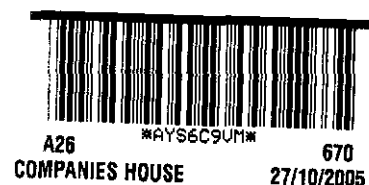


ALCATEL IP NETWORKS LIMITED
FINANCIAL STATEMENTS
FOR
31 DECEMBER 2004



JMBT LIMITED
Chartered Accountants & Registered Auditors
The Old Studio
High Street
West Wycombe
Bucks
HP 14 3AB

ALCATEL IP NETWORKS LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

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ALCATEL IP NETWORKS LIMITED

THE DIRECTOR'S REPORT

YEAR ENDED 31 DECEMBER 2004

The director has pleasure in presenting his report and the financial statements of the company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The company's principal activity during the year was the development of networking hardware and systems for its parent company Alcatel IP Networks Inc.

THE DIRECTOR AND HIS INTERESTS IN THE SHARES OF THE PARENT COMPANY

The director who served the company during the year together with his beneficial interests in the shares of the parent company was as follows:

	Ordinary in the parent company	
	At 31 December 2004	At 1 January 2004
Alcatel IP Networks Inc	<u>1</u>	<u>1</u>

DIRECTOR'S RESPONSIBILITIES

Company law requires the director 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 year.

In preparing those financial statements, the director is required to select suitable accounting policies, as described on page 5, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The director must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. The director is 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.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

Registered office:
4420 Nash Court
Oxford Business Park
Oxford
OX4 2RU

Signed by



Mark Smallwood
Authorised representative of
Alcatel IP Networks Inc
Director

Approved by the director on 14/10/05

ALCATEL IP NETWORKS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF ALCATEL IP NETWORKS LIMITED

YEAR ENDED 31 DECEMBER 2004

We have audited the financial statements of Alcatel IP Networks Limited for the year ended 31 December 2004 on pages 3 to 7 which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002), under the historical cost convention and the accounting policies set out on page 5.

This report is made solely to the company's shareholder, 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 shareholder 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 shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND AUDITORS

As described in the Statement of Director's Responsibilities the company's director is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom 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 Director's 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 director's remuneration and transactions with the company is not disclosed.

We read the Director's 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 United Kingdom 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 director 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 company's affairs as at 31 December 2004 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

The Old Studio
High Street
West Wycombe
Bucks
HP 14 3AB

26.10.2005

JMBt Limited
Chartered Accountants
& Registered Auditors

JMBt Limited

ALCATEL IP NETWORKS LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2004

	Note	2004 £	2003 £
TURNOVER	2	1,457,849	1,199,765
Cost of sales		<u>1,090,318</u>	<u>846,821</u>
GROSS PROFIT		367,531	352,944
Administrative expenses		<u>266,029</u>	<u>383,190</u>
OPERATING PROFIT/(LOSS)	3	101,502	(30,246)
Interest receivable		8,017	3,427
Interest payable and similar charges		<u>-</u>	<u>(46)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		109,519	(26,865)
Tax on profit/(loss) on ordinary activities		<u>-</u>	<u>466</u>
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		109,519	(27,331)
Balance brought forward		<u>(70,564)</u>	<u>(43,233)</u>
Balance carried forward		<u>38,955</u>	<u>(70,564)</u>

The notes on pages 5 to 7 form part of these financial statements.

ALCATEL IP NETWORKS LIMITED

BALANCE SHEET

31 DECEMBER 2004

	Note	2004 £	£	2003 £	£
FIXED ASSETS					
Tangible assets	4		96,672		80,944
CURRENT ASSETS					
Debtors	5	179,175		456,803	
Cash at bank and in hand		137,407		160,214	
		<u>316,582</u>		<u>617,017</u>	
CREDITORS: Amounts falling due within one year	6	<u>76,614</u>		<u>470,840</u>	
NET CURRENT ASSETS			<u>239,968</u>		<u>146,177</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>336,640</u>		<u>227,121</u>
CREDITORS: Amounts falling due after more than one year	7		<u>297,684</u>		<u>297,684</u>
			<u>38,956</u>		<u>(70,563)</u>
CAPITAL AND RESERVES					
Called-up equity share capital	9		1		1
Profit and loss account			<u>38,955</u>		<u>(70,564)</u>
SHAREHOLDER'S FUNDS/(DEFICIENCY)			<u>38,956</u>		<u>(70,563)</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

These financial statements were approved and signed by the director on 14/10/05

Mark Smallwood
Authorised representative of Alcatel IP Networks Inc, Director



The notes on pages 5 to 7 form part of these financial statements.

ALCATEL IP NETWORKS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Related parties transactions

The company is a wholly owned subsidiary of Alcatel IP Networks Inc, a company incorporated in America. These accounts 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.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Furniture & Fittings	25% per annum
Computer Equipment	50% per annum

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax arises as a result of including items of income and expenditure in taxation computations in periods different from those in which they are included in the company's accounts. Deferred tax is provided in full on timing differences which result in an obligation to pay more (or less) tax at a future date, at the average tax rates that are expected to apply when the timing differences reverse, based on current tax rates and laws.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

2. TURNOVER

Overseas turnover amounted to 100.00% (To 31 December 2003 - 100.00%) of the total turnover for the year.

ALCATEL IP NETWORKS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	2004 £	2003 £
Director's emoluments	-	-
Staff pension contributions	77,862	27,838
Depreciation of owned fixed assets	81,656	28,297
Auditors' fees	6,000	2,800
Employers NI on share options	9,136	242,452

4. TANGIBLE FIXED ASSETS

	Furniture & Fittings £	Computer Equipment £	Total £
COST			
At 1 January 2004	11,403	136,575	147,978
Additions	80,821	22,122	102,943
Disposals	-	(17,385)	(17,385)
At 31 December 2004	92,224	141,312	233,536
DEPRECIATION			
At 1 January 2004	5,476	61,558	67,034
Charge for the year	17,278	64,378	81,656
On disposals	-	(11,826)	(11,826)
At 31 December 2004	22,754	114,110	136,864
NET BOOK VALUE			
At 31 December 2004	69,470	27,202	96,672
At 31 December 2003	5,927	75,017	80,944

5. DEBTORS

	2004 £	2003 £
Amounts owed by group undertakings	133,590	422,564
Other debtors	45,585	34,239
	179,175	456,803

6. CREDITORS: Amounts falling due within one year

	2004 £	2003 £
Trade creditors	2,308	-
Other taxation and social security	33,566	29,945
Other creditors	40,740	440,895
	76,614	470,840

ALCATEL IP NETWORKS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

7. CREDITORS: Amounts falling due after more than one year

	2004	2003
	£	£
Amounts owed to group undertakings	<u>297,684</u>	<u>297,684</u>

8. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2004 the company had aggregate annual commitments under non-cancellable operating leases as set out below.

	2004	2003
	£	£
Operating leases which expire:		
Within 2 to 5 years	<u>53,200</u>	<u>53,200</u>

9. SHARE CAPITAL

Authorised share capital:

	2004	2003
	£	£
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

Allotted, called up and fully paid:

	2004		2003
	No	£	No
	£		£
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>

10. ULTIMATE PARENT COMPANY

The company is under the immediate control of Alcatel IP Networks Inc which holds 100%(2003 100%) of the company's issued share capital. Alcatel IP Networks Inc is incorporated in the USA and is part of a group headed up by a company incorporated in France, Alcatel S.A.