AT&T ISTEL

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

Registered No. 03531467

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AT&T ISTEL

PRINCIPAL DIRECTORS AND ADVISORS

for the year ended 31 December 2011

Directors

Michael Springham

Ian Crowther

Pascale Frossard

Registered office

Highfield House

Headless Cross Drive

Headless Cross

Redditch

B97 5EQ

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

19 Cornwall Street

Cornwall Court

Birmingham

B3 2DT

Lawyers

Wragge & Co

55 Colmore Row

Birmingham

B3 2AS

Bankers

HSBC plc	Citibank	Bank Mendes Gans
Church Green West	Canada Square	Herengracht 619
Redditch	Canary Wharf	1017 CE Amsterdam
Worcestershire	London	The Netherlands
B97 4EA	E14 5LB	

AT&T ISTEL
Registered No 03531467

DIRECTORS' REPORT
for the year ended 31 December 2011

The directors submit their annual report and the audited financial statements of the Company for the year ended 31 December 2011

Principal activities

The principal activity of the Company during the year was the provision of communication services to third party customers and the provision of accounting and administrative support to companies within the AT&T Inc group

Review of the business

The profit and loss account for the year is set out on page 8

The Company provides network telecommunication services and support functions to companies within the AT&T Inc group No changes are expected to the operations in the near future

Turnover, which under the AT&T Global Intercompany Trading Agreement (AGITA) and Service Agreement is based on support for telecommunications and related support functions respectively provided to the group (and other finance income and charges as disclosed in note 7), has increased from £66 6m to £68 1m

In January 2010 the terms of the AGITA contract were revised following a market benchmarking exercise The Company has a reasonable expectation that it will continue to trade profitably under the revised contract There have been no revisions to the AGITA in the current year

The average number of persons employed by the Company during the year was 443 (2010 436)

Future outlook

No significant events have occurred after the balance sheet date affecting the Company's financial position as at the balance sheet date Trading is expected to be consistent with the year ended 31 December 2011

Principal risks and uncertainties

Business risks

The telecommunication industry is dependent on the general economic environment of the country and the international markets it operates in The operation of the AGITA and Service Agreement limits the risks faced by the Company, however any potential decline in the commercial activities of the group would have an indirect adverse influence on the Company Details of the group's business risks are discussed in the AT&T Inc group's annual report

Financial risks

The Company operates under the terms of the AGITA and the Service Agreement, which the Company entered into on 1 January 2004 These agreements limit 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, is managed by the Company

DIRECTORS' REPORT
for the year ended 31 December 2011 (continued)

Key performance indicators ("KPI")

AT&T Inc is the ultimate parent and controlling company The AT&T Inc group provides managerial coordination, direction and support to AT&T ISTEL and manages the group on a functional basis For this reason the directors believe that analysis using KPI's is not appropriate for an understanding of the development, performance or position of the business Details of the business services division of the group, which includes the company, are discussed in the AT&T Inc group's annual report and does not form part of this report

Results and dividends

AT&T ISTEL's profit for the financial year is £5,960,000 (2010 £509,000) The directors do not recommend the payment of a dividend (2010 £nil) and the profit will be transferred to reserves

Directors

The details of the directors who served during the year and up to the date of signing of the financial statements are as follows

Philip Bater	(resigned 6 January 2012)
Michael Springham	(appointed 6 January 2012)
Peter Daly	(resigned 16 July 2012)
Ian Crowther	(appointed 16 July 2012)
Pascale Frossard	

Employee consultation and communications

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

Directors' indemnities

During the financial year and at the date of approval of the financial statements, the directors of the Company were indemnified by a group insurance policy with respect to Directors' and Officers' liability held by the ultimate parent company AT&T Inc

Policy and practice on payment of creditors

It is the Company's policy in respect of all suppliers to pay according to the terms agreed in the supplier contract The majority of contracts stipulate AT&T's standard payment terms of 45 days (2010 45 days)

DIRECTORS' REPORT
for the year ended 31 December 2011 (continued)

Directors' responsibilities statement

The directors are responsible for preparing the Directors' 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006 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

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

Independent auditors

A resolution has been passed to dispense with the obligation to appoint auditors annually in accordance with Companies Act 2006 Accordingly, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as auditors 28 days after the financial statements are sent to the member

On behalf of the board

24 September 2012

Michael Springham
Director

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

We have audited the financial statements of AT&T Istel for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Phil Harrold (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
24 September 2012

AT&T ISTEL

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Turnover	3	**68,097**	66,592
Operating costs	4	**(64,559)**	(65,651)
Operating profit		**3,538**	941
Interest receivable and similar income	5	**12**	102
Interest payable and similar charges	6	**(57)**	(167)
Other finance income	7	**-**	395
Profit on ordinary activities before taxation	9	**3,493**	1,271
Tax credit/(charge) on profit on ordinary activities	10	**2,467**	(762)
Profit for the financial year	17	**5,960**	509

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the financial year		**5,960**	509
Actuarial loss on pension scheme	15	**(1,219)**	(1,306)
Tax credit on pension actuarial loss	10	**323**	361
Total recognised gains/(losses) relating to the year		**5,064**	(436)

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 for the financial year stated above, and their historical cost equivalents

The notes on pages 10 to 30 form an integral part of these financial statements

AT&T ISTEL

BALANCE SHEET

as at 31 December 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed assets					
Tangible assets	11		27,910		28,472
Current assets					
Debtors amounts falling due within one year	12	20,895		20,574	
Debtors amounts falling due after more than one year	12	8,980		6,728	
Cash at bank and in hand		25,276		119,204	
		55,151		146,506	
Creditors: amounts falling due within one year	13	(19,417)		(116,221)	
Net current assets			35,734		30,285
Total assets less current liabilities			63,644		58,757
Provisions for liabilities	14		(1,162)		(1,340)
Net assets excluding pension asset			62,482		57,417
Pension asset	15		-		-
Net assets including pension asset			62,482		57,417
Capital and reserves					
Called up share capital	16		85,414		85,414
Profit and loss account	17		(22,986)		(28,050)
Other reserves	17		54		53
Total shareholders' funds	18		62,482		57,417

The notes on pages 10 to 30 form an integral part of these financial statements

The financial statements on pages 8 to 30 were approved by the board of directors on 24 September 2012 and were signed on its behalf by

Michael Springham
Director

Registered number. 03531467

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011

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 2006 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 2006 is not appropriate Therefore the financial statements have been prepared so that operating expenses are disclosed in a manner appropriate to the Company's principal activity (see note 4)

Turnover and revenue recognition

Turnover represents the income received from other group undertakings in accordance with the AGITA and Service Agreement Under these agreements 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 agreements because the Company does not bear the risks and rewards associated with these invoices

Revenue is recognised in the accounting period in which the services are rendered, taking into account the extent to which the given transaction is completed This extent is assessed based on the actual services provided as a proportion of the total services agreed

Turnover is stated net of value added tax and similar sales based taxes

Accrued income relates to services rendered to third party customers during the accounting year but billed in the subsequent period

Tangible fixed assets and depreciation

Tangible fixed assets are valued at historic 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	- 44 years
Leasehold land and buildings	- shorter of the life of the lease and 44 years
Building improvements	- up to 44 years
Plant and machinery	- 10 to 15 years
Computer equipment	- 3 to 9 years

The expected useful lives of the assets to the business are reassessed periodically in light of experience

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

1. Accounting policies (continued)

Assets under construction

Assets under construction are not depreciated until they are ready for use

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

Taxation

Tax on the result for the year is calculated by applying the current tax rate to the result reported in the profit and loss account, taking into account tax losses carried forward, tax exempt profit elements and after inclusion of non-deductible costs

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

Provisions

Provisions are recognised when the Company 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 dilapidations represent the best estimate of the obligation at the balance sheet date to repair leasehold properties, as required by the lease agreement, prior to the properties being vacated at the end of their lease term

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

1. Accounting policies (continued)

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 dilapidations and 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 Company 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 total 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 100% owned by the AT&T Inc group or investees of the AT&T Inc group

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

2 Future funding arrangements

In considering the going concern basis, the Directors have reviewed the future funding arrangements available from the AT&T Inc group, and believe that these arrangements are adequate to enable AT&T ISTEL 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

3. Turnover

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

Turnover by destination

	2011 £'000	2010 £'000
Europe	**40,678**	46,664
USA	**27,419**	19,928
	68,097	66,592

The analysis of turnover by business is as follows

Turnover	2011 £'000	2010 £'000
Group support	**68,097**	66,592

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 £19,198,000 (2010 £21,362,000)

4. Operating costs

	2011 £'000	2010 £'000
Application and service delivery	**48,530**	50,144
Sales and marketing	**3,089**	3,373
Administration	**12,940**	12,134
	64,559	65,651

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

5. Interest receivable and similar income

	2011 £'000	2010 £'000
Interest from bank deposits	12	40
Other interest income	-	62
	12	102

6. Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable on overdrafts	1	132
Unwinding of discount on provisions	56	35
	57	167

7. Other finance income

	2011 £'000	2010 £'000
Expected return on pension scheme assets	17,955	18,437
Interest on pension scheme liabilities	(17,955)	(18,042)
	-	395

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

8. Employee information

(a) Staff

The monthly average number of persons employed by the Company (including executive directors) during the year was

By activity	2011 Number	2010 Number
Administration	168	191
Marketing and service delivery	275	245
	443	436

The aggregate payroll costs, which include £532,000 (2010 £598,000) redundancy costs (note 9), are as follows

	2011 £'000	2010 £'000
Wages and salaries	30,716	29,563
Social security costs	3,820	3,850
Pension costs (note 15)	2,234	2,264
	36,770	35,677

(b) Directors' emoluments

None (2010 none) of the directors received remuneration for their services as director of the Company Benefits are accruing to nil directors (2010 nil directors) under the Company's defined benefit pension scheme and to 2 directors (2010 2 directors) under the Company's defined contribution pension scheme None (2010 none) of the directors exercised share options during the year

AT&T ISTEL
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011 (continued)

9. Profit on ordinary activities before taxation

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

	2011	2010
	£'000	£'000
Auditors' remuneration - audit of AT&T ISTEL	**72**	76
- (a) audit of other EMEA companies	**1,620**	1,702
- Total audit fees	**1,692**	1,778
- Actuarial services	**248**	178
- Tax services	**307**	449
- Other services	**-**	135
- Total other fees	**555**	762
Total auditors' remuneration	**2,247**	2,540
Depreciation of tangible fixed assets-owned (note 11)	**2,764**	2,575
Operating lease rentals - plant and machinery	**1,096**	939
- others	**1,386**	1,500
Loss on the sale of fixed assets	**-**	1
Net residual lease contracts	**10**	84
Exchange losses/(gains)	**43**	(53)
Redundancy costs :	**532**	598

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

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

10. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2011 £'000	2010 £'000
Current tax		
United Kingdom corporation tax at 26 5% (2010 28%)	323	372
Adjustment in respect of prior periods	(11)	-
Total current tax	312	372
Deferred tax in respect of:		
Excess of depreciation over capital allowances	443	390
Tax losses and short term timing difference	(3,222)	-
Tax (credit)/charge	(2,467)	762

Tax losses carried forward estimated at £54 6 million at 31 December 2011 (2010 £53 5 million), 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 2009 of £54 6 million

(b) Factors affecting the tax charge in the year

The tax assessed for the year is less (2010 more) than the standard rate of corporation tax in the UK The differences are explained below

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	3,493	1,271
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26 5% (2010 28%)	926	356
Effects of.		
Expenses not deductible for tax purposes	178	5
Depreciation (less than)/in excess of capital allowances	(1,193)	411
Timing differences	89	(469)
Unrecognised tax losses utilised	-	(292)
Tax credit on pension actuarial loss included in STRGL	323	361
Prior year tax adjustment	(11)	
Current tax charge for the year	312	372

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

10. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

A reduction in the main rate of corporation tax from 28% to 26% was substantively enacted on 29 March 2011 and took effect from 1 April 2011 The relevant deferred tax balances have been re-measured at 25%, which is the rate that was substantively enacted under the Finance Act 2011

Further reductions to the UK corporation tax rate were announced in the Finance Act 2011 These changes reduce the rate by 1% per annum to 23% by 1 April 2014 These reductions have been amended by the 2012 Budget which received Royal assent on 17 July 2012 An additional 1% reduction is proposed to the financial year beginning 1 April 2012 and rates will be reduced by two further 1% cuts to 22% by the financial year beginning 1 April 2014 None of these rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The effect of the changes enacted by Parliament on 17 July 2012 is to reduce the deferred tax asset provided at the balance sheet date by £ 397,000 This £397,000 decrease in the deferred tax asset would decrease profit by £397,000 This decrease in the deferred tax asset is due to the additional reduction in the corporation tax rate to 24% with effect from 1 April 2012

The effect of the changes enacted by Parliament on 17 July 2012 would be to further reduce the deferred tax asset provided at the balance sheet date by an additional £359,000 This £359,000 decrease in the deferred tax asset would decrease profit by £359,000 This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 24% to 23% with effect from 1 April 2013

The effect of the changes enacted by Parliament on 17 July 2012 would be to further reduce the deferred tax asset provided at the balance sheet date by an additional £321,000 This £321,000 decrease in the deferred tax asset would decrease profit by £321,000 This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 23% to 22% with effect from 1 April 2014

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

11. Tangible fixed assets

	Land and Buildings £'000	Plant and Machinery £'000	Computer Equipment £'000	Asset under construction £'000	Total £'000
Cost					
At 1 January 2011	30,621	1,724	21,293	489	54,127
Additions	1,036	-	940	226	2,202
Transfers	546	(457)	400	(489)	-
Disposals	-	-	(6)	-	(6)
At 31 December 2011	**32,203**	**1,267**	**22,627**	**226**	**56,323**
Accumulated Depreciation					
At 1 January 2011	9,069	481	16,105	-	25,655
Charge for the year	1,324	94	1,346	-	2,764
Transfers	151	(151)	-	-	-
Disposals	-	-	(6)	-	(6)
At 31 December 2011	**10,544**	**424**	**17,445**	-	**28,413**
Net book value					
At 31 December 2011	**21,659**	**843**	**5,182**	**226**	**27,910**
At 31 December 2010	21,552	1,243	5,188	489	28,472

Depreciation has not been charged on freehold land, which is stated at cost of £2,081,000 (2010 £2,081,000)

	2011	2010
The net book value of land and buildings, including improvements, comprises	**£'000**	£'000
Leasehold improvements	**317**	329
Freehold	**21,342**	21,223
	21,659	21,552

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

12. Debtors

	2011	2010
	£'000	£'000
Amounts falling due within one year		
Trade debtors	**3,666**	3,910
Amounts owed by group undertakings	**11,621**	12,538
Other debtors	**1,881**	712
Prepayments and accrued income	**2,793**	3,007
Deferred tax asset (note 14)	**934**	407
	20,895	20,574
Amounts falling due after more than one year		
Deferred tax asset (note 14)	**8,980**	6,728

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

13. Creditors: amounts falling due within one year

	2011	2010
	£'000	£'000
Bank overdrafts	**8,640**	105,296
Trade creditors	**1,285**	1,489
Amounts owed to group undertakings	**-**	28
Other taxation and social security	**937**	879
Other creditors	**4,631**	4,238
Accruals and deferred income	**3,924**	4,291
	19,417	116,221

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

Bank overdrafts and cash at bank balance are part of a cash pooling arrangement which earns/pays interest at Bank base rate +/-1% The cash pooling arrangements are detailed further in note 20

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

14. Provisions for liabilities

	Dilapidations	Vacant Properties	**Total**
	2011	2011	**2011**
	£'000	£'000	**£'000**
At 1 January 2011	319	1,021	**1,340**
Charged/(released) to profit and loss account	32	(22)	**10**
Utilised in the year	-	(244)	**(244)**
Unwinding of discount	26	30	**56**
At 31 December 2011	**377**	**785**	**1,162**

Provisions relate to net residual lease contracts and 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 2011 is between 1 and 7 years

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

	Amount provided		**Not provided**	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Tax effect of timing differences due to excess of depreciation over capital allowances	**7,338**	7,135	**-**	2,276
Trading tax losses	**2,289**	-	**11,355**	14,455
Provisions	**287**	-	**-**	219
	9,914	7,135	**11,355**	16,950

The movement in the deferred tax asset is analysed below

	2011	2010
	£'000	£'000
At 1 January	**7,135**	7,525
Deferred tax credited/(charged) to profit and loss account (note 10)	**2,779**	(390)
At 31 December	**9,914**	7,135

AT&T ISTEL
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011 (contınued)

15. Pensıons and sımılar oblıgations

The Group operates three pensıon schemes, two defined benefit schemes beıng the AT&T ISTEL Pensıon Plan and the AT&T ISTEL Supplementary Pensıon Plan, and one defined contrıbutıon scheme beıng the AT&T Pensıon Scheme

On the 1 February 2007 the asset and lıabılıtıes of AT&T ISTEL Supplementary Pensıon Plan were transferred to AT&T ISTEL Pensıon Plan and the two schemes merged The wındıng up of the AT&T ISTEL Supplementary Pensıon Plan was completed on 25 June 2007

In September 2009 the Company announced ıt had decıded to seek closure of the defined benefit scheme to future servıce accrual from the end of 2009 Followıng consultatıon, the proposal was finalısed by December 2009 wıth the status of actıve members of the scheme changıng to deferred from 1 February 2010

The Company accounts for defined benefit schemes under Fınancıal Reportıng Standard 17 – Retırement Benefits (FRS 17) The dısclosures below relate to the AT&T ISTEL Pensıon Plan whıch ıs a defined benefit plan The defined benefit scheme was closed to new members from 17 Aprıl 2001

The Company has paıd no normal contrıbutıons to the plans ın 2011 as they are closed

Addıtıonal contrıbutıons of £200,000 have been paıd each month from January 2011 untıl June 2011

The latest actuarıal valuatıon took place on 31 March 2010 The prıncıpal assumptıons used by the qualıfied ındependent actuarıes ın updatıng the latest valuatıon for the AT&T ISTEL Pensıon Plan for FRS 17 purposes were

	2011 **%**	2010 %
Dıscount rate	**4.8**	5 4
Rate of ıncrease ın salarıes	**N/A**	N/A
Rate of guaranteed ıncrease ın pensıons accrued prıor to Aprıl 1997	**3.0**	3 0
Rate of dıscretıonary ıncrease ın pensıons accrued prıor to Aprıl 1997	**3.7**	3 9
Rate of ıncrease ın pensıons accrued sınce Aprıl 1997	**3.7**	3 9
Inflatıon assumptıon (CPI)	**2.4**	2 9
Rate of ıncrease for deferred pensıons	**2.4**	2 9

The mortalıty assumptıons are based on standard mortalıty tables whıch allow for expected future mortalıty ımprovements The assumptıons are that a member who retıres ın 2011 at age 60 wıll lıve on average for a further 27 years after retırement ıf they are male and a further 29 years after retırement ıf they are female

A member who retıres ın 2031 at age 60 wıll lıve on average for a further 29 years after retırement ıf they are male and a further 30 years after retırement ıf they are female

AT&T ISTEL
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011 (continued)

15. Pensions and similar obligations (continued)

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

	Expected long-term rate of return as at 31 December 2011	**Market Value as at 31 December 2011 £'000**	Expected long-term rate of return as at 31 December 2010	Market Value as at 31 December 2010 £'000
Equities	**8.0%**	**75,472**	8 2%	96,557
Hedge Funds	**5.8%**	**59,597**	6 5%	61,475
Property	**7.5%**	**45,846**	7 2%	44,261
LDI	**3.0%**	**196,505**	4 2%	149,663
Cash	**1.0%**	**1,449**	1 0%	2,205
TOTAL	***5.0%**	**378,869**	*6 0%	354,161
Present value of scheme liabilities		**(357,267)**		(336,415)
Surplus in the scheme		**21,602**		17,746
Related deferred tax liability		**-**		-
Asset restriction**		**(21,602)**		(17,746)
Net pension asset		**-**		-

* - AT&T ISTEL employs a building block approach in determining the long term rate of return on pension plan assets Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles The assumed long term rate of return on each asset class is set out within this note The overall expected rate of return on assets is then derived by aggregating the expected return for each class over the actual asset allocation for the Plan at the 31 December 2011

** - Restriction on recognition of plan asset due to closure of pension plan

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

15. Pensions and similar obligations (continued)

Analysis of the amount charged to operating profit

	2011	2010
	£'000	£'000
Current service cost	-	395
Contributions from other Group companies	-	(16)
Total operating charge	-	379

Of the total operating charge in 2010, £395,000 was included within application and service delivery expenses, £nil was included within sales and marketing expenses and a credit of £16,000 was included within administration expenses

Contributions from other Group companies in 2010 were 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 £2,234,000 (2010 £1,885,000) of which £nil was unpaid at 31 December 2011 (2010 £nil)

Analysis of the amount charged to other finance income

	2011	2010
	£'000	£'000
Expected returns on pension scheme assets	17,955	18,437
Interest on pension scheme liabilities	(17,955)	(18,042)
Net return	-	395

AT&T ISTEL
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2011 (continued)

15. Pensions and similar obligations (continued)

Changes to the present value of the scheme liabilities during the year:

	2011 £'000	2010 £'000
Opening scheme liabilities	**336,415**	320,963
Current service cost	**-**	395
Interest cost	**17,955**	18,042
Contributions by plan participants	**-**	7
Actuarial losses on plan liabilities*	**10,837**	6,390
Net benefits paid out	**(7,940)**	(9,382)
Closing scheme liabilities	**357,267**	336,415

*Includes changes to the actuarial assumptions and changes in the surplus deemed to belong to members

Changes to the fair value of plan assets during the year:

	2011 £'000	2010 £'000
Opening fair value of plan assets	**354,161**	324,225
Expected return on plan assets	**17,955**	18,437
Actuarial gains on plan assets	**13,474**	19,568
Contributions by the employer	**1,219**	1,306
Contributions by plan participants	**-**	7
Net benefits paid out	**(7,940)**	(9,382)
Closing fair value of plan assets	**378,869**	354,161

Actual return on plan assets:

	2011 £'000	2010 £'000
Expected return on plan assets	**17,955**	18,437
Actuarial gain on plan assets	**13,474**	19,568
Actual return on plan assets	**31,429**	38,005

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

15. Pensions and similar obligations (continued)

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

	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	13,474	19,568
Experience gains and losses arising on the scheme liabilities	(2,907)	(6,071)
Changes in assumptions underlying the present value of the scheme liabilities	(11,786)	(14,803)
Actuarial loss recognised in the STRGL	(1,219)	(1,306)
Cumulative amounts of gains recognised in the STRGL	(36)	1,183

History of asset values, defined benefit obligation and surplus in plan:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Fair value of plan assets	378,869	354,161	324,225	303,689	293,611
Defined benefit obligation	(357,267)	(336,415)	(320,963)	(282,767)	(280,853)
Surplus in plan	21,602	17,746	3,262	20,922	12,758

History of experience gains and losses:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Experience gains/(losses) on plan assets	13,474	19,568	(3,589)	(18,705)	21,061
Experience losses on plan liabilities**	(2,907)	(6,071)	(385)	(296)	(21,336)

** This excludes any changes in liabilities in respect of changes to actuarial assumptions used

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

16. Called up share capital

	2011	2010
Authorised	**£'000**	£'000
100,000,000 (2010 100,000,000) ordinary equity shares of £1 each	**100,000**	100,000
Issued, and fully paid		
85,413,539 (2010 85,413,539) ordinary equity shares of £1 each	**85,414**	85,414

17. Reserves

	Profit and Loss account	Other Reserves*	Total
	2011	2011	**2011**
	£'000	£'000	**£'000**
At 1 January 2011	(28,050)	53	**(27,997)**
Profit for the financial year	5,960	-	**5,960**
Actuarial loss on pension scheme	(1,219)	-	**(1,219)**
Tax credit on pension actuarial loss	323	-	**323**
Movement in fair value of share option reserve	-	1	**1**
At 31 December 2011	**(22,986)**	**54**	**(22,932)**

*Other reserves relate to the share option reserve (note 19)

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

18. Reconciliation of movement in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	**5,960**	509
Movement on share option reserve	**1**	(3)
Actuarial loss on pension scheme	**(1,219)**	(1,306)
Issue of ordinary share capital	-	39,200
Tax credit on pension actuarial loss	**323**	361
Net addition to shareholders' funds	**5,065**	38,761
Opening shareholders' funds	**57,417**	18,656
Closing shareholders' funds	**62,482**	57,417

19. Share options

The share options granted to employees of AT&T Istel in its ultimate parent company, AT&T Inc , remaining to be exercised at 31 December 2011 are as follows The weighted average grant price at 31 December 2011 is $28 44 (2010 $34 40)

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 1 January 2011	Exercised in 2011	Expired in 2011	Outstanding at 31 December 2011
21 December 2001	42 0881	54,776	-	54,776	-
19 February 2002	33 6709	39,734	-	-	39,734
30 May 2002	27 8342	1,031	-	-	1,031
31 May 2002	27 7411	1,978	-	-	1,978
28 June 2002	23 7997	42	-	-	42
30 September 2002	28 2990	985	-	-	985
15 May 2003	20 7971	26,888	-	-	26,888
TOTAL		**125,434**	-	**54,776**	**70,658**

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

19. 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

	2011	2010
Risk-free interest rate	**2.9%**	3 1%
Dividend yield	**6.0%**	6 6%
Expected volatility factor	**14.7%**	15 7%
Expected option life in years	**1 year**	1 year
Fair value per option	**$3.113**	$3 034
Number of options outstanding	**26,888**	26,888
Share option reserve at 31 December £'000	**54**	53

20. Financial commitments

Lease commitments

The Company leases certain land and buildings on short and long term leases At 31 December 2011, 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

Expiry	2011 £'000	2010 £'000
Within one year	-	94
Within two to five years	1,345	555
After five years	49	728
	1,394	1,377

At 31 December 2011 the Company has lease agreements in respect of vehicles, for which the payments extend over a number of years

Expiry	2011 £'000	2010 £'000
Within one year	397	72
Within two to five years	508	629
	905	701

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011 (continued)

20. 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 2011 was negative £8,343,724 (2010 positive £12,459,713) The Company is liable for any debts of related companies participating in the cross-guarantee up to its positive cash pool balance of £8,640,303 (2010 £25,962,311)

The Company's bankers have guarantees with third parties totalling £250,000 (2010 £250,000) in respect of the Company

Pension Funding Arrangements

As disclosed in note 15 the group operated two defined benefit schemes, the AT&T ISTEL Pension Plan and the AT&T ISTEL Supplementary Pension Plan, which were merged during 2007

In the prior year, the Company agreed with the Trustees of the Pension Plan that it would make cash contributions of £200,000 each month from 1 July 2010 to 31 March 2018 in order to address the pension funding deficit These contributions were ceased in June 2011 following a new valuation of the Pension Plan which showed the Plan was in surplus and no further contributions were required

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

21. Related party transactions

The Company recharges the AT&T ISTEL Pension Plan with the cost of investment management expenses borne by the Company The total amount recharged in the year ended 31 December 2011 was £559,774 (2010 £396,561), of which £5,756 (2010 £396,561) is recognised as a current asset at the year end

22. Ultimate parent undertaking and controlling party

The immediate parent company of AT&T ISTEL at 31 December 2011 was AT&T Communication Services Assets LLC, 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 This is the parent company of the smallest and largest group to consolidate these financial statements Copies of that company's consolidated financial statements are available from the Securities and Exchange Commission (www sec gov) or may be obtained by contacting AT&T's investor relations department on the Web at www att com or at the following address AT&T Inc , 208 S Akard St, Dallas, TX752 02, USA