on its financial statements to be material.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

In accordance with the provisions contained in the Companies Act 1989, the company has elected to dispense with the obligation to appoint auditors annually. The auditors, PricewaterhouseCoopers will remain in office until such time as the company shall determine otherwise.

By Order of the Board

Date: 21/12/2001



G P Saunders
Secretary

**REPORT OF THE AUDITORS TO THE MEMBERS
OF AT&T ISEL**

We have audited the financial statements on pages 5 to 24 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the group and company at 31 December 2000 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Nottingham

21/12/01

AT&T ISEL

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
Turnover			
Continuing operations	2	76,512	65,912
Discontinued operations	2	-	-
		<u>76,512</u>	<u>65,912</u>
Operating costs	3	<u>(72,697)</u>	<u>(70,807)</u>
Operating profit / (Loss)			
Continuing operations		9,328	(666)
Discontinued operations	3	<u>(5,513)</u>	<u>(4,229)</u>
Profit / (Loss) on ordinary activities before taxation and interest		3,815	(4,895)
Interest receivable and similar income	4	815	152
Interest payable and similar charges	5	<u>(336)</u>	<u>(332)</u>
Profit / (Loss) on ordinary activities before taxation	7	<u>4,294</u>	<u>(5,075)</u>
Taxation	8	<u>-</u>	<u>-</u>
Profit / (Loss) on ordinary activities after taxation		<u>4,294</u>	<u>(5,075)</u>
Dividends		<u>-</u>	<u>-</u>
Retained Profit / (Loss) for the period	18	<u>4,294</u>	<u>(5,075)</u>

The group has no recognised gains or losses other than those included in the profit above, and therefore no separate statement of recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above, and their historical cost equivalents.

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the year was £4,783,000 (1999: loss £5,124,000).

The notes on pages 8 to 24 form an integral part of these financial statements.

AT&T ISEL

CONSOLIDATED BALANCE SHEET

as at 31 December 2000

	Notes	2000		1999	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		-		(348)
Tangible assets	10		<u>11,895</u>		<u>16,528</u>
			11,895		16,180
Current assets					
Debtors: amounts falling due after one year	12	-		10,816	
Debtors: amounts falling due within one year	12	117,827		35,822	
Cash at bank and in hand		<u>8,834</u>		<u>2,748</u>	
		126,661		49,386	
Creditors					
Amounts falling due within one year	13	<u>(103,229)</u>		<u>(39,056)</u>	
Net current assets			23,432		10,330
Total assets less current liabilities			35,327		26,510
Creditors: Amounts falling due after more than one year	14		-		(10,816)
Provisions for liabilities and charges	15		<u>(3,658)</u>		<u>(7,319)</u>
Net assets			<u>31,669</u>		<u>8,375</u>
Capital and Reserves					
Called up share capital	17		46,214		27,214
Profit and Loss account	18		<u>(14,545)</u>		<u>(18,839)</u>
Equity shareholders' funds	19		31,669		8,375

The financial statements were approved by the board of directors on 21/12/2001 and were signed on its behalf by:

Director



AT&T ISTEEL

COMPANY BALANCE SHEET

as at 31 December 2000

	<u>Notes</u>	2000		1999	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	9		-		(348)
Tangible assets	10		11,895		16,528
Investments	11		-		-
			<u>11,895</u>		<u>16,180</u>
Current assets					
Debtors: amounts falling due after one year	12	8,211		19,027	
Debtors: amounts falling due within one year	12	123,142		41,126	
		<u>131,353</u>		<u>60,153</u>	
Cash at bank and in hand		8,834		2,748	
		<u>140,187</u>		<u>62,901</u>	
Creditors					
Amounts falling due within one year	13	(113,984)		(50,289)	
Net current assets			<u>26,203</u>		<u>12,612</u>
Total assets less current liabilities			<u>38,098</u>		<u>28,792</u>
Creditors: Amounts falling due after more than one year	14		-		(10,816)
Provisions for liabilities and charges	15		(3,658)		(7,319)
Net assets			<u>34,440</u>		<u>10,657</u>
Capital and Reserves					
Called up share capital	17		46,214		27,214
Profit and Loss account	18		(11,774)		(16,557)
Equity shareholders' funds	19		<u>34,440</u>		<u>10,657</u>

The financial statements were approved by the board of directors on 21/12/2001 and were signed on its behalf by:

Director



AT&T ISTEEL**NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2000****1. Principal accounting policies**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The directors believe that the nature of the company's business is such that the analysis of operating expenses required by the Companies Act 1985 is not appropriate. As required by the Act, the directors have therefore adapted the prescribed format so that operating expenses are disclosed in a manner appropriate to the company's principal activity.

Going Concern

On 9 May 2000, the company issued 19,000,000 ordinary £1 shares at par to its immediate parent company for cash. The proceeds of this share issue are to be used to fund the ongoing business. As mentioned in note 21, the company is a participant in a cash pool arrangement with certain fellow subsidiaries of AT&T Corp. group. AT&T Communications Services International Inc, a fellow subsidiary, has made sufficient loan facilities available to ensure that the ongoing operations of these companies are adequately funded.

On this basis, the directors believe that it is appropriate for the accounts to be prepared on a going concern basis.

A summary of the more important accounting policies is set out below.

Basis of consolidation

The group financial statements consolidate the financial statements of AT&T ISTEEL and all its subsidiary undertakings. Intra-group sales and profits are eliminated fully on consolidation. The group includes its share of profits and losses of joint venture undertakings in the consolidated profit and loss account and its share of net assets in the consolidated balance sheet.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired) is capitalised and amortised over its useful economic life. Other purchased goodwill is amortised through the profit and loss account over its useful economic life, or in the case of negative goodwill, over the period during which the non-monetary assets acquired are recovered either through depreciation or sale.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after eliminating any unamortised goodwill related to that business.

In the company's accounts, investments in subsidiary and joint venture undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

In accordance with section 230(4) of the Companies Act 1985, AT&T ISTEEL is exempt from the requirement to present its own profit and loss account. The amount of the profit for the period dealt with in the financial statements of AT&T ISTEEL is disclosed on the face of the profit and loss account.

AT&T ISTEEL**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****for the year ended 31 December 2000***Fixed assets and depreciation*

The cost of tangible fixed assets is their purchase cost, together with any associated costs of acquisition, excluding interest.

Assets are depreciated from the time they are available for use. Depreciation is provided on tangible fixed assets on a straight line basis. The charge is calculated so that the cost of the asset, less its estimated residual value, is written off over its expected useful economic life as follows:

Freehold land	- no depreciation is charged
Freehold buildings	- 40 years
Leasehold land and buildings	- shorter of the life of the lease and 40 years
Building improvements	- 2 to 10 years
Motor vehicles	- 5 years
Machinery, tools, office furniture and equipment	- 2 to 10 years

Impairment of fixed assets and goodwill

The group undertakes a review for impairment of a tangible fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Foreign currencies

Normal trading activities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the date of the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred Tax

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that a liability or asset is expected to crystallise in the foreseeable future.

Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Pensions and other post retirement benefits

The group operates two defined benefit schemes. The assets of the schemes are held in separate trustee administered funds.

The ongoing cost of providing pensions for current and former employees is charged to the profit and loss account on a systematic and rational basis over the period during which the benefit is derived from the employees' services, based on the recommendations of independent qualified actuaries.

Pension scheme surpluses and deficits are allocated to the profit and loss account over the average remaining service life of employees.

Research and development expenditure

Research and development expenditure has been charged to the profit and loss account as incurred.

Turnover

Turnover which excludes value added tax, sales between divisions and trade discounts, represents the value of goods and services supplied.

Cash flow statement

The company is a wholly owned subsidiary of AT&T Corp., and its cash flows are included in the consolidated financial statements of AT&T Corp., which are publicly available. Consequently the company takes advantage of the exemption from producing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

2. Segmental analysis

All turnover originates in the United Kingdom from continuing operations. The analysis of group turnover by geographic area is:

Turnover by destination

	2000	1999
	Continuing operations	Continuing operations
	£000	£000
United Kingdom	55,570	52,922
United States	15,436	8,441
Europe	5,495	3,891
Rest of the World	11	658
	<u>76,512</u>	<u>65,912</u>

2. Segmental analysis (continued)

Business Analysis

	2000 £000	1999 £000
Turnover:		
Third party customers	69,487	60,549
Group support	7,025	5,363
Research & development	-	-
Total	<u>76,512</u>	<u>65,912</u>

The business analysis is based on management reporting classifications.

3. Operating costs

	2000		
	Continuing Operations £000	Discontinued Operations £000	Total £000
Application and service delivery	56,524	126	56,650
Sales and marketing	5,552	-	5,552
Administration	5,108	4,943	10,051
Exceptional Administration	-	444	444
Operating costs	<u>67,184</u>	<u>5,513</u>	<u>72,697</u>

During the year, the activities of the company's AT&T Labs UK division ceased. The results of the division have been shown under discontinued operations. The disposal of the division's fixed assets resulted in a loss on disposal of fixed assets of £198,807. Exceptional administration costs in the year ended 31 December 2000 relate to the provision for redundancy costs following the ending of the AT&T Labs UK activities.

3. Operating costs (continued)

	1999		
	Continuing Operations	Discontinued Operations	Total
	£000	£000	£000
Application and service delivery	56,622	138	56,760
Sales and marketing	2,772	5	2,777
Administration	7,184	4,086	11,270
Exceptional Administration	-	-	-
Operating costs	66,578	4,229	70,807

4. Interest receivable and similar income

	2000	1999
	£000	£000
Interest from bank deposits	805	152
Interest from fellow subsidiary undertakings	10	-
	815	152

5. Interest payable and similar charges

	2000	1999
	£000	£000
Interest payable		
On bank loans and overdrafts wholly repayable within 5 years	336	332

6. Employee information

(a) Staff

The average weekly number of persons employed by the company (including executive directors) during the period was as follows:

	2000	1999
	No.	No.
By activity		
Administration	227	173
Marketing and service delivery	354	354
	<u>581</u>	<u>527</u>

The aggregate payroll costs of these persons were as follows:

	2000	1999
	£000	£000
Wages and salaries	22,383	16,174
Social security costs	2,072	2,102
Pension costs (note 16)	2,346	1,674
	<u>26,801</u>	<u>19,950</u>

(b) Directors' Emoluments

Directors' remuneration comprises:

	2000	1999
	£000	£000
Aggregate emoluments	<u>83</u>	<u>364</u>

Benefits are accruing to three directors (1999: three directors) under the company's defined benefit pension schemes.

7. Profit on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2000	1999
	£000	£000
Depreciation of tangible fixed assets (note 10)	3,753	4,753
Amortisation of negative goodwill (note 9)	(348)	(1,393)
Auditors' remuneration - audit	203	250
- consultancy and other services	150	20
Operating lease rentals - plant and machinery	46	131
- land and buildings	1,651	1,095
Loss on the sale of motor vehicles	349	194
Loss on the sale of other fixed assets	544	177
Exchange gains	(424)	(127)
Research and development expenditure	5,513	4,229

The auditors' remuneration includes amounts borne by the company in respect of its subsidiary undertakings and AT&T Communications (UK) LTD, a fellow subsidiary of AT&T Corp.(subsequently renamed Viatel Global Communications Ltd and disposed of by the AT&T Corp group on 29 February 2000)

8. Taxation

	2000	1999
	£000	£000
Current Year		
United Kingdom corporation tax at 30% (1999: 31%)	-	-
Deferred tax	-	-
	-	-

Tax losses carried forward of approximately £61 million are available to offset against future profits of the same trade. The quantum of these losses has not yet been agreed by the Inland Revenue and may therefore be subject to adjustment.

9. Intangible fixed assets

Goodwill arising on consolidation

Group	2000
Cost	£000
At 31 December 1999 and 2000	<u>6,396</u>
Amortisation	
At 31 December 1999 and 2000	<u>6,396</u>
Net book value at 31 December 1999 and 2000	<u>-</u>

Positive goodwill was fully amortised during the period ended 31 December 1998

Negative goodwill

Group and company	2000	1999
Cost	£000	£000
At 31 December 1999 and 2000	<u>2,787</u>	<u>2,787</u>
Amounts recognised in the profit and loss account		
At 1 January	2,439	1,046
Amortisation for the year	<u>348</u>	<u>1,393</u>
At 31 December	<u>2,787</u>	<u>2,439</u>
Net book value at 31 December	<u>-</u>	<u>348</u>

The negative goodwill is being amortised over 2 years which corresponds to the period over which the non-monetary assets acquired are being depreciated.

10. Tangible fixed assets

Group and company	Land and Buildings £000	Plant and Machinery £000	Motor Vehicles £000	Other Equipment £000	Total £000
Cost					
At 1 January	11,999	3,953	4,247	19,762	39,961
Additions	514	-	2,039	1,770	4,323
Transfers to fellow subsidiary undertaking	-	-	-	96	96
Disposals	(714)	(1,413)	(6,286)	(12,267)	(20,680)
At 31 December 2000	11,799	2,540	-	9,361	23,700
Depreciation					
At 1 January	4,173	2,641	1,085	15,534	23,433
Charge for the year	525	470	629	2,129	3,753
Transfers to fellow subsidiary undertakings	-	-	-	-	-
Disposals	(503)	(1,243)	(1,714)	(11,921)	(15,381)
At 31 December 2000	4,195	1,868	-	5,742	11,805
Net book value					
At 31 December 2000	7,604	672	-	3,619	11,895
At 31 December 1999	7,826	1,312	3,162	4,228	16,528

Depreciation has not been charged on freehold land which is stated at cost of £2,088,947 (1999:£2,088,947)

	2000 £'000	1999 £'000
The net book value of land and buildings, including improvements, comprises:		
Freehold	7,520	7,706
Long Leaseholds	-	-
Short Leaseholds	84	120
	7,604	7,826

11. Fixed asset investments

Interest in group undertakings	Company	Company
	2000	1999
	£000	£000
Cost at 1 January	4,058	4,058
Disposals	(417)	-
Cost at 31 December	<u>3,641</u>	<u>4,058</u>
Amounts written off at 1 January	(4,058)	(4,058)
Disposals	417	-
Amounts written off at 31 December	<u>(3,641)</u>	<u>(4,058)</u>
Net Book Value at 31 December	<u>-</u>	<u>-</u>

Shares in group undertakings comprise the cost of investment in subsidiary undertakings. Details of subsidiary undertakings are shown in note 23.

The directors have reviewed the carrying value of the investment in group undertakings and consider that the financial position of the undertakings indicated that full provision should be made against the cost of investment in the accounts of the company.

Two non-UK non-trading subsidiaries, AT&T Istel GmbH and AT&T Visual Interactive Systems GmbH were liquidated in 2000.

The group had no other investments at either 31 December 2000 or 31 December 1999.

12. Debtors

	Group	Company	Group	Company
	2000	2000	1999	1999
	£000	£000	£000	£000
Amounts falling due after more than one year				
Amounts owed by fellow subsidiary undertakings	-	-	10,816	10,816
Amounts owed by group undertakings	-	8,211	-	8,211
		8,211	10,816	19,027
Amounts falling due within in one year				
Trade debtors	14,498	14,498	8,986	8,986
Amounts owed by parent company and fellow subsidiary undertakings	93,384	93,384	20,572	20,572
Amounts owed by the company's subsidiary undertakings	-	5,315	-	5,316
Other debtors	1,535	1,535	1,042	1,030
Prepayments and accrued income	8,410	8,410	5,222	5,222
	117,827	123,142	35,822	41,126
Total debtors	117,827	131,353	46,638	60,153

13. Creditors: amounts falling due within one year

	Group	Company	Group	Company
	2000	2000	1999	1999
	£000	£000	£000	£000
Bank loans and overdrafts	-	-	16,347	16,800
Trade creditors	12,822	12,822	12,423	12,415
Amounts owed to parent company and fellow subsidiary undertakings	86,989	86,990	7,217	7,217
Amounts owed to the company's subsidiary undertakings	-	10,754	-	10,791
Taxation and social security costs:	-	-	-	-
United Kingdom corporation tax payable	259	259	336	336
Other taxation and social security	401	401	509	509
Other creditors	1,151	1,151	883	880
Accruals and deferred income	1,607	1,607	1,341	1,341
	103,229	113,984	39,056	50,289

The overdraft is on normal commercial terms and is unsecured.

14. Creditors: amounts falling due after more than one year

	Group	Company	Group	Company
	2000	2000	1999	1999
	£000	£000	£000	£000
Amounts owed to fellow subsidiary undertakings	-	-	10,816	10,816
	<u>-</u>	<u>-</u>	<u>10,816</u>	<u>10,816</u>

15. Provisions for liabilities and charges**Group and company**

	Vacant property	Onerous contracts	Warranty	2000 Total provisions	1999 Total provisions
	£000	£000	£000	£000	£000
At 1 January	2,094	3,979	1,246	7,319	5,351
Transfer from fellow subsidiary	-	-	-	-	-
Additional provisions made	-	-	-	-	4,431
Released unused	-	(286)	-	(286)	(1,176)
Utilised in the year	(373)	(2,191)	(811)	(3,375)	(1,287)
At 31 December	<u>1,721</u>	<u>1,502</u>	<u>435</u>	<u>3,658</u>	<u>7,319</u>

The nature and detail of the above provisions are as follows:

Vacant property provisions are the estimated costs and financial commitments associated with the exiting of leasehold properties no longer in use by the company. The majority of these amounts will be realised within the next 10 years.

Onerous contracts provisions recognise the costs in excess of the expected economic benefit of certain customer contracts that expire over the next two years.

Warranty provisions provide for the probable costs associated with the disposal of certain company activities. The crystallisation of this cost is dependant on the fulfilment of certain conditions within the next five years.

16. Pension and similar obligations

The group operates two defined benefit schemes. The assets of the schemes are held in separate trustee administered funds. The schemes were closed to new members from 17 April 2001. AT&T Corp. group has set up a new defined contribution pension scheme for its UK based employees, including those of the company, which will provide benefits to the employees joining the scheme based on their and the company's contributions

The company has entered into deeds of adherence with AT&T Global Markets (EMEA) Ltd, AT&T Easylink Services Ltd, AT&T ISTEEL Pension Trustees Limited and AT&T ISTEEL Supplementary Pension Trustee Limited such that AT&T Global Markets (EMEA) Ltd and AT&T Easylink Services Ltd could, for certain of their employees, participate in the AT&T ISTEEL Pension Plan and the AT&T ISTEEL Supplementary Pension Plan. Under the deed of participation, AT&T Global Markets (EMEA) Ltd and AT&T Easylink Services (UK) Ltd cannot participate in any scheme surpluses arising prior to their participation in the schemes.

The total pension cost for the group was £1,875,000 (1999: £1,674,000). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The funds were valued at 1 April 1999 by an independent qualified actuary using the projected unit method. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments, rate of increase of dividends and the rates of increase in pensions.

It was assumed for both scheme valuations that the investment return would be 8.5% per annum, dividend increase would be 5.57% per annum and pensions would increase at 4% per annum.

The actuarial value of the net assets of the main scheme amounted to £117.1 million and for the supplementary scheme £7.8 million, and the market value amounted to £159.9 million and £10.5 million respectively. The actuarial value of the assets was sufficient to cover 112% for the main scheme and 94% for the supplementary scheme of the value of the benefits that had accrued to members. In order to eliminate the past service deficit for the supplementary scheme, the company has agreed to pay additional contributions of 5% of basic salaries to recover the deficit of £370,000 with effect from 1 June 2000.

An amount of £1,398,000 (1999: £638,000) is included in debtors, which represents the excess of the prepayment of contributions to the pension fund over the accumulated pensions cost.

17. Called up equity share capital

	2000	1999
<i>Authorised</i>	£000	£000
100,000,000 ordinary equity shares of £1 each	100,000	100,000
<i>Issued, called up and fully paid</i>		
As at 1 January - 27,213,539 ordinary equity shares of £1 each	27,214	27,214
Issued during year - 19,000,000 ordinary equity shares of £1 each	19,000	-
As at 31 December - 46,213,539 ordinary equity shares of £1 each	46,214	27,214

On 9 May 2000 £19,000,000 share capital was issued at par by the company to its immediate parent undertaking.

18. Reserves

	Group	Company	Group	Company
	2000	2000	1999	1999
	£000	£000	£000	£000
Profit and loss account				
As at 1 January	(18,839)	(16,557)	(13,764)	(11,434)
Profit/(Loss) for the year	4,294	4,783	(5,075)	(5,123)
At 31 December	(14,545)	(11,774)	(18,839)	(16,557)

19. Reconciliation of movement in shareholders' funds

	Group	Company	Group	Company
	2000	2000	1999	1999
	£000	£000	£000	£000
Opening equity shareholders' funds	8,375	10,657	13,450	15,780
Issue of share capital (See Note 17)	19,000	19,000	-	-
Profit/(Loss) for the year	4,294	4,783	(5,075)	(5,123)
Closing equity shareholders' funds	31,669	34,440	8,375	10,657

20. Capital commitments

Group and company	2000	1999
	£000	£000
Contracted but not provided for	<u>191</u>	<u>565</u>

21. Financial commitments*Lease commitments*

The group leases certain land and buildings on short and long term leases. At 31 December 2000, the annual rents payable under these leases, which are subject to re-negotiation at various intervals specified in the leases and in respect of which the company pays all insurance, maintenance and repairs of these properties in the year are as follows:

	2000	1999
	£000	£000
Expiry:		
Within one year	-	37
Between two and five years	21	387
Greater than five years	<u>988</u>	<u>576</u>
	<u>1,009</u>	<u>1,000</u>

At 31 December 2000 the group has lease agreements in respect of plant and machinery, for which the payments extend over a number of years:

	2000	1999
	£000	£000
Expiry:		
Within one year	568	1
Between two and five years	712	19
Greater than five years	<u>-</u>	<u>-</u>
	<u>1,280</u>	<u>20</u>

Funding Arrangements

The company is party to a cross guarantee in respect of a cash pooling arrangement with certain fellow subsidiaries of the AT&T Corp. group. The aggregate balance of the cash pool arising from the other participating subsidiaries as at 31 December 2000 was a positive cash balance of £ 9,547,096 (1999: £ 28,105,669).

The directors of the company, and those of other members of the pooling arrangement, have secured loan facilities totalling \$370 million, of which \$30 million relates to the company, from AT&T Communications Services International Inc., a fellow subsidiary, to ensure that there is sufficient funding of the ongoing operations of each member of the pooling arrangement.

The company's bankers have guarantees with third parties totalling £2,953,645 (1999: £2,391,161) in respect of the company.

22. Ultimate and immediate parent companies

The company's ultimate parent company and controlling party is AT&T Corp., which is registered in the United States of America. Copies of that company's consolidated financial statements are available from the Securities and Exchange Commission and may be obtained by contacting Boston EquiServe at the following address: AT&T Shareowner Services, c/o Boston EquiServe, PO Box 8035, Boston MA 02266-8035.

The immediate parent company of AT&T ISTEEL is AT&T Communication Services International Inc. which is registered in the United States of America.

23. Interests in group undertakings**Subsidiary undertakings**

AT&T ISTEEL had the following subsidiaries at 31 December 2000:

- A ISP
- Abbey Business Consultants Limited
- AI Deritend Limited
- AII Solutions Limited
- AT&T ISTEEL Purchasing Systems Limited
- AT&T Limited (formerly InView Limited)
- Belmin Systems Limited
- BL Systems Limited
- Computer Systems Development (CSD) Limited
- CSD (UK) Limited
- Daton System Limited
- DCB Systems Limited
- Facilities Management Services Limited
- ISTEEL Limited
- ISTEEL Nominee Limited (holder of nominee shares in other group companies)
- Mycrom Computers Limited
- Viewtel Holdings Limited
- WP Associates Limited

The company has a 100% holding in all of the above companies. All of the above companies are registered in England and Wales and are non-trading or dormant.

Joint venture undertakings

The company, through its wholly owed subsidiary ISTEEL Nominee Limited, holds an indirect 50% interest in the ordinary shares of ABC Travelbank Limited, a dormant company registered in England and Wales.

24. Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the AT&T Corp. group or investees of the AT&T Corp. group.

25. Post balance sheet event

AT&T Communications Services International Inc, a fellow subsidiary, has entered into an agreement with the company to provide a loan facility not exceeding \$30 million at an interest rate of LIBOR +0.25%. This facility is available until 29 October 2003, at which date all outstanding loans and interest are repayable in full. No loans have yet been drawn against this facility.