HSBC HOLDINGS PLC
Form 6-K
May 27, 2011

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of May

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-..............).

HSBC Holdings plc

Annual General Meeting 27 May 2011

At the Annual General Meeting of HSBC Holdings plc held on 27 May 2011, all resolutions were passed on a poll.

The following table shows the votes cast on each resolution:

Resolution	Total Votes For (%)	Total Votes Against (%)	Votes Total (% of Issued Share Capital)	Votes Withheld*
1. To receive the Report and Accounts for 2010	8,402,552,510 (98.57)	121,753,797 (1.43)	8,524,306,307 (47.84)	8,933,799
2. To approve the Directors' Remuneration Report for 2010	6,652,053,048 (81.26)	1,533,867,244 (18.74)	8,185,920,292 (45.94)	345,803,377
3. (a) To re-elect S A Catz a Director	8,486,056,759 (99.50)	42,942,731 (0.50)	8,528,999,490 (47.87)	4,216,052
(b) To re-elect L M L Cha a Director	8,504,179,153 (99.71)	24,913,796 (0.29)	8,529,092,949 (47.87)	4,042,906
(c) To re-elect M K T Cheung a Director	8,483,733,987 (99.47)	45,080,957 (0.53)	8,528,814,944 (47.87)	4,016,464
(d) To re-elect J D Coombe a Director	8,422,716,423 (98.75)	106,361,370 (1.25)	8,529,077,793 (47.87)	4,171,828
(e) To re-elect R A Fairhead a Director	8,409,921,019 (99.66)	28,560,255 (0.34)	8,438,481,274 (47.36)	94,165,150
(f) To re-elect D J Flint a Director	7,652,721,692 (90.73)	782,284,813 (9.27)	8,435,006,505 (47.34)	97,589,253
(g) To re-elect A A Flockhart a Director	8,510,224,707 (99.78)	19,041,066 (0.22)	8,529,265,773 (47.87)	3,951,542
(h) To re-elect S T Gulliver a Director	8,508,743,721 (99.77)	19,690,410 (0.23)	8,528,434,131 (47.87)	4,068,563
(i) To re-elect J W J Hughes-Hallett a Director	8,471,725,040 (99.33)	57,260,985 (0.67)	8,528,986,025 (47.87)	4,166,213
(j) To re-elect W S H Laidlaw a Director	8,422,582,981 (98.75)	106,557,176 (1.25)	8,529,140,157 (47.87)	4,082,503
(k) To re-elect J R Lomax a Director	8,485,476,787	43,437,834	8,528,914,621	4,288,262

	(99.49)	(0.51)	(47.87)	
(l) To re-elect I J Mackay a Director	8,514,104,374 (99.83)	14,924,509 (0.17)	8,529,028,883 (47.87)	4,046,710
(m) To re-elect G Morgan a Director	7,528,102,732 (88.27)	1,000,850,178 (11.73)	8,528,952,910 (47.87)	4,176,157
(n) To re-elect N R N Murthy a Director	8,485,387,759 (99.49)	43,412,993 (0.51)	8,528,800,752 (47.87)	4,414,399
(o) To re-elect Sir Simon Robertson a Director	8,509,368,189 (99.78)	18,917,076 (0.22)	8,528,285,265 (47.87)	4,756,190
(p) To re-elect J L Thornton a Director	7,811,758,522 (92.43)	639,498,922 (7.57)	8,451,257,444 (47.43)	80,247,625

(q) To re-elect Sir Brian Williamson a Director	8,502,895,120 (99.70)	25,794,017 (0.30)	8,528,689,137 (47.87)	4,326,166
4. To reappoint the Auditor at remuneration to be determined by the Group Audit Committee	8,471,110,207 (99.59)	34,535,501 (0.41)	8,505,645,708 (47.74)	27,595,572
5. To authorise the Directors to allot shares	8,361,978,479 (98.07)	164,736,911 (1.93)	8,526,715,390 (47.86)	6,526,785
6. To disapply pre-emption rights (Special Resolution)	8,410,136,124 (98.66)	114,104,282 (1.34)	8,524,240,406 (47.84)	9,000,469
7. To approve the HSBC Share Plan 2011	7,232,592,954 (86.39)	1,139,440,811 (13.61)	8,372,033,765 (46.99)	157,713,821
8. To approve fees payable to non-executive Directors	8,339,832,648 (99.41)	49,875,814 (0.59)	8,389,708,462 (47.09)	142,372,789
9. To approve general meetings (other than annual general meetings) being called on 14 clear days' notice (Special Resolution)	7,757,094,552 (90.98)	769,200,534 (9.02)	8,526,295,086 (47.85)	6,472,597

* A "Vote Withheld" is not a 'vote' in law and is not counted in the calculation of the proportion of the votes 'For' and 'Against' the resolution.

The total number of ordinary shares of US$0.50 each eligible to be voted at the Annual General Meeting was 17,817,361,725. The scrutineers of the poll were Electoral Reform Services Limited and Computershare Investor Services PLC.

Copies of the special business resolutions passed at the Annual General Meeting have been submitted to the UK Listing Authority, and will shortly be available for inspection at the UK Listing Authority's Document Viewing Facility, via the National Storage Mechanism which is located at http://www.hemscott.com/nsm.do

At the conclusion of the Annual General Meeting, V H C Cheng retired as a Director and a member of the Corporate Sustainability Committee. There are no matters relating to his retirement that need to be brought to the attention of the shareholders of the Company.

The current Directors of HSBC Holdings plc are S A Catz†, L M L Cha†, M K T Cheung†, J D Coombe†, R A Fairhead†, D J Flint, A A Flockhart, S T Gulliver, J W J Hughes-Hallett†, W S H Laidlaw†, J R Lomax†, I J Mackay, G Morgan†, N R N Murthy†, Sir Simon Robertson†, J L Thornton† and Sir Brian Williamson†.

† Independent Non-Executive Director

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By:

Name: P A Stafford

Title: Assistant Group Secretary

Date: 27 May, 2011

crosystems. Certain applications can also be deployed on the MVS or Windows NT platforms. The Integrated Customer Management products utilize, where applicable, Java-based design and programming to augment cross-platform portability. PRODUCTS Our product offerings include an extensive library of Integrated Customer Management software products that we have developed to provide comprehensive information systems functionality for communications service providers. Our Integrated Customer Management systems cover the full range of CRM, order management, call rating, invoice calculation and preparation, bill formatting, collections, partner relationship management and directory publishing services. We configure individual Integrated Customer Management modules into families of products, which serve as marketing packages oriented to the needs of specific customer segments. We provide our main CC&B Systems offering in a number of versions to serve the different needs of communications operators in the various network and business segments, such as wireline, wireless, broadband and electronic and mobile commerce. Our main packages include: - Amdocs Enabler: offline and online charging products, supporting prepaid and postpaid billing, for voice and next generation services. - Amdocs ClarifyCRM: end-to-end customer management products for all operators, providing support for managing customer relationships, including service and support, sales and ordering, and marketing and analytics. We also offer our new generation, or NG, line of ADS (NG)/Family of Products that provides comprehensive support for directory publishing operations. Each individual module from the product families can be installed as an independent stand-alone application, interfacing with the customer's legacy and third-party systems, or as part of an integrated Amdocs solution. 19 CC&B Systems Our CC&B suite of products consists of modules for each of the following key application areas: - Customer Management -- provides customer account information management and service support, including account initiation, on-line assistance in choosing a price plan, installation scheduling and complaint handling. - Acquisition and Formatting -- provides for acquisition and formatting of the event records, which are created by usage of the communications network. The event records contain information such as the origin and destination of a telephone call and its duration. - Rating -- calculates charges for usage of communications services, such as postpaid and prepaid telephone calls, Internet access and data transfer. The rating module calculates the charges for each event based on the service

packages and price plans applicable to each individual user. - Billing -- provides comprehensive functionality for bill preparation (totaling of usage and other charges, application of discounts, taxes and credits) and bill production. - Bill Formatter -- enables the flexible definition and modification of bill formats, according to user requests (e.g., to combine charges from multiple services onto a single bill or to permit certain types of charges to be highlighted). - Accounts Receivable and Collections -- provides comprehensive functionality for accounts receivable and collections, including invoice receipt, payment receipt, payment posting, financial reporting and automated handling of customers with outstanding debts. - Resource Management -- manages the carrier's inventory of telephone numbers and SIM cards. - Wireless and IP Provisioning -- manages the interface between the carrier's customer care and billing system and the network, transferring instructions regarding the provision or discontinuation of wireless and IP services to specified users. - Partner Relationship Management -- calculates, manages and reconciles payments for intercarrier network access, including settlement of roaming charges between cellular carriers, as well as management of agreements and settlements between carriers and their business partners. - Commerce Payments -- manages real-time payment and exchange of information between buyer and seller for next generation commerce and content transactions. Our ClarifyCRM suite of products consists of modules for each of the following three main categories: - Sales and Ordering Solutions -- offer comprehensive sales automation and order management products supporting the broad needs of sales professionals in sales situations. We provide a range of integrated sales automation tools enabling local and remote sales professionals to manage sales opportunities, develop quotes, forecast revenue and communicate with other sales team members. Amdocs Order Management applications help companies manage and track the ordering process from order capture and negotiation, through to provisioning and service delivery. - Service and Support Solutions -- enable companies to maximize efficiencies in customer service organizations. Our offering includes support centers, contact centers and self-service solutions. These applications provide a unified desktop framework that allows agents to support customer care activities, including marketing, ordering, billing and servicing. They enhance customer service and communications to help improve customer satisfaction and retention. Amdocs Service and Support solutions provide companies a complete view of the customer by integrating incoming and outgoing customer contacts from all channels. - Marketing and Analytics Solutions -- provide an integrated suite of marketing and analytic applications focused on optimizing the key customer metrics that affect a business, including 20 customer acquisition, retention, penetration and lifetime value. Our products help companies identify customer behavioral trends and allow our customers to take proactive measures in order to improve retention rates of their high-value customers and focus offers on their best prospective or existing customers either in real-time or using traditional outbound campaigns. Using our products, communications providers can track the effectiveness their strategies and refine them as necessary. Directory Publishing Our main Directory Systems product offering is the ADS(NG)/Family of Products. These products provide comprehensive support for yellow page and white page directory sales and publishing operations, as well as for Internet directories and catalogs, including fully integrated electronic commerce capabilities. These systems support large directory publishing operations that employ a local sales force numbering thousands of representatives, serve customer bases of hundreds of thousands of businesses and publish hundreds of different directories each year. The directory line of products comprises a series of modules, including: - Sales -- addresses all aspects of managing sales to advertisers, including preparation and management of the overall sales campaign, which encompasses selecting the advertisers to be targeted, allocating the advertisers to various sales channels (such as field sales or telemarketing sales), assigning the advertisers to sales representatives, tracking advertising sales results and calculating sales commissions. These modules also provide automated support for the advertising sales representative, including laptop-based applications for use by members of the sales force in the field. - Publishing -- supports the process of entering, proofing and extracting the telephone listing and advertising information that is to be published in the customer's yellow page or white page directory or electronic Internet directory. These modules encompass contract processing, service order processing, listing information management and directory extract in preparation for the actual production of the directory. - Marketing and Information Analysis -- includes corporate data warehousing techniques, online analytical processing and data mining capabilities, oriented to the specific marketing needs of the directory publisher. For example, these modules can be used to identify changed patterns of advertisement buying behavior in certain groups of customers, or to perform "what if" analyses on marketing policy parameters. These modules are also used by management to analyze the directory market and customer behavior, assisting in the planning of corporate strategy and marketing tactics. - Prepress -- manages the production of advertisements that are to be published in a directory and also supports the fully automated pagination

of yellow page and white page directories, including the generation of the final typesetting file so that printed copies of the documents can be produced. - Customer Service -- permits online support for handling customer inquiries and resolving customer complaints, including online correction of advertising data and billing adjustments. - Financial Management -- specifically designed for the directory publisher's billing, accounts receivable and collections functions. SERVICES We believe that the methodology we employ to deliver Integrated Customer Management products is one of the key factors that enables us to achieve the time-frame, budget and quality objectives of our customers' projects. Our methodology emphasizes rigorous project management, customization, solutions implementation and integration planning, as well as active customer participation at all stages to help prioritize and implement time-critical information system solutions that address the customer's individual needs. 21 The extent of services provided varies from customer to customer. Some communications service providers prefer a highly customized approach, with extensive modifications to the Integrated Customer Management products and a significant level of ongoing support. In recent years, more of our customers have chosen to implement standard, pre-configured products with limited customization and less ongoing support. We have invested considerable research and development efforts in upgrading our applications suite to address this market requirement. The process of customizing a system involves creating tailored Integrated Customer Management products to address a customer's specific technical and business requirements. System implementation and integration activities are conducted by joint teams from Amdocs and the customer in parallel with the customization effort. Implementation and integration activities include project management, development of training methods and procedures, design of work flows, hardware planning and installation, network and system design and installation, system conversion and documentation. In most cases, the role of Amdocs personnel is to provide support services to the customer's own implementation and integration team, which has primary responsibility for the task. Customers sometimes require turnkey solutions, in which case we are able to provide full system implementation and integration services. Once the system becomes operational, we are generally retained by the customer to provide ongoing services such as maintenance, enhancement design and development, and operational support. For substantially all of our customers, the implementation and integration of an initial Integrated Customer Management system has been followed by the sale of additional systems and modules. In recent years, we have established long-term maintenance and support contracts with a number of our customers. These contracts have generally involved an expansion in the scope of support provided, while also ensuring a recurring source of revenue to us. As part of our effort to provide comprehensive solutions to our customers, we offer Managed Services to support operation of our Integrated Customer Management products. These Managed Services include a combination of services, such as system modernization and consolidation, management and operation of data centers, purchase and management of related hardware assets, billing operations and application support. Our business is conducted on a global basis. We maintain five development facilities located in Israel, the United States, Cyprus, Ireland and Canada, operate a support center located in Brazil and have operations in North America, Europe, Latin America and the Asia-Pacific region. Support for implementation and integration activities is typically performed at the customer site. Once the system is operational or in production, we provide ongoing support and maintenance through a combination of remote support from the development centers and local support at the customer site. SALES AND MARKETING Our sales and marketing activities are primarily directed at major communications companies. As a result of the strategic importance of our information systems to the operations of such companies, a number of constituencies within a customer's organization are typically involved in purchase decisions, including senior management, information systems personnel and user groups such as the finance and marketing departments. We maintain sales offices in the United States, the United Kingdom and several other countries. Our sales activities are supported by marketing efforts, including marketing communications, product management, market research and strategic alliances. The management of our operating subsidiaries is closely involved in establishing sales policies and overseeing sales activities. Management's role includes the setting of priorities among the multiple sales opportunities available at any point in time. Management is also responsible for allocating sufficient resources to each project to meet our quality standards while also adhering to the project's cost and schedule parameters. We also interact with other third parties in our sales activities, including independent sales agents, information systems consultants engaged by our customers or prospective customers and systems 22 integrators that provide complementary products and services to such customers. We also have value-added reseller agreements with certain hardware and database vendors. CUSTOMERS Our target market is comprised of communications companies that require information systems with advanced

functionality and technology. The companies in our target segment are typically market leaders. By working with such companies, we help ensure that we remain at the forefront of developments in the communications industry and that our Integrated Customer Management product offerings continue to address the market's most sophisticated needs. We have an international orientation, focusing on potential customers in the developed, industrialized countries in North America, Europe, Latin America and the Asia-Pacific region. In addition, we offer CRM applications to selected customers and segments outside of the communications industry. Our customers include global communications leaders, as well as other leading network operators and service providers and directory publishers in the United States and around the world. Our customers include: BCP SBC Bell Canada Sprint PCS BT Telefonica Cingular Wireless Telstra Deutsche Telekom Telus Dex Media T-Mobile Far EasTone Verizon Group Cegetel Vimplecom Netcom Vodafone Group Nextel Western Wireless Rogers AT&T Our single largest customer group is Nextel and its subsidiaries, which accounted for, in the aggregate, approximately 15%, 12% and 10% of our revenue in fiscal 2003, 2002 and 2001, respectively. Our next largest group of customers is SBC and its subsidiaries. Substantially all of our work for SBC is conducted directly with SBC's operating subsidiaries, such as Cingular Wireless, Southwestern Bell Yellow Pages, Southwestern Bell Communications Services and Southwestern Bell Telephone Company. These SBC relationships accounted for, in the aggregate, approximately 11%, 11% and 13% of our total revenue in fiscal 2003, 2002 and 2001, respectively. SBC, through its subsidiaries, has historically been one of our largest shareholders. As of November 28, 2003, SBC beneficially owned approximately 9.4% of our outstanding ordinary shares. Our third largest customer group is Bell Canada and its subsidiaries, which accounted for, in the aggregate, approximately 11%, 9% and 6% of our revenue in fiscal 2003, 2002 and 2001, respectively. Aggregate revenue derived from the multiple business arrangements we have with each of our five largest customers and their subsidiaries, including Nextel, SBC and Bell Canada (and their subsidiaries), accounted for approximately 55%, 49% and 49% of our revenue in fiscal 2003, 2002 and 2001, respectively. The following is a summary of revenue by geographic area. Revenue is attributed to geographic region based on the location of the customer:

	2003	2002	2001
North America...	62.0%	61.9%	53.8%
Europe..	29.8	28.9	35.8
Rest of the World...	8.2	9.2	10.4

23 COMPETITION The market for communications information systems is highly competitive and fragmented, and we expect competition to increase. We compete with many independent providers of information systems and services, including American Management Systems, Convergys, CSG Systems International, Portal Software, Saville Systems (a subsidiary of ADC Telecommunications), SchlumbergerSema Group and Siebel Systems, with system integrators and providers of Managed Services solutions, such as EDS, and with internal information systems departments of large communication companies. We expect continued competition in the communications industry and the entrance of new competitors into the software information systems market in the future. We believe that we are able to differentiate ourselves from the competition by, among other things: - offering customers a total information system from a single vendor, - providing high quality reliable, scalable products, - effectively managing the timely implementation of products, and - responding to customer service and support needs through a skilled professional organization. We compete with a number of companies that have long operating histories, large customer bases, substantial financial, technical, sales, marketing and other resources, and strong name recognition. Current and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to increase their ability to address the needs of our prospective customers. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. As a result, our competitors may be able to adapt more quickly than we can to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products. There can be no assurance that we will be able to compete successfully with existing or new competitors. Failure by us to adapt to changing market conditions and to compete successfully with established or new competitors may have a material adverse effect on our results of operations and financial condition. EMPLOYEES We invest significant resources in training, retention and motivation of high quality personnel. Training programs cover areas such as technology, applications, development methodology, project methodology, programming standards, industry background and management development. Our management development scheme is reinforced by a divisional structure, which provides opportunities for talented managers to gain experience in general management roles at the division level. We also invest considerable resources in personnel motivation, including providing various incentive plans for sales staff and high quality employees. Our future success depends in large part upon our continuing ability to attract and retain highly qualified managerial, technical, sales and marketing

personnel. See "Directors, Senior Management and Employees -- Employees" for further details regarding our employees and our relationships with them. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES Our research and development activities involve the development of new software modules and product offerings in response to an identified market demand, either in conjunction with a customer project or as part of our internal product development programs. We also expend additional amounts on applied research and software development activities to keep abreast of new technologies in the communications markets and to provide new and enhanced functionality to our existing product offerings. We believe that our research and development efforts are a key element of our strategy and are essential to our success. We regard significant portions of our software products and systems as proprietary. We rely on a combination of statutory and common law copyright, trademark and trade secret laws, customer licensing 24 agreements, employee and third-party nondisclosure agreements and other methods to protect our proprietary rights. See the discussion under "Operating and Financial Review and Prospects -- Research and Development, Patents and Licenses". PROPERTY, PLANTS AND EQUIPMENT Facilities We lease land and buildings for our executive offices, sales, marketing, administrative, development and support centers. We lease an aggregate of approximately 2,300,000 square feet worldwide, including significant leases in the United States, Israel, Canada, Cyprus and the United Kingdom. Our aggregate annual lease costs are approximately $48.0 million. The following table summarizes information with respect to the principal facilities leased by us and our subsidiaries as of November 30, 2003: AREA LOCATION (SQ. FEET) -------- ---------- United States: Chesterfield, MO(*)...................................... 180,000 San Jose, CA.. 129,000 Champaign, IL.. 105,000 Others(*).. 163,000 ------- Total... 577,000 Israel: Ra'anana... 512,000 Hod-Hasharon.. 201,000 Haifa(*)... 121,000 Others.. 72,000 ------- Total... 906,000 Canada: Toronto(*)... 334,000 Others.. 168,000 ------- Total... 502,000 Cyprus (Limassol)... 96,000 United Kingdom (London) (*)................................ 59,000 Rest of the world (**)..................................... 126,000 --------------- (*) Includes space sublet to third parties. (**) Includes Argentina, Australia, Brazil, Czech Republic, Denmark, France, Germany, Hong Kong, Hungary, Ireland, Italy, Japan, Poland, South Africa, Spain, Thailand and The Netherlands. Our leases expire on various dates between 2003 and 2012, not including various options to extend lease terms. Equipment We develop our Integrated Customer Management products over a system of UNIX, MVS and Windows NT/2000 servers owned or leased by us. We use a variety of software products in our development centers, including products by Microsoft, Oracle, Synscsort, CA, Merant, IBM, HP and 25 BEA. Our data storage is based on equipment from EMC, SUN, NetApp and Hewlett-Packard. Our development servers are connected to approximately 14,000 personal computers owned or leased by us. Automatic tape libraries provide full and incremental backups of the data used in and generated by our business. The backup tapes are kept on-site and off-site, as appropriate, to ensure security and integrity, and are used as part of our disaster recovery plan. The distributed development sites that we operate worldwide are connected by a high-speed redundant wide area network ("WAN"), using telecommunication equipment manufactured by, among others, Cisco and Nortel. The distributed development sites that we operate worldwide are also connected by a high speed WAN. ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS INTRODUCTION In this section, we discuss the general financial condition and the results of operations for Amdocs Limited and its subsidiaries including: - the factors that affect our business, - our revenue and costs for the fiscal years ended September 30, 2003, 2002 and 2001, - the reasons why such revenue and costs were different from year to year, - the sources of our revenue, - how all of this affects our overall financial condition, - our expenditures for the fiscal years ended September 30, 2003, 2002 and 2001, and - the sources of our cash to pay for future capital expenditures and possible acquisitions. In this section, we also analyze and explain the annual changes in the specific line items in our consolidated statements of operations. You should read this section in conjunction with our consolidated financial statements and the notes thereto, which follow. OVERVIEW OF BUSINESS AND TREND INFORMATION Our market focus is primarily the communications industry, and we are a leading provider of software products and services to major communications companies in North America, Europe and the rest of the world. Our Integrated Customer Management product offerings consist primarily of billing and customer relationship management systems. Our portfolio of products also includes a full range of Directory Systems, consisting of directory sales and publishing systems, for publishers of both traditional printed yellow page and white page

directories and electronic Internet directories. Our Integrated Customer Management systems are designed to meet the mission-critical needs of leading communications service providers. We support a wide range of communications services, including wireline, wireless, voice, data, broadband, content, electronic and mobile commerce and IP based services. We also support companies that offer bundled or convergent service packages. Due to the complexity of our customers' projects and the expertise required for system support, we also provide extensive implementation, system integration, system modification, ongoing support, system enhancement and maintenance services. In addition, we offer Managed Services, which include a combination of services, such as system modernization and consolidation, management and operation of data centers, purchase and management of related hardware assets, billing operations and application support, in all cases on either or a combination of a fixed or unit charge basis to our customers. As part of our strategy, we may pursue acquisitions and other initiatives in order to offer new products or services or otherwise enhance our market position or strategic strengths. See the discussion below under the caption "Acquisitions". 26 We derive our revenue principally from: - the initial sales of our products and related services, including license fees and modification, implementation and integration services, - providing Managed Services and other related services for our solutions, and - recurring revenue from ongoing support and maintenance provided to our customers, and from incremental license fees resulting from increases in a customer's business volume. We usually sell our software as part of an overall solution offered to a customer, in which significant modification is normally required. As a result, we generally recognize revenue over the course of these long-term projects. Initial license fee revenue is recognized as work is performed, using the percentage of completion method of accounting. Subsequent license fee revenue is recognized upon completion of specified conditions in each contract. Service revenue that involves significant ongoing obligations, including fees for software customization, implementation and modification, also is recognized as work is performed, under the percentage of completion method of accounting. Revenue from software solutions that do not require significant customization and modification is recognized upon delivery. In Managed Services contracts, we typically recognize revenue from the operation of a customer's system either ratably over the service period or as services are performed. Revenue from ongoing support services is recognized as work is performed. Revenue from third-party hardware and software sales is recognized upon delivery and installation. Maintenance revenue is recognized ratably over the term of the maintenance agreement. As a result of a significant portion of our revenue being subject to the percentage of completion accounting method, the size and timing of customer projects and our progress in completing such projects may significantly affect our annual and quarterly operating results. Our business is subject to the effects of general global economic conditions and, in particular, market conditions in the communications industry. As a result of the slowdown in the communications industry, the market value, financial results and prospects, and capital spending levels of communications companies have declined or degraded. The challenging environment in the communications industry has significantly impacted our business. Delays in customer buying decisions stemming from rigorous management of operating expenses and overall reductions in the capital investment budgets of many communications service providers have led to fewer new contracts, as well as smaller initial spending commitments and reduced discretionary spending under contracts with some of our customers. Our revenue for the fiscal year ended September 30, 2003 decreased by $130.2 million, or 8.1%, from fiscal 2002. We continue to encounter delays in obtaining commitments from customers. However, there have been increasing signs of stabilization in the market. During fiscal 2003, total quarterly revenue increased by 4.6% between the first and second quarters, by 6.2% between the second and third quarters and by 9.2% between the third and fourth quarters, primarily as a result of new Managed Services agreements and our acquisition of Certen in the fourth quarter of fiscal 2003. Despite continued uncertain conditions in the communications industry, we believe that we will be able to achieve modest sequential growth in revenue and earnings in the coming quarters. Due to our heavy dependence on the communications industry, we can be adversely affected by consolidations of service providers and by bankruptcies or other business failures in that industry. The potential loss of a customer due to consolidation or failures in the communications industry could harm our business and might have a material adverse effect on our consolidated operating results and financial condition. Total license and service revenue for the fiscal year ended September 30, 2003 was $1,483.3 million, compared to $1,613.6 million in fiscal 2002 and $1,533.9 million in fiscal 2001. License and service fees from the sale of CC&B Systems amounted to $1,280.4 million in the fiscal year ended September 30, 2003, compared to $1,440.0 million in fiscal 2002 and $1,379.7 million in fiscal 2001. In fiscal 2003, license and service fees from the sale of CC&B Systems represented 86.3% of our total revenue, compared to 89.2% in fiscal 2002 and 89.9% in fiscal 2001. 27 We believe that we are a leading global provider of

CC&B Systems. We provide a broad set of billing and CRM products, with proven functionality and scalability, accompanied by a comprehensive range of support services. We believe that demand for our CC&B Systems is driven by, among other key factors: - the global penetration of communications service providers, - the emergence of new communications products and services, especially IP, data and content services, - technological changes, such as the introduction of wireless Internet services via GPRS (General Packet Radio Services) and UMTS (Universal Mobile Telecommunications System) technology, - the ongoing consolidation within the communications industry, - the business needs of communications service providers to reduce costs and retain high value customers, and - a shift from in-house management to vendor solutions. We also believe that additional drivers of demand are the continuing trend for communications service providers to offer their subscribers multiple service packages, commonly referred to as bundled or convergent services (combinations of voice, broadband, electronic and mobile commerce and IP services), and the ability of our CC&B Systems to improve productivity. License and service fees from the sale of Directory Systems amounted to $202.9 million in the fiscal year ended September 30, 2003, compared to $173.6 million in fiscal 2002 and $154.2 million in fiscal 2001. In fiscal 2003, license and service fees from the sale of Directory Systems represented 13.7% of our total revenue, compared to 10.8% in fiscal 2002 and 10.1% in fiscal 2001. We believe that we are a leading provider of Directory Systems in most of the markets that we serve. As a result of new agreements announced in 2003, we expect that our revenue from Directory Systems will remain relatively stable in fiscal 2004. License and service revenue from the sale of CC&B Systems and Directory Systems includes revenue from Managed Services arrangements. Managed Services projects are a significant part of our business, and generate substantial, long-term revenue streams, cash flow and operating income. In the initial period of our Managed Services projects, we generally invest in modernization and consolidation of the customer's systems. Invoices are usually structured on a periodic fixed or unit charge basis. As a result, Managed Services projects can be less profitable in the initial period. Margins typically improve over time as we benefit from the operational efficiencies provided by system modernization and consolidation. We expect that our Managed Services relationships will generate margins comparable to sales of our other products and related license and services over the entire relationships. OPERATIONAL EFFICIENCY AND COST REDUCTION PROGRAMS In the first quarter of fiscal 2003, we announced a series of measures designed to reduce costs and improve productivity and recorded a charge of $10.0 million, consisting primarily of employee separation costs in connection with the termination of employment of approximately 400 software and information technology specialists and administrative professionals and for the write-off of leasehold improvements and rent obligations. The employee terminations occurred at various locations around the world. In addition, we implemented other cost reduction measures, including travel cuts and reductions in other discretionary costs. This cost reduction program is in addition to the measures implemented during the first and fourth quarters of fiscal 2002. In the fourth quarter of fiscal 2002, we recorded a charge of $20.9 million, consisting primarily of employee separation costs in connection with the termination of employment of approximately 1,000 software and information technology specialists and administrative professionals and 28 for the write-off of leasehold improvements and rent obligations. In the first quarter of fiscal 2002, we consolidated our Stamford, Connecticut data center into our Champaign, Illinois facility, and closed the Stamford facility. As a direct result of this closure, we recorded a restructuring charge of $13.3 million in the first quarter of fiscal 2002, primarily for the write-off of leasehold improvements and rent obligations, with the remainder for employee separation costs. All of these charges are included in "restructuring charges, in-process research and development and other" for the years ended September 30, 2003 and 2002. ACQUISITIONS As part of our strategy, we may pursue acquisitions in order to offer new products or services or otherwise enhance our market position or strategic strengths. On November 28, 2001, we purchased from Nortel Networks Corporation substantially all of the assets of its Clarify business, a leading provider of CRM software to communications companies and other enterprise sectors. This acquisition positioned us as a leading provider of CRM software to the communications industry and, through our addition of Clarify's CRM software to our portfolio of product offerings, reinforced our leadership in delivering Integrated Customer Management software applications. Following the acquisition, we have continued to sell Clarify's CRM software to customers other than communications service providers. The total purchase price for Clarify, as of September 30, 2002, was $212.0 million in cash, including transaction costs of $8.3 million. The purchase price was subject to final price adjustments that were settled in October 2002 and resulted in an $11.1 million reduction of the purchase price to $200.9 million in the first quarter of fiscal 2003. We accounted for the Clarify acquisition using the purchase method of accounting. We have included the fair market value of the assets and liabilities acquired in our consolidated balance

sheet and the results of operations for Clarify in our consolidated statements of operations as of the closing date of the acquisition. We obtained a valuation of the intangible assets acquired and the acquired technology, including both existing technology and in-process research and development. The valuation of these items was estimated by applying the income forecast method, which considered the present value of cash flows by product lines. We amortized the fair value of existing technology products over two years, commencing as of the closing date of the acquisition. We charged as an expense in-process research and development immediately following the completion of the acquisition in accordance with the Financial Accounting Standards Board ("FASB") Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method", because the technology had not reached technological feasibility and had no alternative use. As of the closing date of the acquisition, we commenced amortization of the fair value of customer arrangements over three years. On July 2, 2003, we acquired from Bell Canada its 90% ownership interest in Certen, which we formed with Bell Canada in January 2001 to provide customer care and billing solutions to Bell Canada and a number of Bell Canada's affiliated companies. This acquisition expanded our Managed Services offerings and positioned us as a leading provider of Managed Services to the communications industry. Prior to this acquisition, we owned 10% of Certen. As a result of the acquisition, Certen is now our wholly owned subsidiary. Since Certen's inception, we have provided customer care and billing software required by Certen, including related customization, installation, maintenance and other services. We now have a major billing operations Managed Services agreement with Bell Canada through December 2010. The total purchase price for Certen was approximately $66.0 million in cash. In addition, we incurred transaction related costs of approximately $5.0 million. We accounted for the Certen acquisition using the purchase method of accounting. We have included the fair market value of the assets and liabilities acquired in this transaction in our consolidated balance sheet and the results of operations for Certen in our consolidated statement of operations as of the closing date of the acquisition. We are in the process of obtaining a valuation of the intangible assets acquired. A final determination of purchase accounting adjustments will be made following the completion of the valuation. The total purchase price is being allocated to Certen's assets and liabilities, including the 29 identifiable intangibles, based on their respective estimated fair values, on the date the transaction was consummated. We allocated to goodwill the excess of the purchase price over the fair value of the net assets acquired, including the identifiable intangibles. In addition, deferred taxes were recognized for the difference between the book and tax basis of certain assets and liabilities, including the acquired identifiable intangibles. We are amortizing the fair value of the customer arrangement over seven and half years commencing on the closing date of the acquisition (the remaining life of the Managed Services agreement). The excess of the purchase price over the fair value of the net assets acquired, including the identifiable intangibles, constitutes goodwill. According to the transition provisions of Statements of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", goodwill for acquisitions completed subsequent to June 30, 2001 is not amortized and goodwill for acquisitions completed prior to June 30, 2001 is amortized only through September 30, 2002. See the discussion below under the caption "Adoption of New Accounting Standards". In accordance with these provisions, the goodwill relating to the Clarify and Certen acquisitions has not been amortized. For more information on our acquisitions, see Note 3 to the consolidated financial statements included in this document. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES Our research and development activities involve the development of new software modules and product offerings in response to an identified market demand, either in conjunction with a customer project or as part of our internal product development programs. We also expend additional amounts on applied research and software development activities to keep abreast of new technologies in the communications markets and to provide new and enhanced functionality to our existing product offerings. Research and development expenditures were $119.3 million, $124.1 million and $105.8 million in the fiscal years ended September 30, 2003, 2002 and 2001, respectively, representing 8.0%, 7.7% and 6.9%, respectively, of our revenue in these fiscal years. We believe that our research and development efforts are a key element of our strategy and are essential to our success. Although we intend to continue to devote resources to research and development as required to maintain and further strengthen our market position, our research and development budget, like all of our costs, is sensitive to our overall financial condition. A decrease in our total revenue could, in certain circumstances, lead to reductions in the levels of our research and development expenditures. In the near-term, we intend to continue to make substantial investments in our research and development activities. We believe that this ongoing investment will position us to capitalize on future potential opportunities in the communications industry. We regard significant portions of our software products and systems as proprietary. We rely on a combination of statutory

and common law copyright, trademark and trade secret laws, customer licensing agreements, employee and third-party nondisclosure agreements and other methods to protect our proprietary rights. We generally enter into confidentiality agreements with our employees, consultants, subcontractors, customers and potential customers and limit access to, and distribution of, our proprietary information. We believe that the sophistication and complexity of our Integrated Customer Management offerings make it very difficult to copy such information or to subject such information to unauthorized use. We maintain sole ownership of our software products. CONVERTIBLE NOTES In May 2001, we issued $500.0 million aggregate principal amount of 2% Convertible Notes due June 1, 2008. We are obligated to pay interest on the Notes semi-annually on June 1 and December 1 of each year. The Notes are senior unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The Notes are convertible, at the option of the holders at any time before the maturity date, into our ordinary shares at a conversion rate of 10.8587 shares per $1,000 principal amount of Notes, representing a conversion price of approximately $92.09 per share. The Notes are subject to redemption at any time on or after June 1, 2006, in whole or in part, at our option, at 30 a redemption price of 100% of the principal amount plus accrued and unpaid interest. The Notes are subject to repurchase, at the holder's option, on June 1, 2004 and June 1, 2006, at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest, if any, on such repurchase dates. Due to the high conversion price for the Notes, it is likely that the holders of the Notes will require us to redeem their Notes on June 1, 2004. We may choose to pay the repurchase price in cash, ordinary shares or a combination of cash and ordinary shares. On July 23, 2002, our Board of Directors authorized us to repurchase Notes, in such amounts, at such prices and at such times considered appropriate. Such repurchases may be made on the open market, in privately negotiated transactions or otherwise, in accordance with any applicable laws and the terms of the Notes. In the fourth quarter of fiscal 2003, we repurchased $44.6 million aggregate principal amount of the Notes, at an average price of $990 per $1,000 principal amount. In the fourth quarter of fiscal 2002, we repurchased $54.9 million aggregate principal amount of the Notes, at an average price of $890 per $1,000 principal amount. We funded these repurchases, and intend to fund any future repurchases, with available funds. As of September 30, 2003, $400.5 million aggregate principal amount of the Notes was outstanding. SHARE REPURCHASE PROGRAM On November 5, 2003, we announced that our Board of Directors had authorized a share repurchase program of up to five million ordinary shares over the next twelve months. The authorization permits us to purchase ordinary shares in open market or privately negotiated transactions and at prices we deem appropriate. We stated that one of the main purposes of the repurchase program was to offset the dilutive effect of any future share issuances, including issuances in connection with acquisitions or pursuant to employee equity plans. In accordance with this program, as of December 22, 2003, we had repurchased approximately 5.0 million ordinary shares, at an average price of $24.82 per share. Pursuant to a previous share repurchase program, in fiscal 2002 we purchased 7.7 million of our ordinary shares at a weighted average price of $14.13 per share. ADJUSTMENT TO THE BASIS OF INVESTMENTS We recorded pretax charges of $5.5 million and $6.8 million in fiscal 2002 and fiscal 2001, respectively, to adjust the carrying value of certain investments accounted for by us under the cost method. Following these adjustments and the Certen transaction, we had no investments accounted for under the cost method as of September 30, 2003, with a carrying value other than zero. 31 OPERATING RESULTS The following table sets forth for the fiscal years ended September 30, 2003, 2002 and 2001 certain items in our consolidated statements of operations reflected as a percentage of total revenue: YEAR ENDED SEPTEMBER 30, ------------------------ 2003 2002 2001 ------ ------ ------ Revenue: License... 4.4% 9.5% 11.2% Service... 95.6 90.5 88.8 ----- ----- ----- 100.0 100.0 100.0 ----- ----- ----- Operating expenses: Cost of license... 0.4 0.3 0.4 Cost of service... 61.2 57.5 55.3 Research and development................................ 8.0 7.7 6.9 Selling, general and administrative...................... 13.9 13.9 12.7 Amortization of goodwill and purchased intangible assets... 1.4 14.4 14.3 Restructuring charges, in-process research and development and other.. 0.9 3.2 -- ----- ----- ----- 85.8 97.0 89.6 ----- ----- ----- Operating income.. 14.2 3.0 10.4 Interest income and other, net............................ 1.0 1.2 1.4 ----- ----- ----- Income before income taxes................................ 15.2 4.2 11.8 Income taxes... 3.8 4.5 7.5 ----- ----- ----- Net income (loss)... 11.4% (0.3)% 4.3% ===== ===== ===== FISCAL YEARS ENDED SEPTEMBER 30, 2003 AND 2002 Revenue. Total revenue for the year ended September 30, 2003 was $1,483.3 million, a decrease of $130.2 million, or 8.1%, from fiscal 2002. The decrease in revenue was primarily due to the slowdown in customer buying decisions, stemming from overall reductions in the capital

investment budgets of many communications service providers. License revenue decreased from $153.7 million in fiscal 2002 to $65.6 million in fiscal 2003, a decrease of 57.3%, and service revenue decreased by 2.9% from $1,459.9 million in fiscal 2002 to $1,417.7 million in fiscal 2003. The decrease in license revenue is attributable primarily to the reduction in capital investments by our communications customers, which resulted in our obtaining fewer new contracts than in fiscal 2002 and smaller initial spending commitments under contracts with some of our customers. The significant new contracts that we did obtain were for Managed Services arrangements, which contain only a small license revenue component. In addition, the current communications market environment has resulted in pricing pressure, particularly with respect to license fees. The decrease in service revenue is attributable to smaller initial spending commitments by our communications customers and reduced discretionary spending under contracts with some of our customers. Recently, there have been some increasing signs of stabilization in the market. During 2003, total quarterly revenue increased by 4.6% between the first and second quarters, by 6.2% between the second and third quarters and by 9.2% between the third and fourth quarters, primarily as a result of the new Managed Services agreements and our acquisition of Certen in the fourth quarter of fiscal 2003. The recent quarterly trends in our total revenue are summarized below (in millions): Q1 Q2 Q3 Q4 ------ ------ ------ ------ Fiscal 2003...................................... $339.4 $355.0 $377.2 $411.7 Fiscal 2002...................................... $422.6 $455.3 $380.2 $355.5 32 The decline in our overall revenue in fiscal 2003 was primarily attributable to a decrease in revenue from CC&B Systems. Total CC&B Systems revenue for fiscal 2003 was $1,280.4 million, a decrease of $159.6 million, or 11.1%, from fiscal 2002. The demand for our CC&B Systems is primarily driven by the need for communications companies to continue to upgrade their billing, CRM and order management systems. In fiscal 2003, many communications companies reduced or delayed expenditures on system upgrades as a result of the slowdown in the communications industry. Approximately $59.0 million of CC&B Systems revenue for fiscal 2003 was derived from customers other than communications service providers. Revenue from Directory Systems was $202.9 million for fiscal 2003, an increase of $29.3 million, or 16.9%, over fiscal 2002. The increase is attributable primarily to new Managed Services agreements as well as extensions of agreements with, and additional services rendered to, existing customers, which was partially offset by completion of some major implementation projects. In fiscal 2003, revenue from customers in North America, Europe and the rest of the world accounted for 62.0%, 29.8% and 8.2% of our total revenue, respectively, compared to 61.9%, 28.9% and 9.2%, respectively, for fiscal 2002. Cost of License. Cost of license for fiscal 2003 was $5.8 million compared to $6.0 million for fiscal 2002. Cost of license mainly includes amortization of purchased computer software and intellectual property rights. Cost of Service. Cost of service for fiscal 2003 was $907.6 million, a decrease of $19.7 million, or 2.1%, from the cost of service of $927.4 million for fiscal 2002. As a percentage of revenue, cost of service increased to 61.2% in fiscal 2003 from 57.5% in fiscal 2002. The decrease in cost of service is attributable to the cost reduction programs that we implemented in fiscal 2002 and in the first quarter of fiscal 2003. Although our cost of service decreased in fiscal 2003, our gross margin also decreased. The decrease in the gross margin is attributable to the decrease in license revenue and to the fact that our cost reductions were proportionally less than the decrease in our service revenue. Our gross margin was also affected by new Managed Services projects, which tend to be less profitable in their initial period. We have taken steps to decrease our costs and increase our gross margin. See the discussion above under the caption "Operational Efficiency and Cost Reduction Programs". Research and Development. Research and development expense was primarily comprised of compensation expense attributable to research and development activities, either in conjunction with customer projects or as part of our internal product development program. In fiscal 2003, research and development expense was $119.3 million, or 8.0% of revenue, compared with $124.1 million, or 7.7% of revenue, in fiscal 2002. Our research and development budget, like all of our costs, is sensitive to our overall financial condition. A decrease in our total revenue could, in certain circumstances, lead to reductions in the levels of our research and development expenditures. See the discussion above under the caption "Research and Development, Patents and Licenses". Selling, General and Administrative. Selling, general and administrative expense was primarily comprised of compensation expense and decreased by 7.7% to $206.3 million, or 13.9% of revenue, in fiscal 2003 from $223.6 million, or 13.9% of revenue, in fiscal 2002. The decrease in selling, general and administrative expense is attributable to the cost reduction programs that we implemented in fiscal 2002 and in the first quarter of fiscal 2003. Selling, general and administrative expense decreased in fiscal 2003 proportionally with our revenue, resulting in the same percentage of revenue as in fiscal 2002. Amortization of Goodwill and Purchased Intangible Assets. Effective as of October 1, 2002, we adopted SFAS No. 142 and goodwill related to our acquisitions is no longer amortized. Instead, any such goodwill

is subject only to periodic impairment tests. See the discussion below under the caption "Adoption of New Accounting Standards". Amortization of goodwill for fiscal 2002 was $204.6 million. Amortization of purchased intangible assets for fiscal 2003 was $19.9 million, compared to $27.2 million in fiscal 2002. Amortization of purchased intangible assets for fiscal 2002 included amortization of purchased intangible assets that were fully amortized in fiscal 2002. 33 Restructuring Charges, In-Process Research and Development and Other. Restructuring charges, in-process research and development and other in fiscal 2003 consisted of a restructuring charge of $10.0 million related to the cost reduction program we implemented in the first quarter of fiscal 2003 and the cumulative effect of our 10% share in Certen's pre-acquisition results of $4.1 million. Restructuring charges, in-process research and development and other in fiscal 2002 consisted of a one-time charge of $17.4 million for write-off of purchased in-process research and development resulting from the Clarify transaction, a restructuring charge of $13.3 million related to the consolidation of data centers and the resulting closure of our Stamford, Connecticut facility and a restructuring charge of $20.9 million related to the cost reduction program we implemented in the fourth quarter of fiscal 2002. See the discussion above under the caption "Operational Efficiency and Cost Reduction Programs". Operating Income. Operating income for fiscal 2003, was $210.4 million, or 14.2% of revenue, compared to $49.2 million, or 3.0% of revenue, in fiscal 2002. The increase is attributable primarily to our adoption of SFAS No. 142, which resulted in no amortization of goodwill in fiscal 2003. Operating income for fiscal 2002 included amortization of goodwill of $204.6 million, amortization of purchased intangible assets of $27.2 million, restructuring charges of $34.2 million and the write-off of in-process research and development of $17.4 million. Excluding amortization of goodwill and purchased intangible assets and the write-off of in-process research and development, operating income for fiscal 2002 was $298.4 million, or 18.5% of revenue. Operating income for fiscal 2003 included amortization of purchased intangible assets of $19.9 million, restructuring charges of $10.0 million and the cumulative effect of our 10% share in Certen's pre-acquisition results of $4.1 million. Excluding amortization of purchased intangible assets and the cumulative effect of our 10% share in Certen's pre-acquisition results, operating income for fiscal 2003, was $234.5 million, or 15.8% of revenue, a decrease of 21.4% from the prior year. The decrease in our operating income, excluding amortization of purchased intangible assets and goodwill, the write-off of in-process research and development and the cumulative effect of our 10% share in Certen's pre-acquisition results, was due to a decrease in our revenue, mainly license revenue, in fiscal 2003, caused by the slowdown in our markets, which was not offset by a corresponding decrease in our operating costs. Our operating income was also affected by our new Managed Services projects that are less profitable in their initial period. Interest Income and Other, Net. For fiscal 2003, interest income and other, net, was $14.8 million, a decrease of $4.5 million from fiscal 2002. The decrease in interest income and other, net, is primarily attributable to the decline in interest rates on our short-term interest-bearing investments, and to the gain recognized in the fourth quarter of fiscal 2002 from the repurchases of our Notes that was greater than the gain from our repurchases in the fourth quarter of 2003. See the discussion above under the caption "Convertible Notes". Income Taxes. Income taxes for fiscal 2003 were $56.3 million on pretax income of $225.2 million. Our effective tax rate in fiscal 2003 was 25%. As a result of the adoption of SFAS No. 142 we no longer amortize goodwill resulting from acquisitions, thus goodwill amortization that is not tax-deductible no longer affects our effective tax rate. In fiscal 2002, income taxes were $73.5 million on pretax income of $68.5 million, or 107% of pretax income, resulting from the non-cash amortization of goodwill related to acquisitions, much of which is not tax-deductible. The effective tax rate for fiscal 2002, excluding amortization of purchased intangible assets and goodwill, was 28%. See the discussion below under the caption "Effective Tax Rate". Net Income (Loss). Net income was $168.9 million in fiscal 2003, compared to a net loss of $5.1 million in fiscal 2002. Net income for fiscal 2003 included amortization of purchased intangible assets, restructuring charges and the cumulative effect of our 10% share in Certen's pre-acquisition results. Excluding amortization of purchased intangible assets and the cumulative effect of our 10% share in Certen's pre-acquisition results and related tax effects, net income was $186.9 million, representing 12.6% of revenue, a decrease of 16.7% from fiscal 2002. Net loss for fiscal 2002 included amortization of goodwill and purchased intangible assets, restructuring charges, the write-off of in-process research and development and the gain from the repurchase of our Notes. Excluding amortization of goodwill and purchased 34 intangible assets, the write-off of in-process research and development and the gain from the repurchase of our Notes and related tax effects, net income for fiscal 2002 was $224.4 million, or 13.9% of revenue. The decrease in our net income, excluding amortization of purchased intangible assets and goodwill, the write-off of in-process research and development, the gain from the repurchase of our Notes and the cumulative effect of our 10% share in Certen's

pre-acquisition results, was due to a decrease in our revenue in fiscal 2003, caused by the slowdown in our markets, which was not offset by a corresponding decrease in our operating costs. Our net income was also affected by new Managed Services projects that are less profitable in their initial period. Prior to fiscal 2003, goodwill was amortized using the straight-line method over its estimated period of benefit. Net income and earnings per share for fiscal 2002, adjusted to exclude amortization of goodwill and workforce-in-place, net of tax, are as follows (in millions, except per share data): YEAR ENDED SEPTEMBER 30, 2002 ------------ Reported net loss... $ (5.1) Add back: goodwill and workforce-in-place amortization...... 204.6 Attributable tax effect.................................... (2.7) ------ Adjusted net income.. $196.8 ====== Adjusted basic earnings per share.......................... $ 0.89 ====== Adjusted diluted earnings per share........................ $ 0.88 ====== Diluted Earnings (Loss) Per Share. Diluted earnings per share were $0.77 for fiscal 2003, compared to net loss per share of $0.02 in fiscal 2002. Diluted earnings per share in fiscal 2003, excluding amortization of purchased intangible assets and goodwill, the write-off of in-process research and development, the gain from the repurchase of our Notes and the cumulative effect of our 10% share in Certen's pre-acquisition results and related tax effects, decreased by 15.8% from $1.01 in fiscal 2002, to $0.85 per diluted share. FISCAL YEARS ENDED SEPTEMBER 30, 2002 AND 2001 Revenue. Total revenue for the year ended September 30, 2002 was $1,613.6 million, an increase of $79.7 million, or 5.2%, over fiscal 2001. This growth rate was significantly less than the 37.2% revenue increase we had been able to achieve between fiscal 2000 and 2001, primarily as a result of the pronounced decrease in our CC&B Systems revenue in the second half of fiscal 2002, partially offset by revenue attributable to our acquisition of Clarify. While CC&B Systems revenue levels in the first six months of fiscal 2002 were 23.8% higher than revenue levels for CC&B Systems in the comparable period of fiscal 2001, and 6.3% higher sequentially based on a comparison of our second to our first fiscal quarters of 2002, CC&B Systems revenue declined significantly in the second six months of fiscal 2002. We experienced a $130.6 million, or 16.6%, decline in revenue from our CC&B Systems between the first half and second half of fiscal 2002 and sequential declines of $65.9 million or 16.3% and $23.0 million or 6.8%, between the second and third fiscal quarters and third and fourth fiscal quarters of 2002, respectively. The quarterly trends in our total revenue in fiscal 2002 and 2001 are summarized below (in millions): Q1 Q2 Q3 Q4 ------ ------ ------ ------ Fiscal 2002... $422.6 $455.3 $380.2 $355.5 Fiscal 2001... $342.2 $372.3 $404.0 $415.4 License revenue decreased from $171.4 million in fiscal 2001 to $153.7 million in fiscal 2002, a decrease of 10.4%, while service revenue increased by 7.2% to $1,459.9 million in fiscal 2002 from $1,362.5 million in fiscal 2001. The decrease in license revenue and the smaller than expected growth in service revenue are attributable primarily to the slowdown in customer buying decisions in the second half 35 of fiscal 2002, stemming from overall reductions in the capital investment budgets of many communications service providers. This reduction in investment by our customers resulted in our obtaining fewer new contracts than expected and smaller than expected initial spending commitments under contracts with some of our customers. The smaller than anticipated increase in service revenue was also attributable, in part, to reduced discretionary spending under contracts with some of our customers in the second half of fiscal 2002. Total CC&B Systems revenue for fiscal 2002 was $1,440.0 million, an increase of $60.3 million, or 4.4%, over fiscal 2001. During fiscal 2002, the demand for our CC&B Systems was primarily driven by the need for communications companies to continue to upgrade their customer care and billing, CRM software and order management systems in response to competition in the subscriber markets, the need to offer new data services and the need to improve productivity and operational efficiency. In addition, demand for our CC&B Systems was enhanced by our acquisition of Clarify, which added Clarify's CRM software to our CC&B Systems portfolio of offerings. As a result of the Clarify acquisition, we derived a portion of our CC&B Systems revenue in fiscal 2002 from customers other than communications service providers. For fiscal 2002, $59.9 million of our CC&B Systems revenue was attributable to such customers. Revenue from Directory Systems was $173.6 million for fiscal 2002, an increase of $19.3 million, or 12.5%, over fiscal 2001. The increase was attributable primarily to extensions of agreements with, and additional services rendered to, existing customers. In fiscal 2002, revenue from customers in North America, Europe and the rest of the world accounted for 61.9%, 28.9% and 9.2%, respectively, compared to 53.8%, 35.8% and 10.4%, respectively, for fiscal 2001. The growth in North American revenue in fiscal 2002 was attributable primarily to increased activity from existing customers. Cost of License. Cost of license for fiscal 2002 was $6.0 million, an increase of $0.3 million, or 5.9%, over the cost of license for fiscal 2001. Cost of license includes amortization of purchased computer software and intellectual property rights, and is decreasing as a result of our amortizing on a faster than straight-line basis. Cost of Service. Cost of service for fiscal 2002 was $927.4 million, an

increase of $79.8 million, or 9.4%, over the cost of service of $847.6 million for fiscal 2001. As a percentage of revenue, cost of service increased to 57.5% in fiscal 2002 from 55.3% in fiscal 2001. The increase in cost of service as a percentage of revenue was attributable to the decrease in license revenue and the slight decrease in the gross margin of our service revenue in the second half of fiscal 2002. As a result of general economic and other factors negatively impacting our markets, we took steps to decrease our costs. See the discussion above under the caption "Operational Efficiency and Cost Reduction Programs". Research and Development. Research and development expense was primarily comprised of compensation expense attributable to research and development activities, either in conjunction with customer projects or as part of our internal product development program. For fiscal 2002, research and development expense was $124.1 million, or 7.7% of revenue, compared with $105.8 million, or 6.9% of revenue, in fiscal 2001. The increase in expense reflects ongoing expenditures primarily for CC&B Systems. Our research and development budget, like all of our costs, is sensitive to our overall financial condition. A decrease in our total revenue could, in certain circumstances, lead to reductions in the levels of our research and development expenditures. See the discussion above under the caption "Research and Development, Patents and Licenses". Selling, General and Administrative. Selling, general and administrative expense was primarily comprised of compensation expense and increased by 14.3% to $223.6 million, or 13.9% of revenue, in fiscal 2002 from $195.6 million, or 12.7% of revenue, in fiscal 2001. The increase in selling, general and administrative expense as a percentage of revenue was attributable primarily to the increase in our selling and marketing efforts in fiscal 2002 and, to a lesser degree, to the reduction in our revenue growth, which was not offset by a corresponding decrease in our selling, general and administrative expense. 36 Amortization of Goodwill and Purchased Intangible Assets. Amortization of goodwill and purchased intangible assets for fiscal 2002 was $231.8 million, compared to $220.0 million in fiscal 2001. The increase in amortization expense in fiscal 2002 was due to non-goodwill related amortization resulting from the Clarify acquisition. In accordance with SFAS No. 142, goodwill related to Clarify, an acquisition completed after July 1, 2001, is not amortized, but is subject to periodic impairment tests. For acquisitions completed prior to July 1, 2001, under SFAS No. 142 amortization of goodwill and certain other intangibles, such as workforce-in-place, ceased on October 1, 2002. In fiscal 2002 and 2001, total amortization related to such goodwill and workforce-in-place was $204.6 million. Effective as of October 1, 2002, we adopted SFAS No. 142 and goodwill related to our acquisitions is no longer amortized. Instead, any such goodwill became subject only to the same periodic impairment tests applicable to Clarify-related goodwill. Restructuring Charges, In-Process Research and Development and Other. Restructuring charges, in-process research and development and other in fiscal 2002 consisted of a one-time charge of $17.4 million for write-off of purchased in-process research and development resulting from the Clarify transaction, a restructuring charge of $13.3 million related to the consolidation of data centers and the resulting closure of our Stamford, Connecticut facility and a restructuring charge of $20.9 million related to the cost reduction program we implemented in the fourth quarter of fiscal 2002. See the discussion above under the caption "Operational Efficiency and Cost Reduction Programs". Operating Income. Operating income for fiscal 2002 was $49.2 million, compared to $159.3 million for fiscal 2001, a decrease of 69.1%. The decrease resulted primarily from the reduction in our revenue growth in fiscal 2002, which was not offset by a corresponding decrease in our costs, as well as from the Clarify acquisition-related charges and the restructuring charges resulting from the Stamford facility closing and the implementation of our cost reduction program. Operating income for fiscal 2001 included amortization of goodwill and purchased intangible assets of $220.0 million. Excluding amortization of goodwill and purchased intangible assets, operating income for fiscal 2001 was $379.3 million, or 24.7% of revenue. Operating income for fiscal 2002 included amortization of goodwill and purchased intangible assets of $231.8 million, restructuring charges of $34.2 million and the write-off of in-process research and development of $17.4 million. Excluding amortization of goodwill and purchased intangible assets and the write-off of in-process research and development, operating income for fiscal 2002 was $298.4 million, or 18.5% of revenue, a decrease of 21.3% from the prior year. The decrease in our operating income, excluding amortization of purchased intangible assets and goodwill and the write-off of in-process research and development, was due to a decrease in our revenue in fiscal 2002, caused by the slowdown in our market in the second half of fiscal 2002, which was not offset by a corresponding decrease in our operating costs. Interest Income and Other, Net. For fiscal 2002, interest income and other, net, was $19.3 million, a decrease of $3.0 million from fiscal 2001. The decrease in interest income and other, net, was primarily attributable to the full-year interest expense and amortization of debt issuance costs related to our Notes, compared to four months of these costs in fiscal 2001. The decrease in interest income and other, net, was partially offset by gain of $6.0 million from the repurchase of our

Notes. See the discussion above under the caption "Convertible Notes". Income Taxes. Income taxes for fiscal 2002 were $73.5 million on pretax income of $68.5 million. Our effective tax rate for fiscal 2002 was 107%, resulting from the non-cash amortization of goodwill related to acquisitions, much of which is not tax deductible. See the discussion below under the caption "Effective Tax Rate". The effective tax rate for fiscal 2002, excluding the acquisition-related charges, and the gain from the repurchase of our Notes, was 28%. For the year ended September 30, 2001, income taxes were $115.2 million on income before income taxes of $181.6 million. The effective tax rate for fiscal 2001 was 63% (due to non-cash amortization of goodwill related to acquisitions, much of which is not tax deductible) and the effective tax rate for such period, excluding acquisition-related charges, was 30%. Net (Loss) Income. We incurred a net loss of $5.1 million in fiscal 2002, compared to net income of $66.4 million in fiscal 2001. The net loss in fiscal 2002 resulted primarily from a decrease in our license 37 revenue and the reduction in our revenue growth in fiscal 2002, which was not offset by a corresponding decrease in our costs, as well as from the Clarify acquisition-related charges and the restructuring charges resulting from the Stamford facility closing and the implementation of the cost reduction program. Our adoption of SFAS No. 142 as of October 1, 2002 had a positive impact on our results of operations in fiscal 2003. As a result of the adoption, we no longer amortize the goodwill from any of our acquisitions. Instead, any such goodwill is subject only to periodic impairment tests. Net income for fiscal 2001 included amortization of goodwill and purchased intangible assets. Excluding amortization of goodwill and purchased intangible assets and related tax effects, net income for fiscal 2001 was $281.1 million, or 18.3% of revenue. Net income for fiscal 2002 included amortization of goodwill and purchased intangible assets, purchased in-process research and development, restructuring charges and the gain from the repurchase of our Notes. Excluding the aforementioned items, net income was $224.4 million, representing 13.9% of revenue, a decrease of 20.2% from the prior year. The decrease in our net income, excluding amortization of purchased intangible assets and goodwill, the write-off of in-process research and development and the gain from the repurchase of our Notes, was due to a decrease in our revenue in the year ended September 30, 2002, caused by the slowdown in our markets in the second half of fiscal 2002, which was not offset by a corresponding decrease in our operating costs. Set forth below is the effect of non-amortization of goodwill and workforce-in-place (in millions, except per share data): YEAR ENDED SEPTEMBER 30, -------------- 2002 2001 ------ ------ Reported net (loss) income................................. $ (5.1) $ 66.4 Add back: goodwill and workforce-in-place amortizations..... 204.6 204.6 Attributable tax effect.................................... (2.7) (2.7) ------ ------ Adjusted net income....................................... $196.8 $268.3 ====== ====== Adjusted basic earnings per share.......................... $ 0.89 $ 1.21 ====== ====== Adjusted diluted earnings per share........................ $ 0.88 $ 1.18 ====== ====== Diluted (Loss) Earnings Per Share. Diluted loss per share was $0.02 for fiscal 2002, compared to diluted earnings per share of $0.29 in fiscal 2001. Diluted earnings per share in fiscal 2002, excluding amortization of purchased intangible assets and goodwill, the write-off of in-process research and development and the gain from the repurchase of our Notes and related tax effects, decreased by 18.5% from $1.24 in fiscal 2001, to $1.01 per diluted share. See the discussion above under the caption "Operational Efficiency and Cost Reduction Programs". LIQUIDITY AND CAPITAL RESOURCES Cash, cash equivalents and short-term interest-bearing investments totaled $1,290.9 million as of September 30, 2003, compared to $1,047.8 million as of September 30, 2002. The increase is attributable primarily to cash flows from operations which was partially offset by the use of $67.6 million in cash in connection with the acquisition of Certen, less $25.5 million in cash received in connection with that acquisition, and $44.2 million in cash to repurchase a portion of our Notes. Net cash provided by operating activities amounted to $382.0 million for fiscal 2003 and $412.3 million for fiscal 2002. The decrease in cash flows from operations was primarily due to decreased net income before depreciation and amortization, which was partially offset by a decrease in working capital excluding cash. We currently intend to retain our future operating cash flows to support the further expansion of our business including investments related to new Managed Services projects and acquisitions, although we may also use a portion of our cash for future repurchases of our outstanding securities. See the discussions above under the captions "Share Repurchase Program" and "Convertible Notes". 38 As of September 30, 2003, we had positive working capital of $567.3 million, compared to positive working capital of $938.6 million as of September 30, 2002. The decrease is attributable primarily to the reclassification of the Notes as a short-term liability because the holders of the Notes may require us to redeem the Notes on June 1, 2004. The decrease was partially offset by the increase in cash, cash equivalents and short-term interest-bearing investments. We believe that our current cash balances, cash generated from operations and our current lines of credit will provide sufficient resources to meet our liquidity needs for at least the next fiscal year. As

of September 30, 2003, $400.5 million aggregate principal amount of the Notes was outstanding. In July 2002, our Board of Directors authorized us to repurchase outstanding Notes, in such amounts, at such prices and at such times considered appropriate by us. During the fourth quarter of fiscal 2002 and the fourth quarter of fiscal 2003 we repurchased $54.9 million and $44.6 million aggregate principal amount of the Notes, respectively. We funded these repurchases, and intend to fund any future repurchases, with available funds. On June 1, 2004, the holders of our Notes may require us to redeem their Notes at 100% of their principal amount plus accrued interest to the redemption date. Due to the high conversion price for the Notes, it is likely that the holders of the Notes will require us to redeem their Notes. We may choose to redeem the Notes in cash, in ordinary shares, or in a combination of cash and ordinary shares. See the discussion above under the caption "Convertible Notes". As of September 30, 2003, we had available short-term general revolving lines of credit totaling $30.0 million, none of which were outstanding. In addition, as of September 30, 2003 we had credit facilities totaling $40.3 million, limited for the use of letters of credit and bank guarantees from various banks. Outstanding letters of credit and bank guarantees as of September 30, 2003 totaled $22.6 million. These were mostly supported by a combination of the credit facilities described above and compensating cash balances that we maintain with the issuing banks. As of September 30, 2003, we had outstanding long-term obligations of $48.2 million in connection with leasing arrangements. The following table summarizes our contractual obligations as of September 30, 2003 and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in millions): CASH PAYMENTS DUE BY PERIOD --- LESS THAN CONTRACTUAL OBLIGATIONS TOTAL 1 YEAR 1-3 YEARS 4-5 YEARS OVER 5 YEARS ---------------------- ------ --------- --------- --------- ------------ Convertible notes(*)........................ $400.5 $400.5 $ -- $ -- $ -- Financing arrangement....................... 2.8 2.2 0.6 -- -- Capital lease obligations.................... 48.2 25.5 22.7 -- -- Non-cancelable operating leases............. 146.5 38.8 55.2 33.5 19.0 ------ ------ ----- ----- ----- $598.0 $467.0 $78.5 $33.5 $19.0 ====== ====== ===== ===== ===== -------------- (*) June 1, 2004 is the earliest date that the holders of our Notes may require us to redeem their Notes. See the discussion above under the caption "Convertible Notes". Our capital expenditures were approximately $63.0 million in fiscal 2003. These expenditures consisted primarily of purchases of computer equipment and, to a lesser degree, leasehold improvements and vehicles. We funded our capital expenditures principally from operating cash flows. We do not anticipate any changes to this policy in the foreseeable future. NET DEFERRED TAX ASSETS In September 2003, we released $13.3 million of valuation allowances related to deferred tax assets derived from carry-forward operating losses incurred by our Canadian subsidiary. In September 2002, we released valuation allowances related to deferred tax assets derived from carry-forward operating losses relating to losses incurred by the subsidiary prior to our acquisition of that company in April 2000, resulting in an offsetting reduction of the goodwill recorded in the acquisition of approximately 39 $9.0 million. The release of these valuation allowances was made based on our estimation that we will be able to realize the tax benefits associated with those net operating losses. EFFECTIVE TAX RATE Our effective tax rate for fiscal year 2003 was 25% due to the corporate income tax rates in the various countries in which we operate and the relative magnitude of our business in those countries. Effective October 1, 2002, following the adoption of SFAS No. 142, we no longer amortize goodwill resulting from acquisitions. See the discussion below under the caption "Adoption of New Accounting Standards". As a result, goodwill amortization that is not tax-deductible no longer affects our effective tax rate. In fiscal 2002, our effective tax rate was 107%. This high effective tax rate was primarily attributable to amortization of goodwill related to our acquisitions, much of which was not tax deductible. In fiscal 2002 our effective tax rate was also adversely affected by the revision we made in our third quarter of fiscal 2002 to our annual estimated pretax income levels. Excluding the amortization related to our acquisitions, our overall effective tax rate would have been 28% for fiscal 2002. We expect a reduction in our effective tax rate in fiscal 2004 from 25% to 23%. The reduction is due to our continued expansion into countries with lower effective tax rates. ADOPTION OF NEW ACCOUNTING STANDARDS ACCOUNTING FOR REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables" ("Issue 00-21"). Issue 00-21 provides guidance for determining the unit(s) of accounting in arrangements that include multiple products, services, and/or rights to use assets. Issue 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We have adopted Issue 00-21 effective July 1, 2003. The guidance in EITF 00-21 did not modify our previous accounting for transactions that includes multiple deliverables. ACCOUNTING FOR STOCK-BASED COMPENSATION In June 2002 the FASB issued SFAS No. 148, "Accounting for

Stock-Based Compensation -- Transition and Disclosure -- an Amendment of FASB Statement No. 123". SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition of SFAS No. 148 were effective for fiscal years ending after December 15, 2002. The disclosure provision of SFAS No. 148 is effective for interim periods beginning after December 15, 2002. We follow Accounting Principles Board No. 25 in accounting for our employee stock options. The transition and annual disclosure requirements of SFAS No. 148 were effective for us commencing January 1, 2003. We adopted the interim disclosure provision in the quarter ended March 31, 2003, which is provided in Note 2 to the consolidated financial statements included in this Annual Report. GOODWILL AND PURCHASED INTANGIBLE ASSETS In June 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to periodic impairment tests in accordance with the Statement. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Certain intangible assets will continue 40 to be amortized over their useful lives. According to SFAS No. 141's new definition of intangible assets, workforce-in-place was reclassified to goodwill. Effective October 1, 2002 we adopted SFAS No. 142. Subsequent to the adoption of the new rules, we performed the transitional impairment tests of goodwill recorded as of October 1, 2002. Thereafter, an annual impairment test will be performed in the fourth quarter of each fiscal year, or more frequently if impairment indicators are present. As discussed in Note 1 to the consolidated financial statements included in this document, Amdocs and its subsidiaries operate in one operating segment, which is the reporting unit under SFAS No. 142. In calculating the fair value of the reporting unit, we used a discounted cash flow methodology. There was no impairment of goodwill upon adoption of SFAS No. 142 and as a result of the annual impairment tests. Prior to fiscal 2003, goodwill and workforce-in-place were amortized using the straight-line method over their estimated period of benefit. We recorded goodwill and workforce-in-place amortization of $204.6 million in fiscal 2002 and in fiscal 2001. GAINS AND LOSSES FROM EXTINGUISHMENT OF DEBT In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). SFAS No. 145 eliminates previous requirements to classify gains and losses from extinguishment of debt as extraordinary items in earnings. Gains or losses from extinguishment of debt for fiscal years beginning after May 15, 2002 may not be classified as extraordinary items unless certain provisions are met. Early adoption was encouraged. We adopted SFAS No. 145 in the fourth quarter of fiscal 2002 in connection with the gains related to the repurchases of a portion of our Notes. See the discussion above under the caption "Convertible Notes". GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES In November 2002 the FASB issued FASB Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that at the inception of certain types of guarantees, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. The initial recognition and measurement requirements of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002. The additional disclosure requirements of FIN No. 45 are effective for interim and annual periods ending after December 15, 2002, and are applicable to certain of our guarantees issued before December 31, 2002. We are a party to an agreement entered into prior to December 31, 2002 that includes an indemnification of one of our customers for any withholding tax that might be required under the customer's local tax laws from certain payments made to us under this agreement. The indemnification under this agreement expires in December 2005. As of September 30, 2003 and September 30, 2002, the maximum potential amount of our future exposure under this guarantee pursuant to FIN No. 45 was $4.7 million. We generally sell our ClarifyCRM products with a limited warranty for a period of 90 days. Our policy is to accrue for warranty costs, if needed, based on historical trends in product failure. Based on our experience, only minimal warranty services have been required and, as a result, we did not accrue any amounts for product warranty liability during fiscal 2003. We generally indemnify our customers against claims of intellectual property infringement made by third parties arising from the use of our software. To date, we have incurred only

minimal costs as a result of such obligations and have not accrued any liabilities related to such indemnification in our financial statements. 41 RECENT ACCOUNTING PRONOUNCEMENTS COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity, including restructuring activities, be recognized and measured initially at fair value only when the liability is incurred, or for certain one-time employee termination costs over a future service period. Previously, a liability for an exit cost was recognized when a company committed to an exit plan. As a result, SFAS No. 146 may affect both the timing and amounts of the recognition of future restructuring costs. SFAS No. 146 was effective for exit or disposal activities that were initiated after December 31, 2002. NON-SOFTWARE ELEMENTS IN AN ARRANGEMENT CONTAINING SOFTWARE In July 2003, the EITF reached a consensus on EITF Issue No. 03-05, "Applicability of AICPA Statement of Position ("SOP") 97-2, Software Revenue Recognition, to Non-Software Deliverables in an Arrangement Containing More-Than Incidental Software" ("Issue 03-05"). Issue 03-05 is regarding whether non-software deliverables (e.g., non-software related equipment or services) included in an arrangement that contains software that is more than incidental to the products or services as a whole are included within the scope of Statement of Position 97-2, "Software Revenue Recognition". Software-related elements include software products, upgrades/enhancements, post-contract customer support, and services as well as any non-software deliverables for which a software deliverable is essential to its functionality. Under Issue 03-05, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related and, therefore, included within the scope of SOP 97-2. Issue 03-05 is effective for arrangements entered into in the first reporting period (annual or interim) beginning after August 13, 2003. We are in the process of analyzing the effect of Issue 03-05 on our consolidated financial position and results of operations and believe it will not be significant. CRITICAL ACCOUNTING POLICIES Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent liabilities. On a regular basis, we evaluate and may revise our estimates. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent. Actual results could differ materially from the estimates under different assumptions or conditions. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. These policies require that we make estimates in the preparation of our financial statements as of a given date. Our critical accounting policies are as follows: - Revenue recognition and contract accounting - Doubtful accounts - Tax accounting - Derivative and hedge accounting - Realizability of long-lived assets 42 Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other key accounting policies. We believe that, compared to the critical accounting policies listed above, the other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported consolidated results of operations for a given period. REVENUE RECOGNITION AND CONTRACT ACCOUNTING Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We follow very specific and detailed guidelines, several of which are discussed above, in measuring revenue; however, certain judgments affect the application of our revenue recognition policy. A significant portion of our revenue is recognized over the course of long-term projects, under the percentage of completion method of accounting. The percentage of completion method requires significant judgment, such as estimations of progress-to-completion, contract revenue, loss contracts and contract costs. Our revenue recognition policy takes into consideration the creditworthiness and past transaction history of each customer in determining the probability of collection as a criterion of revenue recognition. This determination requires the exercise of judgment, which affects our revenue recognition. If we determine that collection of a fee is not reasonably assured, we defer the revenue recognition until the time collection becomes reasonably assured, which is generally upon receipt of cash. For arrangements with multiple obligations, we allocate revenue to each component based upon its fair value, which is determined in reliance on the specific objective evidence for that element. Such determination is judgmental and for most contracts is based on normal pricing and

discounting practices for those elements in similar arrangements. Revenue from third-party hardware and software sales is recorded at a gross or net amount according to certain indicators. The application of these indicators for gross and net reporting of revenue depends on the relative facts and circumstances of each sale and requires significant judgment. DOUBTFUL ACCOUNTS The allowance for doubtful accounts is for estimated losses resulting from the inability of our customers to make required payments. We evaluate accounts receivable to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, such as past experience, credit quality of the customer, age of the receivable balance and current economic conditions that may affect a customer's ability to pay. If collection is not reasonably assured at the time the transaction is consummated, we do not recognize revenue until collection becomes reasonably assured. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The allowance for doubtful accounts is established through a charge to selling, general and administrative expenses. TAX ACCOUNTING As part of the process of preparing our consolidated financial statements we are required to estimate our income tax expense in each of the jurisdictions in which we operate. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and reimbursement arrangements among related entities, the process of identifying items of revenue and expenses that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting differences. These differences result in deferred tax assets and liabilities, which are included within our 43 consolidated balance sheet. We may record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome and in assessing the need for the valuation allowance, there is no assurance that the final tax outcome and the valuation allowance will not be different than those which are reflected in our historical income tax provisions and accruals. Such differences could have a material effect on our income tax provision, net income and cash balances in the period in which such determination is made. DERIVATIVE AND HEDGE ACCOUNTING Approximately 20% of our revenue and 40% of our operating expenses (excluding acquisition-related charges and restructuring charges) are not denominated in U.S. dollar or linked to the U.S. dollar. We enter into foreign exchange forward contracts to hedge a significant portion of our foreign currency exposure to minimize fluctuations in revenue and expenses. The majority of our hedging arrangements are classified as cash flow hedges. Accordingly, changes in the fair value of these forward exchange contracts are recorded in other comprehensive income. We estimate the fair value of such derivative contracts by reference to forward and spot rates quoted in active markets. Establishing and accounting for foreign exchange contracts involve judgments, such as determining the nature of the exposure, assessing its amount and timing, and evaluating the effectiveness of the hedging arrangement. Although we believe that our estimates are accurate and meet the requirement of hedge accounting, actual results differ from these estimates, and such difference could cause fluctuation of our recorded revenue and expenses. REALIZABILITY OF LONG-LIVED ASSETS We are required to assess the impairment of long-lived assets, tangible and intangible, on an annual basis, and potentially more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. We assess the impairment based on a number of factors, including any significant changes in the manner of our use of the acquired assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period. Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of fair value to the carrying amount of the asset, an impairment charge is recorded. We measure fair value based on a projected future cash flow using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported. LITIGATION On December 2, 2003 we announced that the United States District Court for the Eastern District of Missouri had issued an order granting our motion to dismiss the securities class action lawsuits that had been pending against us and certain of our directors and officers since June 2002. The court's order also directed that judgment be entered in favor of the defendants. The consolidated complaint filed in the action alleged that we and the individual defendants had made false or misleading statements about our business and future prospects during a

putative class period between July 18, 2000 and June 20, 2002. Under the Federal rules the plaintiffs have a period of 30 days in which to appeal the court's decision. 44 SECURITIES AND EXCHANGE COMMISSION INVESTIGATION We have been informed that the Midwest Regional Office of the SEC is conducting a private investigation into the events leading up to our announcement in June 2002 of revised projected revenue for the third and fourth quarters of fiscal 2002. The investigation appears to be focused on, but is not explicitly limited to, our forecasting beginning with our April 23, 2002 press release. Although we believe that we will be able to satisfy any concerns the SEC staff may have in this regard, we are unable to predict the duration, scope, or outcome of the investigation. We are cooperating fully with the SEC staff. ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES DIRECTORS AND SENIOR MANAGEMENT We rely on the executive officers of our principal operating subsidiaries to manage our business. In addition, Amdocs Management Limited, our management subsidiary, performs certain executive coordination functions for all of our operating subsidiaries. As of November 30, 2003, our directors, senior managers and key employees upon whose work we are dependent were as follows: NAME AGE POSITION ---- ---- -------- Bruce K. Anderson(1)(3)...................... 63 Chairman of the Board and President, Amdocs Limited Avinoam Naor(1)(3)........................... 55 Vice Chairman, Amdocs Limited Adrian Gardner(2)............................ 41 Director and Chairman of the Audit Committee, Amdocs Limited Julian A. Brodsky............................ 70 Director, Amdocs Limited Charles E. Foster(2)......................... 67 Director, Amdocs Limited James S. Kahan(1)(3)......................... 56 Director, Amdocs Limited John T. McLennan(2).......................... 58 Director, Amdocs Limited Robert A. Minicucci(1)(3).................... 51 Director and Vice President, Amdocs Limited Mario Segal.................................. 56 Director, Amdocs Limited Dov Baharav(1)(3)............................ 53 Director, Amdocs Limited; President and Chief Executive Officer, Amdocs Management Limited Eli Gelman................................... 45 Director, Amdocs Limited; Executive Vice President, Amdocs Management Limited Nehemia Lemelbaum............................ 61 Director, Amdocs Limited; Senior Vice President, Amdocs Management Limited Ron Moskovitz................................ 40 Senior Vice President and Chief Financial Officer, Amdocs Management Limited David Avner.................................. 52 Senior Vice President, Amdocs Management Limited Nissim Daunov................................ 46 Senior Vice President, Amdocs Management Limited Thomas G. O'Brien............................ 43 Treasurer and Secretary, Amdocs Limited Melinos Pissourios........................... 35 Managing Director and General Manager, Amdocs Development Limited Burt Podbere................................ 37 General Manager, Amdocs Software Systems Limited --------------- (1) Member of the Executive Committee (2) Member of Audit Committee (3) Member of the Compensation Committee 45 Bruce K. Anderson has been Chairman of the Board of Directors of Amdocs since September 1997 and currently holds the title of President of our holding company, Amdocs Limited. Since August 1978, he has been a general partner of Welsh, Carson, Anderson & Stowe ("WCAS"), an investment firm that specializes in the acquisition of companies in the information services, communications and health care industries. Until September 2003, investment partnerships affiliated with WCAS had been among our largest shareholders. Mr. Anderson served for nine years with Automated Data Processing, Inc. ("ADP") until his resignation as Executive Vice President and a director of ADP, and President of ADP International, effective August 1978. Mr. Anderson serves on the board of Alliance Data Systems, Inc., a publicly held company, and Headstrong, Inc. Avinoam Naor has been a director of Amdocs since January 1999 and currently holds the title of Vice Chairman of the Board of Directors. Mr. Naor was a member of the team that founded Amdocs in 1982, initially serving as a Senior Vice President. He was appointed President and Chief Executive Officer of Amdocs Management Limited in 1995 and he held that position until July 2002. In 1998 he led our initial public offering, and while he was Chief Executive Officer of Amdocs Management Limited, he directed our major acquisitions and secondary offerings. He has been involved with software development for 29 years. Adrian Gardner has been a director of Amdocs since April 1998 and is Chairman of the Audit Committee. Mr. Gardner is the Chief Financial Officer and a director of Strakan Group, Ltd., a pharmaceuticals company based in the United Kingdom, which he joined in April 2002. Prior to joining Strakan, he was a Managing Director of Lazard LLC, based in London, where he worked with technology- and telecommunications-related companies. Prior to joining Lazard in 1989, Mr. Gardner qualified as a chartered accountant with Price Waterhouse (now PricewaterhouseCoopers). Mr. Gardner is a member of the Institute of Chartered Accountants in England & Wales. Julian A. Brodsky has been a director of Amdocs since July 2003. Mr. Brodsky has served as a director and as Vice Chairman of Comcast Corporation for more than five years. Prior to November 2002, he served as a director and Vice Chairman of Comcast Holdings for more than five years. Mr. Brodsky is also Chairman of Comcast Interactive Capital, LP, a venture fund affiliated with Comcast. He is also a

director of RBB Fund, Inc. Charles E. Foster has been a director of Amdocs since December 2001. He was Chairman of the Board of Prodigy Communications Corporation from June until November 2001. From April 1997 until June 2001, Mr. Foster served as Group President of SBC, where he was responsible, at various times, for engineering, network, centralized services, marketing and operations, information systems, procurement, treasury, international operations, wireless services, merger integration, real estate, yellow pages and cable TV operations. SBC International, Inc. ("SBCI"), a wholly owned subsidiary of SBC, is one of our largest shareholders. SBC, together with its affiliates, is a significant customer of ours. Mr. Foster is a member of the Texas Society of Professional Engineers and a director of Storage Technology Corporation, a publicly-traded company engaged in the manufacture of products for storing digital data. James S. Kahan has been a director of Amdocs since April 1998. He has worked at SBC since 1983, and currently serves as a Senior Executive Vice President, a position he has held since 1992. SBCI, a wholly owned subsidiary of SBC, is one of our largest shareholders. SBC, together with its subsidiaries, is a significant customer of ours. Prior to joining SBC, Mr. Kahan held various positions at several telecommunications companies, including Western Electric, Bell Laboratories, South Central Bell and AT&T. John T. McLennan has been a director of Amdocs since November 1999. Since May 2000, he has served as Vice-Chair and Chief Executive Officer of Allstream (formerly AT&T Canada). Mr. McLennan founded and was the President of Jenmark Consulting Inc. from 1997 until May 2000. From 1993 to 1997, Mr. McLennan served as the President and Chief Executive Officer of Bell Canada. Prior to that, he held various positions at several telecommunications companies, including BCE Mobile Communications and Cantel Inc. Mr. McLennan is also a director of Allstream, Hummingbird Ltd., a Canadian publicly held 46 company engages in the production of enterprise management software, and of several other private software and communication companies. Robert A. Minicucci has been a director of Amdocs since September 1997 and currently holds the title of Vice President of our holding company, Amdocs Limited. He has been a general partner of WCAS since 1993. From 1992 to 1993, Mr. Minicucci served as Senior Vice President and Chief Financial Officer of First Data Corporation, a provider of information processing and related services for credit card and other payment transactions. From 1991 to 1992, he served as Senior Vice President and Treasurer of the American Express Company. He served for twelve years with Lehman Brothers (and its predecessors) until his resignation as a Managing Director in 1991. Mr. Minicucci is also a director of Alliance Data Systems, Inc., a publicly held company, and several private companies. Mario Segal has been a director of Amdocs since December 2001 and served as a Senior Vice President and the Chief Operating Officer of Amdocs Management Limited until July 2002. He joined Amdocs in 1984 as Senior Vice President and was a leading member of the team that developed the ADS (NG)/Family of Products directory automation systems and the Amdocs CC&B Systems platform. Prior to joining Amdocs, Mr. Segal was an account manager for a major North American yellow pages publisher and prior thereto managed the computer department of a major Israeli insurance company, leading large-scale software development projects and strategic planning of automation systems. Dov Baharav has been a director of Amdocs and the President and Chief Executive Officer of Amdocs Management Limited since July 2002. Mr. Baharav has overall coordination responsibilities for the operations and activities of our operating subsidiaries. In 1991, Mr. Baharav joined Amdocs Inc., our principal U.S. subsidiary, serving as its Vice President and then President in St. Louis, Missouri until 1995. From 1995 until July 2002, Mr. Baharav was a Senior Vice President and the Chief Financial Officer of Amdocs Management Limited. Prior to joining Amdocs, Mr. Baharav served as Chief Operating Officer of Optrotech Ltd., a publicly held company that develops, manufactures and markets electro-optical devices. Eli Gelman has been a director of Amdocs since July 2002 and is the Executive Vice President of Amdocs Management Limited, where he has responsibility for sales, strategic alliances and corporate and business development. He has more than 26 years of experience in the software industry, including more than 15 years with Amdocs. Prior to his current position, he was a division president, where he headed our United States sales and marketing operations and helped spearhead our entry into the CC&B Systems market. Before that, Mr. Gelman was an account manager for our major European and North American installations, and has led several major software development projects. Before joining Amdocs, Mr. Gelman was involved in the development of real-time software systems for communications networks. Nehemia Lemelbaum has been a director of Amdocs since December 2001 and is a Senior Vice President of Amdocs Management Limited. He joined Amdocs in 1985, with initial responsibility for U.S. operations. Mr. Lemelbaum led our development of graphic products for the yellow pages industry and later led our development of CC&B Systems, as well as our penetration into the CC&B Systems market. Prior to joining Amdocs, he served for nine years with Contahal Ltd., a leading Israeli software company, first as a senior consultant, and later as Managing Director. From 1967 to 1976, Mr.

Lemelbaum was employed by the Ministry of Communications of Israel (the organization that predated Bezeq, the Israel Telecommunication Corp. Ltd.), with responsibility for computer technology in the area of business data processing. Ron Moskovitz is a Senior Vice President and the Chief Financial Officer of Amdocs Management Limited, and has overall coordination responsibility for the financial reporting of our operating subsidiaries. Mr. Moskovitz joined Amdocs in 1998 and served until July 2002 as Vice President of Finance. He has been responsible for the Company's financial organization, and was involved in Amdocs' initial public offering, merger and acquisition activities and various other financial operations. Prior to joining Amdocs, Mr. Moskovitz served in various senior financial positions with Tower Semiconductor, a publicly held semiconductor manufacturer. Mr. Moskovitz is a Certified Public Accountant (Isr). 47 David Avner is a Senior Vice President of Amdocs Management Limited, where he has responsibility for corporate operations. Mr. Avner has had more than 20 years of experience in the software industry, including the four years he has been with Amdocs. Immediately prior to his current position, Mr. Avner was a group president, in which capacity he headed our European and Latin America operations. Before that, Mr. Avner was a vice president in charge of a number of major European and North American installations. Prior to joining Amdocs, Mr. Avner was the General Manager of Strauss Dairy (now part of the Strauss-Elite Group), a leading producer of dairy and other food products in Israel, and prior to that was its Chief Information Officer. Nissim Daunov is a Senior Vice President of Amdocs Management Limited, and is responsible for new initiatives in financial services. For the past 23 years, Mr. Daunov has been involved in design, development and implementation of large-scale data processing systems, handling large data volumes over distributed networks. In the last year, Mr. Daunov was responsible for our product development and marketing organizations. Mr. Daunov joined Amdocs in 1986. Thomas G. O'Brien is Treasurer and Secretary of Amdocs Limited and since July 1995 has held other financial management positions within Amdocs. From July 1993 to July 1995, Mr. O'Brien was Controller of Big River Minerals Corporation, a diversified natural resources company. From 1989 to 1993, Mr. O'Brien was the Assistant Controller for Big River Minerals Corporation. From 1983 to 1989, Mr. O'Brien was with Arthur Young and Company (now Ernst & Young LLP). Mr. O'Brien is a member of the American Institute of Certified Public Accountants. Melinos Pissourios is Managing Director and General Manager of Amdocs Development Limited. Mr. Pissourios, who joined Amdocs in April 1998, is also the Financial Controller of Amdocs Development Limited in Cyprus. Prior to joining Amdocs, Mr. Pissourios was the Group Financial Controller at AEC Holland Group. He also worked for KPMG Peat Marwick for four years. Mr. Pissourios is a member of the Institute of Chartered Accountants of England & Wales and of the Cyprus Institute of Certified Public Accountants and he is a registered auditor in Cyprus. Burt Podbere has been the General Manager of Amdocs Software Systems Limited in Ireland since October 2002. He joined the Amdocs group in May 2001 as the financial director of Amdocs Canada Inc. Prior to joining Amdocs, Mr. Podbere was the Canadian Group Controller at US Filter Corporation, part of the Vivendi group of companies. He also worked for Ernst & Young LLP for four years. Mr. Podbere is a member of the Canadian Institute of Chartered Accountants. COMPENSATION Our directors who are not employees of the Company ("Non-Employee Directors") receive compensation for their services as directors in the form of cash and options to purchase ordinary shares. Our compensation policy, as modified as of October 1, 2003, provides that each Non-Employee Director receives an annual cash payment of $30,000. Each of our Non-Employee Directors also receives an initial option grant for the purchase of 10,000 ordinary shares. Thereafter, Non-Employee Directors receive an annual option grant for the purchase of 5,000 ordinary shares, except for Non-Employee Directors who are members of our Audit Committee, who receive an annual option grant for the purchase of 6,000 ordinary shares. All option grants to our Non-Employee Directors vest as to one-quarter of the shares immediately, with the remainder vesting annually in three equal installments. Each Non-Employee Director receives $1,500 per meeting of the Board of Directors and $1,000 per meeting of a committee of the Board of Directors, except for Non-Employee Directors who are members of our Audit Committee, who receive $2,000 per meeting of the Audit Committee. We reimburse all of our directors for their reasonable travel expenses incurred in connection with attending Board or committee meetings. A total of 20 persons who served either as directors of Amdocs or members of its administrative, supervisory or management bodies during all or part of fiscal 2003 received remuneration from Amdocs. The aggregate remuneration paid by us to such persons was approximately $9.7 million, which includes amounts set aside or accrued to provide pension, retirement or similar benefits, but does not include amounts expended by us for automobiles made available to such persons, expenses (including business 48 travel, professional and business association dues) or other fringe benefits. Included in this amount is remuneration to three former executive officers and one former director for the applicable portions of fiscal

2003. During fiscal 2003, we granted options to purchase ordinary shares to certain of our Non-Employee Directors, but did not make any option grants to members of our administrative, supervisory or management bodies. We granted to five Non-Employee Directors options to purchase an aggregate of 51,000 ordinary shares at a weighted average price of $10.13 per share, with vesting over three year terms. To recognize significant contributions to Amdocs over the years, we also granted to three of our Non-Employee Directors options to purchase an aggregate of 159,000 ordinary shares at a weighted average exercise price of $8.83 per share, with vesting over three year terms. All options were granted pursuant to our 1998 Stock Option and Incentive Plan, as amended. See discussion below -- "Share Ownership -- Employee Stock Option and Incentive Plan". BOARD PRACTICES Our entire Board of Directors is comprised of up to 13 directors. Eleven directors were elected to our Board of Directors at our annual meeting of shareholders on January 23, 2003 and one director was appointed to our Board of Directors effective July 2003. As permitted by our Articles of Association, the Board of Directors may fill the one remaining vacancy at any time. All directors hold office until the next annual meeting of our shareholders, which generally is in January of each calendar year, or until their respective successors are duly elected and qualified or their positions are earlier vacated by resignation or otherwise. Executive officers of Amdocs are elected by the Board of Directors on an annual basis and serve until the next annual meeting of the Board of Directors or until their respective successors have been duly elected or qualified or their positions are earlier vacated by resignation or otherwise. The executive officers of each of the Amdocs subsidiaries are elected by the board of directors of such subsidiary on an annual basis and serve until the next annual meeting of such board of directors or until their respective successors have been duly elected or qualified or their positions are earlier vacated by resignation or otherwise. Other than the employment agreements between us and our Chief Executive Officer and Executive Vice President which provide for immediate cash severance upon termination of employment, there are currently no service contracts in effect between us and any of our directors providing for immediate cash severance upon termination of their employment. BOARD COMMITTEES Our Board of Directors has formed three committees set forth below. Members of each committee are appointed by the Board of Directors. The Executive Committee may act from time to time instead of the full Board of Directors and has such responsibilities as may be delegated to it by the Board of Directors. The current members of our Executive Committee are Messrs. Anderson (Chair), Naor, Baharav, Kahan and Minicucci. The Audit Committee of the Board of Directors reviews, acts on and reports to the Board of Directors with respect to various auditing and accounting matters, including the selection of our auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of our independent auditors and our accounting practices. The current members of our Audit Committee are Messrs. Gardner (Chair), McLennan and Foster, all of whom are independent directors, as required by the rules of the NYSE. The Compensation Committee of the Board of Directors determines the salaries and incentive compensation of the officers of Amdocs and our subsidiaries and provides recommendations for the salaries and incentive compensation of other employees and certain consultants. The Compensation Committee also administers various compensation, stock and benefit plans of Amdocs. The current members of our Compensation Committee are Messrs. Anderson (Chair), Naor, Baharav, Kahan and Minicucci. None of 49 the members of the Committee was an employee of ours at any time during fiscal 2003, with the exception of Mr. Baharav. Mr. Baharav does not participate in any discussions relating to his own compensation. EMPLOYEES The following table presents the approximate number of our full-time employees as of each date indicated, by function and by geographical location: AS OF SEPTEMBER 30, --------------------- 2003 2002 2001 ------ ----- ----- Software and Information Technology Israel.. 4,100 4,100 4,200 North America... 3,500 2,600 2,700 Rest of World... 1,600 1,700 1,700 ------ ----- ----- 9,200 8,400 8,600 Management and Administration............................ 1,000 1,000 1,100 ------ ----- ----- Total employees... 10,200 9,400 9,700 ====== ===== ===== During fiscal 2002 and the first quarter of fiscal 2003, we took steps to reduce our costs and achieve increased operational efficiency, including by making reductions in our workforce. In the fourth quarter of 2002, as part of a cost reduction program, we reduced our workforce by approximately 1,000 software and information technology specialists and administrative professionals. In November 2002, we announced additional measures to reduce costs, including further reductions in our workforce of approximately 400 software and information technology specialists and administrative professionals. During fiscal 2003, as a result of our acquisition of Certen and our Managed Services agreement with SBC, we increased our workforce by approximately 1,200 employees. As of November 30, 2003, we employed on a full-time basis approximately 9,000 software and information technology specialists, engaged in research, development, maintenance and support activities, and

approximately 1,000 managers and administrative professionals. Approximately 4,000 of these software and information technology specialists are located in Israel and approximately 3,500 are located in North America. As a company with global operations, we are required to comply with various labor and immigration laws throughout the world, including laws and regulations in Australia, Brazil, Canada, Europe, Israel, Japan and the United States. Our employees in Europe are protected, in some countries, by mandatory collective bargaining agreements. To date, compliance with such laws has not been a material burden for us. As the number of our employees increases over time in particular countries, our compliance with such regulations could become more burdensome. Our principal operating subsidiaries are not party to any collective bargaining agreements. However, our Israeli subsidiary is subject to certain labor-related statutes and to certain provisions of collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordinating Bureau of Economic Organizations (including the Industrialists' Association), which are applicable to our Israeli employees by virtue of expansion orders of the Israeli Ministry of Labor and Welfare. A significant provision applicable to all employees in Israel under collective bargaining agreements and expansion orders is an adjustment of wages in relation to increases in the consumer price index, or CPI. The amount and frequency of these adjustments are modified from time to time. We consider our relationship with our employees to be good and have never experienced a labor dispute, strike or work stoppage. In addition, all employees in Brazil, including members of management, are represented by unions. Collective bargaining between employers and unions is mandatory, negotiated annually, and covers work conditions, including cost of living increases, minimum wages that exceed government thresholds and overtime pay. 50 Some employees in Canada have union representation. There is no history of strikes or work stoppages, and our relationships with these employees are good. At the present time, we are appealing a ruling by the Canadian Industrial Relations Board that addresses the structure of the relevant bargaining unit and imposes Canadian Federal (as opposed to provincial) jurisdiction. We believe the outcome of the appeal will not have a material adverse effect on our operations or financial results. SHARE OWNERSHIP SECURITY OWNERSHIP OF DIRECTORS AND SENIOR MANAGEMENT AND CERTAIN KEY EMPLOYEES As of November 28, 2003, the aggregate number of our ordinary shares beneficially owned by our directors, senior managers and certain key employees was 33,465,836 shares. This number includes ordinary shares held by SBC, since Mr. Kahan, Senior Executive Vice President of SBC, serves on our Board of Directors, and accordingly, he may be deemed to be the beneficial owner of the shares held by SBC. Mr. Kahan disclaims beneficial ownership of such shares. Historically, this number also included shares held by WCAS, since Messrs. Anderson and Minicucci, affiliates of WCAS, serve on our Board of Directors. As of September 24, 2003, various investment partnerships affiliated with WCAS ceased to be shareholders of the Company. See "Major Shareholders and Related Party Transactions". Beneficial ownership by a person, as of a particular date, assumes the exercise of all options and warrants held by such person that are currently exercisable or are exercisable within 60 days of such date. EMPLOYEE STOCK OPTION AND INCENTIVE PLAN Our 1998 Stock Option and Incentive Plan, as amended (the "Option Plan"), provides for the grant by Amdocs of restricted shares or stock options to our directors, employees (including officers) and consultants. The purpose of the Option Plan is to enable us to attract and retain qualified personnel and to motivate such persons by providing them with an equity participation in the Company. As of November 28, 2003, of the 32,300,000 ordinary shares available for issuance under the Option Plan, 3,341,837 ordinary shares had been issued as a result of option exercises and 3,842,955 ordinary shares remained available for future grants. As of November 28, 2003, there were outstanding options to purchase an aggregate of 25,115,208 ordinary shares at exercise prices ranging from $1.92 to $78.31 per share and no restricted shares had been awarded. The Option Plan provides for the granting of "incentive stock options" and "non-qualified stock options" to purchase ordinary shares and/or the granting of rights to purchase ordinary shares on a "restricted" basis. The terms and conditions of individual grants may vary subject to the following: (i) the exercise price of incentive stock options may not be less than market value on the date of grant; (ii) the term of incentive stock options may not exceed ten years from the date of grant; and (iii) no options or awards may be granted after January 2008. The Option Plan is administered by the Compensation Committee, which determines all the terms of the awards (subject to the above), including which employees, directors or consultants are granted awards. The Board of Directors may amend or terminate the Option Plan, provided that shareholder approval is required to increase the number of ordinary shares available under the Option Plan, to materially increase the benefits accruing to participants, to change the class of employees eligible for participation, to decrease the basis upon which the minimum exercise price of options is determined or to extend the period in which awards may be granted or to grant an option that is exercisable for more

than ten years. Ordinary shares acquired upon exercise of an award are subject to certain restrictions on sale, transfer or hypothecation. As a result of the ITDS and Solect transactions, as of November 28, 2003, we are obligated to issue (and have reserved for issuance) an additional 150,883 and 88,180 ordinary shares, respectively, upon exercise of options that had previously been granted under the ITDS and Solect option plans (the "Predecessor Plans") and were exchanged for options to purchase our ordinary shares. These options have 51 exercise prices ranging from $1.87 to $71.97 per share. No additional options have been or will be granted under the Predecessor Plans. In December 2003 our Board of Directors approved, and recommended that the Company's shareholders approve, an amendment to the Option Plan. The amendment to the Option Plan would increase by 6 million shares the number of Ordinary Shares available for issuance and eliminate the Company's ability to conduct option repricing programs in which options are surrendered to the Company in exchange for new options and/or restricted stock. The shareholders will consider the amendment to the Option Plan at the Company's Annual General Meeting of Shareholders to be held January 22, 2004. ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS MAJOR SHAREHOLDERS The following table sets forth specified information with respect to the beneficial ownership of the ordinary shares as of November 28, 2003 of (i) any person known by us to be the beneficial owner of more than 5% of our ordinary shares and (ii) all of our directors and executives officers as a group. Beneficial ownership is determined in accordance with the rules of the SEC and, unless otherwise indicated, includes voting and investment power with respect to all ordinary shares, subject to community property laws, where applicable. The number of ordinary shares used in calculating the percentage beneficial ownership included in the table below is based on 216,098,335 ordinary shares outstanding as of November 28, 2003. SHARES BENEFICIALLY PERCENTAGE NAME AND ADDRESS OWNED OWNERSHIP ---------------- ------------ ---------- SBC Communications Inc.(1)................................. 20,297,698 9.4% 175 E. Houston Street San Antonio, Texas 78205-2233 MFS Investment Management(2)............................... 17,225,000 8.0% 500 Boylston Street, 15th Floor Boston, Massachusetts 02116 All directors and executive officers as a group (18 persons)(3).. 33,465,836 15.4% --------------- (1) Based upon information provided to us by SBC, SBCI, a wholly owned subsidiary of SBC, holds 7,551,875 of our ordinary shares, and SBC Option Delivery LLC, a majority-owned subsidiary of SBCI holds 12,745,823 of our ordinary shares. James S. Kahan, Senior Executive Vice President of SBC, serves on our Board of Directors. (2) Based on a third-party report obtained by the Company regarding share ownership by institutional investors, MFS Investment Management Co. owned 17,225,000 shares at November 25, 2003. (3) Includes ordinary shares held by SBC. See footnote 1 above. Mr. Kahan, Senior Executive Vice President of SBC, serves on the Company's Board of Directors and, accordingly, may be deemed to be the beneficial owner of the ordinary shares held by SBC. Mr. Kahan disclaims beneficial ownership of such shares. Also includes options granted to such directors and executive officers of the Company, which are exercisable within 60 days of November 28, 2003. Over the last three years, our major shareholders have included our directors and executive officers as a group, SBC, WCAS and other institutional investors. The share ownership by SBC has not significantly changed during this period. Investment partnerships affiliated with WCAS, which had been major shareholders in each of the last three fiscal years, ceased to be shareholders of the Company in September 2003 as a result of distributions made to the partners of such investment partnerships. Although the ownership of our directors and executive officers as a group appears to have decreased substantially in fiscal 2003, excluding the shares held WCAS, the share ownership has not changed significantly during the last three years. Because Messrs. Anderson and Minicucci, affiliates of various WCAS entities, serve on 52 our Board of Directors, the shares owned by WCAS had been included in the aggregate holdings of our executive officers and directors as a group in prior years. Southeastern Asset Management, which had been a major shareholder in fiscal 2002, ceased to be a major shareholder in June 2003. AXA Financial, which had been a major shareholder in fiscal 2001, ceased to be a major shareholder in December 2002. MFS Investment Management became a major shareholder in September 2003. As of December 11, 2003, our ordinary shares were held by 231 recordholders. Based on a review of the information provided to us by our transfer agent, 173 recordholders, holding approximately 96.2% of our outstanding ordinary shares, were residents of the United States. RELATED PARTY TRANSACTIONS In addition to being a major shareholder, SBC, and some of its operating subsidiaries, are also significant customers of ours. During fiscal 2003, 2002 and 2001, SBC and those subsidiaries accounted for approximately 11%, 11% and 13%, respectively, of our revenue. Based on long-term agreements currently in place with certain SBC subsidiaries and the Managed Services agreement announced in January 2003 with SBC's directory operations, we expect that revenue attributable to SBC entities will remain a significant portion

of our revenue in 2004. Mr. Kahan, a member of our Board of Directors, is also Senior Executive Vice President of SBC. SBC is also a beneficial owner of companies that provide certain miscellaneous support services to us in United States. ITEM 8. FINANCIAL INFORMATION FINANCIAL STATEMENTS See "Financial Statements" for our audited Consolidated Financial Statements and Financial Statement Schedule filed as part of this Annual Report. LEGAL PROCEEDINGS On December 2, 2003 we announced that the United States District Court for the Eastern District of Missouri had issued an order granting our motion to dismiss the securities class action lawsuits that had been pending against us and certain of our directors and officers since June 2002. The court's order also directed that judgment be entered in favor of the defendants. The consolidated complaint filed in the action alleged that we and the individual defendants had made false or misleading statements about our business and future prospects during a putative class period between July 18, 2000 and June 20, 2002. Under the Federal rules the plaintiffs have a period of 30 days in which to appeal the court's decision. DIVIDEND POLICY We did not pay any cash dividends on our ordinary shares in fiscal 2003, 2002 or 2001. After the payment of dividends in 1998 that followed a corporate reorganization, we decided in general to retain earnings to finance the development of our business. The payment of any future dividends will be paid by us based on conditions then existing, including our earnings, financial condition and capital requirements, as well as other conditions we deem relevant. The terms of any debt that we may incur could effectively limit our ability to pay dividends. 53 ITEM 9. THE OFFER AND LISTING Our ordinary shares have been quoted on the NYSE since June 19, 1998, under the symbol "DOX". The following table sets forth the high and low reported sale prices for our ordinary shares for the periods indicated: HIGH LOW ------- ------- FISCAL YEAR ENDED SEPTEMBER 30 1999.. $ 30.25 $ 8.75 2000.. $ 96.00 $ 19.81 2001.. $ 80.50 $ 25.85 2002.. $ 39.25 $ 6.10 2003.. $ 27.25 $ 5.85 QUARTER Fiscal 2002: First Quarter... $ 35.90 $ 24.00 Second Quarter.. $ 39.25 $ 23.60 Third Quarter... $ 26.27 $ 6.62 Fourth Quarter.. $ 9.65 $ 6.10 Fiscal 2003: First Quarter... $ 11.98 $ 5.85 Second Quarter.. $ 13.95 $ 9.86 Third Quarter... $ 25.01 $ 13.25 Fourth Quarter.. $ 27.25 $ 18.55 Fiscal 2004: First Quarter (through December 22, 2003)................ $ 27.10 $ 18.90 MOST RECENT SIX MONTHS June, 2003... $ 25.01 $ 19.60 July, 2003... $ 27.25 $ 19.50 August, 2003.. $ 22.60 $ 18.55 September, 2003... $ 23.50 $ 18.60 October, 2003.. $ 21.70 $ 18.90 November, 2003.. $ 25.66 $ 20.85 ITEM 10. ADDITIONAL INFORMATION MEMORANDUM AND ARTICLES OF ASSOCIATION The Company is registered at the Greffe (Companies Registry) in Guernsey, the Channel Islands and has been assigned company number 19528, registered office situated at Suite 5, Tower Hill House, Le Bordage, St Peter Port, Island of Guernsey, GY1 3QT, Channel Islands. The telephone number at that location is 011-44-1481-728444. The purpose of the Company is to perform any and all corporate activities permissible under Guernsey law, as forth in detail at Clause 3(1) to (37) of the Memorandum of Association of the Company (the "Memorandum of Association"). Article 21(2) of the Amended and Restated Articles of Association of the Company (the "Articles of Association") provides that a director may vote in respect of any contract or arrangement in which such director has an interest notwithstanding such director's interest and an interested director will not be liable to the Company for any profit realized through any such contract or arrangement by reason of such director holding the office of director. Article 21 of the Articles of Association provides that the remuneration of the directors shall from time to time be determined by the Company by ordinary resolution. No provision is made in the Articles of Association for directors to vote compensation to 54 themselves or any members of their body under any circumstances. Article 22 provides that directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, and to issue securities whether outright or as security for any debt, liability or obligation of the Company for any third party. Such borrowing powers can only be altered through an amendment to the Articles of Association. Directors of the Company are not required to own shares of the Company in order to serve as directors. The share capital of the Company is L5,750,000 divided into (i) 25,000,000 preferred shares with a par value of L0.01 per share and (ii) 550,000,000 ordinary shares with a par value of L0.01 per share, consisting of 500,000,000 voting ordinary shares and 50,000,000 non-voting ordinary shares. As of September 30, 2003, 216,057,098 ordinary shares were outstanding (net of treasury shares) and no non-voting ordinary shares or preferred shares were outstanding. The rights, preferences

and restrictions attaching to each class of the shares are as follows: PREFERRED SHARES - Issue -- the preferred shares may be issued from time to time in one or more series of any number of shares up to the amount authorized. - Authorization to Issue Preferred Shares -- authority is vested in the directors from time to time to authorize the issue of one or more series of preferred shares and to provide for the designations, powers, preferences and relative participating, optional or other special rights and qualifications, limitations or restrictions thereon. - Relative Rights -- all shares of any one series of preferred shares must be identical with each other in all respects, except that shares of any one series issued at different times may differ as to the dates from which dividends shall be cumulative. - Liquidation -- in the event of any liquidation, dissolution or winding-up of the Company, the holders of preferred shares are entitled to preference with respect to payment and to receive payment (at the rate fixed in any resolution or resolutions adopted by the directors in such case) plus an amount equal to all dividends accumulated to the date of final distribution to such holders. The holders of preferred shares are entitled to no further payment other than that stated above. If upon any liquidation the assets of the Company are insufficient to pay in full the amount stated above then such assets shall be distributed among the holders of preferred shares. - Voting Rights -- except as otherwise provided for by the directors upon the issue of any new series of preferred shares, the holders of shares of preferred shares have no right or power to vote on any question or in any proceeding or to be represented at, or to receive notice of, any meeting of members. ORDINARY SHARES AND NON-VOTING ORDINARY SHARES Except as otherwise provided by the Memorandum of Association and Articles of Association, the ordinary shares and non-voting ordinary shares are identical and entitle holders thereof to the same rights and privileges. - Dividends -- when and as dividends are declared on the shares of the Company the holders of voting ordinary shares and non-voting shares are entitled to share equally, share for share, in such dividends except that if dividends are declared which are payable in voting ordinary shares or non-voting ordinary shares, dividends must be declared which are payable at the same rate in both classes of shares. - Conversion of Non-Voting Ordinary Shares into Voting Ordinary Shares -- upon the transfer of non-voting ordinary shares from the original holder thereof to any third party not affiliated with such original holder, non-voting ordinary shares are redesignated in the books of the Company as voting ordinary shares and automatically convert into the same number of voting ordinary shares. 55 - Liquidation -- upon any liquidation, dissolution or winding-up of the Company, the assets of the Company remaining after creditors and the holders of any preferred shares have been paid in full shall be distributed to the holders of voting ordinary shares and non-voting ordinary shares equally share for share. - Voting Rights -- the holders of voting ordinary shares are entitled to vote on all matters to be voted on by the members, and the holders of non-voting ordinary shares are not entitled to any voting rights. - Preferences -- the voting ordinary shares and non-voting ordinary shares are subject to all the powers, rights, privileges, preferences and priorities of the preferred shares as are set out in the Articles of Association. As regards both preferred shares and voting and non-voting ordinary shares, the Company has power to purchase any of its own shares, whether or not they are redeemable and may make a payment out of capital for such purchase. There are no provisions for a classified Board of Directors or for cumulative voting for directors. Article 8 of the Articles of Association provides that all or any of the rights, privileges, or conditions attached to any class or group of shares may be changed as follows: - by an agreement between the Company and any person purporting to contract on behalf of the holders of shares of the class or group affected, provided that such agreement is ratified in writing by the holders of at least two-thirds of the issued shares of the class affected; or - with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed by majority of three-fourths of the votes of the holders of shares of the class or group affected entitled to vote and voting in person or by attorney or proxy and passed at a separate meeting of the holders of such shares but not otherwise. The Companies (Guernsey) Law, 1994 (the "Companies Law") provides that, where not provided for in the Articles of Association, a special resolution of the shareholders is required to alter the Articles of Association. A special resolution must be passed by not less than three-quarters of the votes recorded at a meeting called for purposes of voting on the matter. As such, the conditions set out above are as significant as the requirements of Guernsey law. Provisions in respect of the holding of general meetings and extraordinary general meetings are set out at Articles 14, 15 and 16 of the Articles of Association. The Articles of Association provide that an annual general meeting must be held once in every calendar year (provided that not more than 15 months have elapsed since the last such meeting) at such time and place as the directors appoint and, in default, an annual general meeting may be convened by any two members holding at least 10% in the aggregate of the Company's share capital. The directors may, whenever they deem fit, convene an extraordinary general meeting, and extraordinary general meetings will also be convened on the

requisition in writing of holders of at least 20% of the issued share capital of the Company carrying voting rights or, if the directors fail upon such requisition to convene such meeting within 21 days then such meeting may be convened by such holders in such manner as provided by the Companies Law. A minimum of 10 days' written notice is required in connection with an annual general meeting and a minimum of 14 days' written notice is required in connection with any other meeting. The notice shall specify the place, the day and the hour of the meeting, and in the case of any special business, the general nature of that business to such persons as are entitled by the Articles of Association to receive such notices from the Company provided that a meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in the Articles, be deemed to have been duly called if it is so agreed by all the members entitled to attend and vote thereat. There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities. 56 There are no provisions in the Memorandum of Association or Articles of Association that would have the effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company (or any of its subsidiaries). There are no provisions in the Memorandum of Association or Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed. United States federal law, however, requires that all directors, executive officers and holders of 10% or more of the stock of a company that has a class of stock registered under the Securities Exchange Act of 1934, as amended (other than a foreign private issuer, such as Amdocs), disclose such ownership. In addition, holders of more than 5% of a registered equity security of a company (including a foreign private issuer) must disclose such ownership. Pursuant to Article 13 of the Articles of Association, the Company may from time to time by ordinary resolution increase the share capital by such sum, to be divided into shares of such amount, as the resolution prescribes. A restructuring of the existing share capital must be done by extraordinary resolution (which requires the same vote as a special resolution), and the Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in accordance with Guernsey law. These provisions in relation to the alteration of the Company's capital are in accordance with but no more onerous than the Companies Law. MATERIAL CONTRACTS In the last two years, we have not entered into any material contracts other than contracts entered into in the ordinary course of our business. TAXATION TAXATION OF THE COMPANY The following is a summary of certain material tax considerations relating to Amdocs and our subsidiaries. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. General Our effective tax rate was 25% for the year ended September 30, 2003, compared to 107% for fiscal 2002 and 63% for fiscal 2001. The high effective tax rates in fiscal 2002 and in fiscal 2001 were primarily attributable to amortization of goodwill related to our acquisitions, much of which is not tax deductible. Effective October 1, 2002, following the adoption of SFAS No. 142, we no longer amortize goodwill resulting from acquisitions. See the discussion above under the caption "Operating and Financial Review and prospects -- Adoption of New Accounting Standards". As a result, goodwill amortization that is not tax-deductible no longer affects our effective tax rate. In the year ended September 30, 2002 our effective tax rate was also adversely affected by the fixed non-deductible expenditures representing a larger component of our pretax income. Excluding the impact of the non-deductible goodwill related to our acquisitions, our effective tax rate for fiscal 2002 was 28% compared to our historical effective tax rate of 30%, due to the corporate income tax rates in the various countries in which we operate and changes in the relative magnitude of our business in those countries. We expect a reduction in our effective tax rate in fiscal 2004 from 25% to 23%. The reduction is due to our continued expansion into countries with lower effective tax rates. There can be no assurance that our effective tax rate will not change over time as a result of a change in corporate income tax rates or other changes in the tax laws of the various countries in which we operate. Moreover, our effective tax rate in future years may be adversely affected in the event that a tax 57 authority challenged the manner in which items of income and expense are allocated among us and our subsidiaries. In addition, the Company and certain of our subsidiaries have been granted certain special tax benefits, discussed below, in Cyprus, Ireland and Israel. The loss of any such tax benefits could have an adverse effect on our effective tax rate. Certain Guernsey Tax Considerations We qualify as an exempt company (i.e., our shareholders are not Guernsey residents and we do not carry on business in Guernsey) so we generally are not subject to taxation in Guernsey. Certain Cypriot Tax Considerations Our Cyprus subsidiary, Amdocs Development Ltd., operates a

development center. Corporations resident in Cyprus are taxed on income at 10% commencing January 1, 2003 (previously at a 25% corporate tax rate) following a new Income Tax law enacted in July 2002, introducing a number of changes to the current system in an attempt to harmonize the regulations with E.U. provisions and abandon any harmful tax practices as defined by the Organization for Economic Co-operation and Development. The Government of Cyprus had issued a permit to our Cypriot subsidiary pursuant to which the activities conducted by it were deemed to be offshore activities for the purpose of Cypriot taxation. As a result, our Cypriot subsidiary is subject to an effective tax rate in Cyprus of 4.25%. In order for our subsidiary to remain entitled to this reduced rate of taxation pursuant to the permit, it had to satisfy certain requirements concerning its operations in Cyprus and to undertake certain information reporting obligations to the Government of Cyprus. The new Income Tax law repealed the favorable tax provisions applicable to offshore activities subject to certain transition rules. Pursuant to the rules, our subsidiary will continue to enjoy an effective tax rate of 4.25% until December 2005 as long as certain requirements imposed by the Government of Cyprus are met. Thereafter, our subsidiary will be taxed at the 10% tax rate. Certain Irish Tax Considerations Our Irish subsidiary, Amdocs Software Systems Ltd., operates a development center. The corporation tax rate on its trading activities was 16% for 2002 and declined to 12.5% in 2003. The subsidiary has entered into an agreement with the Irish Industrial Development Agency pursuant to which it qualifies for certain job creation grants and, consequently, certain activities conducted by it are deemed to be manufacturing activities for the purpose of Irish taxation. As a result, the subsidiary was subject to a corporation tax rate in Ireland of 10% with respect to its manufacturing activities. This tax rate on manufacturing activities was available to our Irish subsidiary until December 31, 2002. As of January 1, 2003, our Irish subsidiary was subject to a single corporation tax rate of 12.5% on all of its trading and manufacturing activities. Certain Israeli Tax Considerations Our Israeli subsidiary, Amdocs (Israel) Limited, operates our largest development center. Discussed below are certain Israeli tax considerations relating to our Israeli subsidiary. General Corporate Taxation in Israel. Effective January 1, 1996, and thereafter, in general, Israeli companies are subject to "Company Tax" at the rate of 36% of taxable income. However, the effective tax rate payable by an Israeli company that derives income from an Approved Enterprise (as further discussed below) may be considerably less. Law for the Encouragement of Capital Investments, 1959. Certain production and development facilities of our Israeli subsidiary have been granted "Approved Enterprise" status pursuant to the Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"), which provides certain tax and financial benefits to investment programs that have been granted such status. 58 The Investment Law provides that capital investments in production facilities (or other eligible assets) may, upon application to the Israeli Investment Center, be designated as an Approved Enterprise. Each instrument of approval for an Approved Enterprise relates to a specific investment program delineated both by the financial scope of the investment, including source of funds, and by the physical characteristics of the facility or other assets. The tax benefits available under any instrument of approval relate only to taxable profits attributable to the specific investment program and are contingent upon compliance with the conditions set out in the instrument of approval. Tax Benefits. Taxable income derived from an Approved Enterprise is subject to a reduced corporate tax rate of 25% until the earlier of - seven consecutive years (or ten in the case of an FIC (as defined below)) commencing in the year in which the Approved Enterprise first generates taxable income, - twelve years from the year of commencement of production, or - fourteen years from the year of the approval of the Approved Enterprise status. Such income is eligible for further reductions in tax rates if we qualify as a Foreign Investors' Company ("FIC") depending on the percentage of the foreign ownership. Subject to certain conditions, an FIC is a company more than 25% of whose share capital (in terms of shares, rights of profits, voting and appointment of directors) and more than 25% of whose combined share and loan capital are owned by non-Israeli residents. The tax rate is 20% if the foreign investment is 49% or more but less than 74%; 15% if the foreign investment is 74% or more but less than 90%; and 10% if the foreign investment is 90% or more. The determination of foreign ownership is made on the basis of the lowest level of foreign ownership during the tax year. A company that owns an Approved Enterprise, approved after April 1, 1986, may elect to forego the entitlement to grants and apply for an alternative package of tax benefits. In addition, a company (like our Israeli subsidiary) with an enterprise outside the National Priority Regions (which is not entitled to grants) may also apply for the alternative benefits. Under the alternative benefits, undistributed income from the Approved Enterprise operations is fully tax exempt (a tax holiday) for a defined period. The tax holiday ranges between two to ten years from the first year of taxable income subject to the limitations as described above, depending principally upon the geographic location within Israel. On expiration of the tax holiday, the Approved Enterprise is eligible for a beneficial tax rate (25% or

lower in the case of an FIC, as described above) for the remainder of the otherwise applicable period of benefits. Our Israeli subsidiary has elected the alternative benefits with respect to its current Approved Enterprise and its enlargements, pursuant to which the Israeli subsidiary enjoys, in relation to its Approved Enterprise operations, certain tax holidays, based on the location of activities within Israel, for a period of two or ten years (and in some cases for a period of four years) and, in the case of two year tax holidays, reduced tax rates for an additional period of up to eight years. In case our Israeli subsidiary pays a dividend, at any time, out of income earned during the tax holiday period in respect of its Approved Enterprise, it will be subject, assuming that the current level of foreign investment in Amdocs is not reduced, to corporate tax at the otherwise applicable rate of 10% of the income from which such dividend has been paid and up to 25% if such foreign investments are reduced (as detailed above). This tax is in addition to the withholding tax on dividends as described below. Under an instrument of approval issued in December 1997 and relating to the current investment program of our Israeli subsidiary and to the income derived therefrom, our Israeli subsidiary is entitled to a reduced tax rate period of thirteen years (instead of the eight-year period referred to above.) The tax benefits, available with respect to an Approved Enterprise only to taxable income attributable to that specific enterprise, are given according to an allocation formula provided for in the Investment Law or in the instrument of approval, and are contingent upon the fulfillment of the conditions stipulated by the Investment Law, the regulations published thereunder and the instruments of approval for the specific investments in the Approved Enterprises. In the event our Israeli subsidiary fails to comply with these conditions, the tax and other benefits could be canceled, in whole or in part, and the subsidiary might be required to refund the amount of the canceled benefits, with the addition of CPI linkage differences and interest. We believe that the Approved 59 Enterprise of our Israeli subsidiary substantially complies with all such conditions currently, but there can be no assurance that it will continue to do so. From time to time, the Government of Israel has discussed reducing the benefits available to companies under the Investment Law. The termination or substantial reduction of any of the benefits available under the Investment Law could have a material adverse effect on future investments by us in Israel (although such termination or reduction would not affect our Israeli subsidiary's existing Approved Enterprise or the related benefits). Dividends Dividends paid out of income derived by an Approved Enterprise during the benefit periods (or out of dividends received from a company whose income is derived by an Approved Enterprise) are subject to withholding tax at a reduced rate of 15% (deductible at source). In the case of companies that do not qualify as a FIC, the reduced rate of 15% is limited to dividends paid at any time up to twelve years thereafter. TAXATION OF HOLDERS OF ORDINARY SHARES Certain United States Federal Income Tax Considerations The following discussion describes the material United States federal income tax consequences to the ownership or disposition of our ordinary shares to a holder that is (i) an individual who is a citizen or resident of the United States; (ii) a corporation created or organized in, or under the laws of, the United States or of any state thereof; (iii) an estate, the income of which is includable in gross income for United States federal income tax purposes regardless of its source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons has the authority to control all substantial decisions of the trust. This summary generally considers only U.S. holders that own ordinary shares as capital assets. This summary does not discuss the United States federal income tax consequences to a holder of ordinary shares that is not a U.S. holder. This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This discussion does not address all aspects of United States federal income taxation that may be relevant to a holder of ordinary shares based on such holder's particular circumstances (including potential application of the alternative minimum tax), United States federal income tax consequences to certain holders that are subject to special treatment (such as taxpayers who are broker-dealers, insurance companies, tax-exempt organizations, financial institutions, holders of securities held as part of a "straddle", "hedge" or "conversion transaction" with other investments, or holders owning directly, indirectly or by attribution at least 10% of the ordinary shares), or any aspect of state, local or non-United States tax laws. Additionally, this discussion does not consider the tax treatment of persons who hold ordinary shares through a partnership or other pass-through entity or the possible application of United States federal gift or estate taxes. This summary is for general information only and is not binding on the Internal Revenue Service ("IRS"). There can be no assurance that the IRS will not challenge one or more of the statements made herein. U.S. holders are urged to consult their own tax advisers as to the particular tax consequences to them of owning and disposing of our ordinary shares. 60 Dividends. In general, a U.S. holder receiving a

distribution with respect to the ordinary shares will be required to include such distribution (including the amount of foreign taxes, if any, withheld therefrom) in gross income as a taxable dividend to the extent such distribution is paid from our current or accumulated earnings and profits as determined under United States federal income tax principles. Any distributions in excess of such earnings and profits will first be treated, for United States federal income tax purposes, as a nontaxable return of capital to the extent of the U.S. holder's tax basis in the ordinary shares, and then, to the extent in excess of such tax basis, as gain from the sale or exchange of a capital asset. See "Disposition of Ordinary Shares" below. United States corporate shareholders will not be entitled to any deduction for distributions received as dividends on the ordinary shares. Dividend income is generally taxed as ordinary income. However, as a result of recent United States tax legislation, a maximum United States federal income tax rate of 15% will apply to "qualified dividend income" received by individuals (as well as certain trusts and estates) in taxable years beginning after December 31, 2002 and before January 1, 2009, provided that certain holding period requirements are met. "Qualified dividend income" includes dividends paid on shares of United States corporations as well as dividends paid on shares of "qualified foreign corporations", including shares of a foreign corporation which are readily tradable on an established securities market in the United States. Since our ordinary shares are readily tradable on the New York Stock Exchange, we believe that dividends paid by us with respect to our ordinary shares should constitute "qualified dividend income" for United States federal income tax purposes, provided that the holding period requirements are satisfied and none of the other special exceptions applies. The amount of foreign income taxes that may be claimed as a credit against United States federal income tax in any year is subject to certain complex limitations and restrictions, which must be determined on an individual basis by each U.S. holder. The limitations set out in the Code include, among others, rules that may limit foreign tax credits allowable with respect to specific classes of income to the United States federal income taxes otherwise payable with respect to each such class of income. Dividends paid by us generally will be foreign source "passive income" or "financial services income" for United States foreign tax credit purposes. Disposition of Ordinary Shares. Upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition by such U.S. holder and its tax basis in the ordinary shares. Such capital gain or loss will be long-term capital gain or loss if the U.S. holder has held the ordinary shares for more than one year at the time of the disposition. In the case of a U.S. holder that is an individual, trust or estate, long-term capital gains realized upon a disposition of the ordinary shares after May 5, 2003 and before the end of a taxable year which begins before January 1, 2009 generally will be subject to a maximum United States federal tax income rate of 15%. Gains realized by a U.S. holder on a sale, exchange or other disposition of ordinary shares generally will be treated as United States source income for United States foreign tax credit purposes. Information Reporting and Backup Withholding. Dividend payments with respect to the ordinary shares and proceeds from the sale, exchange or redemption of ordinary shares may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. Generally a U.S. holder will provide such certification on IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Amounts withheld under the backup withholding rules may be credited against a U.S. holder's tax liability, and a U.S. holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for a refund with the IRS. Passive Foreign Investment Company Considerations. If, during any taxable year, 75% or more of our gross income consists of certain types of passive income, or the average value during a taxable year of passive assets (generally assets that generate passive income) is 50% or more of the average value of all of 61 our assets, we will be treated as a "passive foreign investment company" under U.S. federal income tax law for such year and succeeding years. If we are treated as a passive foreign investment company, a U.S. holder may be subject to increased tax liability upon the sale of our ordinary shares or upon the receipt of certain distributions, unless such U.S. holder makes an election to mark our ordinary shares to market annually. Based on an analysis of our financial position, we believe that we have not been a passive foreign investment company for U.S. federal income tax purposes for any preceding taxable year and expect that we will not become a passive foreign investment company during the current taxable year. However, because the tests for determining passive foreign investment company status are applied as of the end of each taxable year and are dependent upon a number of factors, some of which are beyond our control, including the value of our assets, based on the market price of our ordinary shares, and the amount and type of our gross income, we cannot assure you that we will not become a passive foreign investment company in the future

or that the IRS will agree with our conclusion regarding our current passive foreign investment company status. We intend to use reasonable efforts to avoid becoming a passive foreign investment company. Rules relating to a passive foreign investment company are very complex. U.S. holders should consult their own tax advisors regarding the U.S. federal income tax considerations discussed above and the applicability of passive foreign investment company rules to their investments in our ordinary shares. Certain Guernsey Tax Considerations Under the laws of Guernsey as currently in effect, a holder of our ordinary shares who is not a resident of Guernsey and who does not carry on business in Guernsey through a permanent establishment situated there is exempt from Guernsey income tax on dividends paid with respect to the ordinary shares and is not liable for Guernsey income tax on gains realized on sale or disposition of such ordinary shares. In addition, Guernsey does not impose a withholding tax on dividends paid by us to the holders of our ordinary shares. There are no capital gains, gift or inheritance taxes levied by Guernsey, and the ordinary shares generally are not subject to any transfer taxes, stamp duties or similar charges on issuance or transfer. DOCUMENTS ON DISPLAY We are subject to the reporting requirements of foreign private issuers under the U.S. Securities Exchange Act of 1934. Pursuant to the Exchange Act, we file reports with the SEC, including this Annual Report on Form 20-F. We also submit reports to the SEC, including Reports of Foreign Private Issuers on Form 6-K. You may read and copy such reports at the SEC's public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room. Such reports are also available to the public on the SEC's website at http://www.sec.gov. Some of this information may also be found on our website at www.amdocs.com. You may request copies of our reports, at no cost, by writing to or telephoning us as follows: Amdocs, Inc. 1390 Timberlake Manor Parkway Chesterfield, Missouri 63017 Telephone: (314) 212-8328 ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK CURRENCY FLUCTUATIONS The U.S. dollar is our functional currency. In fiscal 2003, approximately 80% of our revenue was in U.S. dollars or linked to the U.S. dollar, and approximately 60% of our operating expenses (excluding acquisition-related charges and restructuring charges) were paid in dollars or linked to dollars. As a result 62 of long-term contracts in currencies other than the U.S. dollar and more customers seeking contracts that are denominated in currencies such as the euro and not the U.S. dollar, we expect that the percentage of our revenue and operating expenses in U.S. dollar will decrease slightly over time. Historically, the effect of fluctuations in currency exchange rates has had a minimal impact on our consolidated operations. As more of our customers seek contracts that are denominated in currencies other than the U.S. dollar, our exposure to fluctuations in currency exchange rates could increase. In managing our foreign exchange risk, we enter from time to time into various foreign exchange contracts. As of September 30, 2003, we had substantially hedged our significant exposures in currencies other than the U.S. dollar. FOREIGN CURRENCY RISK We enter into foreign exchange forward contracts to hedge most of our foreign currency exposure. We use such contracts to hedge exposure to changes in foreign currency exchange rates associated with revenue denominated in a foreign currency, primarily British pounds, Canadian dollars and the ECU, and anticipated costs to be incurred in a foreign currency, primarily Australian dollars, Canadian dollars and Israeli shekels. We also use forward contracts to hedge the impact of the variability in exchange rates on certain accounts receivables, denominated in British pounds and the ECU. We seek to minimize the risk that the anticipated cash flow from sales of our products and services and cash flow required for our expenses denominated in a currency other than our functional currency will be affected by changes in exchange rates. See Note 22 to our consolidated financial statements included in this Annual Report. The following table summarizes our foreign currency forward exchange agreements as of September 30, 2003. All the forward contracts are expected to mature during fiscal 2004. The table below (all dollar amounts in millions) presents the notional amounts and fair value of the total derivative instruments as of September 30, 2003. Notional values are calculated based on forward rates as of September 30, 2003, U.S. dollar translated. AS OF SEPTEMBER 30, 2003 ------------------------------ NOTIONAL AMOUNT TRANSLATED TO FAIR VALUE OF U.S. DOLLAR(*) DERIVATIVES --------------- ------------- Revenue.. $ 33.1 $(1.5) Costs.. (93.4) 7.2 Balance sheet items..................................... 7.6 (0.4) ------ ----- $(52.7) $ 5.3 ====== ===== -------------- (*) Positive notional amounts represent forward contracts to sell foreign currency. Negative notional amounts represent forward contracts to buy foreign currency. Subsequent to the balance sheet date, we entered into foreign exchange forward contracts for approximately $100 million notional amount. These derivatives were entered to hedge exposure to changes in foreign currency exchange rates associated with revenue denominated in a foreign currency, including long-term exposures. INTEREST RATE RISK Our interest expenses and income are sensitive to changes in interest rates, as all of our cash

reserves and some of our borrowings, other than the Notes, are subject to interest rate changes. Excess liquidity is invested in short-term interest-bearing investments. Such short-term interest-bearing investments consist primarily of commercial paper, Treasury notes, Federal agency securities, corporate bonds, corporate backed obligations, mortgages and money market funds and currently bear minimal interest rate risk. As of September 30, 2003, we had nothing outstanding on either of our revolving lines of credit or our short-term credit facilities. As of September 30, 2003, we had outstanding long-term lease obligations of $48.2 million and a financing arrangement of $2.8 million, which in the aggregate bear minimal interest rate risk. 63 ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES Not applicable. PART II ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES Not applicable. ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS Not applicable ITEM 15. CONTROLS AND PROCEDURES The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer of Amdocs Management Limited, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2003. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer of Amdocs Management Limited concluded that, as of September 30, 2003, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and Chief Financial Officer of Amdocs Management Limited by others within those entities, particularly during the period in which this Annual Report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT Our Board of Directors has determined that the Company has at least one audit committee financial expert, Adrian Gardner, serving on its Audit Committee. ITEM 16B. CODE OF ETHICS The Company has adopted a written code of ethics that applies to all Company employees, including the Company's principal executive officer, principal financial officer and principal accounting officer. You may request a copy of our code of ethics, at no cost, by writing to or telephoning us as follows: Amdocs, Inc. 1390 Timberlake Manor Parkway Chesterfield, Missouri 63017 Telephone: (314) 212-8328 ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES During each of the last two fiscal years, Ernst & Young LLP has acted as the Company's independent auditors. 64 AUDIT FEES Ernst & Young billed the Company approximately $1.85 million for audit services for fiscal 2003, including fees associated with the annual audit and reviews of the Company's quarterly financial results submitted on Form 6-K, consultations on various accounting issues and performance of local statutory audits. Ernst & Young billed the Company approximately $1.2 million for audit services for fiscal 2002. AUDIT-RELATED FEES Ernst & Young billed the Company approximately $0.8 million for audit-related services for fiscal 2003. Audit-related services principally include due diligence examinations, SAS 70 report issuances, as well as assistance with the requirements of the Sarbanes-Oxley Act of 2002 and related SEC regulations. Ernst & Young billed the Company approximately $0.5 million for audit-related services for fiscal 2002. TAX FEES Ernst & Young billed the Company approximately $1.3 million for tax advice, including fees associated with tax compliance services, tax planning services and other tax consulting services for fiscal 2003. Ernst & Young billed the Company approximately $1.4 million for tax advice in fiscal 2002. ALL OTHER FEES Ernst & Young billed the Company approximately $0.1 million for services other than Audit Fees, Audit-Related Fees and Tax Fees described above for fiscal 2003. In fiscal 2003, such other services included human resource consulting. Ernst & Young billed the Company approximately $0.2 million for services other than Audit Fees, Audit-Related Fees and Tax Fees described above for fiscal 2002. In fiscal 2002, such other services included human resource consulting. PRE-APPROVAL POLICIES FOR NON-AUDIT SERVICES Prior to the engagement of Ernst & Young each year, the engagement is approved by the Audit Committee of the Board of Directors and by vote of the Company's shareholders at the Company's Annual General Meeting of Shareholders. The Company's Audit Committee has also adopted its own rules of procedure. The Audit Committee's rules of procedure provide for a process with respect to the prior approval of all services, including non-audit services, to be performed by the independent auditors for the Company. In fiscal 2003, the Company's Audit Committee approved all of the services provided by Ernst & Young. ITEM 16D. EXEMPTION

FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES Not applicable. PART III ITEM 17. FINANCIAL STATEMENTS Not applicable. ITEM 18. FINANCIAL STATEMENTS FINANCIAL STATEMENTS AND SCHEDULE The following Financial Statements and Financial Statement Schedule of Amdocs Limited, with respect to financial results for the fiscal years ended September 30, 2003, 2002 and 2001, are included at the end of this Annual Report: 65 AUDITED FINANCIAL STATEMENTS OF AMDOCS LIMITED Report of Independent Auditors Consolidated Balance Sheets as of September 30, 2003 and 2002 Consolidated Statements of Operations for the years ended September 30, 2003, 2002 and 2001 Consolidated Statements of Changes in Shareholders' Equity for the years ended September 30, 2003, 2002 and 2001 Consolidated Statements of Cash Flows for the years ended September 30, 2003, 2002 and 2001 Notes to Consolidated Financial Statements FINANCIAL STATEMENT SCHEDULE OF AMDOCS LIMITED Valuation and Qualifying Accounts The following Financial Statements of Certen Inc., with respect to the acquisition by Amdocs Limited of Certen Inc. on July 2, 2003, are included at the end of this Annual Report: AUDITED FINANCIAL STATEMENTS OF CERTEN INC. Independent Auditors' Report Statement of Operations and Retained Earnings for the twelve months ended December 31, 2002 Balance Sheet as at December 31, 2002 Statement of Cash Flows for the year ended December 31, 2002 Notes to Financial Statements UNAUDITED FINANCIAL STATEMENTS OF CERTEN INC. Unaudited Statement of Operations and Retained Earnings for the six months ended June 30, 2003 Unaudited Balance Sheet as at June 30, 2003 Unaudited Statement of Cash Flows for the year ended June 30, 2003 ITEM 19. EXHIBITS The exhibits listed on the Exhibit Index hereof are filed herewith in response to this Item. 66 SIGNATURES The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf. Amdocs Limited /s/ THOMAS G. O'BRIEN ------------------------------------ Thomas G. O'Brien Treasurer and Secretary Authorized U.S. Representative Date: December 24, 2003 EXHIBIT INDEX EXHIBIT NO. DESCRIPTION ------- ----------- 1. Memorandum and Articles of Association of Amdocs Limited (incorporated by reference to Exhibits 3.1 and 3.2 to Amdocs' Registration Statement on Form F-1 dated June 19, 1998; Registration No. 333-8826) 2.a.1 Indenture dated May 30, 2001 between Amdocs and United States Trust Company of New York (incorporated by reference to Exhibit 4.1 to Amdocs' Form 6-K dated May 31, 2001) 2.a.2 Registration Rights Agreement dated May 30, 2001 between Amdocs and Goldman, Sachs & Co. (incorporated by reference to Exhibit 4.2 to Amdocs' Form 6-K dated May 31, 2001) 4.a.1 Agreement and Plan of Merger dated as of September 3, 1999 among Amdocs Limited, Ivan Acquisition Corp. and International Telecommunication Data Systems, Inc. (incorporated by reference to Exhibit 2.1 to Amdocs' Current Report on Form 6-K dated September 10, 1999) 4.a.2 Combination Agreement dated as of February 28, 2000 among Amdocs Limited, Solect Technology Group Inc., Amdocs (Denmark) ApS. and Amdocs Holdings ULC (incorporated by reference to Exhibit 2.1 to Amdocs' Current Report on Form 6-K dated March 3, 2000) 4.a.3 Acquisition Agreement dated as of October 1, 2001, between Amdocs Limited and Nortel Networks Corporation. (incorporated by reference to Exhibit 2.1 to Amdocs' Current Report on Form 6-K dated October 10, 2001) 4.b.1 Information Technology Services Agreement between Amdocs, Inc. and SBC Services, Inc. dated January 9, 2003 (confidential material has been redacted and complete exhibits have been separately filed with the Securities and Exchange Commission)(incorporated by reference to Exhibit 4.b.1 to Amdocs' Annual Report on Form 20-F for the fiscal year ended September 30, 2003) 4.b.2 Master Agreement for Software and Services between Amdocs, Inc. and SBC Operations, Inc., effective July 7, 1998 (confidential material has been redacted and complete exhibits have been separately filed with the Securities and Exchange Commission)(incorporated by reference to Exhibit 10.13 to Amdocs' Amedment No. 1 to Registration Statement on Form F-1, dated May 21, 1999, Registration No. 333-75151) 4.c.1 Amdocs Limited 1998 Stock Option and Incentive Plan, as amended January 24, 2001 (incorporated by reference to Exhibit 4 to Amdocs' Registration Statement on Form S-8 dated April 6, 2001; Registration No. 333-58454) 8. Subsidiaries of Amdocs Limited 12.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) 12.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) 13.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350 13.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350 14.1 Consent of Ernst & Young LLP 14.2 Consent of Deloitte & Touche LLP INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE AMDOCS LIMITED AUDITED FINANCIAL STATEMENTS Report of Independent Auditors........................... F-2 Consolidated Balance Sheets as of September 30, 2003 and 2002.. F-3 Consolidated Statements of Operations for the years ended September 30, 2003, 2002 and 2001..................... F-4 Consolidated Statements of Changes in Shareholders' Equity for the years ended September 30, 2003, 2002 and

2001... F-5 Consolidated Statements of Cash Flows for the years ended September 30, 2003, 2002 and 2001...................... F-6 Notes to Consolidated Financial Statements................ F-8 FINANCIAL STATEMENT SCHEDULE Valuation and Qualifying Accounts......................... F-39 CERTEN INC. AUDITED FINANCIAL STATEMENTS OF CERTEN INC. Independent Auditors' Report.............................. F-40 Statement of Operations and Retained Earnings for the twelve months ended December 31, 2002.................. F-41 Balance Sheet as at December 31, 2002..................... F-42 Statement of Cash Flows for the year ended December 31, 2002... F-43 Notes to Financial Statements............................ F-44 UNAUDITED FINANCIAL STATEMENTS OF CERTEN INC. Unaudited Statement of Operations and Retained Earnings for the six months ended June 30, 2003................ F-55 Unaudited Balance Sheet as at June 30, 2003.............. F-56 Unaudited Statement of Cash Flows for the year ended June 30, 2003.. F-57 F-1 REPORT OF INDEPENDENT AUDITORS To the Board of Directors and the Shareholders Amdocs Limited We have audited the accompanying consolidated balance sheets of Amdocs Limited as of September 30, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2003. Our audits also included the financial statement schedule listed in the Index at Item 18 of Part III. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Amdocs Limited at September 30, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth herein. As discussed in Note 2 to the accompanying consolidated financial statements, effective October 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. /s/ ERNST & YOUNG LLP October 30, 2003 New York, NY F-2 AMDOCS LIMITED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT PER SHARE DATA) AS OF SEPTEMBER 30, ---------------------------- 2003 2002 ---------- ---------- ASSETS CURRENT ASSETS: Cash and cash equivalents................................ $ 847,600 $ 466,655 Short-term interest-bearing investments.................. 443,292 581,164 Accounts receivable, net(*).............................. 198,274 312,732 Deferred income taxes and taxes receivable................ 60,868 48,154 Prepaid expenses and other current assets(*)............. 85,902 72,196 ---------- ---------- TOTAL CURRENT ASSETS............................. 1,635,936 1,480,901 Equipment, vehicles and leasehold improvements, net......... 203,467 160,902 Deferred income taxes..................................... 105,943 37,582 Goodwill and other intangible assets, net.................. 855,975 750,530 Other noncurrent assets(*).................................. 76,196 110,179 ---------- ---------- TOTAL ASSETS.................................... $2,877,517 $2,540,094 ========== ========== LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES: Accounts payable... $ 101,116 $ 44,704 Accrued expenses and other current liabilities............ 123,223 147,425 Accrued personnel costs.................................. 106,857 86,942 Convertible notes....................................... 400,454 -- Short-term portion of financing arrangement............... 2,179 -- Deferred revenue... 174,616 149,590 Short-term portion of capital lease obligations........... 27,140 10,347 Deferred income taxes and taxes payable.................. 133,002 103,315 ---------- ---------- TOTAL CURRENT LIABILITIES........................ 1,068,587 542,323 Convertible notes... -- 445,054 Deferred income taxes...................................... 44,835 12,363 Noncurrent liabilities and other........................... 172,495 124,079 ---------- ---------- TOTAL LIABILITIES................................ 1,285,917 1,123,819 ---------- ---------- SHAREHOLDERS' EQUITY: Preferred Shares -- Authorized 25,000 shares; L0.01 par value; 0 shares issued and outstanding................. -- -- Ordinary Shares -- Authorized 550,000 shares; L0.01 par value; 223,790 and 223,315 issued and 216,058 and 215,583 outstanding, in 2003 and 2002, respectively.... 3,580 3,572 Additional paid-in capital............................... 1,820,956 1,818,345

Treasury stock, at cost -- 7,732 Ordinary Shares.......... (109,281) (109,281) Accumulated other comprehensive income (loss)............. 3,715 (108) Accumulated deficit...................................... (127,370) (296,253) ---------- ---------- TOTAL SHAREHOLDERS' EQUITY........................ 1,591,600 1,416,275 ---------- ---------- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY........ $2,877,517 $2,540,094 ========== ========== --------------- (*) See Note 4. The accompanying notes are an integral part of these consolidated financial statements. F-3 AMDOCS LIMITED CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA) YEAR ENDED SEPTEMBER 30, ---------------------------------- 2003 2002 2001 ---------- ---------- ---------- REVENUE: License(*).. $ 65,582 $ 153,664 $ 171,430 Service(*).. 1,417,745 1,459,901 1,362,480 ---------- ---------- ---------- 1,483,327 1,613,565 1,533,910 ---------- ---------- ---------- OPERATING EXPENSES: Cost of license................................... 5,752 5,984 5,651 Cost of service(*)................................. 907,607 927,353 847,591 Research and development........................... 119,256 124,082 105,807 Selling, general and administrative(*).............. 206,265 223,551 195,592 Amortization of goodwill and purchased intangible assets... 19,940 231,804 219,988 Restructuring charges, in-process research and development and other............................. 14,089 51,630 -- ---------- ---------- ---------- 1,272,909 1,564,404 1,374,629 ---------- ---------- ---------- Operating income.. 210,418 49,161 159,281 Interest income and other, net(*)........................ 14,759 19,298 22,286 ---------- ---------- ---------- Income before income taxes.............................. 225,177 68,459 181,567 Income taxes.. 56,294 73,520 115,181 ---------- ---------- ---------- NET INCOME (LOSS)....................................... $ 168,883 $ (5,061) $ 66,386 ========== ========== ========== BASIC EARNINGS (LOSS) PER SHARE.......................... $ 0.78 $ (0.02) $ 0.30 ========== ========== ========== DILUTED EARNINGS (LOSS) PER SHARE........................ $ 0.77 $ (0.02) $ 0.29 ========== ========== ========== BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING...... 215,849 220,361 222,002 ========== ========== ========== DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING.... 219,876 220,361 226,832 ========== ========== ========== --------------- (*) See Note 4. The accompanying notes are an integral part of these consolidated financial statements. F-4 AMDOCS LIMITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (IN THOUSANDS) ACCUMULATED ORDINARY SHARES ADDITIONAL OTHER TOTAL ---------------- PAID-IN TREASURY COMPREHENSIVE UNEARNED ACCUMULATED SHAREHOLDERS' SHARES AMOUNT CAPITAL STOCK INCOME (LOSS) COMPENSATION DEFICIT EQUITY ------- ------ ---------- --------- ------------ ----------- ----------- ------------ BALANCE AS OF OCTOBER 1, 2000.................... 221,165 $3,539 $1,784,816 $ -- $ 1,159 $(1,164) $(357,578) $1,430,772 Comprehensive income: Net income............. -- -- -- -- -- -- 66,386 66,386 Decrease in unrealized gain on derivatives, net of $(3,891) tax... -- -- -- -- (9,078) -- -- (9,078) Increase in unrealized gain on cash equivalents and short-term interest- bearing investments, net of $659 tax....... -- -- -- -- 1,537 -- -- 1,537 ---------- Comprehensive income.... 58,845 ---------- Employee stock options exercised.............. 1,463 21 13,946 -- -- -- -- 13,967 Tax benefit of stock options exercised....... -- -- 7,345 -- -- -- -- 7,345 Stock options granted.... -- -- 183 -- -- -- -- 183 Amortization of unearned compensation............ -- -- -- -- -- 979 -- 979 ------- ------ ---------- --------- ------- ------- --------- ---------- BALANCE AS OF SEPTEMBER 30, 2001................ 222,628 3,560 1,806,290 -- (6,382) (185) (291,192) 1,512,091 Comprehensive income: Net loss............... -- -- -- -- -- -- (5,061) (5,061) Decrease in unrealized loss on foreign currency hedging contracts, net of $1,357 tax............ -- -- -- -- 2,682 -- -- 2,682 Decrease in unrealized loss on cash equivalents and short-term interest- bearing investments, net of $1,336 tax..... -- -- -- -- 3,592 -- -- 3,592 ---------- Comprehensive income.... 1,213 ---------- Employee stock options exercised.............. 687 12 5,149 -- -- -- -- 5,161 Tax benefit of stock options exercised....... -- -- 6,808 -- -- -- -- 6,808 Expense related to vesting of stock options................ -- -- 98 -- -- -- -- 98 Repurchase of shares..... (7,732) -- -- (109,281) -- -- -- (109,281) Amortization of unearned compensation............ -- -- -- -- -- 185 -- 185 ------- ------ ---------- --------- ------- ------- --------- ---------- BALANCE AS OF SEPTEMBER 30, 2002................ 215,583 3,572 1,818,345 (109,281) (108) -- (296,253) 1,416,275 Comprehensive income: Net income............. -- -- -- -- -- -- 168,883 168,883 Unrealized gain on foreign currency hedging contracts, net of $3,258 tax......... -- -- -- -- 8,903 -- -- 8,903 Decrease in unrealized gain on cash equivalents and short-term interest- bearing investments, net of $(1,977) tax... -- -- -- -- (5,080) -- -- (5,080) ---------- Comprehensive income.... 172,706 ---------- Employee stock options exercised.............. 475 8 2,312 -- -- -- -- 2,320 Tax benefit of stock options exercised....... -- -- 262 -- -- -- -- 262 Expense related to vesting of stock options................ -- -- 37 -- -- -- -- 37 ------- ------ ---------- --------- ------- ------- --------- ---------- BALANCE AS OF

SEPTEMBER 30, 2003................ 216,058 $3,580 $1,820,956 $(109,281) $ 3,715 $ -- $(127,370) $1,591,600 ======= ====== ========== ========= ======= ======= ========= ========== As of September 30, 2003, 2002 and 2001, accumulated other comprehensive income (loss) is comprised of unrealized gain (loss) on derivatives, net of tax, of $3,683, $(5,220) and $(7,902) and unrealized gain on cash equivalents and short-term interest-bearing investments, net of tax, of $32, $5,112 and $1,520, as of September 30, 2003, 2002 and 2001, respectively. The accompanying notes are an integral part of these consolidated financial statements. F-5 AMDOCS LIMITED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS) YEAR ENDED SEPTEMBER 30, -------------------------------- 2003 2002 2001 --------- --------- --------- CASH FLOW FROM OPERATING ACTIVITIES: Net income (loss)... $ 168,883 $ (5,061) $ 66,386 Reconciliation of net income (loss) to net cash provided by operating activities: Depreciation and amortization......................... 97,452 309,821 282,625 Adjustment to the basis of investments................ -- 5,500 6,750 In-process research and development expenses and other.. 4,133 17,400 -- Loss on sale of equipment............................ 396 549 593 Gain on repurchase of convertible notes.............. (448) (6,012) -- Deferred income taxes................................ 4,001 (1,665) 5,018 Tax benefit of stock options exercised................ 262 6,808 7,345 Unrealized other comprehensive income (loss).......... 5,103 8,967 (10,773) Net changes in operating assets and liabilities, net of amounts acquired: Accounts receivable...................................... 58,485 97,055 (121,751) Prepaid expenses and other current assets................ (4,025) (22,992) (3,718) Other noncurrent assets................................. (26,882) (9,875) (7,826) Accounts payable and accrued expenses.................... (5,429) (2,461) 71,772 Deferred revenue.. 53,294 (21,253) 6,487 Income taxes payable.................................... 21,854 (4,798) 20,703 Noncurrent liabilities and other........................ 4,892 40,293 14,376 --------- --------- --------- Net cash provided by operating activities................. 381,971 412,276 337,987 --------- --------- --------- CASH FLOW FROM INVESTING ACTIVITIES: Proceeds from sale of equipment, vehicles and leasehold improvements.. 2,532 1,795 2,062 Payments for purchase of equipment, vehicles, leasehold improvements and other.................................. (62,410) (58,562) (91,891) Proceeds from sale (purchase) of short-term interest-bearing investments, net........................ 137,872 (344,095) (237,069) Investment in noncurrent assets........................... -- (39,584) (12,291) Net cash paid for in acquisitions......................... (30,980) (213,180) -- --------- --------- --------- Net cash provided by (used in) investing activities........ 47,014 (653,626) (339,189) --------- --------- --------- CASH FLOW FROM FINANCING ACTIVITIES: Proceeds from employee stock options exercised............ 2,320 5,161 13,967 Repurchase of shares...................................... -- (109,281) -- Repurchase of convertible notes........................... (44,153) (48,934) -- Payments under short-term finance arrangements............ -- -- (20,000) Net proceeds from issue of long-term convertible notes..... -- -- 488,000 Borrowings under financing arrangement.................... 3,345 -- -- Principal payments under financing arrangement............ (595) -- -- Proceeds from sale-leaseback transaction.................. 8,076 -- -- Principal payments on capital lease obligations............ (17,033) (11,939) (10,067) --------- --------- --------- Net cash (used in) provided by financing activities........ (48,040) (164,993) 471,900 --------- --------- --------- Net increase (decrease) in cash and cash equivalents....... 380,945 (406,343) 470,698 Cash and cash equivalents at beginning of year............ 466,655 872,998 402,300 --------- --------- --------- Cash and cash equivalents at end of year.................. $ 847,600 $ 466,655 $ 872,998 ========= ========= ========= The accompanying notes are an integral part of these consolidated financial statements. F-6 AMDOCS LIMITED CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED) YEAR ENDED SEPTEMBER 30, -------------------------- 2003 2002 2001 ------- ------- ------- SUPPLEMENTARY CASH FLOW INFORMATION Interest and Income Taxes Paid Cash paid for: Income taxes, net of refunds.......................... $30,823 $75,371 $77,429 Interest... 9,690 11,221 2,901 NON-CASH INVESTING AND FINANCING ACTIVITIES Capital lease obligations of $0, $2,245 and $13,116 were incurred during the years ended September 30, 2003, 2002 and 2001, respectively, when the Company (as defined below) entered into lease agreements for vehicles. Accrued transaction costs of $3,283 related to an acquisition made in the fourth quarter of the year ended September 30, 2003 will be paid over the next fiscal year. The accompanying notes are an integral part of these consolidated financial statements. F-7 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS, EXCEPT PER SHARE DATA) SEPTEMBER 30, 2003 NOTE 1 -- NATURE OF ENTITY Amdocs Limited (the "Company") is a leading provider of software products and services to the communications industry. The Company and its subsidiaries operate in one operating segment, providing integrated customer management systems and related services primarily for the communications industry. The Company designs, develops, markets, supports,

operates and provides Managed Services for information system solutions primarily to leading communications companies throughout the world. The Company is a Guernsey corporation, which directly or indirectly holds several wholly owned subsidiaries in the Asia-Pacific region, Europe, Israel, Latin America and North America. The majority of the Company's customers are in North America, Europe, Latin America and the Asia-Pacific region. The Company's main production and operating facilities are located in Israel, the United States (U.S.), Cyprus, Canada and Ireland. NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES BASIS OF PRESENTATION The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. CONSOLIDATION The financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. FUNCTIONAL CURRENCY As the U.S. dollar is the predominant currency by which the Company's revenue and expenses are denominated, the U.S. dollar is the functional currency for the Company and its subsidiaries. CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of cash and interest-bearing investments with insignificant interest rate risk and original maturities of 90 days or less. INVESTMENTS When excess funds are available, the Company invests in short-term interest-bearing investments. The Company classifies all of its short-term interest-bearing investments as available-for-sale securities. Such short-term interest-bearing investments consist primarily of commercial paper, Treasury notes, Federal agency securities, corporate bonds, corporate backed obligations, mortgages and money market funds, which are stated at market value. Unrealized gains and losses are comprised of the difference between market value and amortized costs of such securities and are reflected, net of tax, as "accumulated other comprehensive income (loss)" in shareholders' equity. Realized gains and losses on short-term interest-bearing investments are included in earnings and are derived using the specific identification method for determining the cost of securities. From time to time the Company also makes certain investments in non-publicly traded companies. Such investments are included in other noncurrent assets in the Company's consolidated balance sheet and are generally carried at cost. The Company monitors such investments for impairment and makes appropriate reductions in carrying values if necessary. F-8 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) EQUIPMENT, VEHICLES AND LEASEHOLD IMPROVEMENTS Equipment, vehicles and leasehold improvements are stated at cost. Assets under capital leases are recorded at the present value of the future minimum lease payments at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which ranges from 2 to 10 years and includes the amortization of assets under capitalized leases. Leasehold improvements are amortized over the shorter of the estimated useful lives or the term of the related lease. Management reviews property and equipment and other long-lived assets on a periodic basis to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. GOODWILL AND OTHER INTANGIBLE ASSETS The total purchase price of product line or business acquisitions accounted for using the purchase method is allocated first to identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the fair value of net assets of purchased businesses is recorded as goodwill. Goodwill associated with acquisitions completed prior to July 1, 2001 was amortized on a straight-line basis over its estimated useful life. Commencing October 1, 2002 goodwill is no longer amortized, but is subject to periodical impairment tests. See the discussion below under the caption "Adoption of New Accounting Standards". Other intangible assets consist primarily of purchased computer software, intellectual property rights, core technology and customer arrangements. Intellectual property rights, purchased computer software and core technology acquired by the Company are amortized over their estimated useful lives on a straight-line basis. Workforce-in-place acquired by the Company was amortized over their estimated useful lives on a straight-line basis through fiscal 2002. Commencing October 1, 2002, workforce-in-place is considered goodwill and no longer is amortized. See the discussion below under the caption "Adoption of New Accounting Standards". Some of acquired customer arrangements are amortized over their estimated useful lives based on the pro-rata amount of the future revenue expected to be realized from the customer arrangements. This accounting policy results in accelerated amortization of purchased computer software as compared to the straight-line method. All other acquired customer arrangements are amortized over their estimated useful lives on a straight-line basis. LONG-LIVED ASSETS The Company considers whether there are indicators of impairment that would require the comparison of the estimated net realizable value of intangible assets with finite lives, equipment, leasehold improvements and vehicles and other long-lived assets, using a discounted cash flow analysis, to their carrying value under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the

Impairment or Disposal of Long-Lived Assets". Any impairment would be recognized when the fair market value of such long-lived assets is less than their carrying value. No impairments were identified as of September 30, 2003. COMPREHENSIVE INCOME The Company accounts for comprehensive income under the provisions of SFAS No. 130, "Reporting Comprehensive Income", which established standards for the reporting and display of comprehensive income and its components. Comprehensive income represents the change in shareholders' equity during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity except those resulting from investments by owners and distributions to owners. F-9 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) CONVERTIBLE NOTES The Company presents the outstanding principal amount of the convertible notes as part of current liabilities. Accrued interest on the convertible notes is included in "accrued expenses and other current liabilities". The Company amortizes the issuance costs related to the convertible notes on a straight-line basis over the term of the convertible notes. Gain or loss on repurchase of convertible notes represents the difference between the principal amount and the purchase price. Such gains, aggregating $448 and $6,012, are included in "interest income and other, net" in fiscal 2003 and 2002, respectively. The amortized issuance cost calculated on a pro-rata basis, related to the repurchased convertible notes, is included in "interest income and other, net". TREASURY STOCK The Company repurchases its Ordinary Shares from time to time on the open market and holds such shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity. INCOME TAXES The Company records deferred income taxes to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. Deferred taxes are computed based on tax rates anticipated to be in effect (under applicable laws at the time the financial statements are prepared) when the deferred taxes are expected to be paid or realized. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefit, or that future deductibility is uncertain. In the event that a valuation allowance relating to a business acquisition is subsequently reduced, the adjustment will reduce the original amount allocated to goodwill. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences if not related to an asset or liability for financial reporting, and also include anticipated withholding taxes due on subsidiaries' earnings when paid as dividends to the Company. REVENUE RECOGNITION The Company usually sells its software as part of an overall solution offered to a customer, in which significant modification to the Company's software is required. As a result, revenue generally is recognized over the course of these long-term projects in conformity with Accounting Research Bulletin ("ARB") No. 45 "Long Term Construction-Type Contracts", Statement of Position ("SOP") 81-1 "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" and SOP 97-2 "Software Revenue Recognition". Losses are recognized on contracts in the period in which the loss is identified in accordance with SOP 81-1. Initial license fee for software revenue is recognized as work is performed, under the percentage of completion method of accounting. Subsequent license fee revenue is recognized upon completion of the specified conditions in each contract. Service revenue that involves significant ongoing obligations, including fees for customization, implementation and modification, is recognized as work is performed, under the percentage of completion method of accounting. In cases where extended payment terms exist, license and related customization fees are recognized when payments are due, in accordance with SOP 97-2. Revenue from software solutions that does not require significant customization and modification, is recognized upon delivery, in accordance with the principles emphasized in Staff Accounting Bulletin ("SAB") 101 "Revenue Recognition in Financial Statements" and SOP 97-2. In Managed Services contracts, revenue from the operation of a customer's system is recognized either ratably over the service period or as services are performed. Revenue from ongoing support services is recognized as work is performed. Revenue from third- F-10 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) party hardware and software sales is recognized upon delivery and installation, and recorded at gross or net amount according to the criteria established in Emerging Issues Task Force ("EITF") 99-19 "Recording Revenue Gross as a Principal versus Net as an Agent" and SAB 101. Maintenance revenue is recognized ratably over the term of the maintenance agreement, which in most cases is one year or less. As a result of a significant portion of the Company's revenue being subject to the percentage of completion accounting method, the Company's annual and quarterly operating results may be significantly affected by the size and timing of customer projects and the Company's progress in completing such

projects. Many of the Company's agreements include multiple deliverables. For these multiple elements arrangements, the fair value of each component is determined based on specific objective evidence for that element and revenue is allocated to each component based upon its fair value. The revenue associated with each element is recognized using the respective methodology discussed above. In circumstances where the Company enters into a contract with a customer for the provision of Managed Services for a defined period of time, the Company defers, in accordance with SAB 101, certain costs incurred by the Company at the inception of the contract. These costs include costs associated with migration of data and the establishment of software interfaces. The deferred costs are amortized on a straight-line basis over the life of the respective customer contract. Revenue associated with these capitalized costs is deferred and will be recognized over the life of the respective customer contract. In cases where extended payment terms exist and revenue is deferred until payments are due, related costs are capitalized and recognized accordingly. Deferred revenue represents billings to customers for licenses, services and third-party products for which revenue has not been recognized. Unbilled accounts receivable include all amounts that had not been billed as of the balance sheet date due to contractual or other arrangements with customers. Allowances that are netted against accounts receivable represent amounts provided for accounts, which their collectibility is not reasonably assured. Included in service revenue are sales of third-party products. Revenue from sales of such products includes third-party computer hardware and computer software products and was less than 10% of total revenue in each of fiscal 2003, 2002 and 2001. COST OF LICENSE AND COST OF SERVICE Cost of license and service consists of all costs associated with providing services to customers, including identified losses on contracts and warranty expense. Estimated losses on contracts are recognized in the period in which the loss is identified in accordance with SOP 81-1. Estimated costs related to warranty obligations are initially provided at the time the product is delivered and are revised to reflect subsequent changes in circumstances and estimates. Cost of license includes royalty payments to software suppliers, amortization of purchased computer software and intellectual property rights. Included in cost of service are costs of third-party products associated with reselling third-party computer hardware and software products to customers, when revenue from third-party products is recorded at the gross amount. Customers purchasing third-party products from the Company generally do so in conjunction with the purchase of services. RESEARCH AND DEVELOPMENT Research and development expenditures consist of costs incurred in the development of new software modules and product offerings, either in conjunction with customer projects or as part of the Company's F-11 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) internal product development programs. Research and development costs, which are incurred in conjunction with a customer project, are expensed as incurred. Based on the Company's product development process, technological feasibility, as defined in SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", is established upon completion of a detailed program design or, in the absence thereof, completion of a working model. Costs incurred by the Company after achieving technological feasibility and before the product is ready for customer release have been insignificant. EMPLOYEE BENEFIT PLANS The Company maintains a non-contributory defined benefit plan for one of its Canadian subsidiaries that provide for pensions for substantially all of that subsidiary's employees based on length of service and rate of pay. Additionally, the Company provides to these employees other retirement benefits such as certain health care and life insurance benefits on retirement and various disability plans, workers' compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependants, after employment but before retirement, under specified circumstances. The Company accrues its obligations to these employees under employee benefit plans and the related costs net of returns on plan assets. Pension expense and other retirement benefits earned by employees are actuarially determined using the projected benefit method pro-rated on service and based on management's best estimates of expected plan investments performance, salary escalation, retirement ages of employees and expected health care costs. The fair value of the employee benefit plans assets is based on market values. The plan assets are valued at market-related value for the purpose of calculating the expected return on plan assets and the amortization of experience gains and losses. Past service costs, which may arise from plan amendments, are amortized on a straight-line basis over the average remaining service period of the employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees. STOCK-BASED COMPENSATION The Company accounts for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". Pursuant to this accounting standard,

the Company records deferred compensation for share options granted to employees at the date of grant based on the difference between the exercise price of the options and the market value of the underlying shares at that date. Deferred compensation is amortized to compensation expense over the vesting period of the underlying options. No compensation expense is recorded for stock options that are granted to employees and directors at an exercise price equal to the fair market value of the Ordinary Shares at the time of the grant. Net income (loss) for the years ended September 30, 2003, 2002 and 2001, reflect employee stock-based compensation cost of $0, $185 and $979, respectively. Compensation expenses that are deductible in a tax return in a period different from the one in which they are reported as expenses in measuring net income are temporary differences that result in deferred taxes. To the extent that compensation is not recorded for stock-based compensation, the benefit of the related tax deduction is recorded as an increase to additional paid-in capital in the period of the tax reduction. In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- an Amendment of FASB Statement No. 123". SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a F-12 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The disclosure provision of SFAS No. 148 is effective for interim periods beginning after December 15, 2002. The transition and annual disclosure requirements of SFAS No. 148 were effective for the Company commencing January 1, 2003. The Company adopted the disclosure provision during fiscal 2003. The Company determined pro forma net income (loss) and earnings (loss) per share information as if the fair value method described in SFAS No. 123, as amended by SFAS No. 148, had been applied to its employee stock-based compensation. The Company utilized the Black-Scholes option-pricing model to estimate fair value, which is one of several methods that can be used under SFAS No. 123. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected share price volatility. The Company's options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimates. The fair value of options granted was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions for the presented periods (all in weighted averages): YEAR ENDED SEPTEMBER 30, ----------------------- 2003 2002 2001 ------ ------ ------ Risk-free interest rate........................... 2.70% 2.85% 5.15% Expected life of options.......................... 2.93 2.89 3.26 Expected annual volatility......................... 0.568 0.756 0.660 Expected dividend yield........................... None None None Fair value per option............................. $ 4.00 $10.93 $23.07 The pro forma effect on net income (loss) and earnings (loss) per share is as follows for the presented periods: YEAR ENDED SEPTEMBER 30, ---------------------------- 2003 2002 2001 -------- -------- ------- Net income (loss), as reported............... $168,883 $ (5,061) $66,386 Add: Stock-based employee compensation expense included in net income (loss), net of related tax effect......................... -- 185 979 Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects.................................... (23,539) (94,559) (62,331) -------- -------- ------- Pro forma net income (loss).................. $145,344 $(99,435) $ 5,034 ======== ======== ======= Basic earnings (loss) per share: As reported................................ $ 0.78 $ (0.02) $ 0.30 ======== ======== ======= Pro forma.................................. $ 0.67 $ (0.45) $ 0.02 ======== ======== ======= Diluted earnings (loss) per share: As reported................................ $ 0.77 $ (0.02) $ 0.29 ======== ======== ======= Pro forma.................................. $ 0.67 $ (0.45) $ 0.02 ======== ======== ======= The pro forma results for fiscal years 2002 and 2001 have been modified due to a recalculation of the amounts for such years. These recalculations resulted in a reduction of pro forma stock-based F-13 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) compensation expense, net of tax, of $15,789 and $8,536 in fiscal 2002 and 2001, respectively, and increased pro forma diluted earnings per share, or decreased pro forma diluted loss per share, by $0.07 and $0.04 in fiscal 2002 and 2001, respectively. FAIR VALUE OF FINANCIAL INSTRUMENTS The financial instruments of the Company consist mainly of cash and cash equivalents, short-term interest-bearing investments, accounts receivable, accounts

payable, short-term financing arrangements, forward exchange contracts, lease obligations and convertible notes. In view of their nature, the fair value of the financial instruments, including the convertible notes, included in the accounts of the Company does not significantly vary from their carrying amount. The fair values of the Company's foreign currency exchange contracts are estimated based on quoted market prices of comparable contracts. CONCENTRATION OF CREDIT RISK Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, short-term interest-bearing investments and trade receivables. The Company invests its excess cash primarily in highly liquid U.S. dollar-denominated securities with major U.S. institutions. The Company does not expect any credit losses with respect to these items. The Company's revenue is generated primarily in North America and Europe. To a lesser extent, revenue is generated in the Asia-Pacific region and Latin America. Most customers are among the largest communications and directory publishing companies in the world (or are owned by them). The Company's business is subject to the effects of general global economic conditions and, in particular, market conditions in the communications industry. The Company performs ongoing credit analyses of its customer base and generally does not require collateral. As of September 30, 2003 the Company had two customers that had accounts receivable balances of more than 10% of total accounts receivable, aggregating 27.4% (16.7% and 10.7%). EARNINGS PER SHARE The Company accounts for earnings per share based on SFAS No. 128 "Earnings per Share". SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted earnings per share, and to disclose the methodology used for the calculations. Basic earnings per share are calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding and the effect of dilutive outstanding stock options using the treasury stock method and the effect of dilutive outstanding convertible notes using the if-converted method. DERIVATIVES AND HEDGING The Company accounts for derivatives and hedging based on SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended and related Interpretations. SFAS No. 133 requires the Company to recognize all derivatives on the balance sheet at fair value. If a derivative meets the definition of a hedge and is so designated, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. F-14 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) RECLASSIFICATIONS Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. ADOPTION OF NEW ACCOUNTING STANDARDS Accounting for Revenue Arrangements with Multiple Deliverables In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables" ("Issue 00-21"). Issue 00-21 provides guidance for determining the unit(s) of accounting in arrangements that include multiple products, services, and/or rights to use assets. Issue 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company has adopted Issue 00-21 effective July 1, 2003. The guidance in EITF 00-21 did not modify our previous accounting for transactions that includes multiple deliverables. Goodwill and Purchased Intangible Assets In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to periodic impairment tests in accordance with the Statement. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. Other intangible assets will continue to be amortized over their useful lives. According to SFAS No. 141's new definition of intangible assets, workforce-in-place was reclassified to goodwill. Effective October 1, 2002 the Company adopted SFAS No. 142. At which time the Company performed the transitional tests of goodwill recorded as of October 1, 2002. Thereafter, an annual impairment test will be performed in the fourth quarter of each fiscal year, or more frequently if impairment indicators are present. As discussed in Note 1 above, the Company and its subsidiaries operate in one operating segment, and this segment comprises its only reporting unit. In calculating the fair value of the operating unit, the Company used a discounted cash flow methodology. There was no impairment of goodwill upon adoption of SFAS No. 142 and there was no impairment at the annual impairment test date. Prior to fiscal 2003,

goodwill and workforce-in-place were amortized using the straight-line method over their estimated period of benefit. Net (loss) income and earnings (loss) per share for the twelve F-15 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) months ended September 30, 2002 and 2001 adjusted to exclude amortization of goodwill and workforce-in-place, net of tax, are as follows: YEAR ENDED SEPTEMBER 30, ------------------------ 2002 2001 ---------- ---------- Reported net (loss) income............................ $ (5,061) $ 66,386 Add back: goodwill and workforce-in-place amortizations....................................... 204,561 204,566 Attributable tax effect................................ (2,717) (2,717) -------- -------- Adjusted net income.................................... $196,783 $268,235 ======== ======== Adjusted basic earnings per share...................... $ 0.89 $ 1.21 ======== ======== Adjusted diluted earnings per share.................... $ 0.88 $ 1.18 ======== ======== The following table presents details of the Company's total goodwill: As of September 30, 2002.................................. $705,862 Decrease in goodwill as a result of a settlement (see Note 3)... (13,524) Goodwill resulted from acquisition (see Note 3)............ 104,796 -------- As of September 30, 2003.................................. $797,134 ======== The following table presents details of amortization expense of purchased intangible assets as reported in the consolidated statements of operations: YEAR ENDED SEPTEMBER 30, -------------------------- 2003 2002 2001 ------- ------- ------- Cost of license................................ $ 4,075 $ 3,550 $ 5,577 Amortization of purchased intangible assets..... 19,940 27,243 15,422 ------- ------- ------- Total... $24,015 $30,793 $20,999 ======= ======= ======= The following table presents details of the Company's total purchased intangible assets: ACCUMULATED GROSS AMORTIZATION NET -------- ----------- ------- SEPTEMBER 30, 2003 Core technology............................. $ 44,535 $ (43,418) $ 1,117 Customer arrangements....................... 70,073 (26,653) 43,420 Intellectual property rights and purchased computer software......................... 51,996 (37,692) 14,304 -------- --------- ------- Total...................................... $166,604 $(107,763) $58,841 ======== ========= ======= SEPTEMBER 30, 2002 Core technology............................. $ 44,535 $ (36,718) $ 7,817 Customer arrangements....................... 36,658 (13,413) 23,245 Intellectual property rights and purchased computer software......................... 47,223 (33,617) 13,606 -------- --------- ------- Total...................................... $128,416 $ (83,748) $44,668 ======== ========= ======= F-16 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) The estimated future amortization expense of purchased intangible assets as of September 30, 2003 is as follows: AMOUNT ------- FISCAL YEAR: 2004.. $19,430 2005... 10,203 2006.. 7,871 2007.. 6,857 2008 and after.. 14,480 Guarantor's Accounting and Disclosure Requirements for Guarantees In November 2002 the FASB issued FASB Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that, at the inception of certain types of guarantees, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under the guarantee. The initial recognition and measurement requirements of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002. The additional disclosure requirements of FIN No. 45 are effective for interim and annual periods ending after December 15, 2002, and are applicable to certain of the Company's guarantees issued before December 31, 2002. The Company is a party to an agreement entered into prior to December 31, 2002 that includes an indemnification of one of its customers for any withholding tax that might be required under the customer's local tax laws from certain payments made to the Company under this agreement. The indemnification under this agreement expires in December 2005. As of September 30, 2003 and September 30, 2002, the maximum potential amount of the Company's future exposure under this guarantee pursuant to FIN No. 45 was $4,717. The Company generally sells its ClarifyCRM products with a limited warranty for a period of 90 days. The Company's policy is to accrue for warranty costs, if needed, based on historical trends in product failure. Based on the Company's experience, only minimal warranty services have been required and, as a result, the Company did not accrue any amounts for product warranty liability during fiscal 2003. The Company generally indemnifies its customers against claims of intellectual property infringement made by third parties arising from the use of the Company's software. To date, the Company has incurred only minimal costs as a result of such obligations and has not accrued any liabilities related to such indemnification in its financial statements. Gains and Losses From Extinguishment of Debt In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 eliminates previous

requirements to classify gains and losses from extinguishment of debt as extraordinary items in earnings. Gains or losses from extinguishment of debt for fiscal years beginning after May 15, 2002 shall not be classified as extraordinary items unless certain provisions are met. Early adoption was encouraged. The Company adopted SFAS No. 145 in the fourth quarter of fiscal 2002 in connection with the gains related to the repurchases of its convertible notes. See Note 12. F-17 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) RECENT ACCOUNTING PRONOUNCEMENTS Costs Associated with Exit or Disposal Activities In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity, including restructuring activities, be recognized and measured at fair value when the liability is incurred, or, for certain one-time employee termination costs, over a future service period. Previously, a liability for an exit cost was recognized when a company committed to an exit plan. As a result, SFAS No. 146 may affect the timing of amounts recognized for future restructuring activities that are not associated with a business combination. SFAS No. 146 was effective for exit or disposal activities that were initiated after December 31, 2002. Non-Software Elements in an Arrangement Containing Software In July 2003, the EITF reached a consensus on EITF Issue No. 03-05, "Applicability of AICPA Statement of Position 97-2, Software Revenue Recognition, to Non-Software Deliverables in an Arrangement Containing More-Than Incidental Software" ("Issue 03-05"). Issue 03-05 is regarding whether non-software deliverables (e.g., non-software related equipment or services) included in an arrangement that contains software that is more than incidental to the products or services as a whole are included within the scope of Statement of Position 97-2, "Software Revenue Recognition". Software-related elements include software products, upgrades/enhancements, post-contract customer support, and services as well as any non-software deliverables for which a software deliverable is essential to its functionality. Under Issue 03-05, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related and, therefore, included within the scope of SOP 97-2. Issue 03-05 is effective for arrangements entered into in the first reporting period (annual or interim) beginning after August 13, 2003. The Company is in the process of analyzing the effect of Issue 03-05 on its consolidated financial position and results of operations and believes it will not be significant. USE OF ESTIMATES The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. NOTE 3 -- ACQUISITIONS CLARIFY On November 28, 2001, the Company purchased from Nortel Networks Corporation substantially all of the assets of its Clarify business ("Clarify"), a leading provider of Customer Relationship Management ("CRM") software to communications companies and other enterprise sectors. This acquisition positioned the Company as a leading provider of CRM software to the communications industry and, through the addition of Clarify's CRM software to the Company's portfolio of product offerings, reinforced the Company's leadership in delivering Integrated Customer Management software applications. Following the acquisition, the Company has continued to sell Clarify's CRM software to customers other than F-18 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) communications service providers, although this is not the focus of the Company's business. The aggregate initial purchase price for Clarify as of September 30, 2002 was $212,000 in cash, including transaction costs of $8,250. The purchase price was subject to final price adjustments that were settled in October 2002 and resulted in an $11,111 reduction of the purchase price to $200,889 in the first quarter of fiscal 2003. The acquisition was accounted for as a business combination using the purchase method of accounting, as required by SFAS No. 141. The fair market value of Clarify's assets and liabilities has been included in the Company's consolidated balance sheet and the results of Clarify's operations are included in the Company's consolidated statements of operations, commencing on November 29, 2001. The Company obtained a valuation of the intangible assets acquired in the Clarify transaction. The value of acquired technology included both existing technology and in-process research and development. The valuation of these items was made by applying the income forecast method, which considered the present value of cash flows by product lines. Of the $65,600 of acquired identifiable intangible assets, $17,400 was assigned to in-process research and development and was written off as of the closing date of the acquisition, in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business

Combinations Accounted for by the Purchase Method". The fair value assigned to core technology was $13,400 and is being amortized over two years commencing on November 29, 2001. The fair value assigned to customer arrangements was $34,800 and is being amortized over three years commencing on November 29, 2001. The excess of the purchase price over the fair value of the net assets acquired, or goodwill, following the settlement was $147,734, of which $144,182 is tax deductible. The goodwill is accounted for under SFAS No. 142. In accordance with SFAS No. 142, goodwill from acquisitions after June 30, 2001 is no longer amortized, but is subject to periodic impairment tests. As a result, goodwill associated with the acquisition of Clarify is not amortized. The following is the final allocation of the purchase price and deferred tax liability: Net liabilities acquired.................................. $ (9,574) Core technology... 13,400 Customer arrangements...................................... 34,800 In-process research and development......................... 17,400 Deferred tax liability.................................... (2,871) Goodwill... 147,734 -------- $200,889 ======== CERTEN On July 2, 2003, the Company acquired from Bell Canada ("Bell") its 90% ownership interest in Certen Inc. ("Certen", which was renamed Amdocs Canada Managed Services, Inc.) for approximately $66,000 in cash. In addition the Company had related transaction costs of approximately $5,000. The Company and Bell formed Certen in January 2001 to provide customer care and billing solutions to Bell and a number of Bell's affiliated companies. This acquisition expanded the Company's Managed Services operation and positioned it as a major provider of Managed Services to the communications industry. Prior to this acquisition, Bell's ownership interest in Certen was 90% and the Company owned the remainder. As a result of the acquisition, Certen is now a wholly owned subsidiary of the Company. Since Certen's inception, the Company has provided customer care and billing software required by Certen, including related customization, installation, maintenance and other services. The Company now has a major billing operations Managed Services agreement with Bell through December 2010. The acquisition was accounted for using the purchase method of accounting, as required by SFAS No. 141. The fair market value of Certen's assets and liabilities has been included in the Company's F-19 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) consolidated balance sheet and the results of Certen's operations are included in the Company's consolidated statements of operations, commencing on July 2, 2003. The Company is in the process of obtaining a valuation of the intangible assets acquired in the Certen transaction. A final determination of purchase accounting adjustments will be made following the completion of the valuation. The total purchase price is being allocated to Certen's assets and liabilities, including identifiable intangible, based on their respective estimated fair values, on the date the transaction was consummated. Because the Company had a preexisting right to utilize the Amdocs billing software and customization prior to the acquisition, the software and customization on Certen's books has no value to the Company. The value of the acquired customer arrangement was made by applying the income forecast method. The value assigned to the customer arrangement was $33,415 and is being amortized over seven and half years commencing on July 2, 2003 (the remaining life of the Managed Services agreement). The excess of the purchase price over the fair value of the net assets and identifiable intangible acquired, or goodwill, was $104,796, which is not tax deductible. The goodwill is accounted for under SFAS No. 142. In accordance with SFAS No. 142, goodwill from acquisitions after June 30, 2001 is no longer amortized, but is subject to periodic impairment tests. As a result, goodwill associated with the acquisition of Certen is not amortized. In addition, deferred taxes were recognized for the difference between the book and tax basis of certain assets and liabilities. As mentioned above, prior to the acquisition Bell's ownership interest in Certen was 90% and the Company owned the remainder, and therefore the Company accounted for the investment in Certen under the cost method for its 10% ownership. In the fourth quarter of 2003, the Company recognized its 10% share in Certen's results prior to the acquisition. The Company's share in Certen's pre-acquisition results was a charge of $4,133, and is included in "restructuring charges, in-process research and development and other" for the year ended September 30, 2003. The following is the preliminary allocation of the purchase price and deferred tax liability: Purchase price.. $ 65,887 Estimated transaction costs............................. 5,000 -------- Total purchase price...................................... 70,887 Write-off of deferred revenue and allowance on Amdocs books, net of tax.................................... (33,666) -------- Net amount for purchase price allocation................. $ 37,221 ======== Allocation of purchase price: 90% tangible assets acquired, net of capitalized Amdocs system on Certen's books.............................. $ 87,769 90% liabilities assumed................................. (244,112) -------- Net tangible assets...................................... (156,343) Customer arrangement.................................... 33,415 Adjustment to fair value of pension and other post-employment benefit liabilities................... (10,202) EITF 95-3 and other

liabilities.......................... (8,704) Deferred taxes resulting from the difference between the assigned value of certain assets and liabilities and their respective tax bases............................ 74,259 -------- Net fair value of tangible assets acquired............... (67,575) Goodwill.. 104,796 -------- $ 37,221 ======== F-20 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) Set forth below is the unaudited pro forma revenue, operating income, net income (loss) and per share figures for the years ended September 30, 2003, 2002 and 2001, as if Clarify had been acquired as of October 1, 2000 and as if Certen had been acquired as of October 1, 2001 excluding the write-off of purchased in-process research and development: YEAR ENDED SEPTEMBER 30, ---------------------------------- 2003 2002 2001 ---------- ---------- ---------- Revenue................................. $1,621,957 $1,774,678 $1,776,063 Operating income (loss).................. 189,978 (5,835) 27,218 Net income (loss)....................... 151,441 (44,097) (33,521) Basic earnings (loss) per share.......... 0.70 (0.20) (0.15) Diluted earnings (loss) per share........ 0.69 (0.20) (0.15) As a result of SFAS No. 142, goodwill associated with acquisitions completed after June 30, 2001 is not amortized and, accordingly, the pro forma information above reflects no amortization of goodwill related to the Clarify and Certen acquisitions. NOTE 4 -- RELATED PARTY TRANSACTIONS The financial information presented below includes balances with SBC Communications, Inc. ("SBC") and Certen, prior to its acquisition by the Company in July 2003. During the quarter ended December 31, 2002, SBC ceased to be a principal shareholder of the Company, according to SFAS No. 57, "Related Party Disclosures", and thus is no longer a related party. The following related party balances are included in the consolidated balance sheet as of September 30, 2002: Accounts receivable.. $55,458 Prepaid expenses and other current assets(1)................ 1,550 Other noncurrent assets(2)................................. 48,453 --------------- (1) Consists of interest receivable accrued on convertible debentures issued to the Company by Certen. (2) Consists of an investment by the Company in equity and convertible debentures of Certen. The investment in Certen was accounted for under the cost method, based on the Company's 10% ownership of Certen as of September 30, 2002. The Company has licensed software and provided computer systems integration and related services to affiliates of SBC and to Certen. The following related party revenue is included in the consolidated statements of operations: YEAR ENDED SEPTEMBER 30, ----------------------------- 2003 2002 2001 -------- -------- -------- Revenue: License................................... $ 3,827 $ 30,551 $ 37,356 Service................................... 84,122 314,341 264,278 The year ended September 30, 2003 includes license and service revenue related only to Certen through the acquisition date, July 2, 2003. The years ended September 30, 2002 and 2001 include license and service revenue related to SBC and Certen. F-21 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) The following related party expenses are included in the consolidated statements of operations: YEAR ENDED SEPTEMBER 30, ----------------------- 2003 2002 2001 ------ ------ ------ Operating expenses(1): Cost of service................................. $ -- $2,642 $3,232 Selling, general and administrative............. -- 336 663 Interest income and other, net(2)................. 1,662 1,886 89 --------------- (1) The Company leased office space on a month-to-month basis and purchases other miscellaneous support services from affiliates of SBC. (2) Represents interest and exchange rate differences, net of hedging, on the convertible debentures of Certen for the years ended September 30, 2002 and 2001, and for the year ended September 30, 2003 only through the acquisition date, July 2, 2003. Absent hedging, these amounts would be $9,344, $1,402 and $89 for the years ended September 30, 2003, 2002 and 2001, respectively. NOTE 5 -- SHORT-TERM INTEREST-BEARING INVESTMENTS Short-term interest-bearing investments consisted of the following: AMORTIZED COST MARKET VALUE AS OF SEPTEMBER 30, AS OF SEPTEMBER 30, ------------------ ------------------ 2003 2002 2003 2002 -------- -------- -------- -------- Federal agencies.......................... $ 50,371 $110,743 $ 50,403 $112,092 U.S. government treasuries................ 23,373 77,279 23,674 79,276 Corporate backed obligations.............. 197,243 178,455 197,157 179,879 Corporate bonds........................... 64,153 100,544 64,151 102,646 Mortgages (including government and corporate).............................. 44,743 76,138 44,724 76,148 Commercial paper/CD....................... 35,643 -- 35,457 -- Private placement......................... 26,219 7,330 26,225 7,546 Municipal bonds........................... 1,501 13,543 1,501 13,543 Other.................................... -- 10,025 -- 10,034 -------- -------- -------- -------- 443,246 574,057 443,292 581,164 Allowance for unrealized gain............. 46 7,107 -- -- -------- -------- -------- -------- Total........................... $443,292 $581,164 $443,292 $581,164 ======== ======== ======== ======== As of September 30, 2003, short-term interest-bearing investments had the following expected maturity dates: MARKET VALUE -------- 2004... $138,419 2005.. 130,818

2006.. 128,555 2007.. 45,500 -------- Total.. $443,292 ======== F-22 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) NOTE 6 -- ACCOUNTS RECEIVABLE, NET Accounts receivable, net consists of the following: AS OF SEPTEMBER 30, ------------------- 2003 2002 -------- -------- Accounts receivable --billed........................... $200,220 $314,828 Accounts receivable --unbilled......................... 16,072 24,144 Less --allowances..................................... (18,018) (26,240) -------- -------- Accounts receivable, net.............................. $198,274 $312,732 ======== ======== NOTE 7 -- EQUIPMENT, VEHICLES AND LEASEHOLD IMPROVEMENTS, NET Components of equipment, vehicles and leasehold improvements, net are: AS OF SEPTEMBER 30, ------------------- 2003 2002 -------- -------- Computer equipment.................................... $311,319 $211,010 Vehicles furnished to employees........................ 50,080 53,696 Leasehold improvements................................ 49,834 54,319 Furniture and fixtures................................ 40,109 38,672 -------- -------- 451,342 357,697 Less accumulated depreciation.......................... 247,875 196,795 -------- -------- $203,467 $160,902 ======== ======== The Company has entered into various arrangements for the leasing of vehicles for periods of five years, carrying interest rates of LIBOR plus an interest rate ranging 0.5% to 0.9% (between 1.66% to 2.06% as of September 30, 2003). Vehicles under capital lease arrangements had cost of $43,918 and $49,582 with related accumulated depreciation of $26,121 and $21,520 as of September 30, 2003 and 2002, respectively. As a result of the Certen acquisition, the Company assumed various arrangements for the leasing of computer equipment (hardware and software) for remaining periods of two to three years, denominated in Canadian dollars with interest rates ranging between 5.16% to 11.7%. Computer equipment under capital lease arrangements had a cost of $48,203 with related accumulated depreciation of $2,111 as of September 30, 2003. The Company has accounted for these as capital leases and amortization costs have been included in depreciation expense. Capital lease payments, excluding interest, due over the next five years are as follows: FOR THE YEARS ENDED SEPTEMBER 30, -------------------------------- 2004...................................... $25,472 2005...................................... 18,859 2006...................................... 3,761 2007...................................... 69 The above capital lease payments do not reflect a liability of $2,804, reflecting adjustment to fair value, resulting from the preliminary valuation of capital lease agreements assumed in the acquisition of Certen. This adjustment will be amortized over the life of the lease. F-23 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) The above capital lease payments include a sale-leaseback transaction that was recognized on Certen's books as of the acquisition date. The proceeds for this transaction were received after the acquisition date, and are reflected in the consolidated cash flow statement for fiscal 2003 as "proceeds from sale-leaseback transaction". NOTE 8 -- GOODWILL AND OTHER INTANGIBLE ASSETS, NET Goodwill and other intangible assets, net are: AS OF SEPTEMBER 30, ESTIMATED USEFUL ------------------- LIFE (IN YEARS) 2003 2002 --------------- -------- -------- Intellectual property rights and purchased computer software............................. 2-10 $ 96,531 $ 91,758 Other intangible assets......................... 3-7.5 70,073 36,658 -------- -------- 166,604 128,416 Less accumulated amortization................... 107,763 83,748 -------- -------- 58,841 44,668 Goodwill, net(1)(2)............................. 797,134 705,862 -------- -------- $855,975 $750,530 ======== ======== -------------- (1) In accordance with SFAS No. 142, goodwill from acquisitions completed after June 30, 2001 is not amortized, but is subject to periodic impairment tests. Under SFAS No. 142, amortization of goodwill ceased, for acquisitions completed prior to July 1, 2001, on October 1, 2002. In accordance with SFAS No. 141's new definition of intangible assets, workforce-in-place was reclassified to goodwill. (2) In September 2002, the Company recorded a reduction of the goodwill related to an acquisition due to a release of a valuation allowance with respect to a tax asset that existed at the acquisition date. See Note 10. NOTE 9 -- OTHER NONCURRENT ASSETS Other noncurrent assets consist of the following: AS OF SEPTEMBER 30, -------------------- 2003 2002 -------- --------- Funded employee benefit costs(1)........................... $49,020 $ 40,495 Managed services costs(2).................................. 15,916 -- Noncurrent investments, at cost(3)(4)...................... -- 7,596 Noncurrent investment in convertible debentures(3).......... -- 40,857 Convertible notes issuance cost, net........................ 2,096 5,934 Restricted cash and cash equivalents(5).................... 234 5,072 Other.. 8,930 10,225 ------- -------- $76,196 $110,179 ======= ======== -------------- (1) See Note 16. (2) See Note 2. (3) As of September 30, 2002 consisted of investment in Certen under the cost method. As of September 30, 2003, Certen is a wholly owned subsidiary of the Company and is consolidated as of that date. See Note 3. F-24 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) (4) In fiscal

2002, the Company recorded pretax charges of $5,500 to adjust the carrying value of two investments, accounted for by the Company under the cost method. In fiscal 2001, the Company recorded pretax charges of $6,750 to adjust the carrying value of four investments, accounted for by the Company under the cost method. Following these adjustments, as of September 30, 2002, the Company had one remaining investment, the investment in Certen. As of September 30, 2003, following the acquisition of Certen and the adjustments described above, all the Company's remaining cost method investments are presented at nil fair value. (5) The Company was required to maintain restricted cash and cash equivalents balances relating to letters of credit and bank guarantees. NOTE 10 -- INCOME TAXES The provision for income taxes consists of the following: YEAR ENDED SEPTEMBER 30, --------------------------- 2003 2001 2000 ------- ------- -------- Current... $52,293 $75,185 $110,163 Deferred... 4,001 (1,665) 5,018 ------- ------- -------- $56,294 $73,520 $115,181 ======= ======= ======== All income taxes are from continuing operations reported by the Company in the applicable taxing jurisdiction. Income taxes also include anticipated withholding taxes due on subsidiaries' earnings when paid as dividends to the Company. Deferred income taxes are comprised of the following components: AS OF SEPTEMBER 30, ------------------ 2003 2002 -------- -------- Deferred tax assets: Deferred revenue..................................... $ 27,056 $ 23,303 Accrued employee costs............................... 26,333 19,367 Equipment, vehicles and leasehold improvements, net... 47,932 3,315 Intangible assets, computer software and intellectual property.. 15,052 14,790 Net operating loss carry forwards..................... 13,629 19,342 Other.. 23,061 11,899 Valuation allowances................................. -- (10,704) -------- -------- Total deferred tax assets.................... 153,063 81,312 -------- -------- Deferred tax liabilities: Anticipated withholdings on subsidiaries' earnings.... (43,046) (42,149) Equipment, vehicles and leasehold improvements, net... (6,634) (4,254) Intangible assets, computer software and intellectual property.. (28,563) (10,007) Other.. (14,867) (4,268) -------- -------- Total deferred tax liabilities................ (93,110) (60,678) -------- -------- Net deferred tax assets................................. $ 59,953 $ 20,634 ======== ======== F-25 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) The effective income tax rate varied from the statutory Guernsey tax rate as follows: YEAR ENDED SEPTEMBER 30, ----------------- 2003 2002 2001 ---- ---- ---- Statutory Guernsey tax rate............................... 20% 20% 20% Guernsey tax-exempt status............................... (20) (20) (20) Foreign taxes.. 25 28 30 --- --- --- Income tax rate before effect of acquisition-related costs, restructuring charges and gains from the repurchases of Notes................................... 25 28 30 Effect of acquisition-related costs, restructuring charges and gains from the repurchases of Notes................ -- 79 33 --- --- --- Effective income tax rate................................ 25% 107% 63% === === === As a Guernsey corporation with tax-exempt status, the Company's overall effective tax rate is attributable solely to foreign taxes. Effective October 1, 2002, following the adoption of SFAS No. 142, the Company no longer amortizes goodwill resulting from acquisitions. See Note 3 above. As a result, goodwill amortization that is not tax-deductible no longer affects the Company's effective tax rate. The high effective tax rates in the years ended September 30, 2002 and 2001 were primarily attributable to amortization of goodwill related to the Company's acquisitions, much of which is not tax deductible. In the year ended September 30, 2002 the Company's effective tax rate was also adversely affected by the fixed non-deductible expenditures representing a larger component of the Company's pretax income. As of September 30, 2003 the Company estimated that operating losses related to its Canadian subsidiary would be realized through future taxable earnings. As a result, related valuation allowance of $13,282 was released through the income tax provision. As of September 30, 2002, the Company estimated that operating losses incurred by the subsidiary prior to the Company's acquisition of that company in April 2000 would be realized through future taxable earnings. As a result, the related valuation allowance of $8,957 was released as an offsetting reduction of the goodwill recorded in that transaction. As of September 30, 2003, there was no valuation allowance balance. NOTE 11 -- FINANCING ARRANGEMENTS SHORT-TERM The Company's financing transactions are described below: As of September 30, 2003, the Company had available a short-term general revolving line of credit totaling $30,000. During fiscal 2003 and as of September 30, 2003, there was no outstanding balance under this credit line. The cost of maintaining this revolving line of credit was insignificant. In addition, as of September 30, 2003, the Company had credit facilities totaling $40,340, limited for the use of letters of credit and bank guarantees from various banks. Outstanding letters of credit and bank guarantees as of September 30, 2003 totaled $22,624. These were mostly supported by a combination of the credit facilities described above and

restricted cash balances that the Company maintains with the issuing banks. See Note 9. F-26 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) LONG-TERM Following the Company's acquisition of Certen (see Note 3), the Company assumed a loan bearing an annual interest rate of 7.53% denominated in Canadian dollars. The proceeds from this loan, that was recognized on Certen's books as of the acquisition date, were received after the acquisition date, and are reflected in the consolidated cash flow statement for fiscal 2003 as "borrowings under financing arrangement". The principal and interest is payable in quarterly installments and matures in fiscal 2005. Future repayment of the loan is as follows: FOR THE YEARS ENDED SEPTEMBER 30, -------------------------------- 2004....................................... $2,179 2005....................................... 571 ------ $2,750 ====== NOTE 12 -- CONVERTIBLE NOTES In May 2001 the Company issued $500,000 aggregate principal amount of 2% Convertible Notes due June 1, 2008 (the "Notes"). The Company is obligated to pay interest on the Notes semi-annually on June 1 and December 1 of each year. The Notes are senior unsecured obligations of the Company and rank equal in right of payment with all of existing and future senior unsecured indebtedness of the Company. The Notes are convertible, at the option of the holders at any time before the maturity date, into Ordinary Shares of the Company at a conversion rate of 10.8587 shares per one thousand dollars principal amount, representing a conversion price of approximately $92.09 per share. The Notes are subject to redemption at any time on or after June 1, 2006, in whole or in part, at the option of the Company, at a redemption price of 100% of the principal amount plus accrued and unpaid interest. The Notes are subject to repurchase, at the holders' option, on June 1, 2004 and June 1, 2006, at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest, if any, on such repurchase date. Due to the high conversion price for the Notes, it is likely that the holders of the Notes will require the Company to redeem their Notes on June 1, 2004. The Company may choose to pay the repurchase price in cash, Ordinary Shares or a combination of cash and Ordinary Shares. As of September 30, 2003, the Notes are presented as current liabilities. On July 23, 2002, the board of directors authorized the Company to repurchase the Notes, in such amounts, at such prices and at such times considered appropriate. Such repurchases may be made on the open market, in privately negotiated transactions or otherwise, in accordance with any applicable laws and the terms of the Notes. During the fourth quarter of fiscal 2003, the Company repurchased $44,600 aggregate principal amount of the Notes at an average price of $990 per $1,000 principal amount, resulting in a gain of $448. During the fourth quarter of fiscal 2002, the Company repurchased $54,946 aggregate principal amount of the Notes at an average price of $890 per $1,000 principal amount, resulting in a gain of $6,012. See Note 14. The Company funded these repurchases, and intends to fund any future repurchases, with available funds. As of September 30, 2003, $400,454 aggregate principal amount of the Notes was outstanding. F-27 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) NOTE 13 -- NONCURRENT LIABILITIES AND OTHER Noncurrent liabilities and other consist of the following: AS OF SEPTEMBER 30, ------------------- 2003 2002 -------- -------- Accrued employees costs................................ $ 75,654 $ 66,850 Accrued pension liability(1)........................... 16,372 -- Noncurrent customer advances........................... 34,725 24,146 Long-term portion of capital lease obligations.......... 23,825 15,138 Accrued lease obligations.............................. 10,235 14,031 Other.. 11,684 3,914 -------- -------- $172,495 $124,079 ======== ======== -------------- (1) See Note 16. NOTE 14 -- INTEREST INCOME AND OTHER, NET Interest income and other, net consists of the following: YEAR ENDED SEPTEMBER 30, ---------------------------- 2003 2002 2001 -------- -------- ------- Interest income............................. $ 26,580 $ 31,856 $32,156 Interest expense............................. (11,425) (16,004) (8,678) Gain from repurchase of Notes(1).............. 448 6,012 -- Other, net................................... (844) (2,566) (1,192) $ 14,759 $ 19,298 $22,286 ======== ======== ======= -------------- (1) See Note 12. NOTE 15 -- CONTINGENCIES COMMITMENTS The Company leases office space under non-cancelable operating leases in various countries in which it does business. Future minimum non-cancelable lease payments required after October 1, 2003 are as follows: FOR THE YEARS ENDED SEPTEMBER 30, -------------------------------- 2004..................................... $ 38,757 2005..................................... 30,920 2006..................................... 24,263 2007..................................... 19,558 2008..................................... 13,915 Thereafter............................... 19,074 -------- $146,487 ======= Future minimum non-cancelable lease payments, as stated above, do not reflect committed future sublease income of $5,812, $4,572, $3,625, $3,050, $2,007 and $4,752 for the years ended September 30, F-28 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) 2004, 2005, 2006, 2007, 2008 and thereafter,

respectively. Of the $122,669 net operating leases, net of $23,818 of sublease income, $9,006 has been included in accrued restructuring charges as of September 30, 2003. Rent expense, including accruals for future lease losses, was approximately $33,039, $39,141 and $40,506 for fiscal 2003, 2002 and 2001, respectively. LITIGATION On December 2, 2003 the Company announced that the United States District Court for the Eastern District of Missouri had issued an order granting the Company's motion to dismiss the securities class action lawsuits that had been pending against the Company and certain of its directors and officers since June 2002. The court's order also directed that judgment be entered in favor of the defendants. The consolidated complaint filed in the action alleged that the Company and the individual defendants had made false or misleading statements about the Company's business and future prospects during a putative class period between July 18, 2000 and June 20, 2002. Under the federal rules the plaintiffs have a period of 30 days in which to appeal the court's decision. LEGAL PROCEEDINGS The Company is involved in various other legal proceedings arising in the normal course of its business. Based upon the advice of counsel, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. SECURITIES AND EXCHANGE COMMISSION INVESTIGATION The Company has been informed that the Midwest Regional Office of the SEC is conducting a private investigation into the events leading up to the Company's announcement in June 2002 of revised projected revenue for the third and fourth quarters of fiscal 2002. The investigation appears to be focused on, but is not explicitly limited to, the Company's forecasting beginning with its April 23, 2002 press release. Although the Company believes that it will be able to satisfy any concerns the SEC staff may have in this regard, the Company is unable to predict the duration, scope, or outcome of the investigation. The Company is cooperating fully with the SEC staff. NOTE 16 -- EMPLOYEE BENEFITS The Company accrues severance pay for the employees of its Israeli operations in accordance with Israeli law and certain employment procedures on the basis of the latest monthly salary paid to these employees and the length of time that they have worked for the Israeli operations. The severance pay liability, which is included in noncurrent liabilities and other, is partially funded by amounts on deposit with insurance companies, which are included in other noncurrent assets. Severance expenses were approximately $15,036, $9,953 and $17,242 for fiscal 2003, 2002 and 2001, respectively. The Company sponsors defined contribution plans covering certain employees in the U.S., U.K. and Canada. The plans provide for Company matching contributions based upon a percentage of the employees' voluntary contributions. The Company's fiscal 2003, 2002 and 2001 plan contributions were not significant. Following the Company's acquisition of Certen (see Note 3) and commencing on the acquisition date, July 2, 2003, the Company maintains several non-contributory defined benefit plans that provide for pension, other retirement and post employment benefits for the Certen employees based on length of F-29 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) service and rate of pay. The funding policy is to make contributions to the plans based on various generally accepted actuarial methods. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets consist primarily of Canadian and other equities, government and corporate bonds, debentures and secured mortgages, which are held in units of the BCE Master Trust Fund, a Trust established by Bell. The net periodic benefit cost for the year ended September 30, 2003 (commencing July 2, 2003), related to pension and other benefits were as follows: PENSION OTHER BENEFITS BENEFITS -------- -------- Service costs.. $ 493 $ 90 Interest on benefit obligations............................ 564 98 Expected return on plan assets............................ (409) -- ----- ---- $ 648 $188 ===== ==== The following table sets forth the funded status of the plans as of September 30, 2003: PENSION OTHER BENEFITS BENEFITS -------- -------- Change in plan assets: Fair value of plan assets in acquisition acquired........ $ 27,060 $ -- Actual return on plan assets............................ 1,032 -- Foreign exchange loss................................... (107) -- Benefits paid.. (14) -- -------- ------- Fair value of plan assets as of September 30, 2003....... 27,971 -- -------- ------- Change in benefit obligations: Benefit obligations assumed in acquisition.............. (37,400) (5,262) Service costs.. (493) (90) Interest on benefit obligations......................... (564) (98) Foreign exchange gain.................................. 149 24 Benefits paid.. 14 -- -------- ------- Benefit obligations as of September 30, 2003............ (38,294) (5,426) -------- ------- Funded status-plan deficit as of September 30, 2003...... (10,323) (5,426) Unrecognized net loss................................... (623) -- -------- ------- Accrued benefit costs as of September 30, 2003........... $(10,946) $(5,426) ======== ======= The significant assumptions adopted in measuring the Canadian subsidiary's pension and other benefit obligations were as follows: Weighted

average discount rate................. 6.5% Weighted average expected long-term rate of return on plan assets........................ 7.5 Weighted average rate of compensation increase.................................... 3.5 For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed for the year ended September 30, 2003 (commencing July 2, 2003), except for the cost of medication, which was assumed to increase 10.5% F-30 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) annual rate for 2003. This rate was assumed to gradually decline to 4.5% by 2008 and remain stable thereafter. NOTE 17 -- CAPITAL TRANSACTIONS The following are details of the Ordinary Shares issued and outstanding: AS OF SEPTEMBER 30, ------------------- 2003 2002 -------- -------- Voting Ordinary Shares.................................. 223,790 220,780 Non-Voting Ordinary Shares............................... -- 2,535 ------- ------- Ordinary Shares issued................................... 223,790 223,315 Less -- treasury stock................................... (7,732) (7,732) ------- ------- Ordinary Shares outstanding.............................. 216,058 215,583 ======= ======= The Company's capital transactions are described below: Total proceeds from the exercise of employee stock options amounted to $2,320, $5,161 and $13,967 in fiscal 2003, 2002 and 2001, respectively. During fiscal 2002 the Company repurchased 7,732 Ordinary Shares, at an average price of $14.13 per share pursuant to a share repurchase program. The Company funded these repurchases, and intends to fund any future repurchases, with available funds. On November 5, 2003, the Company announced that its board of directors had authorized a share repurchase program of up to five million Ordinary Shares over the next twelve months. The authorization permits the Company to purchase Ordinary Shares in open market or privately negotiated transactions and at prices the Company deems appropriate. The Company stated that one of the main purposes of the repurchase program was to offset the dilutive effect of any future share issuances, including issuances in connection with acquisitions or pursuant to employee equity plans. NOTE 18 -- STOCK OPTION AND INCENTIVE PLAN In January 1998, the Company first adopted, and in each of January 1999, January 2000 and January 2001 the Company has amended, the Amdocs Limited 1998 Stock Option and Incentive Plan (the "Plan"). Under the provisions of the Plan, 32,300 Ordinary Shares are available to be granted to officers, directors, employees and consultants. Such options fully vest over one to nine years and have a term of ten years. The following table summarizes information about share options, as well as changes during the years ended September 30, 2003, 2002 and 2001: WEIGHTED NUMBER OF AVERAGE SHARE EXERCISE OPTIONS PRICE --------- -------- Outstanding as of October 1, 2000....................... 11,228.1 $30.62 Granted.. 5,745.2 50.15 Exercised.. (1,462.8) 9.73 Forfeited.. (1,359.3) 49.59 -------- F-31 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) WEIGHTED NUMBER OF AVERAGE SHARE EXERCISE OPTIONS PRICE --------- -------- Outstanding as of September 30, 2001..................... 14,151.2 38.89 Granted.. 16,648.5 23.88 Exercised.. (688.9) 7.49 Forfeited.. (2,418.8) 44.02 -------- Outstanding as of September 30, 2002.................... 27,692.0 30.30 Granted.. 3,151.2 10.49 Exercised.. (474.5) 4.89 Forfeited.. (4,803.0) 37.16 -------- Outstanding as of September 30, 2003.................... 25,565.7 27.04 ======== As of September 30, 2003, 4,126.3 Ordinary Shares remained available for grant pursuant to the Plan. The following table summarizes information about share options outstanding as of September 30, 2003: OUTSTANDING EXERCISABLE -- ------------------------------ WEIGHTED AVERAGE WEIGHTED REMAINING AVERAGE NUMBER CONTRACTUAL LIFE EXERCISE NUMBER WEIGHTED AVERAGE EXERCISE PRICE OUTSTANDING (IN YEARS) PRICE EXERCISABLE EXERCISE PRICE -------------- ----------- --------------- -------- ----------- ---------------- $ 1.87 - 3.01 629,737 4.59 $ 1.98 629,737 $ 1.98 6.40 - 18.60 8,860,695 8.67 9.11 1,625,693 10.32 19.21 - 28.60 3,719,059 7.38 26.09 1,302,006 25.50 30.94 - 31.90 5,231,767 8.20 31.01 2,165,264 31.01 33.07 - 45.07 3,598,976 7.30 38.16 1,880,373 38.06 47.90 - 65.01 2,937,206 6.99 58.32 1,793,317 58.06 66.25 - 78.31 588,251 6.86 70.53 413,387 70.33 F-32 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) NOTE 19 -- EARNINGS (LOSS) PER SHARE The following table sets forth the computation of basic and diluted earnings (loss) per share: YEAR ENDED SEPTEMBER 30, ----------------------------- 2003 2002 2001 -------- -------- -------- Numerator: Net income (loss).......................... $168,883 $ (5,061) $ 66,386 ======== ======== ======== Denominator: Denominator for basic earnings (loss) per share -- weighted average number of shares outstanding(1).................. 215,849 220,361

222,002 Effect of dilutive stock options granted(2)............................. 4,027 -- 4,830 -------- -------- -------- Denominator for dilutive earnings(loss) per share -- adjusted weighted average shares and assumed conversions(1)....... 219,876 220,361 226,832 ======== ======== ======== Basic earnings (loss) per share.............. $ 0.78 $ (0.02) $ 0.30 ======== ======== ======== Diluted earnings (loss) per share............ $ 0.77 $ (0.02) $ 0.29 ======== ======== ======== --------------- (1) The weighted average number of shares outstanding includes exchangeable shares issued to shareholders of Amdocs Canada, Inc. (formerly Solect Technology Group Inc. ("Solect")) pursuant to the Company's acquisition of Solect in April 2000, which were exchangeable for the Company's Ordinary Shares on a one-for-one basis. As of September 30, 2003, none of the exchangeable shares remained outstanding. (2) Due to net loss, 2,201 anti-dilutive securities are excluded from the computation of diluted average number of shares outstanding in the year ended September 30, 2002. The effect of the Notes on diluted earnings (loss) per share was anti-dilutive for the years ended September 30, 2003, 2002 and 2001, and therefore was not included in the calculation above. The weighted average effect of the repurchase of Ordinary Shares by the Company has been included in the calculation of basic earnings (loss) per share. See Note 17. NOTE 20 -- SEGMENT INFORMATION AND SALES TO SIGNIFICANT CUSTOMERS The Company and its subsidiaries operate in one operating segment, providing business support systems and related services primarily for the communications industry. GEOGRAPHIC INFORMATION The following is a summary of revenue and long-lived assets by geographic area. Revenue is attributed to geographic region based on the location of the customers. F-33 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) YEAR ENDED SEPTEMBER 30, ------------------------------------ 2003 2002 2001 ---------- ---------- ---------- REVENUE United States............................ $ 732,400 $ 817,728 $ 690,444 Canada................................... 183,973 178,240 133,201 Europe.................................. 442,673 466,098 549,106 Rest of the world........................ 124,281 151,499 161,159 ---------- ---------- ---------- Total................................... $1,483,327 $1,613,565 $1,533,910 ========== ========== ========== AS OF SEPTEMBER 30, ------------------------------- 2003 2002 2001 ---------- -------- -------- LONG-LIVED ASSETS United States(1)............................ $ 308,959 $302,950 $152,827 Canada(2).................................. 686,748 539,832 714,019 Rest of the world.......................... 90,911 138,334 132,365 ---------- -------- -------- Total...................................... $1,086,618 $981,116 $999,211 ========== ======== ======== --------------- (1) Primarily goodwill, computer software and hardware. (2) Primarily goodwill. REVENUE AND CUSTOMER INFORMATION Customer care and billing, customer relationship management or CRM, and order management systems (collectively, "CC&B") include systems for wireline, wireless, voice, data, broadband, content, electronic and mobile commerce and IP services. Directory includes directory sales and publishing systems for publishers of both traditional printed yellow pages and white pages directories and electronic Internet directories. YEAR ENDED SEPTEMBER 30, ---------------------------------- 2003 2002 2001 ---------- ---------- ---------- CC&B.................................... $1,280,430 $1,439,980 $1,379,654 Directory................................ 202,897 173,585 154,256 ---------- ---------- ---------- Total.................................... $1,483,327 $1,613,565 $1,533,910 ========== ========== ========== F-34 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) SALES TO SIGNIFICANT CUSTOMERS The following table summarizes the percentage of sales to significant customers groups (when they exceed 10 percent of total revenue for the year). YEAR ENDED SEPTEMBER 30, -------------------- 2003 2002 2001 ----- ----- ----- Nextel Communications group.............................. 15% 12% 10% SBC Communications Inc. group(1).......................... 11 11 13 Bell Canada group(2)..................................... 11 (*) (*) Vodafone group... (*) 10 11 -------------- (*) Less than 10 percent of total revenue (1) During the quarter ended December 31, 2002, SBC has ceased to be a principal shareholder of the Company, according to SFAS No. 57 and thus is no longer a related party. (2) Bell Canada group includes Certen through June 30, 2003. In July 2003, the Company acquired Bell's ownership interest in Certen, and Certen became a wholly owned subsidiary of the Company. See Note 3. NOTE 21 -- OPERATIONAL EFFICIENCY AND COST REDUCTION PROGRAMS In November 2002 the Company announced a series of measures designed to reduce costs and improve productivity. In the first quarter of fiscal 2003, the Company recorded a charge of $9,956, consisting primarily of employee separation costs in connection with the termination of the employment of approximately four hundred software and information technology specialists and administrative professionals and for the write-off of leasehold improvements and rent obligations. The employee terminations occurred at various locations around the world. In addition, the Company implemented other cost

reduction measures, including travel cuts and reductions in other discretionary costs. On June 20, 2002, the Company announced its intention to implement a cost reduction program to reduce costs by approximately 10% in response to a decline of the Company's forecasted revenue for the third and fourth quarters of fiscal 2002. The decline resulted from, among other factors, slowdowns in customer buying decisions in the third quarter of fiscal 2002, stemming from overall reductions in the capital investment budgets of many communications service providers, leading to fewer new contracts for the Company than it had expected, as well as smaller than expected initial spending commitments and reduced discretionary spending under the Company's contracts with some of its customers. The Company recorded a charge of $20,919 in the fourth quarter of fiscal 2002, consisting primarily of employee separation costs in connection with the elimination of approximately one thousand positions of software and information technology specialists and administrative professionals that have been eliminated by the Company, with the remainder for the write-off of leasehold improvements and rent obligations. In October 2001, as part of a plan to achieve increased operational efficiency and to more closely monitor and reduce costs, the Company consolidated its Stamford, Connecticut data center into its Champaign, Illinois facility, and closed the Stamford facility. As a direct result of this closure, the Company recorded a restructuring charge of $13,311 in the first quarter of fiscal 2002, primarily for the write-off of leasehold improvements and rent obligations, with the remainder for employee separation costs. In addition, as part of a general effort to reduce costs, the Company has decreased its overall commitments for employee compensation, through a lesser reliance on fixed compensation programs and a greater reliance on discretionary arrangements. F-35 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) These charges are included in "restructuring charges, in-process research and development and other" for the years ended September 30, 2003 and 2002. As of September 30, 2003, the remaining restructuring expense reserves were $9,247. The remaining employee separation costs are expected to be paid out through the first quarter of fiscal 2004. Facility related costs are expected to be paid out through April 2012. Actual future cash requirements may differ materially from the accrual as of September 30, 2003, particularly if actual sublease income is significantly different from current estimates. A summary of restructuring activities along with respective remaining reserves follows: EMPLOYEE SEPARATION ASSET COSTS FACILITIES WRITE-OFFS OTHER TOTAL ---------- ---------- ---------- ----- -------- Balance as of October 1, 2001.............. $ -- $ -- $ -- $ -- $ -- Restructuring charges....................... 13,883 14,135 5,710 502 34,230 Cash payments.............................. (10,526) (3,048) -- (62) (13,636) Non-cash.................................. -- -- (5,710) -- (5,710) -------- ------- ------- ----- -------- Balance as of September 30, 2002............ 3,357 11,087 -- 440 14,884 Restructuring charge........................ 4,011 4,022 1,829 94 9,956 Cash payments............................ (7,130) (5,334) -- (280) (12,744) Non-cash................................. -- -- (1,829) -- (1,829) Adjustments (1).......................... 3 (769) -- (254) (1,020) -------- ------- ------- ----- -------- Balance as of September 30, 2003............ $ 241 $ 9,006 $ -- $ -- $ 9,247 ======== ======= ======= ===== ======== --------------- (1) Reflects differences in foreign exchange rates from balances paid in currencies other than the U.S. dollar of $102 that were charged to "interest income and other, net" and adjustments of $918 due to changes in previous estimates. These adjustments resulted in a decrease of restructuring liabilities related to facilities of $769, an increase of restructuring liabilities related to employee separation costs of $105 and a decrease in other related costs of $254. The net amount was credited to "cost of service" and "selling, general and administrative" expenses. NOTE 22 -- FINANCIAL INSTRUMENTS The Company enters into forward contracts to purchase and sell foreign currencies to reduce the exposure associated with revenue denominated in a foreign currency and exposure associated with anticipated expenses (primarily personnel costs), in non-U.S. dollar-based currencies and designates these as cash flow hedges. The Company also may enter into forward contracts to sell foreign currency in order to hedge its exposure associated with some firm commitments from customers in non-U.S. dollar-based currencies and designates these for accounting purposes as fair value hedges. As of September 30, 2003, the Company had no outstanding fair value hedges. The derivative financial instruments are afforded hedge accounting because they are effective in managing foreign exchange risks and are appropriately assigned to the underlying exposures. The Company does not engage in currency speculation. The Company currently enters into forward exchange contracts exclusively with major financial institutions. Forward contracts, which are not designated as hedging instruments under SFAS No. 133, are used to offset the effect of exchange rates on certain assets and liabilities. The hedges are evaluated for effectiveness at least quarterly. As the critical terms of the forward contract and the hedged transaction are matched at inception, the hedge effectiveness is assessed generally based on changes in forward rates for cash flow hedges as compared to the changes in the fair value of the F-36 AMDOCS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) cash flows associated with the underlying hedged transactions. The effective portion of the change in the fair value of forward exchange contracts, which are classified as cash flow hedges, is recorded as comprehensive income until the underlying transaction is recognized in earnings. For fair value hedges, changes in the fair value of forward exchange contracts offset the change in the fair value of the hedged item to the extent of the arrangement's effectiveness. Any residual change in fair value of the forward contracts, such as time value, excluded from effectiveness testing for hedges of estimated receipts from customers, is recognized immediately in "interest income and other, net". Hedge ineffectiveness, if any, is also included in current period in earnings in "interest income and other, net". The Company discontinues hedge accounting for a forward contract when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of cash flows of hedged item; (2) the derivative matures or is terminated; (3) it is determined that the forecasted hedged transaction will no longer occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment, or (5) management decides to remove the designation of the derivative as a hedging instrument. When hedge accounting is discontinued, and if the derivative remains outstanding, the Company will record the derivative at its fair value on the consolidated balance sheet, recognizing changes in the fair value in current period earnings in "interest income and other, net". When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings in "interest income and other, net". The fair value of the open contracts recorded by the Company in its consolidated balance sheets as an asset or a liability is as follows: AS OF SEPTEMBER 30, -------------------- 2003 2002 -------- --------- Prepaid expenses and other current assets.................. $7,447 $ 1,165 Accrued expenses and other current liabilities............ (2,138) (8,290) ------ ------- Net fair value... $5,309 $(7,125) ====== ======= All forward contracts outstanding as of September 30, 2003 are expected to mature within the next twelve months. During fiscal years 2003 and 2002, the gains or losses recognized in earnings for hedge ineffectiveness, including the time value portion excluded from effectiveness testing, were not significant. During fiscal years 2003 and 2002 the Company recognized losses of $143 and $0, respectively for a hedged firm commitment that no longer qualified as a fair value hedge. During fiscal years 2003 and 2002, the Company recognized losses of $16 and $25, respectively resulting from hedged forecasted cash flows that no longer qualified as cash flow hedges. Derivatives gains and losses, that are included in other comprehensive income, are reclassified into earnings at the time the forecasted revenue or expenses are recognized. The Company estimates that a $3,489 net gain related to forward contracts that is included in other comprehensive income as of September 30, 2003 will be reclassified into earnings within the next twelve months. The amount ultimately realized in earnings will likely differ due to future changes in foreign exchange rates. Subsequent to the balance sheet date, the Company entered into material foreign exchange forward contracts for approximately $100,000 notional amount. These derivatives were designated as cash flow hedges, to hedge exposure to changes in foreign currency exchange rates associated with revenue denominated in a foreign currency, including long-term exposures. F-37 AMDOCS LIMITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) (IN THOUSANDS, EXCEPT PER SHARE DATA) NOTE 23 -- SELECTED QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) The following are details of the unaudited quarterly results of operations for the three months ended: SEPTEMBER 30, JUNE 30, MARCH 31, DECEMBER 31, ------------ -------- --------- ----------- 2003(1) Revenue.................................... $411,759 $377,168 $355,014 $339,386 Operating income............................ 56,167 59,982 56,314 37,955 Net income.................................. 43,871 47,438 45,375 32,199 Basic earnings per share..................... 0.20 0.22 0.21 0.15 Diluted earnings per share................... 0.20 0.21 0.21 0.15 2002(2) Revenue..................................... $355,520 $380,135 $455,269 $422,641 Operating (loss) income...................... (25,385) 2,503 50,813 21,229 Net (loss) income........................... (8,986) (26,851) 26,441 4,334 Basic and diluted (loss) earnings per share.................................... (0.04) (0.12) 0.12 0.02 -------------- (1) In fiscal 2003, the fiscal quarter ended December 31, 2002 included a restructuring charge of $9,956, and the fiscal quarter ended September 30, 2003 included a charge related to the Company's 10% share in Certen's pre-acquisition results of $4,133. (2) In fiscal 2002, the fiscal quarter ended December 31, 2001 included a restructuring charge and purchased in-process research and development expense of $13,311 and $17,400, respectively, and the fiscal quarter ended September 30, 2002 included a restructuring charge and gain from the repurchases of Notes of $20,919 and $6,012, respectively. F-38 AMDOCS LIMITED FINANCIAL STATEMENT SCHEDULE VALUATION AND QUALIFYING ACCOUNTS (DOLLARS

IN THOUSANDS) ACCOUNTS VALUATION RECEIVABLE ALLOWANCES ON NET ALLOWANCES DEFERRED TAX ASSETS ---------------- ------------------ Balance as of October 1, 2000.............................. $ 6,868 $ 16,743 Additions: Charged to costs and expenses............................ -- 11,164 Charged to other accounts................................ 899 -- Deductions.. (3,649) -- --------- --------- Balance as of September 30, 2001........................... 4,118 27,907 Additions: Charged to costs and expenses............................ -- -- Charged to other accounts................................ 22,859(1) -- Deductions.. (737) (17,203) --------- --------- Balance as of September 30, 2002........................... 26,240 10,704 Additions: Charged to costs and expenses............................ 17,585 -- Charged to other accounts................................ -- 2,578(2) Deductions.. (25,807)(3) (13,282)(4) --------- --------- Balance as of September 30, 2003........................... $ 18,018 $ -- ========= ========= -------------- (1) Includes accounts receivable allowance of $13,777 acquired as part of the acquisition of Clarify. (2) Includes valuation allowances on net deferred tax assets incurred during fiscal 2003. (3) Includes accounts receivable allowance eliminated as a result of the acquisition of Certen and write-off of accounts receivable previously reserved. (4) Release of valuation allowance. F-39 Deloitte & Touche, LLP Assurance and Advisory Services 1 Place Ville-Marie Suite 3000 Montreal QC H3B 4T9 Canada Tel.: (514) 393-7115 Fax: (514) 390-4113 www.deloitte.ca (DELOITTE & TOUCHE LOGO) INDEPENDENT AUDITORS' REPORT To the Board of Directors of Certen Inc. We have audited the balance sheet of Certen Inc. as at December 31, 2001 and 2002 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and auditing standards generally accepted in the United States of America. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. (signed) DELOITTE & TOUCHE, LLP Chartered Accountants March 19, 2003 (July 2, 2003 as to Note 17) (DELOITTE TOUCHE TOHMATSU LOGO) F-40 CERTEN INC. STATEMENT OF OPERATIONS AND RETAINED EARNINGS YEAR ENDED DECEMBER 31, 2002 (IN THOUSANDS OF DOLLARS) 2002 2001 ----------- ----------- (12 MONTHS) (11 MONTHS) $ $ REVENUE Billing services.. 365,286 312,444 Professional services................................... 71,499 52,352 ------- ------- 436,785 364,796 Cost of services, selling and administrative expenses....... 331,224 287,490 Net benefit plans expense (Note 6).......................... 2,233 1,900 ------- ------- Operating earnings before the undernoted.................... 103,328 75,406 Amortization (Notes 4 and 5)................................ 60,518 18,234 Restructuring charge (Note 3)............................... 721 -- ------- ------- Operating earnings.. 42,089 57,172 Interest expense -- long-term debt.......................... 4,991 1,111 Accretion on convertible debentures due to related party (Note 9)... 5,457 908 Other expenses.. 2,030 1,415 ------- ------- Earnings before income taxes................................ 29,611 53,738 ------- ------- Income taxes Current... 70 2,491 Future.. 14,247 14,473 ------- ------- 14,317 16,964 ------- ------- NET EARNINGS.. 15,294 36,774 Retained earnings, beginning of year........................ 35,774 -- Related party adjustment (Note 6).......................... -- (1,000) ------- ------- RETAINED EARNINGS, END OF YEAR.............................. 51,068 35,774 ======= ======= The accompanying notes are an integral part of the financial statements. F-41 CERTEN INC. BALANCE SHEET AS AT DECEMBER 31, 2002 (IN THOUSANDS OF DOLLARS) 2002 2001 ------- ------- $ $ ASSETS Current assets Cash.. 33,590 59,500 Accounts receivable..................................... 5,021 20,858 Other current receivables............................... 4,359 48,695 Prepaid expenses.. 420 -- ------- ------- 43,390 129,053 Property, plant and equipment (Note 4)...................... 49,494 36,822 Intangible assets (Note 5).................................. 365,386 196,345 Future income taxes... 1,418 642 Accrued benefit asset (Note 6).............................. 4,572 8,000 ------- ------- 464,260 370,862 ======= ======= LIABILITIES Current liabilities Bank indebtedness....................................... -- 1,807 Promissory note due to related party (Note

7)............ -- 6,133 Accounts payable and accrued liabilities................. 117,286 162,646 Income and other taxes payable........................... 12,106 11,217 Current portion of obligation under capital leases (Note 8)... 34,491 10,249 Other current liabilities................................ 1,345 26 ------- ------- 165,228 192,078 Convertible debentures due to related party (Note 9)........ 33,227 13,212 Obligation under capital leases (Note 8)................... 31,910 36,231 Future income taxes....................................... 30,138 15,115 Accrued benefit liability (Note 6)......................... 9,705 10,900 Other long-term liabilities................................ 2,855 98 ------- ------- 273,063 267,634 ------- ------- Commitments and contingencies (Note 15) SHAREHOLDERS' EQUITY Option on convertible debentures due to related party..... 37,960 18,659 Common shares (Note 11).................................. 102,169 48,795 Retained earnings....................................... 51,068 35,774 ------- ------- 191,197 103,228 ------- ------- 464,260 370,862 ======= ======= The accompanying notes are an integral part of the financial statements. ON BEHALF OF THE BOARD OF DIRECTORS: -- Director -- Director F-42 CERTEN INC. STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2002 (IN THOUSANDS OF DOLLARS) 2002 2001 ----------- ----------- (12 MONTHS) (11 MONTHS) $ $ OPERATING ACTIVITIES Net earnings.. 15,294 36,774 Adjustments for: Amortization (Notes 4 and 5).......................... 60,518 18,234 Accretion on convertible debentures due to related party (Note 9)....................................... 5,457 908 Future income taxes.................................. 14,247 14,473 Net benefit plans expense (Note 6).................... 2,233 1,900 Net change in non-cash working capital items (Note 12).... 15,556 104,433 -------- -------- 113,305 176,722 -------- -------- INVESTING ACTIVITIES Capital expenditures..................................... (208,259) (154,920) -------- -------- FINANCING ACTIVITIES Issuance of convertible debentures due to related party... 33,859 30,963 Issuance of common shares (Note 11)...................... 47,241 4,928 Payment of capital leases................................ (10,249) -- -------- -------- 70,851 35,891 -------- -------- Net (decrease) increase in cash and cash equivalents........ (24,103) 57,693 Cash and cash equivalents, beginning of year............... 57,693 -- -------- -------- CASH AND CASH EQUIVALENTS, END OF YEAR (Note 12)........... 33,590 57,693 ======== ======== The accompanying notes are an integral part of the financial statements. F-43 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002 (ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS EXCEPT WHERE OTHERWISE NOTED) 1. DESCRIPTION OF THE BUSINESS On September 28, 2000, 3814840 Canada Inc. was incorporated under the Canada Business Corporations Act and was renamed on January 22, 2001, Certen Inc. ("Certen" or the "Company"). On January 26, 2001, Certen commenced its operations. The Company's shareholders consist of Bell Canada and Solect Technology Group Inc. (subsequently renamed Amdocs Canada Inc. ("Amdocs"). Effective January 26, 2001, Bell Canada transferred to Certen, at book value, which approximates fair value of $50 million of capital assets in return for a $45 million promissory note due to related party and 50,000 common shares of the Company for a total value of $5 million. Additionally, on the same date, Certen issued to Amdocs a $3.5 million, 6% convertible debenture, maturing on January 26, 2008 and 5,617 common shares for a total value of $561,735. At December 31, 2002, Bell Canada and Amdocs hold an 89.9% and 10.1% interest, respectively in Certen. Certen provides billing solutions to its primary customer and controlling shareholder, Bell Canada. 2. SIGNIFICANT ACCOUNTING POLICIES BASIS OF PRESENTATION The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain comparative figures have been reclassified to conform to the current year presentation. The significant differences relevant to the Company between Canadian and United States GAAP are described and reconciled in Note 16. All amounts are in Canadian dollars unless otherwise indicated. For the period ended December 31, 2001, the statements of operations and retained earnings and cash flows cover the period of January 26, 2001 to December 31, 2001. USE OF ESTIMATES The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As a result of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. REVENUE RECOGNITION The Company recognizes revenues as services are rendered to its customers. CASH AND CASH EQUIVALENTS Cash and cash equivalents consists primarily of cash and temporary investments having an initial maturity of three months or less. PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are carried at cost less accumulated amortization where applicable. Assets under development are not amortized until put into service. Amortization of property, plant and F-44 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED)

equipment is computed using the straight-line method, with rates based on the estimated useful lives of the assets as follows: Computer hardware.. 5 years Furniture and fixtures..................................... 12 years Leasehold improvements..................................... Term of lease INTANGIBLE ASSETS Finite life intangible assets consisting of software and licenses are carried at cost less accumulated amortization where applicable. Internal use software and related licenses under development are not amortized until placed into production. Amortization of software and licenses is computed using the straight line method over the estimated useful life of the assets of three to five years. LEASES Assets recorded under capital leases are amortized on a straight-line basis over the economic life of the asset or based on the lease term, as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. TRANSLATION OF FOREIGN CURRENCIES Monetary assets and liabilities are translated at the rates in effect at the balance sheet date. Revenues and expenses are translated at average rates prevailing during the year. Translation exchange gains and losses on monetary assets and liabilities are reflected in net earnings for the year. EMPLOYEE BENEFIT PLANS Certen maintains non-contributory defined benefit plans that provide for pensions for substantially all its employees based on length of service and rate of pay. Additionally, the Company provides other retirement benefits such as certain health care and life insurance benefits on retirement and various disability plans, workers' compensation and medical benefits to former or inactive employees, their beneficiaries and covered dependants, after employment but before retirement, under specified circumstances. Certen accrues its obligations under employee benefit plans and the related costs net of plan assets. Pension expense and other retirement benefits earned by employees are actuarially determined using the projected benefit method pro-rated on service and based on management's best estimate of expected plan investments performance, salary escalation, retirement ages of employees and expected health care costs. The fair value of employee benefit plans assets is based on market values. The plan assets are valued at market-related value for the purpose of calculating the expected return on plan assets. Past service costs, which may arise from plan amendments, are amortized on a straight-line basis over the average remaining service period of the employees active at the date of amendment. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market value of plan assets is amortized over the average remaining service period of active employees. When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. A valuation will be performed every three years to determine the actuarial present value of the accrued pension and other retirement benefits. F-45 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) INCOME TAXES Certen uses the liability method of accounting for income taxes. Future income taxes relate to the expected future tax consequences of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Future tax assets are recognized only to the extent that, it is more likely than not that the future tax asset will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. 3. RESTRUCTURING CHARGE During 2002, Certen recorded a pre-tax restructuring charge of $721,000, as a result of a decision to streamline management, clerical and other support functions. The restructuring charge related mainly to employee severance and other directly related employee costs for approximately 20 employees. This restructuring program was substantially completed by December 31, 2002. The remaining unpaid balance of this restructuring provision as at December 31, 2002 amounted to approximately $459,000. As a result of this restructuring, Certen recognized a gain on the settlement of the Company's retirement benefit plans obligation of $2,769,000 as well as previously unrecognized net actuarial losses of $1,670,000 on the transfer of approximately 110 employees to Bell Canada. These amounts have been reflected in the net benefit plans expense (Note 6). 4. PROPERTY, PLANT AND EQUIPMENT 2002 2001 ------------------------------ ------------------------------ NET NET ACCUMULATED BOOK ACCUMULATED BOOK COST AMORTIZATION VALUE COST AMORTIZATION VALUE ------ ----------- ------ ------ ----------- ------ $ $ $ $ $ $ Computer hardware.................. 11,810 7,348 4,462 11,389 3,480 7,909 Furniture and fixtures............. 2,301 337 1,964 2,031 147 1,884 Leasehold improvements............. 990 523 467 535 38 497 Computer hardware under capital leases........................... 47,399 5,824 41,575 26,579 47 26,532 Assets under development........... 1,026 -- 1,026 -- -- -- ------ ------ ------ ------ ----- ------ 63,526 14,032 49,494 40,534 3,712 36,822 ====== ====== ====== ====== ===== ====== The amortization expense for property, plant and equipment for 2002 amounts to $12,394,000 ($3,712,000 in 2001) of which $5,777,000 ($47,000 in 2001) relates to computer hardware under capital leases. 5. INTANGIBLE ASSETS 2002 2001 -------------------------------- -------------------------------- ACCUMULATED NET BOOK ACCUMULATED NET BOOK COST AMORTIZATION VALUE COST AMORTIZATION VALUE -------

------------ -------- ------- ----------- -------- $ $ $ $ $ $ Software and licenses.......... 159,696 53,854 105,842 101,930 14,522 87,408 Software and licenses under capital leases............... 29,127 7,064 22,063 19,902 -- 19,902 Assets under development....... 237,481 -- 237,481 89,035 -- 89,035 ------- ------ ------- ------- ------ ------- 426,304 60,918 365,386 210,867 14,522 196,345 ======= ====== ======= ======= ====== ======= F-46 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) The amortization expense for intangible assets for 2002 amounts to $48,124,000 ($14,522,000 in 2001) of which $7,064,000 (nil in 2001) relates to software and licenses under capital leases. During 2002, $215,437,000 ($210,867,000 in 2001) intangible assets were acquired. 6. EMPLOYEE BENEFIT PLANS Certen maintains non-contributory defined benefit plans that provide for pension, other retirement and post employment benefits for substantially all its employees based on length of service and rate of pay. The Company's funding policy is to make contributions to its pension fund based on actuarial methods permitted by pension regulatory bodies. Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets are represented primarily by Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. Effective April 1, 2001, Bell Canada transferred approximately 700 employees to Certen. Accordingly, on April 1, 2001 Certen recorded, at fair value, an accrued benefit asset of $9 million with respect to its pension benefits and an accrued benefit liability of $10 million relating to other employee benefits. The $1 million related party adjustment difference was recorded as reduction of retained earnings. The benefit obligations, the fair value of assets and the funded status of the defined benefit plans at December 31 were as follows: PENSION BENEFITS OTHER BENEFITS --------------- ---------------- 2002 2001 2002 2001 ------- ------ ------- ------- $ $ $ $ Fair value of plan assets....................... 48,700 69,921 -- -- Benefit obligation............................. 60,061 67,464 10,413 11,813 ------- ------ ------- ------- Funded status-plan (deficit) surplus............ (11,361) 2,457 (10,413) (11,813) Unamortized net actuarial loss................. 15,933 5,543 708 913 ------- ------ ------- ------- ACCRUED BENEFIT ASSET (LIABILITY)............... 4,572 8,000 (9,705) (10,900) ======= ====== ======= ======= The net benefit plans expense for 2002, related to pension benefits, amounted to $3,428,000 ($1,000,000 in 2001); whereas, other benefits reflected a credit of $1,195,000 ($900,000 expense in 2001). The plans assets are held in units of the BCE Master Trust Fund. The significant assumptions adopted in measuring Certen's pension and other benefit obligations were as follows: 2002 2001 ---- ---- % % Discount rate.. 6.50 6.50 Expected long-term rate of return on plan assets............ 8.30 8.75 Rate of compensation increase............................... 3.50 3.50 For measurement purposes, a 4.5% annual rate of increase in the per capita cost of covered health care benefits (the health care cost trend rate) was assumed for 2002, except for the cost of medication, which was assumed to increase at a 10.5% annual rate for 2002. This rate was assumed to gradually decline to 4.5% by 2008 and remain stable thereafter. 7. PROMISSORY NOTE DUE TO RELATED PARTY The promissory note due to related party was non-interest bearing and payable on demand to Bell Canada. On January 29, 2002, Certen opted to repay the promissory note through the issuance of 61,334 common shares of the Company at an issuance price of $100 per share. F-47 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) 8. OBLIGATION UNDER CAPITAL LEASES In 2002 and 2001, Certen entered into sale-leaseback transactions for the acquisition of hardware and software. The capital leases bear interest rates of 11.7% and 5.5%, respectively, per annum and are payable in monthly installments, maturing in 2005. In 2002, included in other long-term liabilities is a deferred gain of $3,802,000 recorded on the sale and subsequent leaseback of the assets which will be amortized over the three-year term of the lease. Repayment of the capital leases over the next five years is as follows: $ ------ 2003... 37,541 2004.. 24,270 2005... 9,712 2006.. -- 2007... -- ------ Total minimum payments under capital leases................. 71,523 Less: amount representing interest......................... 5,122 ------ Net minimum payments under capital leases................... 66,401 ====== Current portion.. 34,491 Long-term portion.. 31,910 ------ 66,401 ====== 9. CONVERTIBLE DEBENTURES DUE TO RELATED PARTY The convertible debentures bear a compounded annual interest rate of 6% and mature on January 26, 2008. However, if Bell Canada extends the terms of the Master Outsourcing Agreement beyond seven years, then the maturity date will be extended accordingly. Amdocs has the option to convert the debentures into common shares of the Company at any time following 30 months from the issuance date. Each $100 of principal is convertible into one common share of the Company. During 2002 and 2001, Certen issued to Amdocs convertible debentures in the amounts of $33,859,000 and $30,963,000, respectively, for a total balance outstanding at December

31, 2002 of $64,822,000. The conversion option associated with the convertible debentures was separated and presented as a separate component of shareholders' equity. The accretion of the convertible debentures is equal to the value of the conversion option, and is charged to earnings over the term of the convertible debentures. 10. FINANCIAL INSTRUMENTS CREDIT RISK Certen is exposed to a concentration of credit risk given that the Company's primary customer is Bell Canada and affiliates. CURRENCY EXPOSURES Certen is exposed to currency risk on its trade accounts payable. At December 31, 2002, an amount of US$49,254,000 (CDN$77,110,000) (US$19,281,000 (CDN$30,608,000) in 2001) is included in accounts payable and accrued liabilities. F-48 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) INTEREST RATE EXPOSURES The Company is exposed to interest rate risk arising from fluctuations in interest rates, specifically on its long-term debt at fixed interest rates. FAIR VALUE At December 31, 2002 and 2001, the carrying value of the cash and cash equivalents, accounts receivable, other current receivables, prepaid expenses, bank indebtedness, promissory note due to related party, accounts payable and accrued liabilities, income and other taxes payable, and other current liabilities approximate fair value due to the short-term maturity of these financial instruments. The fair value of the obligation under capital leases also approximates its carrying value. The fair value of the Company's convertible debentures due to related party is based on estimates using present value techniques, which is significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degree of risk. At December 31, 2002 the estimated fair value of the convertible debentures due to related party was approximately $27 million ($12 million at December 31, 2001). Due to the use of subjective judgment and uncertainties, the fair value amount should not be interpreted as being payable in an immediate settlement of the instrument. 11. COMMON SHARES An unlimited number of common shares are authorized with no par value. 2002 2001 ------------------- ------------------- NUMBER OF STATED NUMBER OF STATED AT DECEMBER 31 SHARES CAPITAL SHARES CAPITAL ------------- --------- ------- --------- ------- $ $ Outstanding, beginning of year.............. 487,949 48,795 -- -- Shares issued for cash consideration....... 472,408 47,241 49,283 4,928 Shares to repay promissory note due to related party........................... 61,334 6,133 438,666 43,867 --------- ------- ------- ------ Outstanding, end of year..................... 1,021,691 102,169 487,949 48,795 ========= ======= ======= ====== 12. SUPPLEMENTAL CASH FLOW INFORMATION The following are the components of cash and cash equivalents at December 31: 2002 2001 ------ ------ $ $ Cash.. 33,590 59,500 Bank indebtedness.. -- (1,807) ------ ------ Cash and cash equivalents.................................. 33,590 57,693 ====== ====== F-49 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) WORKING CAPITAL COMPONENTS: Net change in non-cash working capital items for the periods ended December 31 are as follows: 2002 2001 ----------- ----------- (12 MONTHS) (11 MONTHS) $ $ Accounts receivable....................................... 15,837 (20,858) Other current receivables................................. 44,336 (48,695) Prepaid expenses... (420) -- Accounts payable and accrued liabilities.................... (45,360) 162,646 Income and other taxes payable............................. 889 11,217 Other... 274 123 ------- ------- 15,556 104,433 ======= ======= 12. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED) The non-cash operating, investing and financing activities, which are excluded from the statement of cash flows for the periods ended December 31 were as follows: 2002 2001 ----------- ----------- (12 MONTHS) (11 MONTHS) $ $ OPERATING ACTIVITIES Transfer of accrued benefit liability..................... -- 10,000 Transfer of accrued benefit assets........................ -- (9,000) Excess of accrued benefit liability over accrued benefit assets... -- (1,000) ------- ------- -- -- ------- ------- INVESTING ACTIVITIES Purchase of assets under capital leases.................. (30,170) (46,480) Acquisition of capital assets through the issuance of a promissory note due to related party and common shares.. -- (50,000) ------- ------- (30,170) (96,480) ------- ------- FINANCING ACTIVITIES Obligation under capital leases........................... 30,170 46,480 Issuance of common shares in acquisition of capital assets.. -- 5,000 Issuance of promissory note due to related party in acquisition of capital assets......................... -- 45,000 Promissory note due to related party repaid by issuance of common shares... (6,133) (38,867) Issuance of common shares to repay promissory note due to related party... 6,133 38,867 Separation of option from convertible debentures due to related party... (19,301) (18,659) Option on convertible debentures due to related party..... 19,301 18,659 ------- ------- 30,170 96,480 ======= ======= F-50 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) Interest paid and income tax paid for the periods ended December 31: 2002 2001 ----------- ----------- (12 MONTHS) (11 MONTHS) $ $ Interest

paid.. 2,658 -- Income taxes paid... 3,072 -- ===== ==== 13. RELATED PARTY TRANSACTIONS In the normal course of business, the Company engaged in the following transactions with related parties and such transactions were measured at exchange value: 2002 2001 ------------------------ ------------------------ (12 MONTHS) (11 MONTHS) BELL CANADA, AMDOCS BELL CANADA, AMDOCS BCE AND AND BCE AND AND AFFILIATES AFFILIATES AFFILIATES AFFILIATES ------------ ---------- ------------ ---------- $ $ $ $ REVENUE Sale of goods and services.............. 436,380 -- 364,505 -- COST OF SERVICES, SELLING AND ADMINISTRATIVE Purchase of goods and services........... 113,104 51,701 106,621 25,887 Rent.................................... 6,766 -- 5,309 -- INTEREST EXPENSE.......................... -- 3,418 -- 583 ACCRETION ON CONVERTIBLE DEBENTURES........ -- 5,457 -- 908 OTHER EXPENSE Interest income.......................... 970 -- 995 -- Management fee.......................... 3,453 -- 583 -- Lease guarantee.......................... 384 -- -- -- The balance sheet includes the following balances with related parties at December 31: 2002 2001 ------------------------ ------------------------ (12 MONTHS) (11 MONTHS) BELL CANADA, AMDOCS BELL CANADA, AMDOCS BCE AND AND BCE AND AND AFFILIATES AFFILIATES AFFILIATES AFFILIATES ------------ ---------- ------------ ---------- $ $ $ $ Cash...................................... 7,500 -- 59,500 -- Accounts receivable........................ 4,830 -- 20,776 -- Accounts payable and accrued liabilities... 21,507 78,436 92,247 30,658 Promissory note........................... -- -- 6,133 -- Other liabilities......................... 229 -- -- -- Convertible debentures..................... -- 33,227 -- 13,212 Option on convertible debentures........... -- 37,960 -- 18,659 The following purchases of goods and services were capitalized for the years ended December 31: 2002 2001 ------------------------ ------------------------ (12 MONTHS) (11 MONTHS) BELL CANADA, AMDOCS BELL CANADA, AMDOCS BCE AND AND BCE AND AND AFFILIATES AFFILIATES AFFILIATES AFFILIATES ------------ ---------- ------------ ---------- $ $ $ $ Capitalized goods and services............ 28,027 153,827 17,234 100,879 F-51 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) 14. ECONOMIC DEPENDENCE Substantially all of Certen's revenue is generated from services rendered to Bell Canada and affiliates. The Master Outsourcing Services Agreement sets out the services to be provided to Bell Canada and extends to January 26, 2008, at which time the agreement may be extended. However, Bell Canada may terminate the agreement with one year's prior written notice to Certen and Bell Canada will incur a termination charge. 15. COMMITMENTS AND CONTINGENCIES COMMITMENTS At December 31, 2002, the minimum payments under operating leases, primarily consisting of rental payments, were as follows: $ ----- 2003.. 8,072 2004.. 7,952 2005.. 7,512 2006.. 7,408 2007.. -- Additionally, in 2003, Certen has contractual obligations to acquire intellectual property totaling US$7,000,000 and site licenses and services in the amount of US$58,545,000 from Amdocs. Certen also has contractual obligations in 2003 to acquire various services from other non-related parties totaling $7,683,000. In the event Certen terminates for convenience the BCH Modernization program, the following amount in US dollars will become due to Amdocs according to the year in which the termination would occur: US$ ------ 2003.. 60,000 2004.. 50,000 2005.. 40,000 2006.. 30,000 CONTINGENCIES In the normal course of operations, Certen has become involved in a claim. As the outcome of the claim and the estimated amount of the loss, if any, cannot be determined at this time, management has not made a provision for any potential eventual loss. F-52 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) 16. RECONCILIATION OF RESULTS REPORTED IN ACCORDANCE WITH CANADIAN GAAP TO UNITED STATES GAAP The significant differences between Canadian and United States GAAP affecting Certen's net earnings and shareholders' equity are detailed as follows: RECONCILIATION OF NET EARNINGS: 2002 2001 ----------- ----------- (12 MONTHS) (11 MONTHS) $ $ CANADIAN GAAP -- NET EARNINGS.............................. 15,294 36,774 Adjustments: Accretion of convertible debentures due to related party(a).. 5,457 908 Capitalization of training costs(b)....................... (3,243) -- Capitalization of interest(c)............................ 2,609 79 ------ ------ UNITED STATES GAAP -- NET EARNINGS......................... 20,117 37,761 ====== ====== RECONCILIATION OF SHAREHOLDERS' EQUITY: 2002 2001 ------- ------- $ $ CANADIAN GAAP -- SHAREHOLDERS' EQUITY....................... 191,197 103,228 Adjustments: Accretion on convertible debentures due to related party(a).. 6,365 908 Option on convertible debentures due to related party(a).. (37,960) (18,659) Capitalization of training costs(b)....................... (3,243) --

Capitalization of interest(c)............................ 2,688 79 ------- ------- UNITED STATES GAAP -- SHAREHOLDERS' EQUITY................. 159,047 85,556 ======= ======= --------------- (a) Accretion on convertible debentures due to related party Under Canadian GAAP the issuer of financial instruments that contain both a liability and an equity component must separate and classify the instruments according to their nature. Under United States GAAP, the issuer is not required to separate such financial instruments. Consequently, the accretion on convertible debentures due to related party is added back to United States GAAP net earnings. (b) Capitalization of training costs Under Canadian GAAP, training costs incurred in the development of internal-use software is capitalized. Under United States GAAP, these costs are expensed as incurred. (c) Capitalization of interest expense Under United States GAAP interest expense related to internally developed capital assets must be capitalized. Canadian GAAP makes no such requirements and therefore, Certen has expensed all interest costs. 17. SUBSEQUENT EVENTS On July 1, 2003, 126 employees transferred from the Company to Bell Canada. Management is currently assessing the impact of such a transfer on the accrued benefit asset and accrued benefit liability. On July 2, 2003, Amdocs Limited announced the completion of its acquisition of Bell Canada's ownership interest in Certen (subsequently renamed Amdocs Canadian Managed Services Inc.). As part of this transaction, Certen will extend the terms of its billing operations outsourcing agreement with Bell F-53 CERTEN INC. NOTES TO THE FINANCIAL STATEMENTS -- (CONTINUED) Canada by three years to December 2010 as per the Further Amended and Restated Master Outsourcing Services Agreement (FARMOSA). Under the terms of the FARMOSA, Certen must maintain minimum service level standards. F-54 CERTEN INC. STATEMENT OF OPERATIONS AND RETAINED EARNINGS SIX-MONTH PERIOD ENDED JUNE 30, 2003 (IN THOUSANDS OF CANADIAN DOLLARS) $ ----------- (UNAUDITED) REVENUE Billing services.. 215,881 Professional services.................................... 11,799 ------- 227,680 Cost of services, selling and administrative expenses....... 169,270 Net benefit plans expense.................................. 2,139 ------- Operating earnings before undernoted........................ 56,271 Amortization... 56,453 Restructuring charge....................................... 80 ------- Operating loss... (262) Interest expense-long-term debt............................ 3,615 Accretion on convertible debentures due to related party.... 3,054 Other income... (1,414) ------- Loss before income taxes................................... (5,517) ------- Income taxes Current... -- Future.. (691) ------- (691) ------- NET LOSS... (6,208) Retained earnings, beginning of period..................... 51,068 ------- RETAINED EARNINGS, END OF PERIOD........................... 44,860 ======= F-55 CERTEN INC. BALANCE SHEET AS AT JUNE 30, 2003 (IN THOUSANDS OF CANADIAN DOLLARS) $ ----------- (UNAUDITED) ASSETS Current assets Cash... 34,358 Accounts receivable...................................... 4,891 Other current receivables................................ 24,292 Prepaid expense.. 7,471 ------- 71,012 Property, plant and equipment.............................. 53,495 Intangible assets.. 384,277 Future income taxes.. 10,082 Accrued benefit asset...................................... 3,046 ------- 521,912 ======= LIABILITIES Current liabilities Accounts payable and accrued liabilities................. 155,110 Income and other taxes payable........................... 8,241 Current portion of loan payable.......................... 2,976 Current portion of obligation under capital leases........ 27,740 Other current liabilities................................ 4,920 ------- 198,987 Convertible debentures due to related party................ 36,281 Loan payable... 1,529 Obligation under capital leases............................ 25,179 Future income taxes.. 39,493 Accrued benefit liability.................................. 10,318 Other long-term liabilities................................ 25,136 ------- 336,923 ------- Commitments and contingencies SHAREHOLDERS' EQUITY Option on convertible debentures due to related party..... 37,960 Common shares.. 102,169 Retained earnings.. 44,860 ------- 184,989 ------- 521,912 ======= F-56 CERTEN INC. STATEMENT OF CASH FLOWS SIX-MONTH PERIOD ENDED JUNE 30, 2003 (IN THOUSANDS OF CANADIAN DOLLARS) $ ----------- (UNAUDITED) OPERATING ACTIVITIES Net loss... (6,208) Adjustments for: Amortization.. 56,453 Accretion on convertible debentures due to related party.. 3,054 Gain from sale of property, plant and equipment........ (11) Future income taxes................................... 691 Net benefit plans expense............................. 2,139 Net change in non-cash working capital items............. 47,987 ------- 104,105 ------- INVESTING ACTIVITIES Capital expenditures..................................... (79,311) Proceeds from disposal of property, plant and equipment... 332 ------- (78,979) ------- FINANCING ACTIVITIES Repayment of capital leases............................. (24,358) ------- Net increase in cash and cash equivalents.................. 768 Cash and cash

equivalents, beginning of period.............. 33,590 ------- CASH AND CASH EQUIVALENTS, END OF PERIOD.................... 34,358 ======= F-57