AT&T ISTEL
(formerly Ingleby (1082))

REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD FROM 16 MARCH 1998 TO
31 DECEMBER 1998

Registered No 3531467

AT&T ISTEL (formerly Ingleby (1082))

REPORT OF THE DIRECTORS

for the period ended 31 December 1998

The directors submit their report and audited financial statements for the period from incorporation to 31 December 1998.

Principal activities

The company was incorporated on 16 March 1998 as Ingleby (1082). On 1 April 1998, the company was renamed as AT&T ISTEL. The principal activity of the group during the period to 31 December 1998 was the provision of computer and communication services.

Review of the business and future developments

The consolidated profit and loss account for the period is set out on page 6.

On 31 March 1998, the company acquired certain operating divisions from Softlab SI (UK) (formerly AT&T Istel), a fellow group company, together with certain non-trading and dormant undertakings. During the course of 1998, the company's principal activities were aligned with those of its ultimate holding company, AT&T Corp. This resulted in the disposal of the company's finance and commerce operation in June 1998 and of the travel operation in November 1998. These have been shown as discontinued in the financial statements, all other acquired businesses being shown as continuing.

The remaining business will continue trading for the foreseeable future.

Dividends

The directors do not recommend the payment of a dividend.

Tangible fixed assets

The changes in tangible fixed assets are detailed in note 12 to the financial statements.

Directors and their interests

The following directors served during the period:-

	Appointed	Resigned
R D Bulter	17 March 1998	30 September 1998
W G DeSocio	1 April 1998	10 November 1999
K C Evans	1 April 1998	-
D S Hall	1 October 1998	-
J A C Macfarlane	1 April 1998	3 August 1999
N A Murphy	1 April 1998	4 April 1999

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 plan

In July 1998 qualifying employees were invited to participate in a stock option scheme originally launched by AT&T Corp. in the United States during 1997, in which the stocks will vest on 1 August 2000.

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.

Year 2000

Many computer systems express dates using only the last two digits of the year. Certain of these systems require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and possible commercial disruption. The company's business depends on our computer systems and also to some degree on those of our suppliers and customers. There is, therefore, a potential exposure to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

In 1996, a Year 2000 Programme Office was established by AT&T in the United States to oversee management and execution of a plan to address Year 2000 compliance issues relating to its products, services, infrastructure, and vendor supplied products, and its subsidiaries. During 1997, a Programme Director was appointed in the UK to oversee Year 2000 activities within AT&T's businesses across Europe, Middle East & Africa (EMEA).

The Year 2000 compliance programme is a strategic AT&T initiative with senior executive sponsorship and substantial funding. The aim is to ensure that there is no degradation to AT&T's customer service levels as a result of the millennium date change. Progress reviews are held monthly with senior management and with AT&T representatives in the United States, the latter reporting to the AT&T Audit Committee of the Board of Directors of AT&T Corp. on a quarterly basis. The company complied with all relevant initiatives applicable to it under the AT&T Year 2000 Compliance Programme.

During the year the company incurred a charge of £91,000 in connection with the Year 2000 Compliance Programme. The total estimated costs of future expenditure have not been quantified.

Auditors

The directors appointed Coopers & Lybrand as auditors of the company on 17 March 1998.

Coopers & Lybrand merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers as auditors. A resolution to re-appoint PricewaterhouseCoopers will be placed before the members at the next annual general meeting.

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 will remain in office until such time as the company shall determine otherwise.

By Order of the Board   Date

G P Saunders
Secretary

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 group and company and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

Date 28/1/00

G P Saunders

Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF AT&T ISTEL (*formerly* Ingleby (1082))

We have audited the financial statements on pages 6 to 23 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 4, 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 and of the loss of the group for the period ended 31 December 1998 and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
28 January 1999

AT&T ISTEL (formerly Ingleby (1082))

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the period ended 31 December 1998

	Notes	1998	
		£000	£000
Turnover (all operations acquired during the period)			
Continuing operations	2	29,098	
Discontinued operations	2	20,117	
			49,215
Operating costs	3		(58,025)
Operating loss (all operations acquired during the period)			
Continuing operations		(10,242)	
Discontinued operations		1,432	
			(8,810)
Loss on the sale of discontinued operations	5		(4,569)
Loss on ordinary activities before taxation and interest			(13,379)
Interest receivable and similar income	6		48
Interest payable and similar charges	7		(97)
Loss on ordinary activities before taxation	9		(13,428)
Taxation	10		(336)
Loss on ordinary activities after taxation			(13,764)
Dividends			-
Retained loss for the period	20		(13,764)

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

There is no difference between the loss on ordinary activities before taxation and the retained loss 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 loss for the period was £11,434,000

The notes on pages 8 to 23 form an integral part of these financial statements.

AT&T ISTEL (formerly Ingleby (1082))

BALANCE SHEETS

as at 31 December 1998

	Notes	Group	Group 1998 £000	Company	Company 1998 £000
Fixed assets					
Intangible assets	11		(1,741)		(1,741)
Tangible assets	12		19,543		19,543
Investments	13		-		-
			17,802		17,802
Current assets					
Debtors: amounts falling due after one year	14	-		8,211	
Debtors: amounts falling due within one year	14	30,032		35,202	
Cash at bank and in hand		3,159		2,706	
		33,191		46,119	
Creditors					
Amounts falling due within one year	15	(34,203)		(44,801)	
Net current (liabilities)/assets			(1,012)		1,318
Total assets less current liabilities			16,790		19,120
Creditors: Amounts falling due after more than one year	16		(5)		(5)
Provisions for liabilities and charges	17		(3,335)		(3,335)
Net assets			13,450		15,780
Capital and Reserves					
Called up share capital	19		27,214		27,214
Profit and Loss account	20		(13,764)		(11,434)
Equity shareholders' funds	21		13,450		15,780

The financial statements were approved by the board of directors on 28 January 2000 and were signed on its behalf by:

D.S. HALL
Director

AT&T ISTEL (formerly Ingleby (1082))

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 1998

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. These are the first financial statements since incorporation and no corresponding amounts are presented.

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

Basis of preparation

During the year the group incurred a loss of £13.76 million. The directors believe that it is appropriate for the accounts to be prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends upon the company being able to meet its forecasts of cashflows and on the immediate parent providing adequate loan facilities, as appropriate.

The directors of the company have received a letter from the immediate parent company confirming that it will continue to provide the company with sufficient financial resources to enable it to meet its forecast borrowing requirements for the next year.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets as current assets.

Basis of consolidation

The group financial statements consolidate the financial statements of AT&T ISTEL (formerly Ingleby (1082)) 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. For all principal acquisitions 20 years is considered representative of the economic life of goodwill. 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 ISTEL (formerly Ingleby (1082)) is exempt from the requirement to present its own profit and loss account. The amount of the loss for the period dealt with in the financial statements of AT&T ISTEL (formerly Ingleby (1082)) is disclosed on the face of the profit and loss account.

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
Motor vehicles	-	5 years
Machinery, tools, office furniture and equipment	-	2 to 10 years

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 company became the principle employer for the purposes of both schemes on 1 April 1998 replacing Softlab SI (UK) (formerly AT&T ISTEL).

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.

The pension scheme surplus which arose on revaluation is being recognised over a 15 year period which in the opinion of the actuaries is 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

The group operates in one business segment. All turnover originates in the United Kingdom. The analysis of group turnover, loss before taxation and net assets by geographic area is:

Turnover by destination

For the period ended 31 December 1998	Continuing operations £000	Discontinued operations £000
United Kingdom	28,824	20,117
United States	18	-
Europe	142	-
Rest of the World	114	-
	29,098	20,117

Loss on ordinary activities before taxation by geographical area

For the period ended 31 December 1998	Group £000
United Kingdom	(13,429)
United States	-
Europe	1
Rest of the World	-
	(13,428)

Net assets by geographical area

For the period ended 31 December 1998	Group	Company
	£000	£000
United Kingdom	12,540	15,780
United States	-	-
Europe	910	-
Rest of the World	-	-
	13,450	15,780

3. Operating costs

For the period ended 31 December 1998

All operations were acquired in the period	Continuing Operations	Continuing Operations - exceptional items	Discontinued Operations	Total
	£000	£000	£000	£000
Application and service delivery	29,167	-	17,311	46,478
Sales and marketing	2,643	-	1,467	4,110
Administration	1,374	6,156	(93)	7,437
Operating costs	33,184	6,156	18,685	58,025

Exceptional items comprise a charge of £6,156,000 relating to the provision for the dimunition in value of goodwill arising on consolidation (note 11).

4. Acquisitions

On 31 March 1998, the company acquired all the net assets and businesses, with the exception of the UK Systems Integration business, of Softlab SI (UK) (formerly AT&T ISTEL), a fellow subsidiary within the AT&T Corp. group, for a purchase price of £23,141,985, which was settled in cash.

The assets and liabilities of the acquired businesses were:

	Book value	Revaluation	Fair Value
	£000	£000	£000
Fixed assets	28,413	6	28,419
Debtors	39,280	(1084)	38,196
Other current assets	2,923	(112)	2,811
Creditors	(43,387)	1,440	(41,947)
	27,229	250	27,479
Cash consideration			23,142
Acquisition expenses			338
Negative goodwill arising (note 11)			3,999

Revaluations of assets and liabilities acquired reflect the write-down of assets to their estimated realisable value and the restatement of liabilities which were not properly stated in the balance sheet at the date of acquisition as a result of the finalisation of the financial statements of Softlab SI (UK) for the year ended 31 December 1997.

The summarised profit and loss account for the businesses acquired from Softlab SI (UK) for the period from 1 January 1998, the beginning of Softlab SI (UK)'s financial year to the date of acquisition, and for the previous financial year is as follows:

	Period ended 31 March 1998 £000	Year ended 31 December 1997 £000
Turnover	11,844	70,707
Operating Loss	(10,171)	(26,857)
Loss on ordinary activities before taxation	(11,797)	(26,857)
Taxation	-	-
Loss on ordinary activities after taxation	(11,797)	(26,857)

There were no recognised gains and losses other than those shown above.

On 31 March 1998, the company acquired the entire issued share capital of the non-trading and dormant group undertakings listed in note 26 for a cash consideration of £4,058,016. The company has used acquisition accounting to account for the purchase.

	£000
Net liabilities acquired	2,338
Cash consideration	4,058
Goodwill arising (note 11)	6,396

5. Loss on the sale of discontinued operations.

During the period, the company disposed of two of its operating divisions, realising a loss of £4,569,207 The loss on disposal has been disclosed as an exceptional item. No taxation charge has arisen as a result of this transaction.

6. Interest receivable and similar income

	Period ended 31 December 1998 £000
Interest from bank deposits	48

7. Interest payable and similar charges

	Period ended 31 December 1998 £000
Interest payable	
On bank loans and overdrafts wholly repayable within 5 years	97
	97

8. Employee information

(a) Staff

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

	Period ended 31 December 1998
By activity	No.
Marketing and service provision	183
Administration	415
	598

The aggregate payroll costs of these persons were as follows:

	Period ended 31 December 1998 £000
Wages and salaries	12,109
Social security costs	1,377
Pension costs (note 18)	1,276
	14,762

(b) *Directors' Emoluments*

Directors' remuneration comprises:

	Period ended 31 December 1998
	£000
Aggregate emoluments	280
Sums paid to third parties for directors' services	120
	400

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

	Period ended 31 December 1998
	£000
Highest paid director:	
Aggregate emoluments	221
Sums paid to third parties for director's services	120
	341

9. Loss on ordinary activities before taxation

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

	1998
	£000
Depreciation of tangible fixed assets (note 12)	4,944
Amortisation of goodwill arising on consolidation (note 11)	240
Amortisation of negative goodwill (note 11)	(1,317)
Auditors' remuneration - audit	299
- consultancy and other services	25
Operating lease rentals - plant and machinery	529
- land and buildings	2,064
Loss on the sale of fixed assets	3,148
Exchange gains	(186)
Research and development expenditure	5

The auditors' remuneration includes amounts borne by the company in respect its subsidiary undertakings and AT&T Communications (UK) LTD, a fellow subsidiary of AT&T Corp.

10. Taxation on loss on ordinary activities

	1998
	£000
Current Year	
United Kingdom corporation tax at 31%	336
Deferred tax	-
	336

Tax losses carried forward of approximately £75 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.

11. Intangible fixed assets

Goodwill arising on consolidation

Group	1998
Cost	£000
At 16 March	-
Additions (note 4)	6,396
At 31 December	6,396
Amortisation	
At 16 March	-
Charge for the period	240
Provision for dimunition in value (note 3)	6,156
At 31 December	6,396
Net book value at 16 March and 31 December	-

During the period, the carrying value of the investment in group undertakings held in the accounts of the company has been reviewed for impairment (note 13), resulting in full provision being made against the cost of investment in the accounts of the company. Accordingly, in the view of the directors, it is appropriate to also fully provide against the cost of the associated goodwill arising on consolidation in the period. The charge of £6,156,000 has been shown as an exceptional item in the *profit and loss account (note 3). No tax charge has arisen as a result of this adjustment.*

Negative goodwill

Group and Company	1998
Cost	£000
At 16 March	-
Additions (note 4)	3,999
Disposals (note 5)	(1,212)
At 31 December	2,787
Amounts recognised in the profit and loss account	
At 16 March	-
Amortisation for the period	1,317
Disposals	(271)
At 31 December	1,046
Net book value at 31 December 1998	1,741
Net book value at 16 March 1998	-

The fair value of the identifiable net assets and liabilities and businesses acquired from Softlab SI (UK) on 31 March 1998 (note 4) exceeded the consideration given on acquisition, resulting in negative goodwill of £3,999,000. As a result of the subsequent disposal of two of the operating divisions acquired (note 5) part of the goodwill has been realised in the period. The balance of the negative goodwill is being amortised over 2 years which corresponds to the period over which the remaining non-monetary assets acquired are being depreciated.

12. Tangible fixed assets

Group and company	Leasehold land and buildings £000	Other £000	Total £000
Cost			
At 16 March 1998	-	-	-
Additions	33	4,499	4,532
Transfers from group undertaking	8,959	48,037	56,996
Disposals	(866)	(17,018)	(17,884)
At 31 December 1998	8,126	35,518	43,644
Depreciation			
At 16 March 1998	-	-	-
Charge for the period	168	4,776	4,944
Transfers from group undertaking	1,350	27,227	28,577
Disposals	(298)	(9,122)	(9,420)
At 31 December 1998	1,220	22,881	24,101
Net book value			
At 31 December 1998	6,906	12,637	19,543
At 16 March 1998	-	-	-

Other assets include computer, motor vehicles and plant and equipment. Depreciation has not been charged on freehold land which is stated at cost of £2,088,947.

13. Fixed asset investments

	Company
Interest in group undertakings	
Cost	£000
At 16 March 1998	-
Additions	4,058
At 31 December 1998	4,058
Amounts written off	
At 16 March 1998	-
Provision for impairment of value	4,058
At 31 December 1998	4,058
Net Book value at 16 March and 31 December	-

Shares in group undertakings comprise the cost of investment in subsidiary undertakings. Details of subsidiary undertakings are shown in note 26.

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.

The group had no other investments at either 16 March or 31 December 1998.

14. Debtors

	Group	Company
	1998	1998
	£000	£000
Amounts falling due after more than one year		
Amounts owed by group undertakings	-	8,211
Amounts falling due within in one year		
Trade debtors	10,625	10,625
Amounts owed by parent company and fellow subsidiary undertakings	7,632	7,632
Amounts owed by group undertakings	-	5,181
Other debtors	2,226	2,215
Prepayments and accrued income	9,549	9,549
	30,032	35,202
Total debtors	30,032	43,413

15. Creditors: amounts falling due within one year

	Group 1998 £000	Company 1998 £000
Bank loans and overdrafts	4,303	3,756
Trade creditors	16,827	16,686
Amounts owed to parent company and fellow subsidiary undertakings	3,594	3,594
Amounts owed to group undertakings	-	11,337
Taxation and social security costs:		
United Kingdom corporation tax payable	336	336
Other taxation and social security	5,001	5,001
Other creditors	1,249	1,246
Accruals and deferred income	2,893	2,845
	34,203	44,801

The overdraft is on normal commercial terms and is unsecured.

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

	Group 1998 £000	Company 1998 £000
Other creditors	5	5

17. Provisions for liabilities and charges

Group and company

	Restructuring provisions £000
At 16 March 1998	-
Transfer from fellow subsidiary	2,204
Profit and loss account	1,528
Utilised in the period	(397)
At 31 December 1998	3,335

18. Pension and similar obligations

The group operates two defined benefit schemes. The assets of the schemes are held in separate trustee administered funds. The company became the principle employer for the purposes of both schemes on 1 April 1998 replacing Softlab SI (UK) (formerly AT&T ISTEL).

Also on 1 April 1998, the company entered into a deed of adherence with AT&T Communications (UK) LTD, AT&T ISTEL Pension Trustees Limited and AT&T ISTEL Supplementary Pension Trustee Limited such that AT&T Communications (UK) LTD could, for certain of its employees, participate in the AT&T ISTEL Pension Plan and the AT&T ISTEL Supplementary Pension Plan.

The total pension cost for the group was £1,276,000. 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 1998 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 9% per annum, dividend increase would be 5.57% per annum and pensions would increase at 4% per annum.

The 1 April 1998 valuation represents the first valuation in respect of the participation of AT&T Communications (UK) LTD. The actuarial value of the net assets of the main scheme amounted to £113.5 million and for the supplementary scheme £7.7 million, and the market value amounted to £155.5 million and £9.8 million respectively. The actuarial value of the assets was sufficient to cover 126% for the main scheme and 112% for the supplementary scheme of the value of the benefits that had accrued to members. Under the deed of participation, AT&T Communications (UK) LTD cannot participate in any scheme surplus arising prior to 1 April 1998.

An amount of £484,000 is included in debtors, which represents the excess of the prepayment of contributions to the pension fund over the accumulated pensions cost.

19. Called up equity share capital

	1998
Authorised	£000
100,000,000 ordinary equity shares of £1 each	100,000
Issued, called up and fully paid	
27,213,539 ordinary equity shares of £1 each	27,214

During the period, the company issued 27,213,539 ordinary £1 shares for cash at par.

20. Reserves

	Group	Company
Profit and loss account	£000	£000
As at 16 March 1998	-	-
Loss for the period	(13,764)	(11,434)
At 31 December 1998	(13,764)	(11,434)

21. Reconciliation of movement in shareholders' funds

	Group	Company
	1998	1998
	£000	£000
Issue of share capital	27,214	27,214
Loss for the period	(13,764)	(11,434)
Opening equity shareholders' funds	-	-
Closing equity shareholders funds	13,450	15,780

22. Capital commitments

Group and company	1998
	£000
Contracted but not provided for	585

23. Financial commitments

Lease commitments

The group leases certain land and buildings on short and long term leases. At 31 December 1998, 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:

	1998
Expiry:	£000
Within one year	558
Between two and five years	536
Greater than five years	1,260
	2,354

24. 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 ISTEL is AT&T Communication Services International Inc. which is registered in the United States of America.

25. Parent company support

The financial statements have been prepared on a going concern basis, the validity of which depends on the continued financial support of the ultimate parent company, AT&T Corp. The directors of the company have received a letter from the immediate parent company confirming that it will continue to provide the company with sufficient financial resources to enable it to meet its forecast borrowing requirements for the next year.

26. Interests in group undertakings

Subsidiary undertakings

AT&T ISTEL had the following subsidiaries at 31 December 1998:

A ISP
Abbey Business Consultants Limited
AI Deritend Limited
AII Solutions Limited
AT&T ISTEL GmbH (registered in Germany)
AT&T ISTEL Purchasing Systems Limited
AT&T Limited (formerly InView Limited)
AT&T Visual Interactive Systems GmbH (registered in Germany)
Belmin Systems Limited
BL Systems Limited
Computer Systems Development (CSD) Limited
CSD (UK) Limited
Daton System Limited
DCB Systems Limited
Facilities Management Services Limited
ISTEL Limited
ISTEL 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. Unless stated, all the above companies are registered in England and Wales and are non-trading or dormant. All the above companies were acquired by the company on 31 March 1998 (note 4).

Joint venture undertakings

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

27. 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.