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JUNIPER NETWORKS (UK) LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED

31 DECEMBER 2002

ERNST & YOUNG



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DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2002

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JUNIPER NETWORKS (UK) LIMITED

COMPANY INFORMATION

DIRECTORS

Lisa Berry (American)
Kenneth Sweeney (American)
(resigned 7 February 2003)
Mark Burrows (British)
Marcel Gani (American)

JOINT SECRETARIES

Lisa Berry (American)
Baker and McKenzie

REGISTERED OFFICE

Juniper House,
Guildford Road,
Leatherhead,
Surrey KT22 9JH,
England.

REGISTERED NUMBER OF INCORPORATION

77042528

SOLICITORS

Baker and McKenzie,
100 New Bridge Street,
London EC4V 6JA,
England.

BANKERS

Bank of America,
1 Alie Street,
London E1 8DE,
England.

AUDITORS

Ernst & Young,
Chartered Accountants,
Ernst & Young Building,
Harcourt Centre,
Harcourt Street,
Dublin 2.

DIRECTORS' REPORT

for the year ended 31 December 2002

The directors present herewith their report and audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The company is engaged in the sales and marketing of routers and internet infrastructure solutions.

**REVIEW OF THE DEVELOPMENT OF THE BUSINESS AND STATE OF AFFAIRS AT
31 DECEMBER 2002**

The profit and loss account for the year ended 31 December 2002 and the balance sheet at that date are set out on pages 7 and 9. The profit on ordinary activities for the year before taxation amounted to Stg£300,224, (2001: Stg£923,397). After deducting taxation of Stg£247,340 an amount of Stg£52,884 is available for retention.

DIVIDENDS AND RETENTION

The directors of the company do not propose the payment of a dividend for the year.

DIRECTORS

The present directors are as listed on page 2 and, unless otherwise indicated, have served throughout the year.

CHARITABLE DONATIONS

The company made no donations during the year for charitable purposes.

IMPORTANT EVENTS SINCE THE YEAR END

There were no important events since the year end.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF
THE FINANCIAL STATEMENTS**

United Kingdom company law requires the directors to prepare financial statements for each financial period 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS' REPORT

for the year ended 31 December 2002 (Continued)

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF
THE FINANCIAL STATEMENTS (continued)**

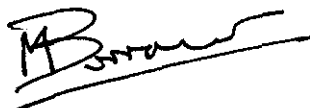
The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in the United Kingdom and comply with the provisions of 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

Ernst & Young, Chartered Accountants, are willing to continue in office in accordance with Section 384 of the Companies Act, 1985, and a resolution to re-appoint them as auditors will be put to the members at the annual general meeting.

On behalf of the Board

Director



Date:

20 January 2004

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
JUNIPER NETWORKS (UK) LIMITED**

We have audited the financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act, 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act, 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with 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.

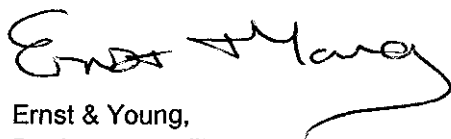
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Continued /...

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
JUNIPER NETWORKS (UK) LIMITED (Continued)**

Opinion

In our opinion, the financial statements give a true and fair view of the state company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act, 1985.


Ernst & Young,
Registered Auditor

Dublin

Date: 23 January 2004

JUNIPER NETWORKS (UK) LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2002

	<i>Note</i>	<i>2002 Stg£</i>	<i>2001 Stg£ (as restated note 6)</i>
Turnover - continuing operations	1	13,045,448	19,148,239
Administrative expenses		(12,737,363)	(18,230,444)
Operating profit - continuing operations		308,085	917,795
Interest received		12,690	11,576
Interest payable and similar charges	3	(20,551)	(5,974)
Profit on ordinary activities before taxation	4	300,224	923,397
Tax on profit on ordinary activities	5	(247,340)	(313,810)
Profit for the financial year		52,884	609,587
Profit brought forward at beginning of year:			
As previously stated		830,595	386,685
Prior year adjustments	6	319,514	153,837
As restated		1,150,109	540,522
Profit carried forward at end of year		1,202,993	1,150,109

There are no recognised gains or losses in either year other than the profit attributable to shareholders of the company.

JUNIPER NETWORKS (UK) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2002

	Note	2002 Stg£	2001 Stg£ (As restated note 6)
Profit for the financial year		52,884	609,587
Prior year adjustment	6	319,514	153,837
		<hr/>	<hr/>
Total recognised gains and losses since last annual report		<u>372,398</u>	<u>763,424</u>

JUNIPER NETWORKS (UK) LIMITED

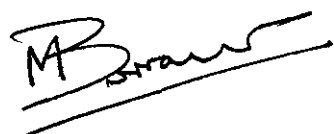
BALANCE SHEET at 31 December 2002

ASSETS EMPLOYED	Note	2002 Stg£	2001 Stg£ (as restated note 6)
FIXED ASSETS			
Tangible assets	7	1,047,239	1,633,221
CURRENT ASSETS			
Debtors	8	970,922	6,962,144
Cash at bank and in hand		1,337,236	304,142
		2,308,158	7,266,286
CREDITORS (amounts falling due within one year)	9	(2,097,845)	(7,694,839)
NET CURRENT ASSETS/(LIABILITIES)		210,313	(428,553)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,257,552	1,204,668
FINANCED BY			
CAPITAL AND RESERVES			
Called up share capital	10	100	100
Profit and loss account		1,202,993	1,150,109
Non distributable reserves	11	54,459	54,459
Shareholders' funds (all equity interests)	12	1,257,552	1,204,668

Approved by the Board on

20 January 2004

Director



NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

1. ACCOUNTING POLICIES

(a) *Accounting convention*

The financial statements are prepared under the historical cost convention.

(b) *Tangible fixed assets*

Tangible fixed assets are stated at cost net of accumulated depreciation. Depreciation is calculated to write off the cost of tangible fixed assets evenly over their expected useful lives as follows:

Leasehold improvements	5 years
Furniture and fittings	5 years
Computer equipment	3 years

(c) *Foreign currencies*

The financial statements are expressed in sterling (Stg£), the functional currency of the company.

Transactions during the period denominated in foreign currencies have been translated at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

(d) *Pension costs*

Pension benefits are funded over the employees' period of service by way of contributions to a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable.

(e) *Deferred taxation*

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, or a right to pay less, tax in the future have occurred at the balance sheet date.

Timing differences are differences between profit as computed for taxation purposes and profit as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different periods for taxation purposes.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non – discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date. On adoption of FRS 19, the company has changed its accounting policy in respect of deferred taxation and restated prior year results accordingly (note 6).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

1. ACCOUNTING POLICIES (Continued)

(f) *Leases*

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(g) *Turnover*

Turnover represents the amounts, excluding value added tax, receivable during the year for the provision of sales and marketing services to Juniper Networks Ireland Limited.

(h) *Cash flow statement*

Financial Reporting Standard Number 1 (Revised 1996), "Cash Flow Statements", exempts subsidiary undertakings from the requirement to prepare a cash flow statement where 90% or more of the voting rights are controlled by a group that prepares publicly available consolidated financial statements in which the subsidiary undertaking's results are included. The company has availed of this exemption.

2. EMPLOYEES

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

	2002 Number	2001 Number
Administration	9	20
Sales	31	30
	<u>40</u>	<u>50</u>

The staff costs comprise:

	Stg£	Stg£
Salaries, commissions and benefits	5,296,413	4,587,783
Social security costs	513,486	1,268,756
Other pension costs	402,426	236,440
	<u>6,212,326</u>	<u>6,092,979</u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 Stg£	2001 Stg£
Bank overdraft interest	<u>20,551</u>	<u>5,974</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

4.	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2002 Stg£	2001 Stg£
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The profit on ordinary activities before taxation, all of which arises from continuing operations, is stated after charging:

Directors' remuneration	153,456	115,900
Auditors' remuneration	28,000	25,700
Depreciation	678,655	549,825
Operating lease rentals – premises	231,831	178,676
Net foreign exchange loss	133,696	20,484

5.	TAX ON PROFIT ON ORDINARY ACTIVITIES	2002 Stg£	2001 Stg£ (as restated note 6)
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(a) Analysis of profit and loss account charge:

Current tax:

UK corporation tax on profits of the period	305,435	465,718
Adjustments in respect of previous periods	(3,729)	–

Total current tax (see reconciliation below)	301,706	465,718
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Deferred tax:

Origination and reversal of timing differences	(54,366)	(151,908)
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Total deferred tax (note 13)	(54,366)	(151,908)
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Tax on profit on ordinary activities	247,340	313,810
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NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)

- (b) Reconciliation of the expected tax charge at the standard tax rate to the actual tax charge at the effective rate

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 Stg£	2001 Stg£ (as restated note 6)
Profit on ordinary activities before tax	300,224	923,397
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	90,067	277,019
Effects of:		
Expenses not deductible for tax purposes	99,170	40,922
Capital allowances for period in excess of depreciation	98,664	144,256
Other timing differences	17,534	3,521
Adjustments to tax charge in respect of previous periods	(3,729)	—
Current tax charge for period	301,706	465,718

- (c) Circumstances affecting current and future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years but at a slightly lower level than in the current year.

6. PRIOR YEAR ADJUSTMENT

The company has historically provided for deferred taxation using the liability method on timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate which it is anticipated will apply when the timing differences will reverse. The company has adopted FRS 19, 'Deferred tax', during the period resulting in a change in accounting policy in respect of deferred taxation. In accordance with FRS 19, 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 have occurred at the balance sheet date that result in an obligation to pay more tax or a right to pay less tax in the future. The accounting policy is summarised in note 1(e) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

6. PRIOR YEAR ADJUSTMENT (Continued)

In addition, a number of accounting errors were made in the 2001 and 2000 financial statements.

The effects of the prior year adjustments on the profit and loss account for the year ended 31 December 2001 and the balance sheet at that date are as follows:

	2001 Stg£
<i>PROFIT AND LOSS ACCOUNT</i>	
Increase in turnover	46,063
Increase in administrative expenses	(32,294)
Decrease in tax charge	151,908
	<hr/>
Increase in profit for 2001	165,677
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<i>Balance Sheet</i>	
<i>Tangible assets</i>	
Increase in tangible fixed assets	9,960
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<i>Debtors</i>	
Increase in prepayments	162,819
Increase in amounts due from group undertaking	169,407
Increase in deferred tax asset	216,307
	<hr/>
	548,533
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<i>Creditors</i>	
Increase in accruals and other creditors	(238,979)
	<hr/>
	319,514
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<i>Shareholders' Funds</i>	
Increase – profit and loss account	
Increase in 2001 result	165,677
Increase in 2000 (first period) result	153,837
	<hr/>
Cumulative total	319,514
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JUNIPER NETWORKS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

7.	TANGIBLE FIXED ASSETS (as restated, note 6)	Leasehold improvements Stg£	Furniture and fittings Stg£	Computer equipment Stg£	Total Stg£
	<i>Cost</i>				
	At 1 January 2002	583,076	11,930	1,670,213	2,265,219
	Additions during year	48,315	—	141,837	190,152
	Disposals	—	—	(196,650)	(196,650)
	At 31 December 2002	631,391	11,930	1,615,400	2,258,721
	<i>Depreciation</i>				
	At 1 January 2002	138,455	2,342	491,201	631,998
	Charged in year	120,490	2,387	555,778	678,655
	Relating to disposals	—	—	(99,171)	(99,171)
	At 31 December 2002	258,945	4,729	947,808	1,211,482
	<i>Net book amounts</i>				
	At 31 December 2002	372,446	7,201	667,592	1,047,239
	At 31 December 2001	444,621	9,588	1,179,012	1,633,221

8.	DEBTORS	2002 Stg£	2001 Stg£ (as restated note 6)
	<i>Amounts falling due within one year</i>		
	Prepayments	137,614	87,804
	VAT receivable	122,899	172,525
	Deferred tax asset (note 13)	270,673	216,307
	Corporation tax prepaid	439,736	—
	Amounts owed from group companies	—	6,485,508
		970,922	6,962,144

JUNIPER NETWORKS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

9. CREDITORS (amounts falling due within one year)	2002 Stg£	2001 Stg£ (as restated note 6)
Trade creditors	529,875	456,915
Accruals	564,167	384,384
Corporation tax	—	297,198
Other taxation and social security	199,935	266,933
Amounts due to parent undertaking	102,368	6,289,409
Amounts due to other group undertakings	701,501	—
	<u>2,097,845</u>	<u>7,694,839</u>

10. CALLED UP SHARE CAPITAL	2002 Stg£	2001 Stg£
<i>Authorised</i>		
50,000 Ordinary shares of Stg£1 each	<u>50,000</u>	<u>50,000</u>
<i>Allotted, called up and fully paid</i>		
100 Ordinary shares of Stg£1 each	<u>100</u>	<u>100</u>

11. NON DISTRIBUTABLE RESERVES	2002 Stg£	2001 Stg£
Balance at beginning and end of year	<u>54,459</u>	<u>54,459</u>

In the period to 31 December 2000, Juniper Networks Inc. the company's parent undertaking, paid the initial set up costs of the business activity in the United Kingdom and in agreement with the Directors of the Company, an equivalent amount was transferred to non distributable reserves.

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2002 Stg£	2001 Stg£ (as restated note 6)
Shareholders' funds at beginning of year		
As previously reported	885,154	441,244
Prior year adjustment – deferred taxation (note 6)	319,514	153,837
	<u>1,204,668</u>	<u>595,081</u>
As restated		
Profit for the financial year	52,884	609,587
	<u>1,257,552</u>	<u>1,204,668</u>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

13. DEFERRED TAX ASSET	2002 Stg£	2001 Stg£ (as restated note 6)
At beginning of year, as previously reported	—	—
Prior year adjustment – deferred taxation (note 6)	216,307	64,399
	<hr/>	<hr/>
At beginning of year, as restated	216,307	64,399
Transfer from profit and loss account	54,366	151,908
	<hr/>	<hr/>
At end of year	<u>270,673</u>	<u>216,307</u>

The deferred tax asset consists of the following amounts:

Accelerated capital allowances	245,486	196,801
Other	25,187	19,506
	<hr/>	<hr/>
	<u>270,673</u>	<u>216,307</u>

14. COMMITMENTS

Operating leases

Payable on leases annually, on which the commitment expires:

	<i>Land and buildings Stg£</i>
After more than five years	<u>222,632</u>

15. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. 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 Stg£402,426 (2001: Stg£236,440). Pension payment due to the scheme at the year end amounted to Stg£51,310 (2001: Stg£97,313).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002 (Continued)

16. RELATED PARTY TRANSACTIONS

The company has availed of the exemption provided in Financial Reporting Standard Number 8, "Related Party Disclosures", for subsidiary undertakings 90% or more of whose voting rights are controlled within the group, from the requirement to give details of transactions with entities that are part of the group or investees of the group qualifying as related parties.

17. PARENT UNDERTAKINGS AND CONTROLLING PARTIES

The ultimate controlling party and parent undertaking of the smallest and largest group of undertakings of which the company is a member, and for which group financial statements are drawn up, is Juniper Networks Inc., a company incorporated in the United States of America. Copies of its group financial statements are available from 1194 North Matilda Avenue, Sunnyvale, CA 94089, United States of America.

The company's immediate controlling party is Juniper Networks International Inc., a company incorporated in the United States of America.