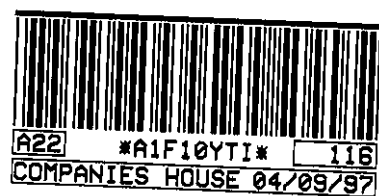


SAIC LIMITED
COMPANY NO: 1396396

DIRECTOR'S REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 JANUARY 1997



SAIC LIMITED

REPORT OF THE DIRECTOR

FOR YEAR ENDED 31 JANUARY 1997

The director submits his report and audited accounts for the year ended 31 January 1997.

PRINCIPAL ACTIVITY

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

REVIEW OF THE BUSINESS

The company showed an operating loss of £2,326,000 (1996: £827,000) for the current period on a turnover of £26,986,000 (1996: £16,928,000). Revenue for the year ending 31 January 1998 should approach £30 million due to the continued expansion of the company's business in the oil and gas information technology markets. This increasing volume of business, from a broader base of clients should have a positive effect on future operating margins.

RESULTS AND DIVIDENDS

The results of the company for the year are set out on Page 5.

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.

DIRECTORS AND THEIR INTERESTS

The only director who served during the year was Dr J Glancy (US Director). He did not have any interests in the share capital of the company, but as at 31 January 1997 he held 137,437 class 'A' common shares in the company's ultimate parent undertaking, Science Applications International Corporation (SAIC).

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

SAIC LIMITED

REPORT OF THE DIRECTOR

FOR YEAR ENDED 31 JANUARY 1997

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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

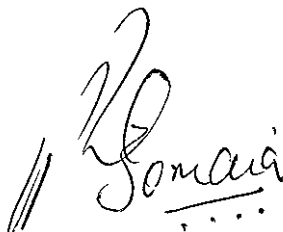
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- state whether applicable accounting 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 to 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.

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

A handwritten signature in dark ink, appearing to read 'P Somaia', with a stylized flourish to the left.

P Somaia
Company Secretary

31 July 1997

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF SAIC LIMITED

We have audited the accounts on pages 5 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3 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 1997 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 Auditor

31 July 1997

SAIC LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JANUARY 1997

	Notes	1997 £'000	1996 £'000
TURNOVER	2		
Continuing operations	24,777	3,025	
Acquisitions	-	13,903	
Discontinued operations	2,209	-	
		<hr/>	<hr/>
		26,986	16,928
Cost of sales		(24,639)	(12,483)
		<hr/>	<hr/>
GROSS PROFIT		2,347	4,445
Distribution costs		(340)	(1,384)
Administrative expenses		(4,749)	(4,270)
Other operating income		416	382
		<hr/>	<hr/>
OPERATING LOSS	2		
Continuing operations	(1,915)	(40)	
Acquisitions	-	(787)	
Discontinued operations	(411)	-	
		<hr/>	<hr/>
		(2,326)	(827)
Interest receivable and similar income	4	77	111
Interest payable and similar charges	4	(182)	(283)
Amounts written off investments	4	-	(226)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	2	(2,431)	(1,225)
Tax credit on loss on ordinary activities	5	-	48
Loss on ordinary activities after taxation		(2,431)	(1,177)
		<hr/>	<hr/>
Loss for the financial year	11	(2,431)	(1,177)
		<hr/>	<hr/>

During 1997 and 1996 the company had no recognised gains and losses other than the loss for the year.

The notes on pages 7 to 16 form part of these accounts.

SAIC LIMITED

BALANCE SHEET

AS AT 31 JANUARY 1997

	Notes	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	6	3,520	1,296
Investment in subsidiary	7	-	-
		<hr/>	<hr/>
		3,520	1,296
CURRENT ASSETS			
Stock	8	125	406
Debtors	9	10,417	7,846
Cash at Bank		-	887
		<hr/>	<hr/>
		10,542	9,139
TOTAL ASSETS		<hr/>	<hr/>
		14,062	10,435
LIABILITIES			
CAPITAL AND RESERVES			
Other reserve	11	3,800	-
Called up share capital	10	707	707
Share premium account	11	24	24
Profit & loss account	11	(3,738)	(1,307)
		<hr/>	<hr/>
Shareholders' Funds		793	(576)
CREDITORS			
Creditors: amounts falling due within one year	12	13,269	11,011
		<hr/>	<hr/>
TOTAL FUNDS EMPLOYED		<hr/>	<hr/>
		14,062	10,435

The accounts of pages 5 to 16 were approved by the Board on 31 July 1997 and signed on its behalf by:

N Garden
Director



The notes on pages 7 to 16 form part of these accounts.

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

1 ACCOUNTING POLICIES

(1) Basis of Accounting

The accounts have been prepared on the historical cost basis of accounting, 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 £3.8 million with effect from 1 February 1996.

The company has taken advantage of the exemption on FRSI 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.

(2) Consolidation

Group accounts have not been prepared as the company is exempt from the obligation to prepare group accounts. SAIC Limited is a wholly-owned subsidiary of SAIC UK Limited, a company which draws up group accounts which include the results of the company.

(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 over their estimated useful lives using the straight line method.

	<u>Rates</u>
Short leasehold buildings	Over unexpired portion of lease
Plant and machinery	25%
Fixtures and fittings	15%

(5) Fixed Asset Investments

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

SAIC LIMITED

BALANCE SHEET

AS AT 31 JANUARY 1997

1 ACCOUNTING POLICIES (CONTINUED)

(6) Leased Assets

Tangible fixed assets which are held under finance leases are capitalised and depreciated over their estimated useful lives in accordance with the depreciation policy set out above. Future obligations under such leases, net of finance charges, are included, as appropriate, under creditors due within or after one year. Instalments payable are apportioned between the finance element, which is charged as a finance cost in the profit and loss account, and the capital repayment, which reduces the outstanding obligation for future instalments shown within creditors.

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

The company contributes 9% of employees' salaries to a Group Personal Pension Plan administered by Norwich Union on a money purchase basis. The company's pension scheme, which is being wound up with effect from 31 December 1992, provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with Provident Mutual Managed Pension Funds Ltd. Contributions to the scheme were charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

(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.

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

2 TURNOVER AND OPERATING LOSS

	1997 £'000	1996 £'000
Analysis of turnover by market:		
United Kingdom	23,201	13,458
Rest of Europe	2,404	2,691
USA	35	81
Rest of the World	1,346	698
	<hr/>	<hr/>
	26,986	16,928
	<hr/>	<hr/>
Analysis of turnover by class of business:		
Product sales and service	2,260	2,894
Scientific, Engineering and Consultancy	3,618	3,307
Commercial systems	21,108	10,728
	<hr/>	<hr/>
	26,986	16,928
	<hr/>	<hr/>
The operating loss is stated after charging:		
Redundancy costs	-	44
Amounts owed by subsidiary undertaking written off	-	129
Rentals paid under operating leases	404	494
Audit fee	30	20
Depreciation	484	299
	<hr/>	<hr/>

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

2 TURNOVER AND OPERATING LOSS (CONTINUED)

	Continuing Operations £'000	Discontinued Operations £'000	1997 Total £'000	1996 Total £'000
Turnover	24,777	2,209	26,986	16,928
Cost of sales	(23,325)	(1,314)	(24,639)	(12,483)
Gross Profit	1,452	895	2,347	4,445
Distribution costs	(340)	(574)	(914)	(1,384)
Administration expenses	(3,443)	(732)	(4,175)	(4,148)
Other operating income	416	-	416	382
Operating Loss	(1,915)	(411)	(2,326)	(705)

Discontinued operations comprise the business of the company's SAIT division for the year ended 31 January 1997. As described in Note 18, this division was disposed of on 7 March 1997.

3 REMUNERATION OF EMPLOYEES AND DIRECTORS

	1997 £'000	1996 £'000
Staff Costs:		
Wages and Salaries	10,035	5,963
Social security costs	1,099	604
Other pension costs	912	487
	12,046	7,054

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

	1997 £'000	1996 £'000
Direct	289	182
Indirect	54	30
	343	212

The director in office during the year did not receive any remuneration as an executive of the company (1996:£nil).

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

4 INTEREST RECEIVABLE/PAYABLE

	1997 £'000	1996 £'000
Interest receivable and similar income		
Bank deposit	77	111
Other interest	-	-
	<u>77</u>	<u>111</u>
Interest payable and similar charges		
Loan from ultimate parent undertaking repayable on demand	182	282
Lease financing	-	1
	<u>182</u>	<u>283</u>
Amounts written off investments		
Investment in Andrew Palmer and Associates Ltd written off	-	226
	<u>-</u>	<u>226</u>

5 TAX ON LOSS ON ORDINARY ACTIVITIES

UK taxation is based on the results for the year and comprises:

	1997 £'000	1996 £'000
Release of provision for deferred tax	-	(48)
	<u>-</u>	<u>(48)</u>

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

6 TANGIBLE FIXED ASSETS

	<u>Fixtures and Fittings</u> £'000	<u>Short Leasehold Buildings</u> £'000	<u>Plant and Machinery</u> £'000	<u>Total</u> £'000
Cost				
At 1 February 1996	185	484	2,136	2,805
Additions	238	1,251	1,279	2,768
Disposals	-	(10)	(63)	(73)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 1997	423	1,725	3,352	5,500
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated Depreciation				
At 1 February 1996	89	145	1,275	1,509
Charge for year	38	28	418	484
Disposals	-	(10)	(3)	(13)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 1997	127	163	1,690	1,980
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 31 January 1997	296	1,562	1,662	3,520
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 1996	96	339	861	1,296
	<hr/>	<hr/>	<hr/>	<hr/>

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

7 INVESTMENT IN SUBSIDIARY

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

	1997 £'000	1996 £'000
Cost		
Andrew Palmer and Associates Limited (incorporated in England)		
Ordinary Share Capital (100% owned)	226	226
	<hr/>	<hr/>
Provision for permanent diminution in value		
Written off during 1996 and carried forward	(226)	(226)
	<hr/>	<hr/>
Net book value	-	-
	<hr/>	<hr/>

8 STOCK

	1997 £'000	1996 £'000
Finished goods for resale	125	402
Spare parts	-	4
	<hr/>	<hr/>
	125	406
	<hr/>	<hr/>

9 DEBTORS

	1997 £'000	1996 £'000
Trade debtors	9,058	5,749
Amount owed by parent undertakings	707	715
Amount owed by subsidiary undertaking	-	35
Other debtors	64	200
Prepayments and accrued income	588	1,147
	<hr/>	<hr/>
	10,417	7,846
	<hr/>	<hr/>

10 SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised share capital:		
706750 Ordinary shares of £1 each	707	707
	<hr/>	<hr/>
Allotted called-up and fully paid:		
706725 Ordinary shares of £1 each	707	707
	<hr/>	<hr/>

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Share Capital	Share Premium Account	Profit & Loss Account	Other Reserve	Total Shareholders' Funds	
	£'000	£'000	£'000	£'000	1997 £'000	1996 £'000
At 1 February 1996	707		(1,307)	-	(576)	601
Loss for the year	-	-	(2,431)	-	(2,431)	(1,177)
Capital contribution from parent undertaking	-	-	-	3,800	3,800	-
At 31 January 1997	707	24	(3,738)	3,800	993	(576)

With effect from 1 February 1996 the parent undertaking, SAIC UK Limited, made a contribution to capital of £3.8 million by way of gift to SAIC Limited.

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £'000	1996 £'000
Bank overdraft	74	-
Trade creditors	1,097	976
Amount owed to parent undertaking	1,113	-
Other creditors	-	536
Other taxation and social security	840	250
Interest bearing loan from ultimate parent undertaking	7,310	5,881
Accruals and deferred income	2,835	3,368
	13,269	11,011

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 YEAR ENDED 31 JANUARY 1997

13 FUTURE RENTAL OBLIGATIONS UNDER OPERATING LEASES

	1997 £'000	1996 £'000
Payable in year ending 31 January 1998		
Land and Buildings		
Operating leases which expired:		
Within one year	-	4
Between two and five years	99	104
Over five years	291	251
	<hr/>	<hr/>
	350	359
	<hr/>	<hr/>
Other		
Operating leases which expired:		
Within one year	-	12
Between two and five years	41	41
Over five years	-	-
	<hr/>	<hr/>
	41	53
	<hr/>	<hr/>

14 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31st January 1997 the company had no capital expenditure approved but not contracted for (1996: £1,100,000). The company had no contingent liabilities at 31st January 1997 (1996: NIL).

15 PENSION SCHEME

The company runs a group personal pension scheme into which is paid 95 of an individual's annual salary. Then pension provided is related to the contributions made to the scheme. Contributions relating to this scheme were £912,000 (1996: £487,000) of which £59,000 (1996: £39,000) was accrued at the year end.

SAIC Ltd also had an occupational pension scheme which is funded, contributory and provides pensions related to final pensionable pay. The Company contributed in accordance with the advice of the scheme's independent actuaries based on their valuations. This scheme is being wound up with effect from 31 December 1992 at which date a valuation has been prepared. This showed that the funds was satisfactorily funded to enable transfer values to be made. No contributions were paid to this scheme during the year.

SAIC LIMITED

NOTES TO THE ACCOUNTS

FOR YEAR ENDED 31 JANUARY 1997

16 PARENT UNDERTAKING

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 UK 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.

17 SUBSEQUENT EVENTS

On 7 March 1997 the net assets of the company's SALT division were disposed of to Litton Data Systems. The consideration to be received will, in the opinion of the director, be at least equal to the net asset value of the division at the date of disposal.