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Sterling Commerce (UK) Limited

Report and Financial Statements

31 December 2002

ERNST & YOUNG



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Sterling Commerce (UK) Limited

Registered No: 3163427

Directors

Simon Bond
Jan Pieter de Hoogh
Michael Meyer
David Robinson
Michael Goldbeck

Secretary

Abogado Nominees Limited

Auditors

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

Bankers

Lloyds Bank plc
24 Broad Street
Reading
Berks
RG1 2BT

ABN AMro Bank N.V.
250 Bishopsgate
London
EC2M 4AA

Solicitors

Baker & McKenzie
100 New Bridge Street
London
EC4V 6JA

Registered office

1 Longwalk Road
Stockley Park
Uxbridge
Middlesex
UB11 1DB

Directors' report

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

Results and dividends

The profit for the year, after taxation, amounted to £1,472,469. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the group is the provision of electronic commerce products and networking services.

On 1 August 2001 the commissionaire agreement in place with the Sterling Commerce group was replaced with a royalty agreement. Under the terms of the royalty agreement the company will own the revenues and costs relating to software license sales made in the United Kingdom and will pay royalties on these sales. The ownership of license revenue and costs increases both the potential margins and the commercial risks of the company.

The level of business activity year on year has increased. The directors expect this trend to continue and expect to build on profitability in 2003.

Directors

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

Simon Bond	
Jan Pieter de Hoogh	
Michael Meyer	
David Robinson	
Michael Goldbeck	(Appointed 31 May 2002)
Thomas Lowe	(Resigned 31 May 2002)

Auditors

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

On behalf of the board

Director

October 22, 2003

Statement of directors' responsibilities in respect of the financial statements

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 year. 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 Sterling Commerce (UK) Limited

We have audited the company's 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 the related notes 1 to 19. 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 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 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 Sterling Commerce (UK) Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company 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 LLP
Registered Auditor
Apex Plaza
Forbury Road
Reading
RG1 1YE

Ernst & Young LLP

22 / 10 / 2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £	2001 (restated) £
Turnover	2	16,260,664	8,337,493
Cost of sales		8,119,645	4,132,781
Gross profit		8,141,019	4,204,712
Administrative expenses		5,870,187	3,485,249
Operating profit	3	2,270,832	719,463
Bank interest receivable	6	25,176	78,831
Interest payable	7	(5,293)	(564)
		19,883	78,267
Profit on ordinary activities before taxation		2,290,715	797,730
Tax on profit on ordinary activities	8	818,246	380,965
Profit retained for the financial year		1,472,469	416,765

Statement of total recognised gains and losses
for the year ended 31 December 2002

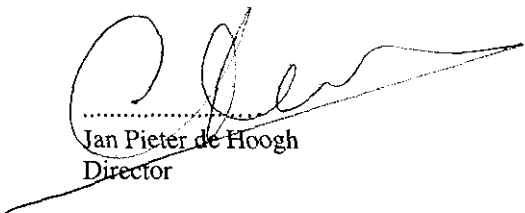
	2002	2001 (restated)
	£	£
Profit for the financial year	1,472,469	416,765
Total recognised gains and losses relating to the year	<u>1,472,469</u>	<u>416,765</u>
Prior year adjustment (see note 9)	411,040	
Total gains and losses recognised since the last annual report	<u>1,883,509</u>	

Balance sheet

at 31 December 2002

	Notes	2002 £	2001 (restated) £
Fixed assets			
Tangible assets	11	<u>1,608,736</u>	<u>1,881,061</u>
Current assets			
Debtors	12	13,270,375	12,053,690
Cash at bank		<u>2,025,327</u>	<u>1,608,279</u>
		15,295,702	13,661,969
Creditors: amounts falling due within one year	13	<u>14,862,879</u>	<u>14,973,940</u>
Net current assets/(liabilities)		<u>432,823</u>	<u>(1,311,971)</u>
Total assets less current liabilities		<u>2,041,559</u>	<u>569,090</u>
Capital and reserves			
Called up share capital	17	85	85
Share premium account	18	649,980	649,980
Profit and loss account	18	<u>1,391,494</u>	<u>(80,975)</u>
Equity shareholders' funds	18	<u>2,041,559</u>	<u>569,090</u>

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Jan Pieter de Hoogh
Director

October 21, 2003

Notes to the financial statements

at 31 December 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

In preparing the financial statements for the current year, the company has adopted FRS 18 "Accounting Policies" and FRS 19 "Deferred Tax". The adoption of FRS 19 has resulted in a change in the accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in future without replacement.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

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:

Leasehold Improvements	- (over the life of the lease)
Computer Equipment and Software	- (3 to 5 years)
Fixtures & Fittings	- (3 to 7 years)

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.

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.

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the Profit and Loss Account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

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 in the Profit and Loss Account as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover is stated net of value added tax. Software licence revenue is recognised when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectibility is probable. Support revenues are recognised ratably over the term of the support period (generally one year) and training and other service revenues are recognised as the related services are provided.

Turnover is attributable to one continuing activity, the provision of electronic commerce products and networking services.

An analysis of turnover by geographical market is given below:

	2002 £	2001 (restated) £
United Kingdom	15,596,820	6,489,911
Europe	663,844	1,847,582
	<u>16,260,664</u>	<u>8,337,493</u>

3. Operating profit

This is stated after charging:

	2002 £	2001 (restated) £
Auditors' remuneration - audit services	52,093	65,352
- non-audit services	67,460	18,000
	<u>119,553</u>	<u>83,352</u>
Depreciation of owned fixed assets	<u>630,813</u>	<u>706,737</u>
Operating lease rentals - land and buildings	941,220	941,220
- plant and machinery	<u>131,496</u>	<u>219,928</u>

Notes to the financial statements

at 31 December 2002

4. Staff costs

	2002	2001 (restated)
	£	£
Wages and salaries	4,471,260	6,542,738
Social security costs	676,789	750,099
Other pension costs (note 14)	246,357	365,881
	<u>5,394,406</u>	<u>7,658,718</u>

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

	2002	2001 (restated)
	No.	No.
Sales & Distribution staff	27	29
Administrative staff	67	86
	<u>94</u>	<u>115</u>

5. Directors' emoluments

	2002	2001 (restated)
	£	£
Emoluments	<u>353,887</u>	<u>284,701</u>
Value of company pension contributions to money purchase schemes	<u>20,074</u>	<u>10,658</u>

	2002	2001 (restated)
	No.	No.
Members of money purchase pension schemes	<u>2</u>	<u>2</u>

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

	2002	2001 (restated)
	£	£
Emoluments	<u>198,106</u>	<u>161,417</u>
Value of company pension contributions to money purchase schemes	<u>11,393</u>	<u>5,573</u>

6. Interest receivable

	2002	2001 (restated)
	£	£
Bank interest receivable	<u>25,176</u>	<u>78,831</u>

Notes to the financial statements

at 31 December 2002

7. Interest payable

	2002	2001 (restated)
	£	£
Bank interest payable	<u>5,293</u>	<u>564</u>

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2002	2001 (restated)
	£	£
<i>Current tax:</i>		
UK corporation tax	754,945	538,476
Tax (over)/under provided in previous years	(32,033)	253,529
Total current tax (note 8(b))	<u>722,912</u>	<u>792,005</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	95,334	(411,040)
Tax on profit on ordinary activities	<u>818,246</u>	<u>380,965</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 - 30%). The differences are reconciled below:

	2002	2001 (restated)
	£	£
Profit on ordinary activities before taxation	<u>2,290,715</u>	<u>797,730</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.00% (2001: 30.00%)	687,215	239,319
Disallowable expenses	141,763	132,499
Capital allowances in excess of depreciation	(68)	758
Other timing differences	(73,965)	165,900
Adjustments in respect to previous periods	(32,033)	253,529
Total current tax (note 8(a))	<u>722,912</u>	<u>792,005</u>

Notes to the financial statements

at 31 December 2002

8. Tax (continued)

(c) Deferred tax

	2002	2001 (restated)
	£	£
Capital allowances in advance of depreciation	211,654	213,790
Other timing differences	104,052	197,250
Provision for deferred taxation	<u>315,706</u>	<u>411,040</u>
		£
At 1 January 2002		411,040
Profit and Loss Account movement arising during the year		(95,334)
At 31 December 2002		<u>315,706</u>

9. Prior year adjustment

In preparing the financial statements for the current year, the company has adopted FRS 18 "Accounting Policies" and FRS 19 "Deferred Tax". The adoption of FRS 19 has resulted in a change in the accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described in note 1. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in future without replacement.

Profit for the year ended 31 December 2001 has been increased by £411,040 to £416,765.

A deferred tax asset of £411,040 has been recognised at 31 December 2001. Profit for the company for the current year has been reduced by £95,334 as a result of the change in accounting policy.

10. Investments

During the year, the company's three dormant subsidiaries were struck off and the investments disposed of for nil proceeds. The company's investments in its subsidiaries had been previously fully written down at the time of disposal.

Notes to the financial statements

at 31 December 2002

11. Tangible fixed assets

	<i>Leasehold Property</i> £	<i>Computer equipment and software</i> £	<i>Fixtures & Fittings</i> £	<i>Total</i> £
Cost:				
At 1 January 2002	1,904,196	1,560,309	889,976	4,354,481
Additions	157,146	194,661	6,681	358,488
At 31 December 2002	<u>2,061,342</u>	<u>1,754,970</u>	<u>896,657</u>	<u>4,712,969</u>
Depreciation:				
At 1 January 2002	683,035	1,205,232	585,153	2,473,420
Provided during the year	205,607	244,603	180,603	630,813
At 31 December 2002	<u>888,642</u>	<u>1,449,835</u>	<u>765,756</u>	<u>3,104,233</u>
Net book value:				
At 31 December 2002	<u>1,172,700</u>	<u>305,135</u>	<u>130,901</u>	<u>1,608,736</u>
At 1 January 2002	<u>1,221,161</u>	<u>355,077</u>	<u>304,823</u>	<u>1,881,061</u>

12. Debtors

	2002 £	2001 (restated) £
Trade debtors	5,145,920	6,089,007
Amounts owed by group undertakings	6,766,088	1,925,705
Other debtors	44,936	74,431
Prepayments and accrued income	354,969	1,112,548
Unbilled receivables	642,756	2,440,959
Deferred taxation (note 8)	315,706	411,040
	<u>13,270,375</u>	<u>12,053,690</u>

13. Creditors: amounts falling due within one year

	2002 £	2001 (restated) £
Trade creditors	196,053	180,439
Amounts owed to group undertakings	4,935,742	5,474,898
Corporation tax	1,010,584	499,596
Other taxation and social security	975,376	887,882
Accruals and deferred income	7,745,124	7,931,125
	<u>14,862,879</u>	<u>14,973,940</u>

Notes to the financial statements

at 31 December 2002

14. Pensions

The group operates a defined contribution pension scheme, the Sterling Commerce (UK) Limited Retirement Benefits Scheme, for its directors and employees. The assets of the scheme are held separately from those of the company and the fund is administered independently. The unpaid contributions outstanding at the year end, included in 'Accruals and Deferred Income' (note 13) were £31,029 (2001: £40,390).

15. Commitments under operating leases

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	2002		2001	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other (restated)</i>
	£	£	£	£
Operating leases which expire:				
Within one year	–	1,200	–	38,646
In two to five years	–	38,107	–	9,132
In over five years	941,220	10,912	941,220	–
	<u>941,220</u>	<u>50,219</u>	<u>941,220</u>	<u>47,778</u>

16. Related party transactions

In accordance with the exemptions offered by FRS 8, there is no disclosure in these financial statements of transactions with entities that are part of the group headed by Southwest Bell Corporation.

There were no other related party transactions.

Notes to the financial statements

at 31 December 2002

17. Share capital

	2002	Authorised 2001 (restated)
	\$	\$
Ordinary shares of \$1 each	10,000	10,000

	Allotted, called up and fully paid			
	2002		2001	
	No.	£	No.	£
Ordinary shares of \$1 each	133	85	133	85

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital	Share premium account	Profit and loss account (restated)	Total share- holders' funds (restated)
	£	£	£	£
At 1 January 2001	85	649,980	(497,740)	152,325
Profit for the year	—	—	416,765	416,765
Restated balance at 31 December 2001	85	649,980	(80,975)	569,090
Profit for the year	—	—	1,472,469	1,472,469
At 31 December 2002	85	649,980	1,391,494	2,041,559

19. Ultimate parent company

The group's immediate parent undertaking is Sterling Commerce Inc., a company incorporated in the State of Delaware, United States of America.

In the directors' opinion, the ultimate parent undertaking and controlling party is Southwest Bell Corporation, which is incorporated in the state of Texas, USA. Copies of its group accounts, which include the group from its date of acquisition on 24 March 2000, are available from 175 E Houston, San Antonio, TX 78299-2933, USA.