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# **AT&T ISTE**

## **REPORT AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2005

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*Registered No 3531467*



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**AT&T ISTELE****DIRECTORS' REPORT**

*for the year ended 31 December 2005*

*The directors submit their report and the audited financial statements for the year ended 31 December 2005.*

**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 Inc. Group, and AT&T Inc. 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 30 January 2005, AT&T Corp. Group, the then ultimate parent company of AT&T ISTELE, 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.*

*AT&T Inc. Group continues to use an 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.*

**Results and Dividends**

*AT&T ISTELE Group's profit for the year is £4,387,000 (2004: £1,705,000 as restated). The directors do not recommend the payment of a dividend (2004: £nil) and the profit will be transferred to reserves.*

**Directors**

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

<i>A Edison</i>	<i>(appointed 8 August 2005)</i>
<i>R Hirst</i>	
<i>R Kara</i>	<i>(resigned 15 March 2005)</i>
<i>J Messoro</i>	<i>(appointed 28 February 2006)</i>
<i>K Morgan</i>	<i>(resigned 28 February 2006)</i>

**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 2005, in the shares or debentures of the company or any other company within the AT&T Inc. Group are as follows:

Interest in AT&T Inc. Group	Shares	
	1 January 2005 (or date of appointment)	31 December 2005
R D Hirst	-	-
A Edison	-	-
K G Morgan	-	-

Interest in AT&T Inc. Group	Options in AT&T Corp. 1 January 2005 (or date of appointment)	OptionsG ranted during 2005	Exercised during 2005	Conversion from AT&T Corp. to AT&T Inc.**	Options in AT&T Inc. 31 December 2005	Exercise price US\$
R D Hirst	8,500	579	-	(2,003)	7,076	20.7971
A Edison	100	6	-	(22)	84	43.0093
A Edison	670	46	-	(158)	558	27.8342
K G Morgan	-	-	-	-	-	-

\*\* On the Merger of AT&T Corp. with SBC, options in AT&T Corp. were converted into options in AT&T Inc. at the rate of 0.77942 shares in AT&T Inc. to 1 share in AT&T Corp..

**Directors' interests (continued)**

*The Restricted Stock Units (RSUs) held by the Directors in AT&T Corp. were all vested on 18 November 2005 following the Merger with SBC. The details of the RSUs vested are as follows:*

<i>Restricted Stock Units</i>	<i>1 January 2005 (or date of appointment)</i>	<i>Granted during 2005</i>	<i>Grant date</i>	<i>Vested during 2005</i>	<i>Vesting date</i>	<i>Remaining to Vest</i>	<i>Vesting price \$ at 18.11.05</i>
<i>R D Hirst</i>	<i>1,582</i>	<i>1,100</i>	<i>03/02/05</i>	<i>2,682</i>	<i>18/11/05</i>	<i>-</i>	<i>24.76</i>
<i>A Edison</i>	<i>8,100</i>	<i>-</i>	<i>-</i>	<i>8,100</i>	<i>18/11/05</i>	<i>-</i>	<i>24.76</i>
<i>K G Morgan</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

*The directors and secretary and their families had no other interest in the shares of the Company or any other AT&T Inc. Group Company at 31 December 2005.*

**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.*

*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 2005 were 35 days (2004 – 45 days).

**Financial risk management***Foreign Exchange*

The Company enters into foreign currency transactions and has a policy to hedge against exposures which may arise as a result of these transactions.

There has been no change during the year, or since the year end, to the type of financial risks faced by the Company or to the Company's approach to the management of those risks.

*Credit Risk*

The Company's main exposure to credit risk is with regard to recoverability of trade debtors. The Company provides against this exposure, and management considers that the carrying value of trade debtors represents the recoverable amount.

**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.

By Order of the Board

26 October 2006



**Richard Hirst**  
Company Secretary

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AT&T ISTELE**

We have audited the group and parent company financial statements (the "financial statements") of AT&T ISTELE for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit 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 October 2006*

## AT&amp;T ISTELE

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Note	2005 £'000	2004 (as restated) £'000
Turnover	2	69,637	75,484
Operating costs	3	(65,498)	(73,965)
<b>Profit on ordinary activities before interest and taxation</b>		<b>4,139</b>	<b>1,519</b>
Interest receivable	4	3,646	1,397
Interest payable	5	(1,717)	(1,180)
<b>Profit on ordinary activities before taxation</b>	8	<b>6,068</b>	<b>1,736</b>
Taxation on profit on ordinary activities	9	(1,681)	(31)
<b>Profit for the financial year</b>	19	<b>4,387</b>	<b>1,705</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2005

	Note	2005 £'000	2004 (as restated) £'000
Profit for the financial year		4,387	1,705
Actuarial gain / (loss) on pension scheme		5,523	(8,134)
Movement on deferred tax relating to pension liability		(1,657)	2,440
<b>Total recognised gains and losses relating to the year</b>		<b>8,253</b>	<b>(3,989)</b>
Prior year adjustment FRS 17		(51,910)	
<b>Total gains and losses recognised since last annual report</b>		<b>(43,657)</b>	

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

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 30 form an integral part of these financial statements.



## AT&amp;T ISEL

## CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Note	2005 £'000	2004 ( as restated) £'000
<b>Fixed assets</b>			
Tangible assets	10	12,906	14,981
<b>Current assets</b>			
Debtors: amounts falling due after one year	12	-	2,869
Debtors: amounts falling due within one year	12	59,740	41,895
		59,740	44,764
Cash at bank and in hand		52,830	142,387
		112,570	187,151
Creditors: amounts falling due within one year	13	(68,297)	(146,161)
<b>Net current assets</b>		44,273	40,990
<b>Total assets less current liabilities</b>		57,179	55,971
Provisions for liabilities and charges	14	(3,862)	(4,091)
<b>Net assets excluding pension liability</b>		53,317	51,880
Pension liability	15	(44,142)	(50,958)
<b>Net assets including pension liability</b>		9,175	922
<b>Capital and reserves</b>			
Called up share capital	16	46,214	46,214
Profit and loss account	17	(37,039)	(45,292)
<b>Total equity shareholders' funds</b>	18	9,175	922

The accounting policies and notes on pages 10 to 30 form an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the board of directors on 26 October 2006 and were signed on its behalf by:



**John Messor**  
Director

**AT&T ISTEEL**  
**COMPANY BALANCE SHEET**  
**as at 31 December 2005**

		2005		2004 (as restated)	
	Note	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	10		12,906		14,981
Investments	11		-		-
			<u>12,906</u>		<u>14,981</u>
<b>Current assets</b>					
Debtors: amounts falling due after one year	12	-		2,869	
Debtors: amounts falling due within one year	12	63,947		46,102	
		<u>63,947</u>		<u>48,971</u>	
Cash at bank and in hand		48,623		142,387	
		<u>112,570</u>		<u>191,358</u>	
Creditors: amounts falling due within one year	13	(77,894)		(155,758)	
<b>Net current assets</b>			<u>34,676</u>		<u>35,600</u>
<b>Total assets less current liabilities</b>			<u>47,582</u>		<u>50,581</u>
Provisions for liabilities and charges	14		(3,862)		(4,091)
<b>Net assets excluding pension liability</b>			<u>43,720</u>		<u>46,490</u>
Pension liability	15		(44,142)		(50,958)
<b>Net assets including pension liability</b>			<u>(422)</u>		<u>(4,468)</u>
<b>Capital and reserves</b>					
Called up share capital	16		46,214		46,214
Profit and loss account	17		(46,636)		(50,682)
<b>Total equity shareholders' funds</b>	18		<u>(422)</u>		<u>(4,468)</u>

The accounting policies and notes on pages 10 to 30 form an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the board of directors on 26 October 2006 and were signed on its behalf by:



**John Messoré**  
 Director

**AT&T ISTELE****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).

***Changes in accounting policies***

The Company has adopted Financial Reporting Standard 17 "Retirement Benefits" for accounting for the cost of retirement benefits in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly.

The effect of the change in accounting policy to adopt FRS 17 was to increase staff costs by £70,000 in 2004 to decrease profit for 2004 by £70,000 and to increase the total recognised gains and losses in 2005 by £3,866,000 (2004 - loss of £5,694,000).

The Company has also adopted FRS 25 'Financial Instruments: disclosure and presentation' in these financial statements which has resulted in no financial impact on the comparative numbers. Therefore no amounts in prior year have been adjusted.

***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.

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 ISTELE 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 ISTELE 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 ISTELE is disclosed in note 22.

## ACCOUNTING POLICIES (CONTINUED)

### *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. 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.

### *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

### *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.

***Cash flow statement and related party disclosures***

The company is a wholly owned indirect subsidiary of AT&T Inc., and its cash flows are included in the consolidated financial statements of AT&T Inc., 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 Inc. Group or investees of the AT&T Inc. Group.

***Research and development***

The company does not undertake any research or development activities.

## AT&amp;T ISTELE

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 1. Future funding arrangements

In considering the Going Concern basis, the Directors have reviewed the future funding arrangements available from AT&T Inc, and believe that these arrangements are adequate to enable AT&T ISTELE to meet its liabilities, including those to the Pension Plans (note 15), 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

	2005	2004
	£'000	£'000
Europe	69,637	75,484
	<u>69,637</u>	<u>75,484</u>

## The analysis of group turnover by business is as follows

	2005	2004
	£'000	£'000
Turnover:		
Group support	69,637	75,484
	<u>69,637</u>	<u>75,484</u>

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 £18,837,000 (2004 - £18,694,000).

## 3. Operating costs

	2005	2004
	£'000	(as restated) £'000
Application and service delivery	44,648	49,937
Sales and marketing	2,784	3,829
Administration	18,066	20,199
	<u>65,498</u>	<u>73,965</u>

**4. Interest receivable**

	2005	2004
	£'000	£'000
Interest from bank deposits	3,134	1,212
Interest from fellow group undertakings	512	185
	<u>3,646</u>	<u>1,397</u>

**5. Interest payable**

	2005	2004
	£'000	£'000
Interest payable		
On overdrafts wholly repayable within 5 years	1,599	1,118
On unwinding of discounted provisions	118	62
	<u>1,717</u>	<u>1,180</u>

**6. Employee information****(a) Staff**

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

	2005	2004
	Number	Number
By activity		
Administration	205	239
Marketing and service delivery	312	351
	<u>517</u>	<u>590</u>

The aggregate payroll costs, which include £887,000 (2004:£1,078,000) redundancy costs (note 8), of these persons were as follows:

	2005	2004
	£'000	( as restated) £'000
Wages and salaries	27,894	27,445
Social security costs	3,675	4,185
Pension costs (note 15)	6,482	6,365
	<u>38,051</u>	<u>37,995</u>

**(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 (2004: two directors) under the company's defined benefit pension schemes.

## 7. Loan to director

The company made an unsecured non-interest bearing quasi-loan to Mr. Hirst amounting to £7,482 on 13 December 2005 in respect of expenses incurred by him and initially paid by the company. This was repaid by Mr. Hirst within 1 month.

## 8. Profit on ordinary activities before taxation

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

	2005	2004
	£'000	£'000
Auditor's remuneration - (a) audit of AT&T ISTELE	85	82
- (b) audit of other EMEA companies	2,415	2,348
- Total audit fees	2,500	2,430
- consultancy and other services	1,039	685
Total auditor's remuneration	3,539	3,115
Depreciation of tangible fixed assets (note 10)	2,453	4,293
Operating lease rentals - vehicles	476	513
- land and buildings	1,984	1,941
(Profit)/Loss on the sale of fixed assets	(24)	22
Net residual lease contracts (note 14)	632	(181)
Exchange losses / (gains)	47	739
Redundancy costs	887	1,078

- (a) The AT&T ISTELE auditors' remuneration includes amounts borne by the company in respect of its subsidiary undertakings. Included within auditor's remuneration is £85,000 (2004:£82,000) paid in respect of the AT&T ISTELE parent company.
- (b) Under the AGITA agreement, AT&T ISTELE 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 ISTELE include legal, consultancy and other accountancy costs.



## 9. Taxation

### *(a) Analysis of charge in the period*

	2005 £'000	2004 £'000
Current tax		
United Kingdom corporation tax at 30%	417	-
Adjustment in respect of prior periods	-	31
Total current tax	417	31
Deferred tax		
Pensions deficit	1,264	-
	1,681	31

Tax losses carried forward estimated at £49.7 million at 31 December 2005, 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 1999 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:

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation	6,068	1,806
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	1,820	542
Effects of:		
Expenses not deductible for tax purposes	88	84
Capital allowances for period in excess of depreciation	(530)	29
Timing differences	(961)	(1,672)
Utilisation of tax losses	-	1,017
Adjustments to tax charge in respect of previous periods	-	31
Current tax charge for the period	417	31

**10. Tangible assets**

<b>Group and Company</b>	<b>Land and Buildings £'000</b>	<b>Plant and Machinery £'000</b>	<b>Computer Equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>				
At 1 January 2005	13,377	1,057	16,465	30,899
Additions	-	-	874	874
Disposals	(85)	-	(4,390)	(4,475)
<b>At 31 December 2005</b>	<b>13,292</b>	<b>1,057</b>	<b>12,949</b>	<b>27,298</b>
<b>Depreciation</b>				
At 1 January 2005	4,732	709	10,477	15,918
Charge for the year	527	11	1,915	2,453
Disposals	(43)	-	(3,936)	(3,979)
<b>At 31 December 2005</b>	<b>5,216</b>	<b>720</b>	<b>8,456</b>	<b>14,392</b>
<b>Net book value</b>				
<b>At 31 December 2005</b>	<b>8,076</b>	<b>337</b>	<b>4,493</b>	<b>12,906</b>
At 31 December 2004	8,645	348	5,988	14,981

Depreciation has not been charged on freehold land, which is stated at cost of £2,080,998 (2004: £2,080,998).

	<b>2005 £'000</b>	<b>2004 £'000</b>
The net book value of land and buildings, including improvements, comprises:		
Freehold	8,076	8,645
Short Leaseholds	-	-
	<b>8,076</b>	<b>8,645</b>

**11. Fixed asset investments**

<b>Interest in Group undertakings</b>	<b>Company £'000</b>
Cost at 1 January 2005	3,639
Increased capital infusion	4,207
<b>Cost at 31 December 2005</b>	<b>7,846</b>
Amounts written off at 1 January 2005	(3,639)
Further impairment	(4,207)
<b>Amounts written off at 31 December 2005</b>	<b>(7,846)</b>
<b>Net Book Value at 31 December 2005</b>	<b>-</b>
<b>Net Book Value at 31 December 2004</b>	<b>-</b>

Shares in group undertakings comprise the cost of investment in subsidiary undertakings. Details of subsidiary undertakings are shown in 21.

The group had no other investments at either 31 December 2005 or 31 December 2004.

**12. Debtors**

	<b>Group 2005 £'000</b>	<b>Company 2005 £'000</b>	<b>Group 2004 ( as restated) £'000</b>	<b>Company 2004 ( as restated) £'000</b>
<b>Amounts falling due after one year</b>				
Amounts owed by parent company and fellow subsidiary undertakings	-	-	2,869	2,869
<b>Amounts falling due within one year</b>				
Trade debtors	6,399	6,399	3,933	3,933
Amounts owed by parent company and fellow subsidiary undertakings	49,537	49,537	34,758	34,758
Amounts owed by the company's subsidiary undertakings	-	4,207	-	4,207
United Kingdom Corporation Tax Receivable	691	691	-	-
Other debtors	524	524	844	844
Prepayments and accrued income	2,589	2,589	2,360	2,360
	<b>59,740</b>	<b>63,947</b>	<b>41,895</b>	<b>46,102</b>
<b>Total debtors</b>	<b>59,740</b>	<b>63,947</b>	<b>44,764</b>	<b>48,971</b>

**13. Creditors: amounts falling due within one year**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2005</b>	<b>2005</b>	<b>2004</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade creditors	1,743	1,743	2,633	2,633
Amounts owed to parent company and fellow subsidiary undertakings	19,576	19,576	23,563	23,563
Amounts owed to the company's subsidiary undertakings	-	9,597	-	9,597
United Kingdom corporation tax payable	-	-	468	468
Other taxation and social security	1,265	1,265	902	902
Bank overdrafts	36,501	36,501	106,326	106,326
Other creditors	4,613	4,613	2,561	2,561
Accruals and deferred income	4,599	4,599	9,708	9,708
	<u>68,297</u>	<u>77,894</u>	<u>146,161</u>	<u>155,758</u>

**14. Provision for liabilities and charges****(a) Group and company**

	Net residual lease contracts £'000	Other outgoings £'000	2005 Total provisions £'000	2004 Total provisions £'000
At 1 January	4,091	-	4,091	4,272
Additional provisions made	-	403	403	1,710
Increase of discount	-	-	-	(1,053)
Released in the year	-	-	-	-
Utilised in the year	(750)	-	(750)	(900)
Unwinding of discount	118	-	118	62
<b>At 31 December</b>	<b>3,459</b>	<b>403</b>	<b>3,862</b>	<b>4,091</b>

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 to reflect the time value of money on a risk adjusted basis and are utilised over the remaining period of the leases, which at 31 December 2005 is between 1 and 10 years.

Other outgoings are costs in relation to claims and warranties. This provision, which is not discounted, is expected to be utilised within 2 years.

**(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	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Tax effect of timing differences due to excess of depreciation over capital allowances	-	-	3,107	2,791
Tax losses & short term timing differences	-	-	14,923	15,654
	-	-	<b>18,030</b>	<b>18,445</b>

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.

## 15. Pensions and similar obligations

The Group operates three pension schemes, two defined benefit schemes being the AT&T ISTELE Pension Plan and the AT&T ISTELE 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 Group has adopted Financial Reporting Standard 17 – Retirement Benefits (FRS 17) in the year which changes fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to the AT&T ISTELE Pension Plan and the AT&T ISTELE Supplementary Pension Plan which are both defined benefit plans. The two defined benefit schemes were closed to new members from 17 April 2001. It should therefore be noted that under the projected unit method that is required under FRS 17 the current service cost will increase as members approach retirement

The Company has agreed contributions to the plans over the coming year (2006) as follows:

- 26.5% of Basic Salary plus £540,000 each month in January and February plus £15.02m in March to the AT&T ISTELE Pension Plan;
- 12.7% of Basic Salary (Sovereign Tier members) and 33.0% of Basic Salary (Sovereign Tier Plus members) plus £56,000 each month in January and February plus £1.398m in March to the AT&T ISTELE Supplementary Plan.

The latest actuarial valuation of both plans took place on 1 April 2005. The principal assumptions used by the qualified independent actuaries in updating the latest valuations of each of the plans for FRS 17 purposes were:

	2005 AT&T ISTELE Pension Plan %	2005 AT&T ISTELE Supple- mentary Pension Plan %	2004 AT&T ISTELE Pension Plan %	2004 AT&T ISTELE Supple- mentary Pension Plan %	2003 AT&T ISTELE Pension Plan %	2003 AT&T ISTELE Supple- mentary Pension Plan %
Discount rate	4.7	4.7	5.3	5.3	5.4	5.4
Rate of increase in salaries	2.9	2.9	4.9	5.4	4.8	5.3
Rate of increase in pensions accrued prior to April 1997	3.0	3.0	3.0	3.0	3.0	3.0
Rate of increase in pensions accrued since April 1997	3.5	3.5	3.6	3.6	3.6	3.6
Inflation assumption	2.9	2.9	2.9	2.9	2.8	2.8
Rate of increase for deferred pensions	2.9	2.9	2.9	2.9	2.8	2.8

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

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

	Expected long-term rate of return as at 31 December 2005	Market Value as at 31 December 2005 £'000	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
Equities	7.5%	151,377	7.5%	121,762	7.8%	106,837
Government Bonds	4.0%	17,213	4.5%	8,400	4.8%	8,178
Corporate Bonds	4.4%	11,619	5.0%	17,035	5.1%	13,630
Cash	4.5%	5,129	4.8%	2,984	4.0%	1,168
<b>TOTAL</b>		<b>185,338</b>		<b>150,181</b>		<b>129,813</b>
Present value of scheme liabilities		(244,357)		(216,631)		(190,740)
Deficit in the scheme		(59,019)		(66,450)		(60,927)
Related deferred tax asset		17,706		19,935		18,278
<b>Net pension liability</b>		<b>(41,313)</b>		<b>(46,515)</b>		<b>(42,649)</b>

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

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

	<b>Expected long-term rate of return as at 31 December 2005</b>	<b>Market Value as at 31 December 2005 £'000</b>	<b>Expected long-term rate of return as at 31 December 2004</b>	<b>Market Value as at 31 December 2004 £'000</b>	<b>Expected long-term rate of return as at 31 December 2003</b>	<b>Market Value as at 31 December 2003 £'000</b>
Equities	7.5%	11,928	7.5%	9,725	7.8%	6,278
Government Bonds	4.0%	2,168	4.5%	1,412	4.8%	3,269
Corporate Bonds	4.4%	1,138	5.0%	1,334	5.1%	1,227
Cash	4.5%	402	4.8%	234	4.0%	87
<b>TOTAL</b>		<b>15,636</b>		<b>12,705</b>		<b>10,861</b>
Present value of scheme liabilities		<b>(19,678)</b>		<b>(19,053)</b>		<b>(16,256)</b>
Deficit in the scheme		<b>(4,042)</b>		<b>(6,348)</b>		<b>(5,395)</b>
Related deferred tax asset		<b>1,213</b>		<b>1,904</b>		<b>1,619</b>
<b>Net pension liability</b>		<b>(2,829)</b>		<b>(4,444)</b>		<b>(3,776)</b>



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

The assets in the two schemes in aggregate at 31 December 2005 were:

	<b>Expected long-term rate of return as at 31 December 2005</b>	<b>Market Value as at 31 December 2005 £'000</b>	<b>Expected long-term rate of return as at 31 December 2004</b>	<b>Market Value as at 31 December 2004 £'000</b>	<b>Expected long-term rate of return as at 31 December 2003</b>	<b>Market Value as at 31 December 2003 £'000</b>
Equities	7.5%	163,305	7.5%	131,487	7.8%	113,115
Government Bonds	4.0%	19,381	4.5%	9,812	4.8%	11,447
Corporate Bonds	4.4%	12,757	5.0%	18,369	5.1%	14,857
Cash	4.5%	5,531	4.8%	3,218	4.0%	1,255
<b>TOTAL</b>		<b>200,974</b>		<b>162,886</b>		<b>140,674</b>
Present value of scheme liabilities		(264,035)		(235,684)		(206,996)
Deficit in the scheme		(63,061)		(72,798)		(66,322)
Related deferred tax asset		18,919		21,840		19,897
<b>Net pension liability</b>		<b>(44,142)</b>		<b>(50,958)</b>		<b>(46,425)</b>
Group net assets excluding pension liability		53,317		51,880		51,057
<b>Group net assets/(liabilities) incl. pension liability</b>		<b>9,175</b>		<b>922</b>		<b>4,632</b>
Group profit and loss reserve excluding pension liability		7,103		5,666		(1,288)
<b>Group profit and loss reserve incl. pension liability</b>		<b>(37,039)</b>		<b>(45,292)</b>		<b>(47,713)</b>

## 15. Pensions and similar obligations (continued)

## Analysis of the amount charged to operating profit

	2005			2004		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supple- mentary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supple- mentary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Current service cost	4,293	446	4,739	4,055	384	4,439
Past service cost	283	-	283	596	-	596
Curtailments/ settlements	-	-	-	-	-	-
<b>Total operating charge</b>	<b>4,576</b>	<b>446</b>	<b>5,022</b>	<b>4,651</b>	<b>384</b>	<b>5,035</b>

## Analysis of the amount charged to other finance income

	2005			2004		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supple- mentary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supple- mentary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Expected returns on pension scheme assets	10,677	883	11,560	9,600	725	10,325
Interest on pension scheme liabilities	(11,501)	(1,007)	(12,508)	(10,353)	(874)	(11,227)
<b>Net return</b>	<b>(824)</b>	<b>(124)</b>	<b>(948)</b>	<b>(753)</b>	<b>(149)</b>	<b>(902)</b>

The charge to the profit and loss account for the AT&T ISTELE Pension Plan was therefore £5,400,000 (2004 – £5,404,000) and for the AT&T ISTELE Supplementary Pension Plan £570,000 (2004 - £533,000).

The charge to the profit and loss account for the AT&T Pension Scheme was £512,000 (2004 - £406,000).

## 15. Pensions and similar obligations (continued)

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

	2005			2004		
	AT&T ISTEL Pension Plan	AT&T ISTEL Supple- mentary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEL Supple- mentary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	19,472	1,695	21,167	7,145	741	7,886
Experience gains and losses arising on the scheme liabilities	311	1,337	1,648	(900)	(1,155)	(2,055)
Changes in assumptions underlying the present value of the scheme liabilities	(16,119)	(1,173)	(17,292)	(12,966)	(999)	(13,965)
<b>Actuarial gain/(loss) recognised in the STRGL</b>	<b>3,664</b>	<b>1,859</b>	<b>5,523</b>	<b>(6,721)</b>	<b>(1,413)</b>	<b>(8,134)</b>

## Movements in the deficit during the year:

	2005			2004		
	AT&T ISTEL Pension Plan	AT&T ISTEI Supple- mentary Pension Plan	Total	AT&T ISTEL Pension Plan	AT&T ISTEI Supple- mentary Pension Plan	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deficit at the beginning of the year	(66,450)	(6,348)	(72,798)	(60,927)	(5,395)	(66,322)
Current service cost	(4,293)	(446)	(4,739)	(4,055)	(384)	(4,439)
Contributions	9,167	1,017	10,184	6,602	993	7,595
Past service cost	(283)	-	(283)	(596)	-	(596)
Other finance expense	(824)	(124)	(948)	(753)	(149)	(902)
Actuarial gain / (loss)	3,664	1,859	5,523	(6,721)	(1,413)	(8,134)
<b>Deficit in the scheme at the end of the year</b>	<b>(59,019)</b>	<b>(4,042)</b>	<b>(63,061)</b>	<b>(66,450)</b>	<b>(6,348)</b>	<b>(72,798)</b>

## 15. Pensions and similar obligations (continued)

## History of experience gains and losses AT&amp;T ISTEEL Pension Plan:

	2005	2004	2003
	£'000	£'000	£'000
<b>Difference between the expected and actual returns of scheme assets</b>			
Amount	19,472	7,145	15,436
Percentage of scheme assets	10.5%	4.8%	11.9%
<b>Experience gains and losses on scheme liabilities</b>			
Amount	311	(900)	9,769
Percentage of the present value of scheme liabilities	0.1%	(0.4%)	5.1%
<b>Total amount recognised in the Statement of total recognised gains and losses</b>	<b>3,664</b>	<b>(6,721)</b>	<b>16,225</b>
Percentage of the present value of scheme liabilities	1.5%	(3.1%)	8.5%

## History of experience gains and losses AT&amp;T ISTEEL Supplementary Pension Plan:

	2005	2004	2003
	£'000	£'000	£'000
<b>Difference between the expected and actual returns of scheme assets</b>			
Amount	1,695	741	985
Percentage of scheme assets	10.8%	5.8%	9.1%
<b>Experience gains and losses on scheme liabilities</b>			
Amount	1,337	(1,155)	1
Percentage of the present value of scheme liabilities	6.8%	(6.1%)	0%
<b>Total amount recognised in the Statement of total recognised gains and losses</b>	<b>1,859</b>	<b>(999)</b>	<b>(254)</b>
Percentage of the present value of scheme liabilities	9.4%	(5.2%)	1.6%

**16. Called up share capital**

	2005	2004
	£'000	£'000
<i>Authorised</i>		
100,000,000 ordinary equity shares of £1 each	100,000	100,000
<i>Issued, called up and fully paid</i>		
46,213,539 ordinary equity shares of £1 each	46,214	46,214

**17. Profit and Loss account**

	Group	Company
	2005	2005
	£'000	£'000
As at 1 January 2005 as previously reported	6,618	1,228
Prior year adjustment FRS 17	(51,910)	(51,910)
As at 1 January 2005 as restated	(45,292)	(50,682)
Profit for the year	4,387	180
Actuarial gain on pension scheme	5,523	5,523
Movement on deferred tax relating to pension scheme	(1,657)	(1,657)
<b>At 31 December 2005</b>	<b>(37,039)</b>	<b>(46,636)</b>
Pension Liability	44,142	44,142
Profit and loss reserve excluding pension liability	7,103	(2,494)

**18. Reconciliation of movement in shareholders' funds**

	Group	Company	Group	Company
	2005	2005	2004 (as restated)	2004 (as restated)
	£'000	£'000	£'000	£'000
Profit for the year	4,387	180	1,705	1,705
Actuarial gain / (loss) on pension scheme	5,523	5,523	(8,134)	(8,134)
Movement on deferred tax relating to pension scheme	(1,657)	(1,657)	2,440	2,440
Net addition to shareholders' funds	8,253	4,046	(3,989)	(3,989)
Opening shareholders' funds as previously reported	52,832	47,442	51,057	45,667
Prior year adjustment – FRS17	(51,910)	(51,910)	(46,146)	(46,146)
Opening shareholders' funds as restated	922	(4,468)	4,911	(479)
Closing shareholders' funds	9,175	(422)	922	(4,468)

## 19. Financial commitments

### *Lease commitments*

The group leases certain land and buildings on short and long term leases. At 31 December 2005, 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:

	2005	2004
	£'000	£'000
Expiry:		
Within one year	911	-
Within two to five years	588	1,637
After five years	297	374
	<u>1,796</u>	<u>2,011</u>

At 31 December 2005 the group has lease agreements in respect of vehicles, for which the payments extend over a number of years:

	2005	2004
	£'000	£'000
Expiry:		
Within one year	198	206
Within one to two years	305	-
Within two to five years	333	671
	<u>836</u>	<u>877</u>

### *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 2005 was £14,418,216 (2004: £53,309,369).

The company's bankers have guarantees with third parties totalling £533,420 (2004: £1,581,365) in respect of the company.

### *Pension Funding Arrangements*

As disclosed in note 15 the group operates two defined benefit schemes, the AT&T ISTELE Pension Plan and the AT&T ISTELE Supplementary Pension Plan.

The company has agreed with both the Trustees of the Pension Plan and AT&T Inc. that it will make cash payments in the period up to 31 December 2008 to meet the pension deficit. The first payment of £17m was paid into the schemes on 15 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.

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

**20. Ultimate parent undertaking**

The immediate parent company of AT&T ISTELE 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 ([www.sec.gov](http://www.sec.gov)) or may be obtained by contacting AT&T's investor relations department on the Web at [www.att.com](http://www.att.com) or at the following address: AT&T Inc., Investor Relations, 175 East Houston Street, San Antonio, Texas 78205, USA.

**21. Interest in group undertakings****Subsidiary undertakings**

AT&T ISTELE had the following subsidiaries at 31 December 2005:

- A ISP
- AI Purchasing Systems Limited
- AT&T Limited
- CSD (UK) Limited
- In-View Limited
- ISTELE 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.

**22. 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 £180,000 (2004 - £1,705,000 as restated).