AT&T ISTEL

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1999

Registered No 3531467

AT&T ISTEL

REPORT OF THE DIRECTORS

for the year 31 December 1999

The directors submit their report and audited financial statements for the year ended 31 December 1999.

Principal activities

The principal activity of the group during the year was the provision of computer and communication services.

Review of the business and future developments

The consolidated profit and loss account for the period is set out on page 5.

The group's business was aligned with that of its parent company in 1998 through a series of disposals of non-core activities. The activities the company intends to take forward have continued to develop during the year. The most significant costs and cost recharges arising from the realignment activity are identified in note 8 to the financial statements.

Under the company's AT&T Labs UK division, the group's research and development activities have significantly expanded in the year with the aim of developing innovative Internet Protocol (IP) technologies. Costs charged to operating profit amounted to £4.2m (1998: £5,000).

The business will continue trading for the foreseeable future.

Dividends

The directors do not recommend the payment of a dividend.

Fixed assets

The changes in fixed assets are detailed in notes 10 and 11 to the financial statements.

Directors and their interests

The directors who served during the period and the subsequent changes are:

	Appointed	**Resigned**
W G DeSocio	1 April 1998	10 November 1999
K C Evans	1 April 1998	-
D S Hall	1 October 1998	7 April 2000
J A C Macfarlane	1 April 1998	3 August 1999
N A Murphy	1 April 1998	4 April 1999
R C Scott	2 February 2000	-
M K Taylor	7 April 2000	-

No director had any disclosable interest in the share capital of the company, or any other member of the AT&T Corp. group, during the year.

Employees

Consultation and communications

In common with other UK subsidiaries of AT&T Corp., a range of consultation and communication arrangements are in place to ensure that where possible employees' views are sought on matters likely to affect their interests and that they are kept informed of the performance of the company. These arrangements include regular briefings of employees at all levels, publication of in-house information bulletins and a newspaper, holding of site-based communication meetings and formal arrangements with recognised trade unions.

Disabled persons

The company has a policy of giving every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by those persons. With regard to existing employees who are or have become disabled, the company has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training and career development wherever possible.

Employee stock option and share purchase plans

Qualifying employees may participate in the AT&T Employee Stock Purchase Plan. Under the terms of the plan, employees may have up to 10% of their salary withheld to purchase AT&T common stock. Certain employees may also be participating in a stock option scheme originally launched by AT&T Corp. in the United States during 1997, in which the options vested on 1 August 2000 and are exercisable until 1 August 2007 at a price of $24.50.

Euro

On 1 January 1999, certain members of the European Union established fixed conversion rates between their existing currencies and the European Union's currency ("Euro"). The transition period is anticipated to extend between 1 January 1999 and January 2002. The company has assessed the impact of the conversion on information technology systems, currency exchange rate risk, derivatives and other financial instruments, continuity of material contracts as well as income tax and accounting issues. At this time, the company does not expect the effect of the Euro on its financial statements to be material.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and 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 estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

In accordance with the provisions contained in the Companies Act 1989, the company has elected to dispense with the obligation to appoint auditors annually. The auditors, PricewaterhouseCoopers will remain in office until such time as the company shall determine otherwise.

By Order of the Board

Date: 5/12/2001

G P Saunders

G P Saunders
Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF AT&T ISTEL

We have audited the financial statements on pages 5 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the group and company at 31 December 1999 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

21 December 2001

AT&T ISTEL

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	Notes	Year ended 31 December 1999		Period ended 31 December 1998	
		£000	£000	£000	£000
Turnover					
Continuing operations	2	65,912		29,098	
Discontinued operations	2	-		20,117	
			65,912		49,215
Operating costs	3		(70,807)		(58,025)
Operating loss					
Continuing operations		(4,895)		(10,242)	
Discontinued operations		-		1,432	
			(4,895)		(8,810)
Loss on the sale of discontinued operations	4		-		(4,569)
Loss on ordinary activities before taxation and interest			(4,895)		(13,379)
Interest receivable and similar income	5		152		48
Interest payable and similar charges	6		(332)		(97)
Loss on ordinary activities before taxation	8		(5,075)		(13,428)
Taxation	9		-		(336)
Loss on ordinary activities after taxation			(5,075)		(13,764)
Dividends			-		-
Retained loss for the period	19		(5,075)		(13,764)

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

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above, and their historical cost equivalents.

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the period was £5,123,000 (period to 31 December 1998: loss £11,434,000).

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

AT&T ISTEL

CONSOLIDATED BALANCE SHEET

as at 31 December 1999

	Notes		1999		1998
					(As restated)
			£000		£000
Fixed assets					
Intangible assets	10		**(348)**		(1,741)
Tangible assets	11		**16,528**		19,543
			16,180		17,802
Current assets					
Debtors: amounts falling due after one year	13	**10,816**		-	
Debtors: amounts falling due within one year	13	**35,822**		30,032	
		46,638		30,032	
Cash at bank and in hand		**2,748**		3,159	
		49,386		33,191	
Creditors					
Amounts falling due within one year	14	**(39,056)**		(32,187)	
Net current assets			**10,330**		1,004
Total assets less current liabilities			**26,510**		18,806
Creditors: Amounts falling due after more than one year	15		**(10,816)**		(5)
Provisions for liabilities and charges	16		**(7,319)**		(5,351)
Net assets			**8,375**		13,450
Capital and Reserves					
Called up share capital	18		**27,214**		27,214
Profit and Loss account	19		**(18,839)**		(13,764)
Equity shareholders' funds	20		**8,375**		13,450

The financial statements were approved by the board of directors on 5 December 2001 and were signed on its behalf by:

Director

AT&T ISTEL

COMPANY BALANCE SHEET

as at 31 December 1999

	Notes		1999		1998 (As restated)
			£000		£000
Fixed assets					
Intangible assets	10		**(348)**		(1,741)
Tangible assets	11		**16,528**		19,543
Investments	12		**-**		-
			16,180		17,802
Current assets					
Debtors: amounts falling due after one year	13	**19,027**		8,211	
Debtors: amounts falling due within one year	13	**41,126**		35,202	
		60,153		43,413	
Cash at bank and in hand		**2,748**		2,706	
		62,901		46,119	
Creditors					
Amounts falling due within one year	14	**(50,289)**		(42,785)	
Net current assets			**12,612**		3,334
Total assets less current liabilities			**28,792**		21,136
Creditors: Amounts falling due after more than one year	15		**(10,816)**		(5)
Provisions for liabilities and charges	16		**(7,319)**		(5,351)
Net assets			**10,657**		15,780
Capital and Reserves					
Called up share capital	18		**27,214**		27,214
Profit and Loss account	19		**(16,557)**		(11,434)
Equity shareholders' funds	20		**10,657**		15,780

The financial statements were approved by the board of directors on 5 December 2001 and were signed on its behalf by:

Director

AT&T ISTEL

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1999

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The directors believe that the nature of the company's business is such that the analysis of operating expenses required by the Companies Act 1985 is not appropriate. As required by the Act, the directors have therefore adapted the prescribed format so that operating expenses are disclosed in a manner appropriate to the company's principal activity.

Prior period adjustment

Certain amounts included in Creditors: Amounts falling due within one year (note 14) in respect of 1998 have been restated within Provisions for liabilities and charges, as this better reflects the nature of these items. The comparative amounts have been restated.

Going Concern

As detailed in note 26, the company issued 19,000,000 ordinary shares at par to its immediate parent company. The proceeds of this share issue are to be used to fund the ongoing business. As mentioned in note 22, the company is a participant in a cash pool arrangement with certain fellow subsidiaries of AT&T Corp. group. AT&T Communications Services International Inc, a fellow subsidiary, has made sufficient loan facilities available to ensure that the ongoing operations of these companies are adequately funded.

On this basis, the directors believe that it is appropriate for the accounts to be prepared on a going concern basis.

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

Basis of consolidation

The group financial statements consolidate the financial statements of AT&T ISTEL and all its subsidiary undertakings. Intra-group sales and profits are eliminated fully on consolidation. The group includes its share of profits and losses of joint venture undertakings in the consolidated profit and loss account and its share of net assets in the consolidated balance sheet.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired) is capitalised and amortised over its useful economic life. Other purchased goodwill is amortised through the profit and loss account over its useful economic life, or in the case of negative goodwill, over the period during which the non-monetary assets acquired are recovered either through depreciation or sale.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after eliminating any unamortised goodwill related to that business.

In the company's accounts, investments in subsidiary and joint venture undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

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

Fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any associated costs of acquisition, excluding interest.

Assets are depreciated from the time they are available for use. Depreciation is provided on tangible fixed assets on a straight line basis. The charge is calculated so that the cost of the asset, less its estimated residual value, is written off over its expected useful economic life as follows:

Freehold land	- no depreciation is charged
Freehold buildings	- 40 years
Leasehold land and buildings	- shorter of the life of the lease and 40 years
Building improvements	-2 to 10 years
Motor vehicles	- 5 years
Machinery, tools, office furniture and equipment	-2 to 10 years

Impairment of fixed assets and goodwill

The group undertakes a review for impairment of a tangible fixed asset or goodwill if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realizable value and value in use, the fixed asset or goodwill is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Foreign currencies

Normal trading activities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the date of the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred Tax

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that a liability or asset is expected to crystallise in the foreseeable future.

Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Pensions and other post retirement benefits

The group operates two defined benefit schemes. The assets of the schemes are held in separate trustee administered funds. The ongoing cost of providing pensions for current and former employees is charged to the profit and loss account on a systematic and rational basis over the period during which the benefit is derived from the employees' services, based on the recommendations of independent qualified actuaries.

Pension scheme surpluses and deficits are allocated to the profit and loss account over the average remaining service life of employees.

Research and development expenditure

Research and development expenditure has been charged to the profit and loss account as incurred.

Turnover

Turnover, which excludes value added tax, sales between divisions and trade discounts, represents the value of goods and services supplied.

Cash flow statement

The company is a wholly owned subsidiary of AT&T Corp., and its cash flows are included in the consolidated financial statements of AT&T Corp., which are publicly available. Consequently the company takes advantage of the exemption from producing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

2. Segmental analysis

The group operates in one business segment. All turnover originates in the United Kingdom. The analysis of group turnover by geographic area is:

Turnover by destination

	Year ended 31 December 1999		Period ended 31 December 1998	
	Continuing operations	**Discontinued operations**	Continuing operations	Discontinued operations
	£000	**£000**	£000	£000
United Kingdom	**52,922**	-	28,824	20,117
United States	**8,441**	-	18	-
Europe	**3,891**	-	142	-
Rest of the World	**658**	-	114	-
	65,912	-	29,098	20,117

3. Operating costs

	Year ended 31 December 1999	Period ended 31 December 1998		
	Continuing Operations	Continuing Operations	Discontinued Operations	Total
	£000	£000	£000	£000
Application and service delivery	**56,760**	29,167	17,311	46,478
Sales and marketing	**2,777**	2,643	1,467	4,110
Administration	**11,270**	1,374	(93)	1,281
Exceptional Administration	-	6,156	-	6,156
Operating costs	**70,807**	39,340	18,685	58,025

Exceptional administration costs in the comparative period relate to the provision for the permanent diminution in the value of goodwill arising on consolidation.

4. Loss on the sale of discontinued operations.

During 1998, the company disposed of two of its operating divisions, realising a loss of £4,569,207 The loss on disposal has been disclosed as an exceptional item. No taxation charge has arisen as a result of this transaction.

5. Interest receivable and similar income

	Year ended 31 December 1999	Period ended 31 December 1998
	£000	£000
Interest from bank deposits	**152**	48

6. Interest payable and similar charges

	Year ended 31 December 1999	Period ended 31 December 1998
	£000	£000
Interest payable		
On bank loans and overdrafts wholly repayable within 5 years	**332**	97

7. Employee information

(a) Staff

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

	Year ended 31 December 1999	Period ended 31 December 1998
By activity	**No.**	No.
Administration	**173**	183
Marketing and service delivery	**354**	415
	527	598

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 1999	Period ended 31 December 1998
	£000	£000
Wages and salaries	**16,174**	12,109
Social security costs	**2,102**	1,377
Pension costs (note 17)	**1,674**	1,276
	19,950	14,762

(b) *Directors' Emoluments*

Directors' remuneration comprises:

	Year ended 31 December 1999	Period ended 31 December 1998
	£000	£000
Aggregate emoluments	**364**	400

Benefits are accruing to three directors (1998: three directors) under the company's defined benefit pension schemes.

	Year ended 31 December 1999	Period ended 31 December 1998
	£000	£000
Highest paid director:		
Aggregate emoluments	**289**	341

No pension benefits are accrued by the highest paid director.

8. Loss on ordinary activities before taxation

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

		Year ended 31 December 1999	Period ended 31 December 1998
		£000	£000
Costs associated with group support activities		6,191	4,718
Administrative support recharges		(5,363)	-
Depreciation of tangible fixed assets (note 11)		4,753	4,944
Impairment of goodwill (note 3)		-	6,156
Amortisation of goodwill arising on consolidation (note 10)		-	240
Amortisation of negative goodwill (note 10)		(1,393)	(1,317)
Auditors' remuneration	- audit	250	299
	- consultancy and other services	20	25
Operating lease rentals	- plant and machinery	131	529
	- land and buildings	1,095	2,064
Loss on the sale of fixed assets		371	3,148
Exchange gains		(127)	(186)
Research and development expenditure		4,229	5
Net charge in respect of movements of provisions (note 16)		1,968	1,901

The auditors' remuneration includes amounts borne by the company in respect of its subsidiary undertakings and AT&T Communications (UK) LTD, a fellow subsidiary of AT&T Corp (subsequently renamed Viatel Global Communications Ltd and disposed of by the AT&T Corp group on 29 February 2000).

Administrative support recharge represents amounts included in turnover for the revenue earned by the company for providing shared administrative support to other AT&T Corp. group companies.

9. Taxation

	Year ended 31 December 1999	Period ended 31 December 1998
	£000	£000
Current Year		
United Kingdom corporation tax at 31% (1998: 31%)	-	336
Deferred tax	-	-
	-	336

Tax losses carried forward of approximately £70 million are available to offset against future profits of the same trade. The quantum of these losses has not yet been agreed by the Inland Revenue and may therefore be subject to adjustment.

10. Intangible fixed assets

Goodwill arising on consolidation

Group	**1999**
Cost	**£000**
At 31 December 1998 and 1999	**6,396**
Amortisation	
At 31 December 1998 and 1999	**6,396**
Net book value at 31 December 1998 and 1999	**-**

Positive goodwill was fully amortised during the period ended 31 December 1998.

Negative goodwill

Group and Company	**1999**
Cost	**£000**
At 1 January and 31 December	**2,787**
Amounts recognised in the profit and loss account	
At 1 January	**1,046**
Amortisation for the year	**1,393**
At 31 December	**2,439**
Net book value at 31 December 1999	**348**
Net book value at 31 December 1998	1,741

The negative goodwill is being amortised over 2 years which corresponds to the period over which the non-monetary assets acquired are being depreciated.

11. Tangible fixed assets

Group and company	Land and buildings	Plant and machinery	Motor vehicles	Other equipment	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 1999	8,126	8,754	4,194	22,570	43,644
Additions	2	100	3,125	1,679	4,906
Reclassifications	4,542	(4,542)	-	-	-
Transfers to fellow subsidiary undertaking	(241)	(25)	-	(2)	(268)
Disposals	(430)	(334)	(3,072)	(4,485)	(8,321)
At 31 December 1999	**11,999**	**3,953**	**4,247**	**19,762**	**39,961**
Depreciation					
At 1 January 1999	1,220	4,930	909	17,042	24,101
Charge for the year	616	723	892	2,522	4,753
Reclassifications	2,671	(2,671)	-	-	-
Transfers to fellow subsidiary undertakings	(102)	(15)	-	(1)	(118)
Disposals	(232)	(326)	(716)	(4,029)	(5,303)
At 31 December 1999	4,173	2,641	1,085	15,534	23,433
Net book value At 31 December 1999	**7,826**	**1,312**	**3,162**	**4,228**	**16,528**
At 31 December 1998	6,906	3,824	3,535	5,278	19,543

Depreciation has not been charged on freehold land which is stated at cost of £2,088,947 (1998:£2,088,947).

The net book value of land and buildings, including improvements, comprises:	1999 £'000	1998 £'000
Freehold	**7,706**	6,759
Long Leaseholds	-	-
Short Leaseholds	**120**	147
	7,826	6,906

12. Fixed asset investments

Interest in group undertakings	Company
	1999
Cost	£000
At 31 December 1998 and 1999	4,058
Amounts written off	
At 31 December 1998 and 1999	4,058
Net Book value at 31 December 1998 and 1999	-

Shares in group undertakings comprise the cost of investment in subsidiary undertakings. Details of subsidiary undertakings are shown in note 24.

The directors have reviewed the carrying value of the investment in group undertakings and consider that the financial position of the undertakings indicated that full provision should be made against the cost of investment in the accounts of the company.

The group had no other investments at either 31 December 1998 or 31 December 1999.

13. Debtors

	Group	Company	Group	Company
	1999	1999	1998	1998
	£000	£000	£000	£000
Amounts falling due after more than one year				
Amounts owed by fellow subsidiary undertakings	10,816	10,816	-	-
Amounts owed by group undertakings	-	8,211	-	8,211
	10,816	19,027	-	8,211
Amounts falling due within in one year				
Trade debtors	8,986	8,986	10,625	10,625
Amounts owed by parent company and fellow subsidiary undertakings	20,572	20,572	7,632	7,632
Amounts owed by the company's subsidiary undertakings	-	5,316	-	5,181
Other debtors	1,042	1,030	2,226	2,215
Prepayments and accrued income	5,222	5,222	9,549	9,549
	35,822	41,126	30,032	35,202
Total debtors	46,638	60,153	30,032	43,413

13. Debtors (continued)

Amounts falling due after one year owed by fellow subsidiary undertakings represent international cost recharges issued by the company to other AT&T Corp. group companies in the company's role as a central clearing house for the international costs incurred by the AT&T Global Network Services business unit (note 15).

14. Creditors: amounts falling due within one year

	Group 1999 £000	**Company 1999 £000**	Group 1998 (As restated) £000	Company 1998 (As restated) £000
Bank loans and overdrafts	**16,347**	**16,800**	4,303	3,756
Trade creditors	**12,423**	**12,415**	16,057	15,916
Amounts owed to fellow subsidiary undertakings	**7,217**	**7,217**	3,594	3,594
Amounts owed to the company's subsidiary undertakings	**-**	**10,791**	-	11,337
Taxation and social security costs:				
United Kingdom corporation tax payable	**336**	**336**	336	336
Other taxation and social security	**509**	**509**	5,001	5,001
Other creditors	**883**	**880**	3	-
Accruals and deferred income	**1,341**	**1,341**	2,893	2,845
	39,056	**50,289**	32,187	42,785

The overdraft is on normal commercial terms and is unsecured.

Several amounts included in the above in respect of 1998 have been restated within provisions for liabilities and charges, as this better reflects the nature of these items. These amounts total £2,106,000 which comprises £770,000 and £1,246,000 which had previously been reported in trade creditors and other creditors respectively.

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

	Group	Company	Group	Company
	1999	1999	1998	1998
	£000	£000	£000	£000
Amounts owed to fellow subsidiary undertakings	10,816	10,816	-	-
Other creditors	-	-	5	5
	10,816	10,816	5	5

Amounts owed to fellow subsidiary undertakings represent international cost recharges issued to the company from other AT&T Corp. group companies in the company's role as a central clearing house for the international costs incurred by the AT&T Global Network Services business unit (note 13). These amounts are due between 1 and 2 years.

16. Provisions for liabilities and charges

Group and company

	Vacant property	Onerous contracts	Warranty	1999 Total provisions	1998 provisions (As restated)
	£'000	£'000	£'000	£'000	£'000
At 1 January	3,335	770	1,246	5,351	-
Transfer from fellow subsidiary	-	-	-	-	3,450
Additional provisions made	1,222	3,209	-	4,431	2,298
Released unused	(1,176)	-	-	(1,176)	-
Utilised in the year	(1,287)	-	-	(1,287)	(397)
At 31 December	2,094	3,979	1,246	7,319	5,351

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

Vacant property provisions are the estimated costs and financial commitments associated with the exiting of leasehold properties no longer in use by the company. The majority of these amounts will be realised within the next 10 years.

Onerous contracts provisions recognise the costs in excess of the expected economic benefit of certain customer contracts that expire over the next two years.

Warranty provisions provide for the probable costs associated with the disposal of certain company activities. The crystallisation of this cost is dependant on the fulfilment of certain conditions within the next five years.

17. Pension and similar obligations

The group operates two defined benefit schemes. The assets of the schemes are held in separate trustee administered funds.

During the year, the company entered into deeds of adherence with AT&T Global Markets (EMEA) Ltd, AT&T Easylink Services Ltd, AT&T ISTEL Pension Trustees Limited and AT&T ISTEL Supplementary Pension Trustee Limited such that AT&T Global Markets (EMEA) Ltd and AT&T Easylink Services Ltd could, for certain of their employees, participate in the AT&T ISTEL Pension Plan and the AT&T ISTEL Supplementary Pension Plan. Under the deed of participation, AT&T Global Markets (EMEA) Ltd and AT&T Easylink Services (UK) Ltd cannot participate in any scheme surpluses arising prior to their participation in the schemes.

The total pension cost for the group was £1,674,000 (1998: £1,276,000). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The funds were valued at 1 April 1999 by an independent qualified actuary using the projected unit method. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments, rate of increase of dividends and the rates of increase in pensions.

It was assumed for both scheme valuations that the investment return would be 8.5% per annum, dividend increase would be 5.57% per annum and pensions would increase at 4% per annum.

The actuarial value of the net assets of the main scheme amounted to £117.1 million and for the supplementary scheme £7.8 million, and the market value amounted to £159.9 million and £10.5 million respectively. The actuarial value of the assets was sufficient to cover 112% for the main scheme and 94% for the supplementary scheme of the value of the benefits that had accrued to members. In order to eliminate the past service deficit for the supplementary scheme, the company has agreed to pay additional contributions of 5% to recover the deficit £370,000 of basic salaries with effect from 1 June 2000.

The main pension scheme surplus which arose on revaluation is being recognised over a 15 year period which in the opinion of the actuaries is the average remaining service life of employees.

An amount of £638,000 (1998: £484,000) is included in debtors, which represents the excess of the prepayment of contributions to the pension fund over the accumulated pensions cost.

18. Called up equity share capital

	1999	1998
Authorised	**£000**	£000
100,000,000 ordinary equity shares of £1 each	**100,000**	100,000
Issued, called up and fully paid		
27,213,539 ordinary equity shares of £1 each	**27,214**	27,214

On 9 May 2000 a further £19,000,000 share capital was issued at par by the company to its immediate parent undertaking.

19. Reserves

	Group 1999	Company 1999	Group 1998	Company 1998
Profit and loss account	£000	£000	£000	£000
As at 1 January	(13,764)	(11,434)	-	-
Loss for the year	(5,075)	(5,123)	(13,764)	(11,434)
At 31 December	(18,839)	(16,557)	(13,764)	(11,434)

20. Reconciliation of movement in shareholders' funds

	Group 1999	Company 1999
	£000	£000
Opening equity shareholders' funds	13,450	15,780
Loss for the year	(5,075)	(5,123)
Closing equity shareholders funds	8,375	10,657

21. Capital commitments

Group and company	1999	1998
	£000	£000
Contracted but not provided for	565	585

22. Financial commitments

Lease commitments

The group leases certain land and buildings on short and long term leases. At 31 December 1999, the annual rents payable under these leases, which are subject to re-negotiation at various intervals specified in the leases and in respect of which the company pays all insurance, maintenance and repairs of these properties in the year are as follows:

	1999	1998
Expiry:	£000	£000
Within one year	37	558
Between two and five years	387	536
Greater than five years	576	1,260
	1,000	2,354

22. Financial commitments (continued)

At 31 December 1999 the group has lease agreements in respect of plant and machinery, for which the payments extend over a number of years:

	1999	1998
Expiry:	£000	£000
Within one year	1	38
Between two and five years	19	22
Greater than five years	-	-
	20	60

Funding Arrangements

The company is party to a cross guarantee in respect of a cash pooling arrangement with certain fellow subsidiaries of the AT&T Corp. group. The aggregate balance of the cash pool arising from the other participating subsidiaries as at 31 December 1999 was a positive cash balance of £ 28,105,669 (1998: £ 78,593,506).

The directors of the company, and those of other members of the pooling arrangement, have secured loan facilities totalling $370 million, of which $30 million relates to the company, from AT&T Communications Services International Inc., a fellow subsidiary, to ensure that there is sufficient funding of the ongoing operations of each member of the pooling arrangement.

23. Ultimate and immediate parent companies

The company's ultimate parent company and controlling party is AT&T Corp., which is registered in the United States of America. Copies of that company's consolidated financial statements are available from the Securities and Exchange Commission and may be obtained by contacting Boston EquiServe at the following address: AT&T Shareowner Services, c/o Boston EquiServe, PO Box 8035, Boston MA 02266-8035.

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

24. Interests in group undertakings

Subsidiary undertakings

AT&T ISTEL had the following subsidiaries at 31 December 1999:

A ISP
Abbey Business Consultants Limited
AI Deritend Limited
AII Solutions Limited
AT&T ISTEL GmbH (registered in Germany)
AT&T ISTEL Purchasing Systems Limited
AT&T Limited (formerly InView Limited)
AT&T Visual Interactive Systems GmbH (registered in Germany)
Belmin Systems Limited
BL Systems Limited
Computer Systems Development (CSD) Limited
CSD (UK) Limited
Daton System Limited
DCB Systems Limited
Facilities Management Services Limited
ISTEL Limited
ISTEL Nominee Limited (holder of nominee shares in other group companies)
Mycrom Computers Limited
Viewtel Holdings Limited
WP Associates Limited

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

Joint venture undertakings

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

25. Related party transactions

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the AT&T Corp. group or investees of the AT&T Corp. group.

26. Post balance sheet events

On 9 May 2000, the company issued 19,000,000 ordinary £1 shares at par to its immediate parent company for cash.

AT&T Communications Services International Inc, a fellow subsidiary, has entered into an agreement with the company to provide a loan facility not exceeding $30 million at an interest rate of LIBOR +0.25%. This facility is available until 29 October 2003, at which date all outstanding loans and interest are repayable in full. No loans have yet been drawn against this facility.