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# AT&T ISTEEL

## ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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*Registered No 3531467*

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**AT&T ISTELE****PRINCIPAL DIRECTORS AND ADVISORS****for the year ended 31 December 2007****Directors**

Richard Hirst

Philip Bater (appointed 8 October 2007)

Jonathan Marshall (appointed 5 December 2007)

**Company Secretary**

Richard Hirst

**Independent auditors**

PricewaterhouseCoopers LLP

Cornwall Court

Birmingham

B3 2DT

**Lawyers**

Wragge &amp; Co

55 Colmore Row

Birmingham

B3 2AS

**Bankers**

HSBC plc

Church Green West

Redditch

Worcestershire

B97 4EA

Citibank

Canada Square

Canary Wharf

London

E14 5LB

Bank Mendes Gans

Herengracht 619

1017 CE Amsterdam

The Netherlands

**AT&T ISTEEL****DIRECTORS' REPORT****for the year ended 31 December 2007**

The directors submit their report and the audited consolidated financial statements for the year ended 31 December 2007

**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 Company provides network telecommunication services to the customers of, and common support functions to the EMEA (Europe, Middle East and Africa) based subsidiaries of the AT&T Group

These services are provided under the terms of the AT&T Global Intercompany Trading Agreement, which the Company entered into on 1 January 2004. This agreement limits the risks and uncertainties faced by the Company, which as a result bears no credit, price or foreign exchange risk. Risk associated with funding of the Company and its pension scheme, and the ownership of fixed assets, are managed by the Company

On the 1<sup>st</sup> March 2007 AT&T Istel acquired the trade and certain assets and liabilities from a fellow group company AT&T Global services for a consideration of \$20,000. The directors consider this to be the fair value of the net assets acquired. The acquisition is not considered material for the AT&T Istel group and consequently this activity is not disclosed separately in the financial statements

Profit after tax for the year is £6.4m (2006 profit £6.8m)

Turnover, which under the AT&T Global Intercompany Trading Agreement is driven by total costs (and other finance income and charges as disclosed in note 7), has reduced from £66.8m to £62.2m. Operating costs have decreased from £65.5 to £61.9, the most significant drivers for this being reduced headcount and associated costs. This trend is expected to continue in 2008.

The average number of persons employed by the Company during the period was 444 (2006 476)

AT&T Istel had five subsidiaries at 31 December 2006, all of which were dormant. All of these subsidiaries have been struck off during 2007. See note 23 for details.

**Results and Dividends**

AT&T Istel Group's profit for the year is £6,405,000 (2006 profit £6,802,000). The directors do not recommend the payment of a dividend (2006 £nil) and the profit will be transferred to reserves.

**Directors**

The details of the directors who served during the period and to the present date are as follows

Richard Hirst	
Andrew Edison	(resigned 5 December 2007)
John Messoré	(appointed 28 February 2006, resigned 4 September 2007)
Philip Bater	(appointed 8 October 2007)
Jonathan Marshall	(appointed 5 December 2007)

**Secretary**

Richard Hirst

**DIRECTORS' REPORT continued****Employee consultation and communications**

In common with other UK subsidiaries of AT&T Inc 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 briefing of employees at all levels, publication of in-house information bulletins, 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 2007 were 27 days (2006 – 47 days)

**DIRECTORS' REPORT continued****Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 that disclose with reasonable accuracy at any time the financial position of the company and 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Statement of disclosure of information to auditors**

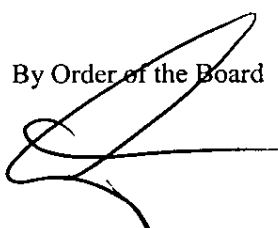
So far as each director is aware, there is no relevant audit information of which the company's auditors are not aware. Each director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**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

6 October 2008



**Philip Bater**  
Director

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

We have audited the consolidated and parent company financial statements (the "financial statements") of AT&T ISTEL for the year ended 31 December 2007 which comprise the consolidated Profit and Loss Account, the consolidated and Company Balance Sheets, the consolidated 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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**

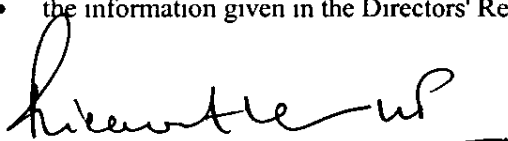
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
**Birmingham**  
**6 October 2008**

## AT&amp;T ISTEEL

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2007

		2007	2006
	Note	£'000	£'000
Turnover	3	62,199	66,802
Operating costs	4	(61,928)	(65,497)
<b>Operating profit on ordinary activities before interest and taxation</b>		<b>271</b>	<b>1,305</b>
Interest receivable and similar income	5	2,216	2,471
Interest payable and similar charges	6	(2,050)	(1,915)
Other finance income	7	3,076	2,373
<b>Profit on ordinary activities before taxation</b>	9	<b>3,513</b>	<b>4,234</b>
Tax credit on profit on ordinary activities	10	2,892	2,568
<b>Profit for the financial year</b>	18	<b>6,405</b>	<b>6,802</b>

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2007

		2007	2006
	Note	£'000	£'000
Profit for the financial year		6,405	6,802
Actuarial gain on pension scheme	16	25,561	9,493
Movement on deferred tax relating to pension liability	15	(8,312)	(2,848)
<b>Total recognised gains relating to the year</b>		<b>23,654</b>	<b>13,447</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 notes on pages 10 to 33 form an integral part of these financial statements

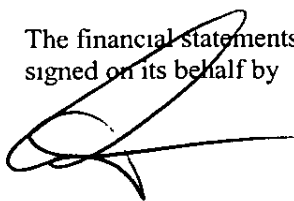


**AT&T ISTEEL**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 2007**

		2007		2006	
	Note	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	11		<u>20,473</u>		<u>12,796</u>
			20,473		12,796
<b>Current assets</b>					
Debtors amounts falling due within one year	13	18,908		40,077	
Debtors amounts falling due after more than one year	13	25,561		5,700	
Cash at bank and in hand		<u>30,420</u>		<u>44,135</u>	
		74,889		89,912	
Creditors amounts falling due within one year	14	<u>(46,351)</u>		<u>(55,223)</u>	
<b>Net current assets</b>			<u>28,538</u>		<u>34,689</u>
<b>Total assets less current liabilities</b>			<u>49,011</u>		<u>47,485</u>
Provisions for liabilities and charges	15		<u>(2,645)</u>		<u>(3,674)</u>
<b>Net assets excluding pension liability</b>			<u>46,366</u>		<u>43,811</u>
Pension liability	16		-		(20,995)
<b>Net assets including pension liability</b>			<u>46,366</u>		<u>22,816</u>
<b>Capital and reserves</b>					
Called up share capital	17		46,214		46,214
Profit and loss reserve	18		79		(23,575)
Share option reserve	19		73		177
<b>Total shareholders' funds</b>	19		<u>46,366</u>		<u>22,816</u>

The notes on pages 10 to 33 form an integral part of these financial statements

The financial statements on pages 7 to 33 were approved by the board of directors on 6 October 2008 and were signed on its behalf by



**Philip Bater**  
 Director

**AT&T ISEL**  
**COMPANY BALANCE SHEET**  
**as at 31 December 2007**

		2007		2006	
	Note	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	11		20,473		12,796
Investments	12		-		3,639
			<u>20,473</u>		<u>16,435</u>
<b>Current assets</b>					
Debtors amounts falling due within one year	13	18,908		40,077	
Debtors amounts falling due after more than one year	13	25,561		5,700	
Cash at bank and in hand		30,420		44,135	
		<u>74,889</u>		<u>89,912</u>	
Creditors amounts falling due within one year	14	(46,351)		(64,820)	
<b>Net current assets</b>			<u>28,538</u>		<u>25,092</u>
<b>Total assets less current liabilities</b>			<u>49,011</u>		<u>41,527</u>
Provisions for liabilities and charges	15		(2,645)		(3,674)
<b>Net assets excluding pension liability</b>			<u>46,366</u>		<u>37,853</u>
Pension liability	16		-		(20,995)
<b>Net assets including pension liability</b>			<u>46,366</u>		<u>16,858</u>
<b>Capital and reserves</b>					
Called up share capital	17		46,214		46,214
Profit and loss reserve	18		79		(29,533)
Share option reserve	19		73		177
<b>Total shareholders' funds</b>	19		<u>46,366</u>		<u>16,858</u>

The notes on pages 10 to 33 form an integral part of these financial statements

The financial statements on pages 7 to 33 were approved by the board of directors on 6 October 2008 and were signed on its behalf by



**Philip Bater**  
Director

**AT&T ISTEEL****NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2007****1. 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 in the United Kingdom. The principal accounting policies which have been consistently applied are set out below.

***Basis of preparation***

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 4).

***Basis of consolidation***

The group financial statements consolidate the financial statements of AT&T ISTEEL and all its subsidiary undertakings. Intra-group sales and profits are eliminated fully on consolidation.

In accordance with section 230(4) of the Companies Act 1985, AT&T ISTEEL is exempt from the requirement to present its own profit and loss account. The amount of the profit / (loss) for the year dealt with in the financial statements of AT&T ISTEEL is disclosed in note 24.

***Turnover and revenue recognition***

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.

***Investments***

In the company's accounts, investments in subsidiary undertakings are stated at cost less provisions for any impairment. 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.

## AT&amp;T ISTELE

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 1. 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

*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. Non-monetary assets and liabilities denominated in foreign currencies are not translated.

*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 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.

**AT&T ISTELE****NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2007 continued****1. 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 operated two defined benefit schemes, which were merged during 2007 and a defined contribution scheme.

***Defined benefit schemes***

The defined benefit schemes are valued triennially by an independent actuary using the Projected Unit Method of valuation. In accordance with FRS 17, current and past service costs, adjusted for settlements and curtailments, are charged to operating profit and the expected return on net asset less interest on scheme liabilities is charged or credited to finance income. Actuarial gains and losses are recognised through the Statement of Recognised Gains and Losses.

***Defined contribution schemes***

Contributions to the defined contribution schemes have been charged against profits in the year.

***Share based payments***

The Company operates a number of equity-settled share-based payment schemes (which are now closed to new entrants). Share-based payments are measured at fair value at the date of award and this value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. The cost is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the Profit and Loss Account. A corresponding entry is made to equity. The fair value of share options is measured using valuation models.

***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 at least 90% owned by the AT&T Inc. Group or investees of the AT&T Inc. Group.

## AT&amp;T ISTELE

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 2 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 16), 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.

## 3. Turnover

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

## Turnover by destination

	2007	2006
	£'000	£'000
Europe	48,667	53,372
USA	13,532	13,430
	<u>62,199</u>	<u>66,802</u>

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

	2007	2006
	£'000	£'000
Turnover		
Group support	62,199	66,802
	<u>62,199</u>	<u>66,802</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 £17,970,000 (2006 - £19,909,000).

## 4. Operating costs

	2007	2006
	£'000	£'000
Application and service delivery	37,850	39,671
Sales and marketing	3,987	3,688
Administration	20,091	22,138
	<u>61,928</u>	<u>65,497</u>

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 5. Interest receivable and similar income

	2007	2006
	£'000	£'000
Interest from bank deposits	2,200	2,188
Interest from fellow group undertakings	16	283
	<u>2,216</u>	<u>2,471</u>

## 6. Interest payable and similar charges

	2007	2006
	£'000	£'000
Interest payable on overdrafts	2,043	1,782
Unwinding of discount on provisions	69	71
Other interest payable	(62)	62
	<u>2,050</u>	<u>1,915</u>

## 7. Other finance income

	2007	2006
	£'000	£'000
Expected return on pension scheme assets	16,938	14,761
Interest on pension scheme liabilities	(13,862)	(12,388)
	<u>3,076</u>	<u>2,373</u>

## 8. Employee information

## (a) Staff

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

	2007	2006
	Number	Number
By activity		
Administration	196	190
Marketing and service delivery	248	286
	<u>444</u>	<u>476</u>

The aggregate payroll costs, which include £318,330 (2006 £ 862,866) redundancy costs (note 9), are as follows

	2007	2006
	£'000	£'000
Wages and salaries	26,249	28,410
Social security costs	3,441	3,008
Pension costs (note 16)	5,077	4,644
	<u>34,767</u>	<u>36,062</u>

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 8. Employee information continued

## (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 one director (2006: one director) under the company's defined benefit pension schemes.

## 9. Profit on ordinary activities before taxation

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

	2007	2006
	£'000	£'000
Auditor's remuneration - (a) audit of AT&T ISTEEL	90	90
- (b) audit of other EMEA companies	1,834	2,194
- Total audit fees	1,924	2,284
- Actuarial services	61	292
- Tax services	582	643
- Other services	36	27
- Total other fees	679	962
Total auditor's remuneration	2,603	3,246
Depreciation of tangible fixed assets (note 11)	2,535	2,453
Impairment of tangible fixed assets (note 11)	473	-
Operating lease rentals - vehicles	957	981
- land and buildings	1,603	1,714
Loss/(Profit) on the sale of fixed assets	18	(57)
Net residual lease contracts	(651)	(713)
Exchange losses	97	218
Redundancy costs	318	863

- (a) The AT&T ISTEEL auditor's remuneration includes amounts borne by the company in respect of its subsidiary undertakings. Included within auditor's remuneration is £90,000 (2006: £90,000) paid in respect of the AT&T ISTEEL parent company.
- (b) Under the AGITA agreement, AT&T ISTEEL 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 ISTEEL include legal, consultancy and other accountancy costs.



## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 10. Tax credit on profit on ordinary activities

*(a) Analysis of charge in the year*

	2007 £'000	2006 £'000
Current tax		
United Kingdom corporation tax at 30%	-	-
Adjustment in respect of prior periods	1	(417)
Total current tax	1	(417)
Deferred tax in respect of		
Excess of depreciation over capital allowances	(2,305)	(5,700)
Tax losses and short term timing difference	(7,488)	-
Pensions deficit	7,037	3,549
Rate change	(137)	
Tax credit	(2,892)	(2,568)

The UK current tax rate will be reduced from 30% to 28% with effect from 1 April 2008. In line with this change, the rate applying to UK deferred tax assets and liabilities has also been reduced from 30% to 28%, creating a rate adjustment of £790k credit re the deferred tax relating to pensions and £653k debit relating to fixed asset timing differences.

Tax losses carried forward estimated at £46.4 million at 31 December 2007 (2006 £32.7m), are available to offset against future profits of the same trade. HM Revenue and Customs have agreed tax losses to be carried forward as at 31 December 2005 of £33.7 million.

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 10. Tax credit on profit on ordinary activities continued

*(b) Factors affecting the tax charge in the year*

The tax assessed for the year is less (2006 less) than the standard rate of corporation tax in the UK (30%)  
The differences are explained below

	2007	2006
	£'000	£'000
Profit on ordinary activities before taxation	<u>3,513</u>	<u>4,234</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	1,054	1,270
<b>Effects of:</b>		
Expenses not deductible for tax purposes	401	47
Depreciation in excess of capital allowances	951	1,096
Timing differences	(7,156)	(3,566)
Tax losses not utilised	4,085	241
Group relief surrendered	665	912
Adjustments to tax charge in respect of prior periods	<u>1</u>	<u>(417)</u>
Current tax charge/(credit) for the year	<u>1</u>	<u>(417)</u>

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 11. Tangible assets

Group and Company	Land and Buildings £'000	Plant and Machinery £'000	Computer Equipment £'000	Asset under construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2007	14,057	1,062	14,271	-	29,390
Reclassifications	315	(288)	(27)	-	-
Additions	2,960	96	2,443	5,197	10,696
Disposals	(48)	(142)	(113)	-	(303)
<b>At 31 December 2007</b>	<b>17,284</b>	<b>728</b>	<b>16,574</b>	<b>5,197</b>	<b>39,783</b>
<b>Depreciation</b>					
At 1 January 2007	5,844	740	10,010	-	16,594
Reclassifications	(5)	(292)	297	-	-
Charge for the year	749	34	1,752	-	2,535
Disposals	(48)	(142)	(102)	-	(292)
Impairment	-	-	473	-	473
<b>At 31 December 2007</b>	<b>6,540</b>	<b>340</b>	<b>12,430</b>	<b>-</b>	<b>19,310</b>
<b>Net book value</b>					
<b>At 31 December 2007</b>	<b>10,744</b>	<b>388</b>	<b>4,144</b>	<b>5,197</b>	<b>20,473</b>
At 31 December 2006	8,213	322	4,261	-	12,796

Depreciation has not been charged on freehold land, which is stated at cost of £2,080,998 (2006 £2,080,998)

	2007 £'000	2006 £'000
The net book value of land and buildings, including improvements, comprises		
Leasehold improvements	246	-
Freehold	10,498	8,213
	<u>10,744</u>	<u>8,213</u>

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 12 Investments

Interest in Group undertakings	Company £'000
Cost at 1 January 2007	7,846
Return of capital	(3,639)
Write off balances on strike off of subsidiaries	(4,207)
Cost at 31 December 2007	-
Provision for impairment at 1 January 2007	(4,207)
Write off balances on strike off of subsidiaries	4,207
Provision for impairment at 31 December 2007	-
Net Book Value at 31 December 2007	-
Net Book Value at 31 December 2006	3,639

The dormant subsidiary Inview limited was converted to an unlimited company on 8 March 2007. It then declared a dividend of £5,642,050 on this date and subsequently on the 28 March 2007 it returned its Share Capital and Share Premium of £3,638,990 to the parent company AT&T ISTEEL.

CSD (UK) limited, another dormant subsidiary of AT&T ISTEEL declared a dividend of £314,772 on the 26 February 2007.

All of the subsidiaries of AT&T ISTEEL were struck off as legal entities during 2007 (note 23).

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 13. Debtors

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
<b>Amounts falling due within one year</b>				
Trade debtors	6,013	6,013	4,277	4,277
Amounts owed by parent company and fellow subsidiary undertakings	9,745	9,745	30,973	30,973
United Kingdom Corporation Tax Receivable	94	94	1,938	1,938
Other debtors	139	139	520	520
Prepayments and accrued income	2,917	2,917	2,369	2,369
	<b>18,908</b>	<b>18,908</b>	<b>40,077</b>	<b>40,077</b>
<b>Amounts falling due after more than one year</b>				
Deferred tax asset (note 15)	14,840	14,840	5,700	5,700
Pension asset (note 16)	10,721	10,721	-	-
	<b>25,561</b>	<b>25,561</b>	<b>5,700</b>	<b>5,700</b>

In 2006 the Amounts owed by parent company and fellow subsidiary undertakings include a loan of £15.5m with AT&T Corp which carries an interest rate of USD LIBOR +1%. The loan and outstanding interest have been repaid in full in January 2007.

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

**14 Creditors: amounts falling due within one year**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank overdrafts	33,085	33,085	40,812	40,812
Trade creditors	1,811	1,811	2,904	2,904
Amounts owed to parent company and fellow subsidiary undertakings	3,085	3,085	2,075	2,075
Amounts owed to the company's subsidiary undertakings	-	-	-	9,597
Other taxation and social security	992	992	887	887
Other creditors	3,337	3,337	3,649	3,649
Accruals and deferred income	4,041	4,041	4,896	4,896
	<b>46,351</b>	<b>46,351</b>	<b>55,223</b>	<b>64,820</b>

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

	<b>Net residual lease contracts £'000</b>	<b>Other outgoings £'000</b>	<b>2007 Total provisions £'000</b>	<b>2006 Total provisions £'000</b>
At 1 January	2,891	783	3,674	3,862
(Released)/charged to profit and loss account	-	(401)	(401)	525
Utilised in the year	(315)	(382)	(697)	(784)
Unwinding of discount	69	-	69	71
<b>At 31 December</b>	<b>2,645</b>	<b>-</b>	<b>2,645</b>	<b>3,674</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 2007 is between 1 and 8 years

Other outgoings are costs in relation to claims, warranties and other fiscal liabilities

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 15. Provision for liabilities and charges continued

*(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	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Tax effect of timing differences due to excess of depreciation over capital allowances	7,851	5,700	923	2,753
Tax losses	6,989	-	6,005	10,007
	<b>14,840</b>	<b>5,700</b>	<b>6,928</b>	<b>12,760</b>

The deferred tax relating to the pension asset/(deficit) is analysed below

	2007 £'000	2006 £'000
As at 1 January	12,522	18,919
Deferred tax charged to the profit and loss account (note 10)	(6,247)	(3,549)
Deferred tax charged to the statement of recognised gains and losses	(8,312)	(2,848)
<b>At 31 December</b>	<b>(2,037)</b>	<b>12,522</b>

The deferred tax liability of £2,037,000 (2006 tax asset £12,522,000) has been deducted in arriving at the net pension asset/(deficit) on the balance sheet

**AT&T ISTELE**  
**NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended 31 December 2007 continued**

**16. 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.

On the 1 February 2007 the asset and liabilities of AT&T ISTELE Supplementary Pension Plan were transferred to AT&T ISTELE Pension Plan and the two schemes merged. AT&T ISTELE Supplementary Pension Plan is currently in the process of being wound up. All prior year comparative relate to the combined total of the the two separate schemes.

The Group accounts for defined benefit schemes under Financial Reporting Standard 17 – Retirement Benefits (FRS 17). The disclosures below relate to the AT&T ISTELE Pension Plan which is a defined benefit plan. The defined benefit scheme was 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 (2008) as follows:

- 33.3% of Basic Salary to the AT&T ISTELE Pension Plan,
- 13.1% of Basic Salary (Sovereign Tier members) and 39.0% of Basic Salary (Sovereign Tier Plus members)
- Additional contribution of £904,000 each month until January 2009

The latest actuarial valuation 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:

	2007	2006	2005
	AT&T ISTELE Pension Plan %	AT&T ISTELE Pension Plan %	AT&T ISTELE Pension Plan %
Discount rate	5.8	5.1	4.7
Rate of increase in salaries	4.9	5.1	2.9
Rate of increase in pensions accrued prior to April 1997	3.0	3.0	3.0
Rate of increase in pensions accrued since April 1997	3.6	3.5	3.5
Inflation assumption	3.4	3.1	2.9
Rate of increase for deferred pensions	3.4	3.1	2.9



**AT&T ISTEEL**  
**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2007 continued

**16. Pensions and similar obligations continued**

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2007 at age 60 will live on average for a further 27 years after retirement if they are male and a further 29 years after retirement if they are female. A member who retires in 2027 at age 60 will live on average for a further 29 years after retirement if they are male and a further 30 years after retirement if they are female. The demographic assumptions were based on the actual experience of the Plan over the last 3 years.

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 2007	Market Value as at 31 December 2007 £'000	Expected long-term rate of return as at 31 December 2006	Market Value as at 31 December 2006 £'000	Expected long-term rate of return as at 31 December 2005	Market Value as at 31 December 2005 £'000
Equities	7.5%	125,768	7.5%	180,503	7.5%	163,305
Property	6.5%	32,387	N/A	0	N/A	0
Government Bonds	N/A	0	4.5%	40,888	4.0%	19,381
Corporate Bonds	N/A	0	5.0%	11,288	4.4%	12,757
LDI	4.8%	125,558	N/A	0	N/A	0
Cash	5.9%	9,898	5.3%	5,899	4.5%	5,531
<b>TOTAL</b>		<b>293,611</b>		<b>238,578</b>		<b>200,974</b>
Present value of scheme liabilities		<b>(280,853)</b>		<b>(272,095)</b>		<b>(264,035)</b>
Surplus/(Deficit) in the scheme		<b>12,758</b>		<b>(33,517)</b>		<b>(63,061)</b>
Related deferred tax (liability)/asset †		<b>(2,037)</b>		<b>12,522</b>		<b>18,919</b>
<b>Net pension asset/(liability)</b>		<b>10,721</b>		<b>(20,995)</b>		<b>(44,142)</b>

† - The related deferred tax (liability)/asset on the pension asset/(liability) is lower than 28% in 2007 (2006 higher than 30%) due to the spreading of pension contributions for tax purposes

## AT&amp;T ISTELE

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 16. Pensions and similar obligations continued

## Analysis of the amount charged to operating profit

	2007	2006
	£'000	£'000
Current service cost	5,101	4,488
Past service cost	100	193
Contributions from other Group companies	(683)	(500)
Total operating charge	<u>4,518</u>	<u>4,181</u>

## Analysis of the amount charged to other finance income

	2007	2006
	£'000	£'000
Expected returns on pension scheme assets	16,938	14,761
Interest on pension scheme liabilities	(13,862)	(12,388)
Net return	<u>3,076</u>	<u>2,373</u>

Contributions from other Group companies are in respect of members of the AT&T Istel Pension plans who are employees of AT&T Global Network Services UK BV

The net charge to the profit and loss account for the AT&T Pension Defined Contribution Scheme was £559,000 (2006 - £463,000)

**AT&T ISTEEL**  
**NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended 31 December 2007 continued**

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

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

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Actual return less expected return on pension scheme assets	<b>21,061</b>	6,115
Experience gains and losses arising on the scheme liabilities	<b>(21,336)</b>	806
Changes in assumptions underlying the present value of the scheme liabilities	<b>25,836</b>	2,572
<b>Actuarial gain recognised in the STRGL</b>	<b>25,561</b>	<b>9,493</b>

**Movements in the deficit during the year:**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Deficit at start of the year	<b>(33,517)</b>	(63,061)
Current service cost	<b>(5,101)</b>	(4,488)
Contributions	<b>22,839</b>	22,359
Past service cost	<b>(100)</b>	(193)
Other finance income	<b>3,076</b>	2,373
Actuarial gain	<b>25,561</b>	9,493
<b>Surplus/(deficit) at end of year</b>	<b>12,758</b>	<b>(33,517)</b>

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 16. Pensions and similar obligations (continued)

## History of experience gains and losses:

	2007	2006	2005	2004	2003
	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual returns of scheme assets					
Amount	21,061	6,115	21,167	7,886	16,421
Percentage of scheme assets	7.2%	2.6%	10.5%	4.8%	11.7%
Experience gains and losses on scheme liabilities					
Amount	(21,336)	806	1,648	(2,055)	9,770
Percentage of the present value of scheme liabilities	(7.6%)	0.3%	0.6%	(0.9%)	4.7%
Total amount recognised in the Statement of total recognised gains and losses	25,561	9,492	5,523	(7,720)	15,971
Percentage of the present value of scheme liabilities	9.1%	3.5%	2.1%	(3.3%)	7.7%

## AT&amp;T ISTELE

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 17. Called up share capital

	2007	2006
	£'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

## 18. Profit and Loss reserve

	Group	Company
	2007	2007
	£'000	£'000
As at 1 January 2007	(23,575)	(29,533)
Profit for the year	6,405	12,363
Actuarial gain on pension scheme	25,561	25,561
Movement on deferred tax relating to pension scheme	(8,312)	(8,312)
<b>At 31 December 2007</b>	<b>79</b>	<b>79</b>
Pension Asset	(10,721)	(10,721)
Profit and loss reserve excluding pension asset	(10,642)	(10,642)

## AT&amp;T ISTELE

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 19. Reconciliation of movement in total shareholders' funds

	Group	Company	Group	Company
	2007	2007	2006	2006
	£'000	£'000	£'000	£'000
Profit for the year	6,405	12,363	6,802	10,441
Movement on share option reserve	(104)	(104)	(85)	(85)
Actuarial gain on pension scheme	25,561	25,561	9,493	9,493
Movement on deferred tax relating to pension scheme	(8,312)	(8,312)	(2,848)	(2,848)
Net addition to shareholders' funds	23,550	29,508	13,362	17,001
Opening shareholders' funds	22,816	16,858	9,454	(143)
Closing shareholders' funds	46,366	46,366	22,816	16,858

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 20. Share Options

The share options granted to employees of AT&T Isteel in its ultimate parent company, AT&T Inc, remaining to be exercised at 31 December 2007 are as follows. The weighted average grant price at 31 December 2007 is \$49.42 (2006: \$49.7991).

The share option scheme was closed to new entrants in 2003. The maximum term of options issued is 10 years.

Grant Date	Grant Price	Outstanding at 31 December 2006	Exercised in 2007	Expired in 2007	Outstanding at 31 December 2007
	\$				
30 June 1997	12.9082	159	-	159	-
1 August 1997	15.0299	4,712	1,724	2,988	-
1 August 1997	43.0093	50,868	-	50,868	-
31 December 1997	22.6683	318	-	318	-
15 May 1998	34.0546	15,918	353	-	15,565
1 July 1998	42.2335	464	-	-	464
24 July 1998	69.4880	7,682	-	1,280	6,402
28 August 1998	43.4105	5,411	-	-	5,411
1 September 1998	43.2634	509	-	-	509
25 November 1998	39.3641	151	-	-	151
4 January 1999	44.9558	5,499	-	-	5,499
4 February 1999	54.8149	6,802	-	-	6,802
30 April 1999	86.0853	42,309	-	-	42,309
3 May 1999	83.8038	8,403	-	-	8,403
30 June 1999	96.8260	2,612	-	-	2,612
1 October 1999	75.2119	7,680	-	1,280	6,400
31 July 2000	54.8593	16,878	-	1,934	14,944
18 August 2000	56.3403	19,611	-	2,218	17,393
31 October 2000	40.4313	9,373	-	-	9,373
21 December 2001	42.0881	65,237	-	2,558	62,679
19 February 2002	33.6709	50,967	6,394	856	43,717
30 May 2002	27.8342	1,460	429	-	1,031
31 May 2002	27.7411	1,978	-	-	1,978
28 June 2002	23.7997	342	300	-	42
30 September 2002	28.2990	1,070	-	-	1,070
15 May 2003	20.7971	43,205	12,779	-	30,426
<b>TOTAL</b>		<b>369,618</b>	<b>21,979</b>	<b>64,459</b>	<b>283,180</b>

## AT&amp;T ISTEEL

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 continued

## 20. Share Options continued

The fair value of the options granted after 7 November 2002 has been calculated at the date of grant based on the expected life of the option and historical experience, using a Black-Scholes option pricing model with the following weighted average assumptions

	2007	2006
Risk-free interest rate	5.0%	4.29%
Dividend yield	3.7%	5.16%
Expected volatility factor	20.8%	22.47%
Expected option life in years	2 year	1 year
Fair value per option	<u>\$4.811</u>	<u>\$3.956</u>

## 21. Financial commitments

*Lease commitments*

The group leases certain land and buildings on short and long term leases. At 31 December 2007, the annual rents payable under these leases, which are subject to re-negotiation at 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

	2007 £'000	2006 £'000
Expiry		
Within one year	257	397
Within two to five years	379	602
After five years	824	595
	<u>1,460</u>	<u>1,594</u>

At 31 December 2007 the group has lease agreements in respect of vehicles, for which the payments extend over a number of years

	2007 £'000	2006 £'000
Expiry		
Within one year	167	162
Within one to two years	457	340
Within two to five years	-	212
	<u>624</u>	<u>714</u>



**AT&T ISTEEL****NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2007 continued****21. Financial commitments continued*****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 2007 was £22,787,914 (2006 £3,260,974)

The company's bankers have guarantees with third parties totalling £250,000 (2006 £312,956) in respect of the company

***Pension Funding Arrangements***

As disclosed in note 16 the group operated two defined benefit schemes, the AT&T ISTEEL Pension Plan and the AT&T ISTEEL Supplementary Pension Plan, which were merged during 2007

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 address the pension deficit. The first payment of £17m was paid into the schemes on 15 March 2006, followed by a further £17.5m on 15 January 2007. 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.

**22. Ultimate parent undertaking and controlling party**

The immediate parent company of AT&T ISTEEL 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.

**23. Interest in group undertakings****Subsidiary undertakings**

AT&T ISTEEL has no subsidiaries as at 31 December 2007.

During 2007 AT&T ISTEEL had the following 100% owned, non trading/dormant subsidiaries, all of whom were registered in England and Wales:

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

The above subsidiaries were struck off during 2007.

**AT&T ISTEEL****NOTES TO THE FINANCIAL STATEMENTS****for the year ended 31 December 2007 continued****24 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 £12,363,000 (2006 £10,441,000)