

SAIC LIMITED
COMPANY NO: 1396396

DIRECTORS' REPORT AND ACCOUNTS

31 JANUARY 1998



SAIC LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JANUARY 1998

The directors submit their report and audited accounts for the year ended 31 January 1998.

PRINCIPAL ACTIVITIES

The principal activities of the company are outsourcing, systems integration, scientific engineering and computer consultancy.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company reported an operating loss of £ 2,138,000 (1997: £2,326,000) for the current period on a turnover of £ 37,143,000 (1997: £26,986,000). The results include the disposal of the company's SAIT division during the year, which realised a profit of £82,000. The company increased its customer base during the year and is continuing to focus on new opportunities. As a result the company is expected to return to profitability during the financial year ending 31 January 1999.

RESULTS AND DIVIDENDS

The results of the company for the year are set out on Page 4.

The director does not recommend the payment of a dividend for the year. Accordingly, the loss for the year has been added to the accumulated deficit.

CAPITAL CONTRIBUTION

With effect from 1 February 1997, the parent undertaking, SAIC Europe Ltd., made a contribution to capital of £5 million by way of gift to SAIC Limited.

DIRECTORS AND THEIR INTERESTS

On 30 April 1997 Dr J Glancy (US Director) resigned as director of the company, and Mr N Garden was appointed as director.

Mr Garden did not have any interests in the share capital of the company, but as at 31 January 1998 he held 2,418 class 'A' common shares in the company's ultimate parent undertaking, Science Applications International Corporation (SAIC).

SAIC LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 JANUARY 1998 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FIXED ASSETS

Details of the Company's fixed assets are in Note 6 of the accounts.

EMPLOYMENT OF DISABLED PERSONS

The Company has continued its policy of giving disabled persons full and fair consideration for all job vacancies for which they offer themselves, having regard to their particular aptitudes and abilities.

EMPLOYEE INVOLVEMENT

The Company has held meetings at intervals during the period in accordance with established practice at which all staff have been represented and at which there has been dissemination and exchange of financial, trading and general information of particular concern to them. The nature and extent of employee communication is an important matter which is under continuous review.

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be submitted to shareholders at the Annual General Meeting.

By Order of the Board



P. Somaia
Company Secretary

31 March 1998

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF SAIC LIMITED

We have audited the accounts on pages 4 to 15, which have been prepared under the historical cost convention and the accounting policies, set out on pages 6 and 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 January 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants and
Registered Auditors

31 March 1998

SAIC LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JANUARY 1998**

	Notes	1998 £'000	1997 £'000
Turnover			
Continuing operations		36,812	24,777
Discontinued operations		331	2,209
		<hr/>	<hr/>
Total turnover	2	37,143	26,986
Cost of sales		(31,715)	(24,639)
		<hr/>	<hr/>
Gross profit		5,428	2,347
Administrative expenses		(8,065)	(5,089)
Other operating income		499	416
		<hr/>	<hr/>
Operating loss			
Continuing operations	2	(2,011)	(1,915)
Discontinued operations	2	(127)	(411)
		<hr/>	<hr/>
		(2,138)	(2,326)
Interest receivable and similar income	4	60	77
Interest payable and similar charges	4	(106)	(182)
Exceptional item - Gain on sale of SAIT division	17	82	-
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(2,102)	(2,431)
Loss on ordinary activities after taxation		(2,102)	(2,431)
		<hr/>	<hr/>
Loss for the financial year	11	(2,102)	(2,431)
		<hr/>	<hr/>

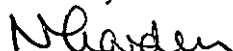
During 1998 and 1997 the company had no recognised gains and losses other than the loss for the year.

The notes on pages 6 to 15 form part of these accounts.

SAIC LIMITED**BALANCE SHEET AS AT 31 JANUARY 1998**

	Notes	1997	1998
		£	£
Fixed assets			
Tangible assets	6	3,279	3,520
Investments	7	-	-
Current assets			
Stock	8	-	125
Debtors	9	12,286	10,417
Cash at bank and in hand		507	-
		<u>12,793</u>	<u>10,542</u>
Creditors - amounts falling due within one year	12	(12,381)	(13,269)
Net current assets		<u>412</u>	<u>(2,727)</u>
Total assets less current liabilities		<u>3,691</u>	<u>793</u>
Net (liabilities)/assets		<u>3,691</u>	<u>793</u>
Capital & reserves			
Called up share capital	10	707	707
Share premium account	11	24	24
Other reserves	11	8,800	3,800
Profit and loss account	11	(5,840)	(3,738)
Total shareholders' funds		<u>3,691</u>	<u>793</u>

The accounts of pages 4 to 15 were approved by the Board on 31 March 1998 and signed on its behalf by:



N Garden
Director

The notes on pages 6 to 15 form part of these accounts.

SAIC LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998

1 ACCOUNTING POLICIES

(1) Basis of Accounting

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

The accounts have been prepared on a going concern basis. The immediate parent company has made a contribution to capital of £5 million with effect from 1 February 1997.

The company has taken advantage of the exemption on FRS1 from producing a cashflow statement on the grounds that it is a subsidiary of a company registered in England, which consolidates its accounts and itself prepares such a statement, which are publically available.

(2) Consolidation

The company has taken advantage of the exemption from the requirement to prepare group accounts available under Section 228 of the Companies Act 1985 as it is a wholly owned subsidiary undertaking of SAIC Europe Limited, which produces consolidated accounts that include the accounts of the company. These accounts therefore present information about the company as an individual undertaking and not about its group.

(3) Turnover

The major portion of the Company's revenues results from contract services, some of which provide for reimbursement of cost plus fees and others which are fixed-price or time-and-materials type contracts. Generally, revenues and fees on contracts are recognised as services are performed, using the percentage-of-completion method of accounting, primarily based on contract costs incurred to date compared with total estimated costs at completion. Revenues from the sale of manufactured products are recorded when the products are shipped.

The company provides for anticipated losses on contracts by a charge to income during the period in which the losses are first identified. Unbilled receivables are stated at estimated realisable value.

(4) Fixed Assets and Depreciation

Fixed assets are shown at cost, less accumulated depreciation.

Depreciation is provided at the rates set out below calculated to write off the cost of fixed assets, less estimated residual values over their estimated useful lives using the straight line method.

Economic life

Office furniture and fittings	3 to 9 years
Short leasehold buildings	over the unexpired portion of lease
Plant, machinery and equipment	3 to 8 years

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

1 ACCOUNTING POLICIES (CONTINUED)**(5) Fixed Asset Investments**

Investments in subsidiaries and associated companies are stated at cost less any provision for permanent diminution in value.

(6) Leased Assets

Items of equipment financed through operating leases are not capitalised and their rental charges are taken to profit and loss as they accrue.

(7) Research and Development

Research and development costs are written off in the profit and loss account in the year in which they are incurred.

(8) Deferred Taxation

Deferred taxation has been calculated using the liability method. Deferred tax is provided on timing differences arising from the allocation of items to different periods for tax and for accounting purposes, which are expected to reverse. Deferred tax is not provided on timing differences which will probably not reverse.

(9) Pension Costs

For defined contributions the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

(10) Foreign Currencies

Assets and liabilities expressed in foreign currencies are converted at the current rate of exchange at the balance sheet date. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of transaction. However, where settlement has been covered by a forward exchange contract, the contract rate is used. Exchange differences are dealt with in the profit and loss account.

(11) Stocks

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

2 TURNOVER AND OPERATING LOSS

	1998 £'000	1997 £'000
Analysis of turnover by geographical market:		
United Kingdom	35,938	23,201
Rest of Europe	64	2,404
USA	-	35
Rest of the World	1,141	1,346
	<u>37,143</u>	<u>26,986</u>

All turnover arises from the UK

Analysis of turnover by class of business:

Product sales and service	331	2,260
Scientific, engineering and computer consultancy	7,046	3,618
Commercial systems	29,766	21,108
	<u>37,143</u>	<u>26,986</u>

The operating loss is stated after charging:

Redundancy costs	102	-
Rentals paid under operating leases:		
- land and buildings	678	282
- plant and machinery	293	122
Auditors remunerations:		
- audit services	35	30
- non audit services	-	-
Depreciation	742	484
	<u>1,820</u>	<u>898</u>

SAIC LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998

2 TURNOVER AND OPERATING LOSS (CONTINUED)

	1998			1997		
	Continuing Operations £'000	Discontinued Operations £'000	Total £'000	Continuing Operations £'000	Discontinued Operations £'000	Total £'000
Turnover	36,812	331	37,143	24,777	2,209	26,986
Cost of sales	(31,342)	(373)	(31,715)	(23,325)	(1,314)	(24,639)
Gross Profit	5,470	(42)	5,428	1,452	895	2,347
Administrative expenses	(7,983)	(82)	(8,065)	(3,783)	(1,306)	(5,089)
Other operating income	502	(3)	499	416	-	416
Operating Loss	(2,011)	(127)	(2,138)	(1,915)	(411)	(2,326)

Discontinued operations comprise the business of the company's SAIT division for the period ended 7 March 1997. As described in Note 17, this division was disposed of on 7 March 1997.

3 REMUNERATION OF EMPLOYEES AND DIRECTORS

	1998 £'000	1997 £'000
Staff Costs:		
Wages and salaries	13,249	10,035
Social security costs	1,289	1,099
Other pension costs	1,250	912
	15,788	12,046

The average monthly number of employees, including directors, during the year was made up as follows:

	1998	1997
Direct	351	289
Indirect	76	54
	427	343

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

3 REMUNERATION OF EMPLOYEES AND DIRECTORS (CONTINUED)

Total directors remuneration and highest paid director:

	1998 £'000	1997 £'000
Gross pay	70	
Employers' contributions to money purchase pension scheme	6	-
Other benefits	1	-
	<u>77</u>	<u>-</u>

4 INTEREST RECEIVABLE/PAYABLE

	1998 £'000	1997 £'000
Interest receivable and similar income		
Bank deposit	60	77
	<u>60</u>	<u>77</u>
Interest payable and similar charges		
Loan from ultimate parent undertaking repayable on demand	106	182
	<u>106</u>	<u>182</u>

5 TAX ON LOSS ON ORDINARY ACTIVITIES

Due to the losses incurred in the 2 years ended 31 January 1998, no taxation liabilities are expected to arise.

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

6 TANGIBLE FIXED ASSETS

	<u>Office Furniture and Fittings</u> £'000	<u>Short Leasehold Buildings</u> £'000	<u>Plant Machinery and Equipment</u> £'000	<u>Total</u> £'000
Cost				
At 1 February 1997	423	1,725	3,352	5,500
Additions	347	53	660	1,060
Disposals	(78)	(251)	(1,649)	(1,978)
Transfers	99	(330)	231	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 1998	791	1,197	2,594	4,582
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated Depreciation				
At 1 February 1997	127	163	1,690	1,980
Charge for year	77	108	557	742
Disposals	(46)	(10)	(1,363)	(1,419)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 1998	158	261	884	1,303
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 31 January 1998	633	936	1,710	3,279
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 1997	296	1,562	1,662	3,520
	<hr/>	<hr/>	<hr/>	<hr/>

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

7 INVESTMENTS

The company's investment in its subsidiary is as follows:

	1998 £'000	1997 £'000
Cost		
Andrew Palmer and Associates Limited (incorporated in England)		
Ordinary Share Capital (100% owned)	226	226
 The Fifth Business Ltd. (Incorporated in England)		
Ordinary share capital (50% owned)	105	-
	<hr/>	<hr/>
	331	226
	<hr/>	<hr/>
Provision for permanent diminution in value		
Provided during 1997 and carried forward	(226)	(226)
Provided in 1998	(105)	-
	<hr/>	<hr/>
	(331)	(226)
	<hr/>	<hr/>
Net book value	-	-
	<hr/>	<hr/>

8 STOCK

	1998 £'000	1997 £'000
Finished goods for resale	-	125
	<hr/>	<hr/>

9 DEBTORS

	1998 £'000	1997 £'000
Trade debtors	7,849	9,058
Amount owed by parent undertakings	-	707
Prepayments and accrued income	4,437	652
	<hr/>	<hr/>
	12,286	10,417
	<hr/>	<hr/>

SAIC LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998

10 SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised share capital: 706,750 Ordinary shares of £1 each	707	707
Allotted called-up and fully paid: 706,725 Ordinary shares of £1 each	707	707

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital	Share Premium Account	Profit & Loss Account	Other Reserve	Total Shareholders' Funds	
	£'000	£'000	£'000	£'000	1998 £'000	1997 £'000
At 1 February 1997	707	24	(3,738)	3,800	793	(576)
Loss for the year	-	-	(2,102)	-	(2,102)	(2,431)
Capital contribution from parent undertaking	-	-	-	5,000	5,000	3,800
At 31 January 1998	707	24	(5,840)	8,800	3,691	793

With effect from 1 February 1997 the parent undertaking, SAIC Europe Limited, made a contribution to capital of £5 million by way of gift to SAIC Limited, increasing the total capital contribution to £8.8 million at 31 January 1998.

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Bank overdraft	-	74
Trade creditors	2,811	1,097
Amount owed to parent undertaking	508	1,113
Other creditors	89	-
Other taxation and social security	1,598	840
Interest bearing loan from ultimate parent undertaking	1,965	7,310
Accruals and deferred income	5,410	2,835
	12,381	13,269

Interest is borne on the loan from the ultimate parent undertaking at 5% p.a. or at the US Applicable Federal rate. The loan is unsecured and repayable on demand.

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

13 FUTURE RENTAL OBLIGATIONS UNDER OPERATING LEASES

	1998 £'000	1997 £'000
Payable in year ending 31 January 1999		
Land and Buildings		
Operating leases which expire:		
Between two and five years	163	99
Over five years	414	291
	<hr/>	<hr/>
	577	390
	<hr/>	<hr/>
Other		
Operating leases which expire:		
Within one year	251	-
Between two and five years	16	41
Over five years	-	-
	<hr/>	<hr/>
	267	41
	<hr/>	<hr/>

14 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 January 1998 the company had no capital expenditure approved but not contracted for (1997: £1,100,000). The company had no contingent liabilities at 31 January 1998 (1997: NIL).

15 PENSION SCHEME

The company runs a group personal pension scheme into which the company contributes 9% of basic salary for those employees who join the scheme. Contributions relating to this scheme were £ 1,250,000 (1997: £912,000) of which £ 332,000 (1997: £59,000) was accrued at the year end.

16 RELATED PARTIES

The ultimate parent undertaking is Science Applications International Corporation, a company incorporated in the State of Delaware in the United States of America. Science Applications International Corporation is the immediate parent undertaking of SAIC Europe Limited, which is the parent undertaking of the largest group for which group accounts are prepared in the United Kingdom and of which SAIC Limited is a member. On 29 January 1998 SAIC UK Limited changed its name to SAIC Europe Limited. Accounts for SAIC Inc. and SAIC Europe Limited are available at Berkshire House, Queen Street, Maidenhead, Berkshire SL6 1NF.

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard No 8 "Related party disclosures", as the consolidated accounts of SAIC Europe Limited, in which the company is included, are available at the address noted above.

SAIC LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 1998**

17 DISPOSAL OF SAIT DIVISION

On 7 March 1997 the net assets of the company's SAIT division were disposed of to Litton Data Systems. The disposal proceeds amounts to £471,000, which resulted in a net gain on disposal of £82,000.