

2459799

INTERNET SECURITY SYSTEMS LIMITED

Report and Accounts

31 December 2000



Internet Security Systems Limited

Registered No. 2459799

DIRECTORS

T P Pudwell	(resigned 31 January 2000)
R M Williams	(resigned 1 February 2000)
R S Wakelin	(resigned 27 October 2000)
A V Bogaerts	
R Dahlberg (Chairman)	
P Glydon	(appointed 1 February 2000, resigned 6 October 2000)
P McCulloch	(appointed 15 March 2001)

SECRETARY

R M Williams	(resigned 1 February 2000)
P Glydon	(appointed 1 February 2000, resigned 6 October 2000)
P McCulloch	(appointed 15 March 2001)

AUDITORS

Ernst & Young LLP
Apex Plaza
Reading
Berks
RG1 1YE

BANKERS

Royal Bank of Scotland plc
Brunel House
17/27 Station Road
Reading
Berks
RG1 1LG

SOLICITORS

Thompson Leatherdale
23 Russell Street
Reading
Berks
RG1 7XD

REGISTERED OFFICE

Sovereign House
57/59 Vastern Road
Reading
Berks

CHAIRMAN'S STATEMENT

The chairman presents his statement for the year ended 31 December 2000.

It is no secret that as e-business booms, the need for internet security has become a critical business need.

Although most organisations understand the need for security measures, the reality is that too many companies, from startups to Global 2000 enterprises, remain inadequately protected. This security gap exists for several reasons. First, information security is rarely a core competence for any organisation. Second, many non-technical executives see information security as somehow different from the risk management practices used in physical business operations. Third, many businesses rely on overly simplistic security practices to protect their online business assets.

Internet Security Systems (ISS) is the leading provider of total information security management for networks, servers, applications and desktops. Not only does ISS offer market leading, best of breed security management systems for security assessment, policy enforcement and intrusion detection – all built on the company's SAFEsuite™ security management platform – it also provides superior customer service, consulting and education offerings that significantly reduce the complexity and expense inherent in protecting online assets.

ISS approaches internet security through a complete lifecycle approach, offering a managed solution that covers the full continuum of internet security needs. This standards based approach creates a continuous cycle of information security centred on five complementary areas; assessment, design, deployment, management, education and support. By using our customer's business objectives as the starting point for building an information security system, ISS avoids the trap of a one-size-fits-all approach to internet security. The result is a risk management solution that is supported and understood by both technical and executive staff, a proper mix of in-house and outsourced security alternatives, and careful attention to creating achievable and enforceable security policy.

Our parent company now has more than 1,000 employees located in more than 17 countries. In 1999, ISS Inc. was named a "Top 50 Most Dynamic Company" by Forbes magazine and a "Top 50 Public Company" by Red Herring magazine. USA Today has described ISS Inc. as one of the industry's most important business-to-business internet companies and a "Top 50 E-Business Stock". In August 2000 the company was named one of the fastest 100 growing companies by Individual Investor magazine.

Internet Security Systems Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2000.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is that of computer consulting and the supply and installation of internet security software. The company also provides managed services on behalf of their customers.

The directors believe the company's performance in the year was good, being in line with expectations.

FUTURE DEVELOPMENTS

To reflect client demand the company will be increasing the size of its consultancy operations in the near future and intends to provide an in-house training facility based in London for its clients.

RESULTS AND DIVIDENDS

The loss after taxation amounted to £504,818 (1999: £71,307 loss). The directors do not recommend the payment of a dividend, and the retained loss will be transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors during the year are shown on page 1.

The directors held no shares in the company at the end of the year (1999: nil).

The directors held shares in the ultimate parent company, ISS Group Inc., as follows:

	<i>At 31 December 2000</i>	<i>At 31 December 1999</i>
	<i>£</i>	<i>£</i>
T P Pudwell (resigned 31 January 2000)	-	2,500
R S Wakelin (resigned 27 October 2000)	-	1,500
R M Williams (resigned 1 February 2000)	-	1,250
A V Bogaerts	-	-
R Dahlberg	-	-

FIXED ASSETS

Details are shown in notes to the accounts.

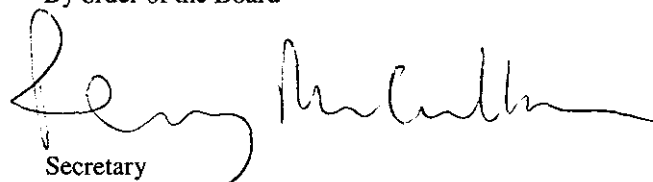
CHARITABLE DONATIONS

The company made donations to charity of £857 (1999: £667).

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board


Secretary

Internet Security Systems Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

REPORT OF THE AUDITORS

to the shareholders of Internet Security Systems Limited

We have audited the accounts on pages 6 to 15, which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

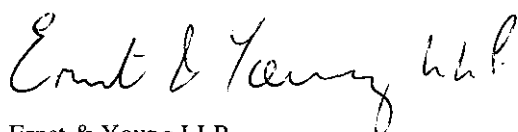
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor

31 October 2001

Internet Security Systems Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

	Note	2000 £	1999 £
TURNOVER	2	7,608,129	2,761,434
Cost of sales		1,369,126	958,513
GROSS PROFIT		6,239,003	1,802,921
Distribution costs		3,615,704	885,546
Administrative expenses		3,132,520	994,357
OPERATING LOSS	3	(509,221)	(76,982)
Interest receivable	5	6,131	1,961
Interest payable and similar charges	6	1,728	3,313
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(504,818)	(78,334)
Tax credit on profit on ordinary activities	7	-	(7,027)
RETAINED LOSS FOR THE YEAR	15	(504,818)	(71,307)

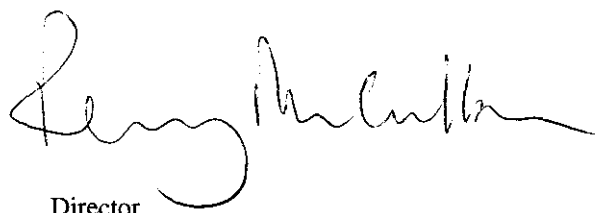
There are no recognised gains or losses attributable to the shareholders, other than the loss of £504,818 (1999: £71,307 loss).

Internet Security Systems Limited

BALANCE SHEET at 31 December 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Intangible assets	8	120,195	-
Tangible assets	9	794,111	475,893
		<u>914,306</u>	<u>475,893</u>
CURRENT ASSETS			
Debtors	10	1,136,115	907,077
Cash at bank and in hand		848,311	412,427
		<u>1,984,426</u>	<u>1,319,504</u>
CREDITORS: amounts falling due within one year	11	3,190,702	1,580,238
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,206,276)</u>	<u>(260,734)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(291,970)</u>	<u>215,159</u>
CREDITORS: amounts falling due after more than one year	12	-	2,311
		<u>(291,970)</u>	<u>212,848</u>
CAPITAL AND RESERVES			
Called up share capital	14	9,800	9,800
Share premium	15	7,300	7,300
Profit and loss account	15	(309,070)	195,748
		<u>(291,970)</u>	<u>212,848</u>

Approved by the Board on 29/10/2001



Director

NOTES TO THE ACCOUNTS at 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has taken advantage of the exemption under FRS1 (revised) from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of ISS Inc, a company incorporated in the United States of America, and is included in its consolidated accounts which are publicly available from the address shown in note 18.

Basis of preparation

The ultimate parent company, ISS Group Inc, has undertaken to continue to provide financial support to the company and accordingly the accounts have been prepared on a going concern basis.

Intangible fixed assets

Intangible fixed assets comprises developed software which is being written-off in equal instalments over its estimated economic life of 3 years.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Computer equipment	33 ⅓%
Motor vehicles	25%
Telecoms equipment	33 ⅓%
Fixtures and fittings	20%

Deferred taxation

Provision is made for deferred taxation using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred.

Hire purchase and leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalized in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts, and represent a constant proportion of the balance of capital repayments outstanding.

Internet Security Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

1. ACCOUNTING POLICIES (continued)

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Research and development expenses

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred.

2. TURNOVER

Turnover represents sales by the company, excluding value added tax.

	2000	1999
	£	£
Sales were made to geographical markets as follows:		
United Kingdom	2,652,226	1,906,982
Europe	308,033	200,883
USA	4,413,578	245,622
Rest of World	234,292	407,947
	<u>7,608,129</u>	<u>2,761,434</u>

3. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2000	1999
	£	£
Amortisation of intangible fixed assets	50,883	-
Auditors' remuneration - audit services	20,000	20,000
- other services	16,895	-
Depreciation of tangible assets - owned assets	318,642	95,516
- assets held under finance lease	-	4,111
Profit on disposal of fixed assets	(1,357)	(8,904)
Operating leases - land and buildings	223,707	127,050
- other	9,529	8,396
	<u></u>	<u></u>

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

	2000	1999
	£	£
Emoluments	290,935	279,664
	<u></u>	<u></u>
Company contributions paid to money purchase pension schemes	2,176	7,600
	<u></u>	<u></u>

Internet Security Systems Limited

NOTES TO THE ACCOUNTS at 31 December 2000

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS (continued)

	2000 No.	1999 No.
Members of money purchase pension scheme	3	3

The amounts in respect of the highest paid director are as follows:

	2000 £	1999 £
Emoluments	100,511	94,639
Company contributions paid to money purchase pension schemes	-	5,045

During the year no directors (1999: 3), including the highest paid director, exercised share options.

Staff costs

	2000 £	1999 £
Wages and salaries	3,847,386	1,723,895
Social security costs	558,337	198,314
Other pension costs	66,352	44,822
	4,472,075	1,967,031

The average weekly number of employees during the year was as follows:

	2000 No.	1999 No.
Administration and marketing	67	20
Consultants	26	17
	93	37

In addition to its full time consultants the company used freelance consultants during the year for certain specific projects.

Internet Security Systems Limited

NOTES TO THE ACCOUNTS at 31 December 2000

5. INTEREST RECEIVABLE

	2000	1999
	£	£
Bank interest and interest on short term deposits	6,131	1,961

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000	1999
	£	£
Bank loans and overdrafts	1,728	1,804
Finance charges payable under finance leases and hire purchase contracts	-	1,509

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2000	1999
	£	£
UK corporation tax credit	-	(7,027)

Internet Security Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

8. INTANGIBLE ASSETS

	<i>Software</i> £
Cost	
At 1 January 2000	-
Additions	171,078
At 31 December 2000	<u>171,078</u>
Amortisation:	
At 1 January 2000	-
Provided during the year	50,883
At 31 December 2000	<u>50,883</u>
Net book value	
At 31 December 2000	<u>120,195</u>
At 1 January 2000	<u>-</u>

Software is being written-off in equal instalments over its estimated economic life of 3 years.

9. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i> £	<i>Computer equipment</i> £	<i>Motor vehicles</i> £	<i>Telecom equipment</i> £	<i>Fixtures and fittings</i> £	<i>Total</i> £
Cost:						
At 1 January 2000	145,270	366,159	51,220	35,805	74,559	673,013
Additions	61,298	550,401	-	9,130	26,814	647,643
Disposals	-	-	(27,025)	-	(1,875)	(28,900)
At 31 December 2000	<u>206,568</u>	<u>916,560</u>	<u>24,195</u>	<u>44,935</u>	<u>99,498</u>	<u>1,291,756</u>
Depreciation:						
At 1 January 2000	18,589	125,635	37,461	5,367	10,068	197,120
Charge for the year	61,388	218,617	4,851	16,021	17,765	318,642
Disposals	-	-	(18,117)	-	-	(18,117)
At 31 December 2000	<u>79,977</u>	<u>344,252</u>	<u>24,195</u>	<u>21,388</u>	<u>27,833</u>	<u>497,645</u>
Net book value:						
At 31 December 2000	<u>126,591</u>	<u>572,308</u>	<u>-</u>	<u>23,547</u>	<u>71,665</u>	<u>794,111</u>
At 1 January 2000	<u>126,681</u>	<u>240,524</u>	<u>13,759</u>	<u>30,438</u>	<u>64,491</u>	<u>475,893</u>

Internet Security Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

9. TANGIBLE FIXED ASSETS (continued)

Net book value of motor vehicles includes £Nil (1999: £10,963) representing assets held under hire purchase contracts.

10. DEBTORS

	2000	1999
	£	£
Trade debtors	917,964	743,877
Prepayments and accrued income	91,937	122,865
Other debtors	98,845	30,008
Corporation tax	24,000	10,327
Intercompany receivables from fellow group undertakings	3,369	-
	<u>1,136,115</u>	<u>907,077</u>

11. CREDITORS: amounts falling due within one year

	2000	1999
	£	£
Trade creditors	261,623	76,966
Other creditors and accruals	569,071	207,253
Deferred income	183,149	225,854
Other taxes and social security costs	512,300	198,478
Amounts payable to parent company	1,440,985	762,418
Amounts payable to fellow group undertakings	223,574	105,654
Obligations under finance leases and hire purchase contracts (note 13)	-	3,615
	<u>3,190,702</u>	<u>1,580,238</u>

12. CREDITORS: amounts falling due after more than one year

	2000	1999
	£	£
Obligations under finance leases and hire purchase contracts (note 13)	-	2,311

Internet Security Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

13. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE AGREEMENTS

The minimum lease/hire purchase payments outstanding, net of finance charges allocated to future periods:

	2000 £	1999 £
Amounts payable:		
- within one year	-	4,212
- within 2 – 5 years	-	2,708
Less finance charges allocated to future periods	-	(994)
	-	5,926
Finance losses and hire purchase contracts analysed as follows:		
Current obligations	-	3,615
Non current obligations	-	2,311
	-	5,926

14. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	2000 No.	1999 No.	2000 £	1999 £
Ordinary shares of £1 each	50,000	50,000	9,800	9,800

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Share premium £	Profit and loss account £	Total £
At 31 December 1999	9,800	7,300	195,748	212,848
Loss for the year	-	-	(504,818)	(504,818)
At 31 December 2000	9,800	7,300	(309,070)	(291,970)

Internet Security Systems Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

16. PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation is provided in the accounts as follows:

	<i>Provided 2000 £</i>	<i>Unprovided 2000 £</i>
Capital allowances in advance of depreciation	-	(4,931)
Short term timing differences	-	(86,354)
	-	(91,285)

17. OTHER FINANCIAL COMMITMENTS

At 31 December 2000 the company had annual commitments under non cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases which expire:				
- in less than one year	-	-	9,529	8,396
- between two and five years	217,867	142,000	-	-
- after five years	-	-	-	-
	217,867	142,000	9,529	8,396

In August 2001 ISS Group Limited signed a five year lease on additional offices in Mermaid House, London at an annual rent of £475,000.

18. PENSION FUND

The company has a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £66,351 (1999: £44,822).

19. ULTIMATE PARENT UNDERTAKING

The company's ultimate undertaking is ISS Group Inc., which is incorporated in the USA, and this is both the smallest and largest group of which the company is a member and for which group accounts are prepared. Copies of these group accounts may be obtained from 6600 Peachtree-Dunwoody Rd, Embassy Row, Building 300, Suite 500, Atlanta, GA 30328, USA.

20. RELATED PARTY TRANSACTIONS

The controlling party of the company is the ultimate parent company, ISS Group Inc.

As a subsidiary undertaking, 90% or more of whose voting rights are controlled within the group, the company has taken advantage of the exemption not to disclose transactions with entities that are part of the group, in accordance with FRS 8.