AT&T ISTEL

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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AT&T ISTEL
DIRECTORS' REPORT

for the year ended 31 December 2004

The directors submit their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The principal activity of the company and its subsidiaries during the year was the provision of communication services to third party customers and the provision of accounting and administrative support to AT&T Corp. Group, and AT&T Corp. Group companies in the Europe, Middle East and Africa (EMEA) region.

Review of the business and future developments

The consolidated profit and loss account for the year is set out on page 7.

The business of the company and its subsidiaries 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 and the company will continue trading for the foreseeable future.

On 1 January 2004, AT&T Corp. Group implemented a new international trading agreement (the AT&T Global Intercompany Trading Agreement "AGITA") for its international operations. Under this agreement the Company provides network, sales and marketing and general administrative support to its ultimate parent company. As a result, the Company bears limited risk in relation to its local business and receives income from another AT&T Corp. Group undertaking as specified in the agreement.

Post Balance Sheet Events

On 30 January 2005, AT&T Corp. Group, the then ultimate parent company of AT&T Istel, entered into an Agreement and Plan of Merger pursuant to which, AT&T Inc., formerly known as SBC Communications Inc., a corporation registered in the United States of America, would acquire the entire share capital of AT&T Corp. through the "Merger" of its wholly owned subsidiary into AT&T Corp. On 18 November 2005, the Merger was consummated in accordance with the Agreement and Plan of Merger.

Results and Dividends

The Company's profit for the year is £1,775,000 (2003: £6,131,000). The directors do not recommend the payment of a dividend (2003: £nil) and the profit will be transferred to reserves.

Directors

The details of the directors who served during the period are as follows:

A Edison	(appointed 8 August 2005)
R Hirst	
R Kara	(resigned 15 March 2005)
K Morgan	

Secretary

R Hirst

Directors' interests

The beneficial interests, including the interests of spouses and minor children, of the directors and secretary, who held office at 31 December 2004, in the shares or debentures of the company or any other company within the AT&T Corp. Group are as follows:

	Shares	
Interest in AT&T Corp Group	1 January 2004 (or date of appointment)	31 December 2004
R D Hirst	-	-
R Kara	-	-
K G Morgan	-	-

			Options			
Interest in AT&T Corp Group	1 January 2004 (or date of appointment)	Granted	Vested during 2004	Cancelled during 2004	31 December 2004	Exercise price US$
R D Hirst	8,500	-	2,125	-	6,375	17.315
R Kara	3,763	-	-	3,763	-	-
K G Morgan	-	-	-	-	-	-

The Restricted Stock Units (RSUs) held by the Directors in AT&T Corp. Group at 31 December 2004 are as follows:

Restricted Stock Units	1 January 2004	Granted during 2004	Grant date	Vested during 2004	Vesting date	Remaining to Vest	Vesting price $ at 1.11.04
R D Hirst	423	1,300	27.05.04	141	1.11.04	1,582	18.20
R Kara	3,800	2,730	27.05.04	-	-	6,530	-
K G Morgan	-	-	-	-	-	-	-

The directors and secretary and their families had no other interest in the shares of the Company or any other AT&T Corp. Group Company at 31 December 2004.

Employee consultation and communications

In common with other UK subsidiaries of AT&T Corp. Group, consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through 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. Group in the United States during 1997, in which the options vested on 1 August 2000 are exercisable until 1 August 2007 at a price of $24.50.

Creditor payment policy

For all trade creditors, it is the Company's policy to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

The Company's trade creditor days for the year ended 31 December 2004 were 45 days (2003 – 59 days).

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 the group and of the profit or loss of the group 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; and

- prepare the financial statements on the going concern basis unless, it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group 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

A resolution has been passed to dispense with the obligation to appoint auditors annually in accordance with Section 386 of the Companies Act 1985. Accordingly, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to the member(s).

By Order of the Board 26 January 2006

Richard Hirst
Company Secretary

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AT&T ISTEL

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and company balance sheets, accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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. The other information comprises only the directors' report.

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 affairs of the company and the group at 31 December 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
26 January 2006

AT&T ISTEL
CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover	2	**75,484**	83,768
Operating costs	3	**(73,895)**	(77,265)
Profit on ordinary activities before interest and taxation		**1,589**	6,503
Interest receivable	4	**1,397**	1,215
Interest payable	5	**(1,180)**	(892)
Profit on ordinary activities before taxation	7	**1,806**	6,826
Taxation on profit on ordinary activities	8	**(31)**	(695)
Profit on ordinary activities after taxation	17	**1,775**	6,131

All of the results above relate to the continuing activities of the Company.

The Company 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 profit on ordinary activities after taxation stated above, and their historical cost equivalents.

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

AT&T ISTEL

CONSOLIDATED BALANCE SHEET

·as at 31 December 2004

		2004		2003	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9		**14,981**		18,369
Current assets					
Debtors: amounts falling due after one year	11	**2,869**		-	
Debtors: amounts falling due within one year	11	**42,847**		75,167	
		45,716		75,167	
Cash at bank and in hand		**142,387**		3,269	
		188,103		78,436	
Creditors: amounts falling due within one year	12	**(146,161)**		(41,476)	
Net current assets			**41,942**		36,960
Total assets less current liabilities			**56,923**		55,329
Provisions for liabilities and charges	13		**(4,091)**		(4,272)
Net assets			**52,832**		51,057
Capital and reserves					
Called up share capital	15		**46,214**		46,214
Profit and loss account	16		**6,618**		4,843
Total equity shareholders' funds	17		**52,832**		51,057

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

The financial statements on pages 7 to 31 were approved by the board of directors on 26 January 2006 and were signed on its behalf by:

Richard Hirst
Director

AT&T ISTEL

COMPANY BALANCE SHEET

as at 31 December 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Fixed assets					
Tangible assets	9		**14,981**		18,369
Investments	10		**-**		-
			14,981		18,369
Current assets					
Debtors: amounts falling due after one year	11	**2,869**		-	
Debtors: amounts falling due within one year	11	**47,054**		79,374	
		49,923		79,374	
Cash at bank and in hand		**142,387**		3,269	
		192,310		82,643	
Creditors: amounts falling due within one year	12	**(155,758)**		(51,073)	
Net current assets			**36,552**		31,570
Total assets less current liabilities			**51,533**		49,939
Provisions for liabilities and charges	13		**(4,091)**		(4,272)
Net assets			**47,442**		45,667
Capital and reserves					
Called up share capital	15		**46,214**		46,214
Profit and loss account	16		**1,228**		(547)
Total equity shareholders' funds	17		**47,442**		45,667

The accounting policies and notes on pages 10 to 31 form an integral part of these financial statements.

The financial statements on pages 7 to 31 were approved by the board of directors on 26 January 2006 and were signed on its behalf by:

Richard Hirst
Director

AT&T ISTEL

ACCOUNTING POLICIES

These financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

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. Therefore the accounts have been prepared so that operating expenses are disclosed in a manner appropriate to the company's principal activity (see note 3).

The Company is not yet required to fully adopt Financial Reporting Standard 17 "Retirement Benefits" for accounting for the cost of retirement benefits and therefore the company has included the transitional disclosure requirements as set out in the standard in note 14.

Turnover and revenue recognition

With effect from 1 January 2004, turnover represents the income received from another group undertaking in accordance with the AT&T Global Intercompany Trading Agreement ("AGITA"). Under this agreement the Company provides network, sales and marketing and general administrative support to its ultimate parent company. Income is related to these costs and may increase if the annual growth in third party revenue is substantial. Amounts invoiced to third party customers are accounted for as due to this group undertaking under the terms of the aforementioned agreement because the Company does not bear the risks and rewards associated with these invoices.

In prior years, turnover represents amounts derived from the provision of telecommunication services to customers.

Turnover is stated net of VAT and similar sales based taxes.

Basis of consolidation

The group financial statements consolidate the financial statements of AT&T Istel 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.

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 expensed either through depreciation or sale.

In accordance with section 230(4) of the Companies Act 1985, AT&T Istel is exempt from the requirement to present its own profit and loss account. The amount of the profit / (loss) for the period dealt with in the financial statements of AT&T Istel is disclosed in note 21.

Investments

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.

ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

Tangible fixed assets are valued at cost, including the incidental costs of acquisition, and depreciated so as to write off the cost of tangible fixed assets, less residual value, by equal annual instalments 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
Machinery, tools, office furniture and equipment	- 2 to 10 years
Computer Equipment	- 3 to 5 years

Investments

Fixed asset investments are stated at cost less provision for impairment. Current asset investments are shown at the lower of costs and net realisable value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Leases

Lease and hire purchase arrangements which transfer substantially all the risks and rewards of ownership of the related assets to the company are accounted for as finance leases. The assets are capitalised in the balance sheet and are depreciated over the shorter of the lease term or the estimated useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and approximates to a constant proportion of the balance sheet of capital repayments outstanding. All other arrangements are accounted for as operating leases and the rental costs are charged to the profit and loss account on a straight-line basis over the lease term.

ACCOUNTING POLICIES (CONTINUED)

Provision for onerous leases

Provisions are recognised when the group has a present obligation for a past event for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Provisions for onerous leases are made for properties which have been vacated and for which rentals continue which are not recoverable from subleasing the property. The provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date based on market conditions. The provision includes the full rental costs for the period until it is reasonably likely that the leasehold interest will be sold or sublet, plus any shortfall between the full lease cost and any expected sublet income. Provisions are made on an individual property basis and take into account ongoing expenses and costs associated with vacating the property.

Provisions for onerous leases are discounted, where material, in relation to the estimated period over which they will be utilised. The rate of discount reflects the time value of money and the risks associated with the liabilities.

Pensions and other post retirement benefits

The group operates two defined benefit schemes and a defined contribution scheme. The assets of the defined benefit schemes are held in separate trustee administered funds and the costs of the defined contribution scheme are taken directly to the profit and loss account.

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.

Cash flow statement and related party disclosures

The company is a wholly owned indirect 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).

The company is also 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.

Research and development

The company does not undertake any research or development activities.

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1. Future funding arrangements

In considering the Going Concern basis, the Directors have reviewed the future funding arrangements available from AT&T Corp, and believe that these arrangements are adequate to enable the Company to meet its liabilities, including those to the Pension Plans (note 14), as they fall due. Consequently the Directors believe that it is appropriate for these financial statements to be drawn up on a Going Concern basis.

2. Turnover

All turnover originates in the United Kingdom from continuing operations. The analysis of group turnover by destination is as follows:

Turnover by destination

	2004	2003
	£'000	£'000
United Kingdom	-	27,257
United States	-	9,461
Europe	**75,484**	45,991
Rest of the World	-	1,059
	75,484	83,768

The analysis of group turnover by business is as follows

	2004	2003
Turnover:	**£'000**	£'000
Third party customers	-	41,869
Group support	**75,484**	41,899
	75,484	83,768

As stated in the accounting policies, with effect from 1 January 2004, amounts billed and accrued in respect of third party customers are not included in turnover. The aggregate amount involved is £18,694,000.

3. Operating costs

	2004	2003
	£'000	£'000
Application and service delivery	**49,937**	49,182
Sales and marketing	**3,829**	3,224
Administration	**20,129**	24,859
	73,895	77,265

4. Interest receivable

	2004 £'000	2003 £'000
Interest from bank deposits	**1,212**	14
Interest from fellow group undertakings	**185**	1,201
	1,397	1,215

5. Interest payable

	2004 £'000	2003 £'000
Interest payable		
On bank loans and overdrafts wholly repayable within 5 years	**1,118**	326
On loans from the parent company and fellow subsidiary undertakings wholly repayable within 5 years	**-**	566
On unwinding of discounted provisions	**62**	-
	1,180	892

6. Employee information

(a) Staff

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

	2004 Number	2003 Number
By activity		
Administration	**239**	264
Marketing and service delivery	**351**	396
	590	660

The aggregate payroll costs, which include £1,078,000 redundancy costs (note 7), of these persons were as follows:

	2004 £'000	2003 £'000
Wages and salaries	**27,445**	29,999
Social security costs	**4,185**	2,936
Pension costs (note 14)	**6,852**	6,109
	38,482	39,044

(b) Directors' Emoluments

None of the directors received remuneration for their services as director of the Company and/or its subsidiary undertakings. Benefits are accruing to two directors (2003: two directors) under the company's defined benefit pension schemes.

7. Profit on ordinary activities before taxation

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

		2004	2003
		£'000	£'000
Auditor's remuneration	- (a) audit of AT&T Istel	82	86
	- (b) audit of other EMEA companies	2,348	-
	- Total audit fees	2,430	86
	- consultancy and other services	685	545
Total auditor's remuneration		3,115	631
Depreciation of tangible fixed assets (note 9)		4,293	4,891
Operating lease rentals	- vehicles	513	565
	- land and buildings	1,941	3,864
Loss on the sale of fixed assets		22	11
Net residual lease contracts (note 13)		(181)	(3,055)
Exchange losses / (gains)		739	(1,102)
Redundancy costs		1,078	-

(a) The AT&T Istel auditors' remuneration includes amounts borne by the company in respect of its subsidiary undertakings. Included within auditor's remuneration is £82,000 (2003:£86,000) paid in respect of the AT&T Istel parent company

(b) Under the AGITA agreement, AT&T Istel incurs the audit charges for all EMEA companies and recovers the charges by way of the International Network Service Fee. Other EMEA costs incurred centrally by AT&T Istel include legal, consultancy and other accountancy costs.

8. Taxation

(a) Analysis of charge in the period

	2004	2003
	£'000	£'000
Current Year		
United Kingdom corporation tax at 30%	-	695
Adjustment in respect of prior periods	31	-
	31	695

Tax losses carried forward estimated at £53.1 million at 31 December 2004, are available to offset against future profits of the same trade. The Inland Revenue had agreed tax losses to be carried forward as at 31 December 1998 of approximately £69 million.

(b) Factors affecting the tax charge in the period

The tax assessed for the period is greater than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003
	£'000	£'000
Profit on ordinary activities before taxation	1,806	6,826
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	542	2,048
Effects of:		
Expenses not deductible for tax purposes	84	296
Capital allowances for period in excess of depreciation	29	(200)
Timing differences	(1,672)	(968)
Utilisation of tax losses	1,017	(481)
Adjustments to tax charge in respect of previous periods	31	-
Current tax charge for the period	31	695

9. Tangible assets

Group and Company	Land and Buildings £'000	Plant and Machinery £'000	Computer Equipment £'000	Total £'000
Cost				
At 1 January 2004	13,377	1,057	17,306	31,740
Additions	-	-	1,012	1,012
Disposals	-	-	(1,853)	(1,853)
At 31 December 2004	**13,377**	**1,057**	**16,465**	**30,899**
Depreciation				
At 1 January 2004	4,081	683	8,607	13,371
Charge for the year	651	26	3,616	4,293
Disposals	-	-	(1,746)	(1,746)
At 31 December 2004	**4,732**	**709**	**10,477**	**15,918**
Net book value At 31 December 2004	**8,645**	**348**	**5,988**	**14,981**
At 31 December 2003	9,296	374	8,699	18,369

Depreciation has not been charged on freehold land, which is stated at cost of £2,080,998 (2003: £2,080,998).

The net book value of land and buildings, including improvements, comprises:	**2004 £'000**	2003 £'000
Freehold	**8,645**	9,296
Short Leaseholds	-	-
	8,645	9,296

10. Fixed asset investments

Interest in Group undertakings	**Company**
	£'000
Cost at 31 December 2004 and 2003	**3,639**
Amounts written off at 31 December 2004 and 2003	**(3,639)**
Net Book Value at 31 December 2004 and 2003	**-**

Shares in group undertakings comprise the cost of investment in subsidiary undertakings. Details of subsidiary undertakings are shown in note 20.

The group had no other investments at either 31 December 2004 or 31 December 2003.

11. Debtors

	Group 2004	**Company 2004**	Group 2003	Company 2003
	£'000	**£'000**	£'000	£'000
Amounts falling due after one year				
Amounts owed by parent company and fellow subsidiary undertakings	**2,869**	**2,869**	-	-
Amounts falling due within one year				
Trade debtors	**3,933**	**3,933**	4,135	4,135
Amounts owed by parent company and fellow subsidiary undertakings	**34,758**	**34,758**	66,264	66,264
Amounts owed by the company's subsidiary undertakings	**-**	**4,207**	-	4,207
Other debtors	**844**	**844**	1,410	1,410
Prepayments and accrued income	**3,312**	**3,312**	3,358	3,358
	42,847	**47,054**	75,167	79,374
Total debtors	**45,716**	**49,923**	75,167	79,374

12. Creditors: amounts falling due within one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Trade creditors	2,633	2,633	14,793	14,793
Amounts owed to parent company and fellow subsidiary undertakings	23,563	23,563	21,053	21,053
Amounts owed to the company's subsidiary undertakings	-	9,597	-	9,597
United Kingdom corporation tax payable	468	468	663	663
Other taxation and social security	902	902	1,282	1,282
Bank overdrafts	106,326	106,326	959	959
Other creditors	2,561	2,561	1,833	1,833
Accruals and deferred income	9,708	9,708	893	893
	146,161	155,758	41,476	51,073

13. Provision for liabilities and charges

(a) Group and company

	Net residual lease contracts £'000	Other outgoings £'000	2004 Total provisions £'000	2003 Total provisions £'000
At 1 January	**3,562**	**710**	**4,272**	7,281
Additional provisions made	1,710	-	**1,710**	1,349
Increase of discount	(1,053)	-	**(1,053)**	-
Released in the year	-	-	-	(3,490)
Utilised in the year	(190)	(710)	**(900)**	(868)
Unwinding of discount	62	-	**62**	-
At 31 December	**4,091**	-	**4,091**	4,272

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

Net residual lease contract provisions are the estimated costs and financial commitments associated with the exiting of leasehold properties no longer in use by the company calculated by discounting cash flows on a pre-tax basis and are utilised over the remaining period of the leases, which at 31 December 2004 is between 1 and 10 years.

Other outgoings comprised estimated costs and financial commitments relating to costs in relation to settlements and warranties relating to the disposal of businesses.

(b) Deferred tax

The deferred tax asset in the financial statements and the amount of the total asset not provided are as follows:

	Amount provided		Not provided	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Tax effect of timing differences due to excess of depreciation over capital allowances	-	-	**2,791**	2,989
Tax losses & short term timing differences	-	-	**15,654**	16,459
	-	-	**18,445**	19,448

The Company has not recognised the deferred tax assets in respect of tax losses as there is no certainty that these losses will be used.

14. Pensions and similar obligations

The group has continued to account for pensions in accordance with Statement of Standard Accounting Practice (SSAP) 24 "Accounting for Pension Costs", and the disclosures given in (a) are those required by that standard. Although Financial Reporting Standard 17 (FRS 17) "Retirement Benefits" was issued in November 2000 to replace SSAP 24, accounting for retirement benefits under this standard is not yet mandatory. However, transitional disclosures are required from 31 December 2001. These disclosures, to the extent not given in (a), are set out in (b) below.

(a) Pension accounting under SSAP24

The group operates three schemes, two defined benefit schemes being the AT&T Istel Pension Plan and the AT&T Istel Supplementary Pension Plan, and one defined contribution scheme being the AT&T Pension Scheme. The assets of the two defined benefit schemes are held in separate trustee administered funds. The two defined benefit schemes were closed to new members from 17 April 2001.

The total pension cost for the group was £6,852,000 (2003: £6,109,000). The pension schemes are funded by the payment of contributions to separately administered trust funds in accordance with the advice of an independent qualified actuary. The pension cost for the AT&T ISTEL Pension Plan was £5,016,000 (2003 - £4,514,000), the cost for the AT&T ISTEL Supplementary Pension Plan was £821,000 (2003 - £692,000) and the cost for the AT&T Pension Scheme was £406,000 (2003 - £380,000) with enhancements and premium contributions of £609,000 (2003 - £523,000).

The pensions schemes show a prepayment of £952,000 (2003: £88,000). These amounts are included in prepayments and accrued income.

The most recent actuarial valuation of the defined benefit schemes was carried out with an effective date of 1 April 2003. For the purpose of this valuation the assets of the plans were valued at market value, and liabilities valued using assumptions derived from market yields on fixed interest and index-linked gilts. A summary of the latest actuarial valuations is as follows:

	AT&T ISTEL Pension and Supplementary Plans
Investment return – pre retirement	6.6% pa for past service; 7.5% pa for future service.
Investment return – post retirement	5.6% pa for past service; 6.0% for future service.
Rate of pay increase	6.0% for next two years then 4.6% for past service; 4.5% for future service.
Rate of pension increase	3.6% per annum on post 97 pensions for past service; 3.5% per annum on post 97 pensions for future service; 3.0% pa on pre 97 pensions in excess of GMPs; 2.0% pa on post 88 GMPs; 0.0% pa on pre 88 GMPs.
Market value of assets	£150.2m
Scheme surplus/(deficit)	(£66.5m)
Funding ratio	56%

14. Pensions and similar obligations (continued)

In order to eliminate the deficit in the AT&T Istel Plans, the company has agreed standard contributions to the Plans over the coming year as follows:

- 15.2% of Pensionable Pay in January 2005 then 14.5% of Pensionable Pay from February 2005 onwards plus £540,000 each month to the AT&T ISTEL Pension Plan;
- 10.3% of Pensionable Pay in January 2005 then 10.0% of Pensionable Pay from February 2005 onwards for Sovereign Tier members and 29.0% of Pensionable Pay in January 2005 then 26.9% of Pensionable Pay from February 2005 onwards for for Sovereign Plus Tier members plus £56,000 to the AT&T ISTEL Supplementary Plan.

In addition to these standard contributions, the Company has agreed to make additional cash payments to the AT&T Istel Plans as set out in note 18.

At 31 December 2004 the balance sheet includes a SSAP 24 net prepayment of £952,000 (2003: £88,000).

Included in the pension cost for the year is £596,000 (2003: £509,000) which is the cost of enhanced benefits granted to certain employees returning to the company after the unwind of the Concert joint venture.

(b) Additional disclosures required by FRS 17

The latest formal valuation of the scheme has been updated to 31 December 2004, taking account of the different assumptions required by FRS 17, by a qualified independent actuary. The major assumptions used at 31 December 2004 were:

	2004 AT&T ISTEL Pension Plan %	**2004 AT&T ISTEL Supplementary Pension Plan %**	2003 AT&T ISTEL Pension Plan %	2003 AT&T ISTEL Supplementary Pension Plan %	2002 AT&T ISTEL Pension Plan %	2002 AT&T ISTEL Supplementary Pension Plan %
Discount rate	**5.3**	**5.3**	5.4	5.4	5.5	5.5
Rate of increase in salaries	**4.9**	**5.4**	4.8	5.3	4.3	4.8
Rate of increase in pensions accrued prior to April 1997	**3.0**	**3.0**	3.0	3.0	3.5	3.0
Rate of increase in pensions accrued since April 1997	**3.6**	**3.6**	3.6	3.6	3.5	3.5
Inflation assumption	**2.9**	**2.9**	2.8	2.8	2.3	2.3
Rate of increase for deferred pensions	**2.9**	**2.9**	2.8	2.8	2.3	2.3

14. Pensions and similar obligations (continued)

The assets in the AT&T ISTEL Pension plan scheme and the expected rates of return were :

	Expected long-term rate of return as at 31 December 2004	**Market Value as at 31 December 2004 £'000**	Expected long-term rate of return as at 31 December 2003	Market Value as at 31 December 2003 £'000	Expected long-term rate of return as at 31 December 2002	Market Value as at 31 December 2002 £'000
Equities	7.5%	121,762	7.8%	106,837	7.5%	81,662
Government Bonds	4.5%	8,400	4.8%	8,178	4.5%	22,367
Corporate Bonds	5.0%	17,035	5.1%	13,630	5.5%	1,055
Cash	4.8%	2,984	4.0%	1,168	3.0%	423
TOTAL		150,181		129,813		105,507
Present value of scheme liabilities		(216,631)		(190,740)		(179,654)
Deficit in the scheme		(66,450)		(60,927)		(74,147)
Related deferred tax asset		19,935		18,278		22,244
Net pension liability		(46,515)		(42,649)		(51,903)

14. Pensions and similar obligations (continued)

The assets in the AT&T ISTEL Supplementary Pension plan scheme and the expected rates of return were:

	Expected long-term rate of return as at 31 December 2004	**Market Value as at 31 December 2004 £'000**	Expected long-term rate of return as at 31 December 2003	Market Value as at 31 December 2003 £'000	Expected long-term rate of return as at 31 December 2002	Market Value as at 31 December 2002 £'000
Equities	7.5%	9,725	7.8%	6,278	7.5%	5,122
Government Bonds	4.5%	1,412	4.8%	3,269	4.5%	4,673
Corporate Bonds	5.0%	1,334	5.1%	1,227	5.5%	140
Cash	4.8%	234	4.0%	87	3.0%	29
TOTAL		12,705		10,861		9,964
Present value of scheme liabilities		(19,053)		(16,256)		(15,001)
Deficit in the scheme		(6,348)		(5,395)		(5,037)
Related deferred tax asset		1,905		1,619		1,511
Net pension liability		**(4,443)**		**(3,776)**		**(3,526)**

14. Pensions and similar obligations (continued)

The assets in the two schemes in aggregate at 31 December 2004 were:

	Expected long-term rate of return as at 31 December 2004	**Market Value as at 31 December 2004 £'000**	Expected long-term rate of return as at 31 December 2003	Market Value as at 31 December 2003 £'000	Expected long-term rate of return as at 31 December 2002	Market Value as at 31 December 2002 £'000
Equities	7.5%	131,487	7.8%	113,115	7.5%	86,784
Government Bonds	4.5%	9,812	4.8%	11,447	4.5%	27,040
Corporate Bonds	5.0%	18,369	5.1%	14,857	5.5%	1,195
Cash	4.8%	3,218	4.0%	1,255	3.0%	452
TOTAL		162,886		140,674		115,471
Present value of scheme liabilities		(235,684)		(206,996)		(194,655)
Deficit in the scheme		(72,798)		(66,322)		(79,184)
Related deferred tax asset		21,839		19,897		23,755
Net pension liability		**(50,959)**		**(46,425)**		**(55,429)**
Group net assets excluding pension liability		52,832		51,057		44,926
Group net assets/(liabilities) incl. pension liability		**1,873**		**4,632**		**(10,503)**
Group profit and loss reserve excluding pension liability		6,618		4,843		(1,288)
Group profit and loss reserve incl. pension liability		**(44,341)**		**(41,582)**		**(56,717)**

The AT&T Istel Pension Plan and the AT&T Istel Supplementary Pension Plan are now closed to new entrants and under the projected unit method the current service cost will increase as members approach retirement.

14. Pensions and similar obligations (continued)

Analysis of the amount charged to operating profit

	2004			2003		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Current service cost	4,055	384	**4,439**	4,318	415	**4,733**
Past service cost	596	-	**596**	509	-	**509**
Curtailments/ settlements	-	-	-	218	37	**255**
Total operating charge	**4,651**	**384**	**5,035**	**5,045**	**452**	**5,497**

Analysis of the amount charged to other finance income

	2004			2003		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Expected returns on pension scheme assets	9,600	725	**10,325**	7,315	604	**7,919**
Interest on pension scheme liabilities	(10,353)	(874)	**(11,227)**	(9,928)	(822)	**(10,750)**
Net return	**(753)**	**(149)**	**(902)**	**(2,613)**	**(218)**	**(2,831)**

14. Pensions and similar obligations (continued)

Analysis of the amount recognised in the Statement of total recognised gains and losses (STRGL):

	2004			2003		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	7,145	741	**7,886**	15,436	985	**16,421**
Experience gains and losses arising on the scheme liabilities	(900)	(1,155)	**(2,055)**	9,769	1	**9,770**
Changes in assumptions underlying the present value of the scheme liabilities	(12,966)	(999)	**(13,965)**	(8,980)	(1,240)	**(10,220)**
Actuarial loss recognised in the STRGL	**(6,721)**	**(1,413)**	**(8,134)**	**16,225**	**(254)**	**15,971**

Movements in the deficit during the year:

	2004			2003		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supplementary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deficit at the beginning of the year	(60,927)	(5,395)	(66,322)	(74,147)	(5,037)	(79,184)
Current service cost	(4,055)	(384)	(4,439)	(4,318)	(415)	(4,733)
Contributions	6,602	993	7,595	4,653	566	5,219
Curtailments/settlements	-	-	-	(509)	-	(509)
Past service cost	(596)	-	(596)	(218)	(37)	(255)
Other finance income	(753)	(149)	(902)	(2,613)	(218)	(2,831)
Actuarial loss	(6,721)	(1,413)	(8,134)	16,225	(254)	15,971
Deficit in the scheme at the end of the year	**(66,450)**	**(6,348)**	**(72,798)**	**(60,927)**	**(5,395)**	**(66,322)**

14. **Pensions and similar obligations (continued)**

History of experience gains and losses AT&T ISTEL Pension Plan:

	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual returns of scheme assets			
Amount	**7,145**	15,436	(31,262)
Percentage of scheme assets	**4.8%**	11.9%	30%
Experience gains and losses on scheme liabilities			
Amount	**(900)**	9,769	(526)
Percentage of the present value of scheme liabilities	**(0.4%)**	5.1%	0%
Total amount recognised in the Statement of total recognised gains and losses	**(6,721)**	16,225	(48,891)
Percentage of the present value of scheme liabilities	**(3.1%)**	8.5%	27%

History of experience gains and losses AT&T ISTEL Supplementary Pension Plan:

	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual returns of scheme assets			
Amount	**741**	985	(1,734)
Percentage of scheme assets	**5.8%**	9.1%	17%
Experience gains and losses on scheme liabilities			
Amount	**(1,155)**	1	(14)
Percentage of the present value of scheme liabilities	**(6.1%)**	0%	0%
Total amount recognised in the Statement of total recognised gains and losses	**(999)**	(254)	(2,797)
Percentage of the present value of scheme liabilities	**(5.2%)**	1.6%	19%

15. Called up share capital

	2004	2003
Authorised	**£'000**	£'000
100,000,000 ordinary equity shares of £1 each	**100,000**	100,000
Issued, called up and fully paid		
46,213,539 ordinary equity shares of £1 each	**46,214**	46,214

16. Profit and Loss account

	Group	Company	Group	Company
	2004	**2004**	2003	2003
	£'000	**£'000**	£'000	£'000
As at 1 January	**4,843**	**(547)**	(1,288)	(6,678)
Profit for the year	**1,775**	**1,775**	6,131	6,131
At 31 December	**6,618**	**1,228**	4,843	(547)

17. Reconciliation of movement in shareholders' funds

	Group	Company	Group	Company
	2004	**2004**	2003	2003
	£'000	**£'000**	£'000	£'000
Opening equity shareholders' funds	**51,057**	**45,667**	44,926	39,536
Profit for the year	**1,775**	**1,775**	6,131	6,131
Closing equity shareholders' funds	**52,832**	**47,442**	51,057	45,667

18. Financial commitments

Lease commitments

The group leases certain land and buildings on short and long term leases. At 31 December 2004, 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:

	2004	2003
Expiry:	£'000	£'000
Within two to five years	1,637	703
After five years	374	822
	2,011	1,525

At 31 December 2004 the group has lease agreements in respect of vehicles, for which the payments extend over a number of years:

	2004	2003
Expiry:	£'000	£'000
Within one year	206	177
Within two to five years	671	744
	877	921

Cash Funding Arrangements

The company is party to a cross guarantee in respect of a cash pooling arrangement with certain fellow subsidiaries of AT&T Corp. The aggregate balance of the cash pool arising from the other participating subsidiaries as at 31 December 2004 was £53,309,369 (2003: £11,379,594).

The company's bankers have guarantees with third parties totalling £1,581,365 (2003: £2,058,293) in respect of the company.

Pension Funding Arrangements

As disclosed in note 14 the group operates two defined benefit schemes, the AT&T Istel Pension Plan and the AT&T Istel Supplementary Pension Plan.

The company has recently agreed with both the Trustees of the Pension Plan and AT&T Corp. that it will make make cash payments in the period up to 31 December 2008, including £17.6m prior to 31 March 2006. Thereafter the contributions payable in respect of both past and future service will be payable on a monthly or annual basis following future actuarial valuations.

The funding of these payments will be forthcoming as part of the cash pooling arrangements with fellow subsidiaries.

AT&T Corp. have provided a guarantee to the Pension Plans, to which the Trustees are agreeable, in respect of past pension liabilities.

19. Ultimate parent undertaking

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

The company's ultimate parent company and controlling party is AT&T Inc., 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.

20. Interest in group undertakings

Subsidiary undertakings

AT&T Istel had the following subsidiaries at 31 December 2004:

A ISP
AI Purchasing Systems Limited
AT&T Limited
CSD (UK) Limited
In-View Limited
ISTEL Nominee Limited (holder of nominee shares in other companies)

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

21. Profit of holding company

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 result for the year was a profit of £1,775,000 (2003: £6,131,000).