

253-453

# **Alcatel IP Networks Limited**

## **Report and Financial Statements**

31 December 2005



# **Alcatel IP Networks Limited**

Registered No: 03934955

## **Directors**

Ali Sadiq  
Mark Smallwood  
Rudi Strubbe

## **Secretary**

BLG (Professional Services) Limited  
7<sup>th</sup> Floor Beaufort House  
15 St Botolph Street  
London  
EC3A 7NJ

## **Auditors**

Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
Berkshire  
RG1 1YE

## **Bankers**

Natwest Bank  
Chalfont St Peter Branch  
65 St Peter's Court  
High Street  
Chalfont St Peter  
SL9 3RB

## **Registered office**

4420 Nash Court  
John Smith Drive  
Oxford Business Park  
Oxford  
Oxfordshire  
OX4 2RU

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

### Results and dividends

The profit for the year amounted to £208,325. The directors do not recommend the payment of any dividends.

### Principal activities and review of the business

The company's principal activity during the year was the development of networking hardware and systems for members of the Alcatel group.

### Future developments

The directors expect the general level of activity to continue over the next 12 months.

### Directors

The directors who served the company during the year were as follows:

Ali Sadiq	(appointed 28 May 2005)
Mark Smallwood	(appointed 28 May 2005)
Rudi Strubbe	(appointed 28 May 2005)
Alcatel IP Networks Inc	(resigned 28 May 2005)

There are no directors' interests requiring disclosure under the Companies Act 1985.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board



Mark Smallwood  
Director

31/10/ 2006

## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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; and
- 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.

## **Independent auditors' report**

### **to the members of Alcatel IP Networks Limited**

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under 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**

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

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

#### **Basis of audit opinion**

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

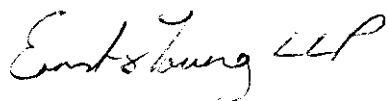
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

## **Independent auditors' report**

**to the members of Alcatel IP Networks Limited** (continued)

### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
Reading

31 October 2006

## Profit and loss account for the year ended 31 December 2005

	Notes	2005 £	2004 £
<b>Turnover</b>	2	3,045,241	1,457,849
Cost of sales		2,608,185	1,090,318
<b>Gross profit</b>		437,056	367,531
Administrative expenses		233,519	266,029
<b>Operating profit</b>	3	203,537	101,502
Bank interest receivable	6	4,865	8,017
Interest payable and similar charges	7	(77)	–
		4,788	8,017
<b>Profit on ordinary activities before taxation</b>		208,325	109,519
Tax on profit on ordinary activities	8	–	–
<b>Profit for the financial year transferred to reserves</b>		208,325	109,519

## Statement of total recognised gains and losses for the year ended 31 December 2005

There are no recognised gains or losses other than the profit of £208,325 attributable to the shareholders for the year ended 31 December 2005 (2004: profit of £109,519).

## Balance sheet

at 31 December 2005

	Notes	2005 £	2004 £
<b>Fixed assets</b>			
Tangible assets	9	61,833	96,672
<b>Current assets</b>			
Debtors	10	1,652,862	179,175
Cash in hand		135,906	137,407
		1,788,768	316,582
<b>Creditors:</b> amounts falling due within one year	11	1,410,613	76,614
<b>Net current assets</b>		378,155	239,968
<b>Total assets less current liabilities</b>		439,988	336,640
<b>Creditors:</b> amounts falling due after more than one year	12	—	297,684
<b>Provisions for liabilities and charges</b>	13	192,707	—
<b>Net assets</b>		247,281	38,956
<b>Capital and Reserves</b>			
Called up share capital	17	1	1
Profit and loss account	18	247,280	38,955
<b>Equity shareholders' funds</b>	18	247,281	38,956



Mark Smallwood  
Director

31/10/ 2006



## Notes to the financial statements

at 31 December 2005

### 1. Accounting policies

#### **Basis of preparation**

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

#### **Cash flow statement**

A cash flow statement has not been prepared as the company has taken advantage of the exemption granted to 90% or more subsidiaries under FRS 1. This is on the basis that group financial statements including the results of the company are prepared and are publicly available.

#### **Related party transactions**

The company is a wholly owned subsidiary of Alcatel USA Sourcing L.P., a company incorporated in America. These financial statements are included in the consolidated financial statements of the ultimate parent company, Alcatel SA, a company incorporated in France, which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the Alcatel group.

#### **Fixed assets**

All fixed assets are initially recorded at cost.

#### **Depreciation**

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

Furniture and fittings	- 25% per annum
Computer equipment	- 50% per annum

#### **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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- 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 an undiscounted 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 substantively enacted at the balance sheet date.

## Notes to the financial statements

at 31 December 2005

### 1. Accounting policies (continued)

#### **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 lease agreements**

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

#### **Pension costs**

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.

### 2. Turnover

Turnover which is stated net of value added tax, represents amounts recharged to a group company.

Turnover is attributable to one continuing activity, the development of networking hardware and systems for members of the Alcatel group.

An analysis of turnover by geographical market is given below:

	2005 £	2004 £
United Kingdom	-	-
Rest of the world	3,045,241	1,457,849
	<u>3,045,241</u>	<u>1,457,849</u>

### 3. Operating profit

This is stated after charging/(crediting):

	2005 £	2004 £
Auditors' remuneration - audit services	10,500	6,000
- non-audit services	-	-
	<u>10,500</u>	<u>6,000</u>
Depreciation of owned fixed assets	52,120	81,656
Operating lease rentals - land and buildings	50,540	50,540
- plant and machinery	20,183	20,183
	<u>122,843</u>	<u>152,379</u>

## Notes to the financial statements

at 31 December 2005

### 4. Staff costs

	2005 £	2004 £
Wages and salaries	2,212,064	976,100
Social security costs	327,971	103,834
Other pension costs	78,425	77,862
	<u>2,618,460</u>	<u>1,157,796</u>

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

	2005 No.	2004 No.
Research and development	10	10
	<u>10</u>	<u>10</u>

### 5. Directors' emoluments

	2005 £	2004 £
Emoluments	<u>57,604</u>	<u>—</u>
Company contributions to money purchase pension schemes	<u>5,184</u>	<u>—</u>
	2005 No.	2004 No.
Members of money purchase pension schemes	<u>1</u>	<u>—</u>

### 6. Interest receivable

	2005 £	2004 £
Bank interest receivable	<u>4,865</u>	<u>8,017</u>

### 7. Interest payable and similar charges

	2005 £	2004 £
Bank interest payable	<u>(77)</u>	<u>-</u>

### 8. Taxation on ordinary activities

(a) Tax on profit on ordinary activities  
The tax charge is made up as follows:

	2005 £	2004 £
<i>Current tax:</i>		
UK corporation tax	—	—
Tax underprovided in previous years	—	—
Total current tax (note 8(b))	<u>—</u>	<u>—</u>

## Notes to the financial statements

at 31 December 2005

### 8. Taxation on ordinary activities (continued)

#### (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2004 - 30%).

The differences are reconciled below:

	2005 £	2004 £
Profit on ordinary activities before tax	208,325	109,519
Profit on ordinary activities at the standard rate of corporation tax of 30% (2004: 30%)	62,498	32,856
Expenses not deductible for tax purposes	(167,108)	(55,768)
Group relief not paid for	104,610	22,912
Total current tax (note 8(a))	—	—

#### (c) Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows:

	2005 £	2004 £
Capital allowances in advance of depreciation	32,202	14,244
Tax losses available	69,012	69,012
	101,214	83,256

The deferred tax asset has not been recognised due to uncertainty over the availability of suitable future taxable profits.

## Notes to the financial statements

at 31 December 2005

### 9. Tangible fixed assets

	<i>Fixtures and fittings</i> £	<i>Computer equipment</i> £	<i>Total</i> £
<i>Cost:</i>			
At 1 January 2005	92,224	141,312	233,536
Additions	—	17,281	17,281
Disposals	—	—	—
At 31 December 2005	<u>92,224</u>	<u>158,593</u>	<u>250,817</u>
<i>Depreciation:</i>			
At 1 January 2005	22,754	114,110	136,864
Provided during the year	19,608	32,512	52,120
Disposals	—	—	—
At 31 December 2005	<u>42,362</u>	<u>146,622</u>	<u>188,984</u>
<i>Net book value:</i>			
At 31 December 2005	<u>49,862</u>	<u>11,971</u>	<u>61,833</u>
At 1 January 2005	<u>69,470</u>	<u>27,202</u>	<u>96,672</u>

### 10. Debtors

	2005 £	2004 £
Amounts due from group undertakings	1,610,757	133,590
Other debtors	7,257	8,561
Prepayments and accrued income	34,848	37,024
	<u>1,652,862</u>	<u>179,175</u>

### 11. Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	57	2,308
Other taxation and social security	35,580	33,566
Accruals and deferred income	1,370,235	37,189
Other creditors	4,741	3,551
	<u>1,410,613</u>	<u>76,614</u>

### 12. Creditors: amounts falling due after more than one year

	2005 £	2004 £
Amounts owed to group undertakings	-	297,684
	<u>-</u>	<u>297,684</u>

## Notes to the financial statements

at 31 December 2005

### 13. Provisions for liabilities and charges

	<i>Employers' National Insurance £</i>
At 1 January 2005	—
Charged to the profit and loss account	192,707
At 31 December 2005	<u>192,707</u>

A number of the company's employees have been granted stock options over the shares of the company's ultimate parent company, Alcatel S.A.. The company is liable to pay National Insurance, currently 12%, on the difference between the option exercise price and the market value of the related shares when the options are exercised.

Accordingly, the company has made a provision of £192,707 in relation to the stock options. The provisions are expected to be utilised over varying periods of up to 4 years, being the periods over which the options vest. The total National Insurance liability on options granted is calculated and then that proportion relating to the period vested is recognised as a provision.

The amount of the National insurance payable on the stock options will depend on the number of UK employees who remain with the company and when they exercise their options, the market price of the parent company's common shares at the time of exercise and the prevailing National Insurance rates at the time.

### 14. Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable. Outstanding contributions at 31 December 2005 were £nil (2004: £10,892).

### 15. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £7,742 (2004: £nil).

### 16. Commitments under operating leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	2005		2004	
	<i>Land and buildings £</i>	<i>Other £</i>	<i>Land and buildings £</i>	<i>Other £</i>
<i>Operating leases which expire:</i>				
Within one year	—	—	—	—
In two to five years	53,200	—	53,200	—
In over five years	—	—	—	—
	<u>53,200</u>	<u>—</u>	<u>53,200</u>	<u>—</u>

## Notes to the financial statements

at 31 December 2005

### 17. Share capital

	2005 £	Authorised 2004 £
Ordinary shares of £1 each	100	100

	<i>Allotted, called up and fully paid</i>			
	No.	2005 £	No.	2004 £
Ordinary shares of £1 each	1	1	1	1

### 18. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Profit and loss account £	Total share- holders' funds £
At 1 January 2004	1	(70,564)	(70,563)
Profit for the year	—	109,519	109,519
At 31 December 2004	1	38,955	38,956
Profit for the year	—	208,325	208,325
At 31 December 2005	1	247,280	247,281

### 19. Ultimate parent company

The company is under the immediate control of Alcatel USA Sourcing L.P. which holds 100% of the company's issued share capital (2004 held by Alcatel IP Networks Inc). Alcatel USA Sourcing L.P. is incorporated in the USA and is part of a group headed by a company incorporated in France, Alcatel S.A.