

Company Registration No. 2422306

SAIC Europe Limited

Report and Financial Statements

31 January 2004

**Deloitte & Touche LLP
London**



SAIC Europe Limited

Report and financial statements 2004

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SAIC Europe Limited

Report and financial statements 2004

Officers and professional advisers

Directors

W J Roper
H Bozorgmanesh

Joint secretaries

S M Frank
P Watson

Registered office

8/9 Stratton Street
Mayfair
London W1J 8LF

Bankers

National Westminster Bank Plc
66 High Street
Maidenhead
Berkshire SL6 1PY

Solicitors

Addleshaw Goddard
150 Aldersgate Street
London EC1A 4EJ

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

SAIC Europe Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2004.

Principal activities

The principal activities of the company during the year continued to be outsourcing, systems integration, scientific engineering and IT consultancy.

The company provides a range of services and solutions based on innovative applications of science and technology to deliver business value to customers.

Review of business and future developments

The market the group operates in has been difficult in the past year but the pipeline of new opportunities has improved.

On 25 July 2003 SAIC Limited purchased the entire share capital of Opta Limited, a company whose principal activity is the provision of consultancy services.

Results and dividends

The group profit for the year after taxation amounted to £3,321,000 (2003: £4,453,000 profit). Science Applications International Corporation has issued share options to employees of SAIC Limited. The cost to the group of providing the benefit of the share-based incentives under the stock plan to its employees was £1,152,049 (2003: £442,000).

The directors are recommending a final dividend of £nil for the year (2003: £609,000). Interim dividends of £1,365,000, £1,305,000 and £659,000 (2003: £2,503,000 and £1,341,000) were paid during the year.

Directors and their interests

The directors who served throughout the year were:

H Bozorgmanesh

W J Roper

The directors do not have any interests in the shares of the company. At 31 January 2004, the directors held class 'A' common shares and outstanding options, in the company's ultimate parent undertaking, Science Application International Corporation. For further details please refer to note 6.

No directors had any interests in group companies except as noted above.

SAIC Europe Limited

Directors' report

Disabled employees

The group 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.

In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee involvement

The group has held meetings at intervals during the year in accordance with established practice 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

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

Pursuant to Section 386 of the Companies Act 1985, as inserted by Section 119 of the Companies Act 1989, an elective resolution was passed dispensing with the requirement to appoint auditors annually. Therefore, Deloitte & Touche LLP are deemed to continue as auditors.

Approved by the Board of Directors
and signed on behalf of the Board



H Bozorgmanesh

Director

6 May 2004

SAIC Europe Limited

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

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

Independent auditors' report to the members of SAIC Europe Limited

We have audited the financial statements of SAIC Europe Limited for the year ended 31 January 2004 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

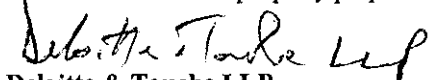
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 January 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

11 May 2004

SAIC Europe Limited

Consolidated profit and loss account Year ended 31 January 2004

	Note	2004 £'000	2003 £'000
Turnover	1,3		
Existing operations		83,673	99,038
Acquisitions		2,505	-
Continuing operations		86,178	99,038
Cost of sales		(62,912)	(75,352)
Gross profit		23,266	23,686
Administrative expenses		(18,775)	(18,514)
Other net operating (expense)/income		(222)	175
Operating profit	4		
Existing operations		3,991	5,347
Acquisitions		278	-
		4,269	5,347
Interest receivable and similar income	8	636	834
Interest payable and similar charges	5	(92)	(61)
Profit on ordinary activities before taxation		4,813	6,120
Tax charge on profit on ordinary activities	9	(1,492)	(1,667)
Profit on ordinary activities after taxation		3,321	4,453
Dividends paid and proposed	10	(3,329)	(4,453)
Retained loss for the financial year	19	(8)	-

All activities derive from continuing operations.

The parent company's profit on ordinary activities after taxation for the financial year amounted to £3,246,000 (2003: £4,453,000).

SAIC Europe Limited

Consolidated statement of total recognised gains and losses Year ended 31 January 2004

	2004 £	2003 £
Profit for the financial year	3,321	4,453
Currency translation differences on foreign currency net investments	21	(9)
Total recognised gains and losses for the financial year	<u>3,342</u>	<u>4,444</u>

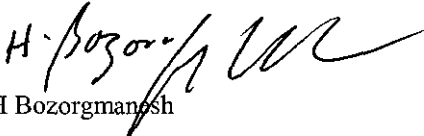
SAIC Europe Limited

Consolidated balance sheet 31 January 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Intangible assets	11	4,992	21
Tangible fixed assets	12	3,060	3,693
Investments	13	3,833	3,833
		<u>11,885</u>	<u>7,547</u>
Current assets			
Work in progress	14	1,514	722
Debtors	15	8,831	25,953
Cash at bank and in hand		15,144	21,708
		<u>25,489</u>	<u>48,383</u>
Creditors: amounts falling due within one year	16	<u>(27,364)</u>	<u>(45,933)</u>
Net current (liabilities)/assets		<u>(1,875)</u>	<u>2,450</u>
Total assets less current liabilities		<u>10,010</u>	<u>9,997</u>
Net assets		<u>10,010</u>	<u>9,997</u>
Equity capital and reserves			
Called up share capital	18	100	100
Other reserves	19	9,817	9,900
Foreign exchange reserve	19	18	(3)
Profit and loss account	19	75	-
Total equity shareholders' funds	19	<u>10,010</u>	<u>9,997</u>

These financial statements were approved by the Board of Directors on 6 May 2004.

Signed on behalf of the Board of Directors


H Bozorgmanesh
Director

SAIC Europe Limited

Company balance sheet 31 January 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible fixed assets	12	1	2
Investments	13	9,430	9,627
		<u>9,431</u>	<u>9,629</u>
Current assets			
Debtors	15	734	1,186
Cash at bank and in hand		48	64
		<u>782</u>	<u>1,250</u>
Creditors: amounts falling due within one year	16	(296)	(879)
Net current assets		<u>486</u>	<u>371</u>
Total assets less current liabilities		<u>9,917</u>	<u>10,000</u>
Equity capital and reserves			
Called up share capital	18	100	100
Other reserves	19	9,817	9,900
Profit and loss account	19	-	-
Total equity shareholders' funds	19	<u>9,917</u>	<u>10,000</u>

These financial statements were approved by the Board of Directors on

6 May 2004.

Signed on behalf of the Board of Directors



H Bozorgmehr

Director

SAIC Europe Limited

Consolidated cash flow statement Year ended 31 January 2004

	Note	2004 £'000	2003 £'000
Net cash (outflow)/inflow from operating activities	22	<u>(254)</u>	<u>18,769</u>
Returns on investment and servicing of finance			
Interest paid		(31)	(61)
Interest received		636	834
Dividends paid to parent company		<u>(3,938)</u>	<u>(14,464)</u>
		<u>(3,333)</u>	<u>(13,691)</u>
Taxation			
Corporation tax paid		(693)	(4,430)
Overseas tax paid		<u>(79)</u>	<u>(50)</u>
		<u>(772)</u>	<u>(4,480)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(224)	(1,791)
Purchase of trade investments		<u>-</u>	<u>(3,833)</u>
Net cash outflow from investing activities		<u>(224)</u>	<u>(5,624)</u>
Acquisitions and disposals			
Purchase of subsidiary undertakings		(3,757)	-
Cost of acquisition		(57)	-
Net cash acquired with subsidiary undertaking		<u>1,833</u>	<u>-</u>
		<u>(1,981)</u>	<u>-</u>
Decrease in cash	23	<u><u>(6,564)</u></u>	<u><u>(5,026)</u></u>

SAIC Europe Limited

Notes to the accounts

Year ended 31 January 2004

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

Basis of accounting

The financial statements have been prepared on the historical cost and in accordance with applicable United Kingdom accounting standards. The financial statements are prepared on the going concern basis.

Consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 January each year. The results of the subsidiaries acquired or sold are consolidated for the period from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.

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 delivered and accepted by the customer.

No profit is recognised until the contract has advanced to a stage where the total profit can be assessed with reasonable certainty. Provision is made for the full amount of foreseeable losses on contracts.

Unbilled receivables are stated at estimated realisable value.

Acquisitions

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the group balance sheet in the year of acquisition and amortised over its useful economic life.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Tangible fixed assets and depreciation

Fixed assets are stated at historical cost less accumulated depreciation.

Assets in the course of construction comprise capitalised material and labour costs attributable to the tangible fixed assets.

Depreciation on tangible fixed assets is provided on the straight line basis to write off the cost of fixed assets over their estimated useful lives as follows:

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

Fixed asset investments

In the parent company's accounts, investments in subsidiaries and associated companies are stated at cost less provision for impairment.

SAIC Europe Limited

Notes to the accounts

Year ended 31 January 2004

1. Accounting policies (continued)

Work in progress

Work in progress is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and a share of production overheads appropriate to the relevant stage of production, based on normal levels of activity. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Leased assets

Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term.

Research and development

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

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

For the defined benefit scheme the expected costs of providing pensions and other post retirement benefits, as calculated periodically by professionally qualified actuaries, are charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes operated within the group in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

For defined contribution schemes, 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 period. Differences between the contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated at the current rates of exchange at the balance sheet date. Transactions in foreign currencies are recorded at the exchange rates prevailing at the dates of transactions. However, where settlements have been covered by forward exchange contracts, the contract rates are used. Exchange differences are taken directly to reserves.

The results of overseas operations are translated at the average rate during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 2 – 20 years.

SAIC Europe Limited

Notes to the accounts

Year ended 31 January 2004

2. Acquisitions

On 25 July 2003 SAIC Limited acquired 100% of the ordinary share capital of Opta Limited for consideration of £6,934,283 of which £850,000 is currently retained. The retained consideration is payable in the financial year ending 31 January 2005. Following the acquisition the assets and liabilities of Opta Limited were hived up to SAIC Limited, with the excess of consideration over net assets at book value being transferred to goodwill.

The following table summarises the major categories of assets and liabilities acquired at fair value and book value included in the consolidated financial statements at the date of acquisition.

	Fair value and book value to the group £'000
Fixed assets	
Tangible	46
Current assets	
Debtors	1,187
Cash	1,833
Total assets	<u>3,066</u>
Creditors	
Trade creditors	231
Accruals	619
Provisions	
Taxation	344
Total liabilities	<u>1,194</u>
Net asset	1,872
Goodwill (note 11)	5,119
	<u>6,991</u>
	£'000
Satisfied by	
Assumption of Opta Limited liabilities	206
Cash	3,757
Loan notes (note 16)	2,971
	<u>6,934</u>
Costs of acquisition	57
	<u>6,991</u>

SAIC Europe Limited

Notes to the accounts

Year ended 31 January 2004

3. Turnover

	2004 £'000	2003 £'000
Analysis of turnover by geographical market:		
United Kingdom	77,306	89,707
Rest of Europe	658	966
USA	7,945	7,529
Rest of the world	269	836
	<u>86,178</u>	<u>99,038</u>
Analysis of turnover by class of business:		
Scientific, engineering and computer consultancy	84,638	98,639
Sensor devices	1,540	399
	<u>86,178</u>	<u>99,038</u>

The directors have not included additional segmental information as they feel it is prejudicial to the interests of the company.

4. Operating profit

	2004 £'000	2003 £'000
Operating profit is stated after charging:		
Share option charge	1,152	442
Loss on disposal of fixed assets	47	10
Contractual redundancy payments	474	330
Rentals paid under operating leases:		
Land and buildings	3,200	3,391
Plant and machinery	330	329
Net foreign exchange loss	23	315
Auditors' remuneration		
Audit services – group	92	79
Audit services – company	8	8
Tax services	65	101
Depreciation – owned assets	857	687
Amortisation of intangible fixed assets	<u>148</u>	<u>27</u>

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

5. Interest payable and similar charges

	2004 £'000	2003 £'000
Interest on loan notes	61	-
Interest on tax stage payments	31	61
	<u>92</u>	<u>61</u>

6. Directors' remuneration

	2004 £'000	2003 £'000
Aggregate emoluments and emoluments paid to highest paid director	274	285

H Bozorgmanesh received remuneration as executive of the group. W J Roper did not receive any remuneration as executive of the group, (2003: £nil). No group directors (2003: nil) are members of the money purchase pension scheme or the defined benefit pension scheme. Both directors are member of the retirement plan operated by SAIC.

Directors' interests in the company's ultimate parent undertaking, Science Applications International Corporation, at 31 January 2004 are shown below. The comparatives are at 31 January 2003.

	Number of common stock 'A'	
	2004 No.	2003 No.
H Bozorgmanesh	236,180	225,362
W J Roper	10,000	13,606

	Number of options			
	At 1 February 2003 No.	Granted No.	Exercised No.	At 31 January 2004 No.
H Bozorgmanesh	71,000	13,000	20,000	64,000
W J Roper	500,000	75,000	125,000	450,000

Further details of the options for the directors are as follows:

	Exercise price \$	Date from which exercisable		Expiry date
H Bozorgmanesh	27.4455	22 March 2000 – 25 March 2004	21 March 2004 – 24 March 2008	
W J Roper	29.6979	21 March 2001 – 25 March 2004	20 March 2005 – 24 March 2008	

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

7. Employee information

Staff costs including directors' remuneration, amounted to:

	2004 £'000	2003 £'000
Staff costs		
Wages and salaries	42,407	39,783
Social security costs	5,221	4,247
Other pension costs	3,933	3,824
	<u>51,561</u>	<u>47,854</u>
	No.	No.
Average number of persons employed		
Full time members of staff	999	1,045
Part time members of staff	57	48
	<u>1,056</u>	<u>1,093</u>

8. Interest receivable and similar income

	2004 £'000	2003 £'000
Other interest receivable and similar income	<u>636</u>	<u>834</u>

SAIC Europe Limited

Notes to the accounts

Year ended 31 January 2004

9. Tax charge on profit on ordinary activities

	2004 £'000	2003 £'000
United Kingdom corporation tax at 30% (2003: 30%)	1,879	1,724
Overseas tax	58	66
Adjustment in respect of prior year	(172)	65
	<u>1,765</u>	<u>1,855</u>
Deferred taxation		
Current year charge	(264)	182
Adjustment in respect of prior years	(9)	(370)
	<u>1,492</u>	<u>1,667</u>
Tax reconciliation		
Profit on ordinary activities before taxation	<u>4,813</u>	<u>6,120</u>
Tax at 30%	1,444	1,836
Effects of:		
Expenses not deductible for tax purposes	212	120
Capital allowances in excess of depreciation	(28)	(147)
Movement in short term timing differences	16	(34)
Other deferred tax movements on share based remuneration	276	-
Overseas tax rates	17	15
Adjustment in respect of prior years	(172)	65
Current tax charge for the period	<u>1,765</u>	<u>1,855</u>

10. Dividends paid and proposed

	2004 £'000	2003 £'000
Paid: £33.29 per ordinary share (2003: £38.44)	3,329	3,844
Final proposed: £nil per ordinary share (2003 : £6.09)	-	609
	<u>3,329</u>	<u>4,453</u>

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

11. Intangible fixed assets

Group	Goodwill £'000	Patents and trade marks £'000	Total £'000
Cost			
At 1 February 2003	-	55	55
Additions	5,119	-	5,119
Disposals	-	(55)	(55)
	<hr/>	<hr/>	<hr/>
At 31 January 2004	5,119	-	5,119
	<hr/>	<hr/>	<hr/>
Accumulated amortisation			
At 1 February 2003	-	34	34
Charge for the year	127	21	148
Disposals	-	(55)	(55)
	<hr/>	<hr/>	<hr/>
At 31 January 2004	127	-	127
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 January 2004	4,992	-	4,992
	<hr/>	<hr/>	<hr/>
At 31 January 2003	-	21	21
	<hr/>	<hr/>	<hr/>

The patents and trade marks arising from the acquisition of net assets from Oracle in 2002 have been written off over a two year period.

The goodwill arising on acquisition of Opta Limited is being amortised over a 20 year period.

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

12. Tangible fixed assets

Group	Assets in the course of construction £'000	Office furniture and fittings £'000	Short leasehold buildings £'000	Plant machinery and computer equipment £'000	Total £'000
Cost					
At 1 February 2003	500	1,504	775	3,278	6,057
Additions	-	30	81	113	224
Disposals	-	(179)	-	(249)	(428)
Re-classification	(500)	-	-	500	-
Acquisition of subsidiary undertaking	-	179	-	145	324
At 31 January 2004	-	1,534	856	3,787	6,177
Accumulated depreciation					
At 1 February 2003	-	509	454	1,401	2,364
Charge for year	-	184	76	597	857
Disposals	-	(146)	-	(235)	(381)
Acquisition of subsidiary undertaking	-	146	-	131	277
At 31 January 2004	-	693	530	1,894	3,117
Net book value					
At 31 January 2004	-	841	326	1,893	3,060
At 31 January 2003	500	995	321	1,877	3,693
Company				Plant machinery and equipment £'000	
Cost					
At 1 February 2003 and 31 January 2004					15
Accumulated depreciation					
At 1 February 2003					13
Charge for year					1
At 31 January 2004					14
Net book value					
At 31 January 2004					1
At 31 January 2003					2

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

13. Fixed asset investments

	Group £'000
Other investments	
Cost and net book value	
At 31 January 2003 and 31 January 2004	3,833

The group owns 15,778 (2003: 15,778) £0.01 ordinary shares in Hemel Restaurant Limited.

The group has a 49.999997% non controlling interest in Data Systems & Solutions Limited of 1,878,788 redeemable non-cumulative preference shares from the ultimate parent undertaking, Science Applications International Corporation, for £3,833,154. The preference shares do not carry rights to receive notice and attend and vote at general annual meetings of the company.

Data Systems & Solutions Limited's principal activities are supply of instrumentation supervisory control systems, information and design support services for the aerospace, marine power, oil, gas, chemical, power generation and transmission and distribution of energy markets.

	Company £'000
Subsidiary undertakings	
Cost	
At 1 February 2003 and 31 January 2004	9,627
Provision for impairment	
At 1 February 2003	-
Written off	197
At 31 January 2004	197
Net book value	
At 31 January 2004	9,430
At 31 January 2003	9,627

All of the above investments are unlisted.

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

13. Fixed asset investments (continued)

The company's subsidiary undertakings, all of which are included in the consolidated accounts are as follows:

Subsidiary undertakings	Country of registration	Class of shares	Proportion of shares held	Principal activity
SAIC Limited *	England and Wales	Ordinary	100%	Systems integration, IT outsourcing/consultancy
Calanais Limited	Scotland	Ordinary	100%	Systems integration, IT outsourcing/consultancy
SAI Europe SARL *	France	Ordinary	100%	Systems integration, IT outsourcing/consultancy
Calanais Pension Trust Limited	England and Wales	Ordinary	100%	Non-trading pension trust
Opta Limited	England and Wales	Ordinary	100%	Systems integration, IT outsourcing/consultancy

* Held directly by SAIC Europe Limited.

Following the acquisition of Opta Limited its net assets were hived up to SAIC Limited at book value of £1,871,568.

14. Work in progress

	2004 £'000	2003 £'000
Group		
Work in progress	1,514	722

15. Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade debtors	3,697	8,705	-	-
Amounts owed by parent undertaking	211	-	422	579
Amounts owed by group undertakings	235	340	231	6
Dividend receivable from group undertakings	-	-	76	587
Other debtors	656	4,734	5	14
Prepayments and accrued income	4,032	12,174	-	-
	<u>8,831</u>	<u>25,953</u>	<u>734</u>	<u>1,186</u>

Group

Included within other debtors is £nil (2003: £901,000) of corporation tax recoverable and £357,000 (2003: £84,000) relating to a deferred tax asset.

Company

Included within other debtors is £nil (2003: £11,000) of corporation tax recoverable.

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

16. Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Trade creditors	3,122	6,161	61	54
Amounts owed to parent undertaking	-	1,208	194	803
Other taxation and social security	4,666	3,396	27	-
Other creditors	1,054	-	-	-
Loan notes payable	2,971	-	-	-
Accruals and deferred income	15,551	35,168	14	22
	<u>27,364</u>	<u>45,933</u>	<u>296</u>	<u>879</u>

Group

Other taxation and social security includes corporation tax payable of £1,117,000 (2003: £680,000). The amount owed to the parent undertaking includes the proposed dividend of £nil (2003: £609,000), see note 10.

Company

Other taxation and social security includes corporation tax payable of £10,000 (2003: £nil). The amount owed to the parent undertaking includes the proposed dividend of £nil (2003: £609,000), see note 10.

17. Deferred taxation

The deferred tax asset included within current asset other debtors (see note 15), consists of the following amounts:

	2004 £'000	2003 £'000
Capital allowances in excess of depreciation	39	10
Timing differences on share based remuneration	(276)	-
Short term timing differences	(120)	(94)
	<u>(357)</u>	<u>(84)</u>
Movement on deferred tax in the year		
At beginning of year	(84)	104
Current year credit	(273)	(188)
	<u>(357)</u>	<u>(84)</u>

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

18. Called up share capital

	2004 £'000	2003 £'000
Authorised share capital:		
250,000 ordinary shares of £1 each	250	250
Allotted, called up and fully paid:		
100,000 ordinary shares of £1 each	100	100

19. Reconciliation of movement in shareholders' funds

Group	Share capital £'000	Other reserve £'000	Foreign exchange translation £'000	Profit and loss account £'000	Total £'000
At 1 February 2003	100	9,900	(3)	-	9,997
Retained loss in the year	-	-	-	(8)	(8)
Foreign exchange differences on the translation of net equity investments in foreign enterprises	-	-	21	-	21
Transfer	-	(83)	-	83	-
At 31 January 2004	100	9,817	18	75	10,010

Company	Share capital £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 1 February 2003	100	9,900	-	10,000
Retained loss in the year	-	-	(83)	(83)
Transfer	-	(83)	83	-
At 31 January 2004	100	9,817	-	9,917

SAIC Europe Limited

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Year ended 31 January 2004

20. Future rental obligations under operating leases

At 31 January 2004 the group was committed to making the following payments during the next year in respect of operating leases:

	2004 £'000	2003 £'000
Obligations under operating leases comprise:		
Land and buildings		
Within one year	720	442
Within two to five years	1,417	470
After five years	593	1,641
	<u>2,730</u>	<u>2,553</u>
Other assets		
Within one year	161	70
Within two to five years	110	233
	<u>271</u>	<u>303</u>

21. Pension scheme

The group operates a group personal pension scheme and a funded defined benefit pension scheme. The group currently accounts for pensions under SSAP 24.

SSAP 24

The assets of the group personal pension scheme are held and managed by Norwich Union.

The group currently accounts for pensions under SSAP 24. At 31 January 2003, a provision of £2,534,000 existed on the group's accounts in relation to this plan, and a further £211,000 for unpaid contributions, not reflected in the £1,774,000 figure shown in the profit and loss reserve below.

At 31 January 2004, contributions to the defined benefit scheme amounted to £3,915,000 (2003:£1,304,000) of which £104,532 (2003: £104,532) were accrued at the end of the year. The expense for the year was £1,301,000 with a further £80,000 in respect of insurance benefits, giving a total of £1,381,000 (2003:£nil). The provision of £2,534,000 at the beginning of the year has been reduced to nil by the end of the year.

The final salary scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 1 April 2002, using the projected unit method, in which the actuarial liability makes allowances for projected earnings. The following were the principal actuarial assumptions applies:

Investment returns	7.5% per annum
Salary growth	4.4% per annum
Pension increases	2.6% per annum

At the last actuarial valuation date, the actuarial value of assets of the final salary pension scheme was £26,696,000 and this was sufficient to cover 84% of the benefits which had accrued to members, after allowing for expected future increase in earnings. The employer's contribution rate over the average remaining lives of the members of the scheme takes account of the deficit disclosed by the valuation.

The group agreed contribution rate for future years is 16.0% of pensionable salaries.

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

21. Pension scheme (continued)

The group also contributes 9% of pensionable salaries for those employees who join the group personal pension scheme. The expense for the year was £2,551,348 (2003: £2,530,422) with £203,244 (2003: £93,431) being accrued at the end of the year.

FRS 17

Under the transitional arrangements for FRS 17, the group is required to disclose the following information about the scheme and the figures that would have been shown in the balance sheet if FRS 17 had been implemented in full at the year end.

The full actuarial valuation at 1 April 2002 was updated to 31 January 2004 by an independent qualified actuary.

The assets in the scheme and the expected rates of return at 31 January were:

Asset	Long term rate of expected return at	Value at	Long term rate of expected return at	Value at	Long term rate of expected return at	Value at
	31 January 2004 £'000	31 January 2004 £'000	31 January 2003 £'000	31 January 2003 £'000	31 January 2002 £'000	31 January 2002 £'000
Equities	8.75% p.a.	21,975	8.75% p.a.	16,039	8.50% p.a.	20,650
Bonds	5.00% p.a.	6,474	5.00% p.a.	3,123	5.25% p.a.	3,475
Cash	4.00% p.a.	525	4.00% p.a.	487	4.00% p.a.	275
Other	7.00% p.a.	-	7.00% p.a.	628	7.00% p.a.	600
Total		<u>28,974</u>		<u>20,277</u>		<u>25,000</u>

The liabilities of the scheme at 31 January 2004 were calculated on the following bases as required under FRS 17:

Assumptions at 31 January	2004	2003	2002
Discount rate	5.5% p.a.	5.5% p.a.	5.5% p.a.
Rate of increase in salaries	3.5% p.a.	3.5% p.a.	3.5% p.a.
Rate of increase in pensions in payment	2.5% p.a.	2.0% p.a.	2.0% p.a.
Rate of increase in pensions in deferment	2.5% p.a.	2.0% p.a.	2.0% p.a.
Inflation assumption	2.5% p.a.	2.0% p.a.	2.0% p.a.

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

21. Pension scheme (continued)

The balance sheet position for the scheme as calculated under FRS 17 at 31 January was as follows:

	2004 £'000	2003 £'000	2002 £'000
Fair value of assets	28,974	20,277	25,000
Present value of scheme liabilities	(41,886)	(36,325)	(32,290)
Deficit in the Scheme	(12,912)	(16,048)	(7,290)
Related deferred tax asset	3,874	4,814	2,187
Net pension liability	(9,038)	(11,234)	(5,103)

The effect on the group's reserves at 31 January, had FRS 17 been adopted, would have been as follows:

	2004 £'000	2003 £'000	2002 £'000
Profit and loss reserve	75	-	-
Reversal of existing pension, adjusted for deferred tax	-	1,774	-
Pension provision	(9,038)	(11,234)	(5,103)
Profit and loss reserve including pension liability	(8,963)	(9,460)	(5,103)

	2004 £'000	2003 £'000
Analysis of the movement in the scheme deficit during the year		
Opening deficit in the scheme	(16,048)	(7,290)
Current service cost	(1,242)	(1,184)
Contributions	3,915	1,304
Past service cost	-	(2,534)
Other finance income	(176)	283
Actuarial gains/(losses)	639	(6,627)
Closing deficit in the scheme	(12,912)	(16,048)

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

21. Pension scheme (continued)

Amounts that would have been included within the financial statements for the year end 31 January 2004 had FRS 17 been applied are as follows:

	2004 £'000	2003 £'000
Amounts included within operating profit		
Current service cost	1,242	1,184
Special termination benefits	-	2,534
Total included within operating profits	<u>1,242</u>	<u>3,718</u>
	2004 £'000	2003 £'000
Amounts included as other finance costs:		
Expected return on scheme assets	1,902	(2,109)
Interest cost on scheme liabilities	(2,078)	1,826
Net finance return	<u>(176)</u>	<u>(283)</u>

Amounts that would have been included within the statement of total recognised gains and losses in the year to 31 January 2004 had FRS 17 been applied are shown below, expressed in monetary amounts and as a percentage of:

- (i) scheme assets at the balance sheet date;
- (ii) present value of the scheme liabilities at the balance sheet date.

	2004 £'000	2004 %	2003 £'000	2003 %
Difference between actual and expected return on scheme assets (i)	2,829	9.8%	(8,766)	(43.2)%
Experience gains arising on scheme liabilities (ii)	347	0.8%	2,139	5.9%
Effects of changes in assumptions underlying the present value of scheme liabilities (ii)	<u>(2,537)</u>	<u>(6.1)%</u>	<u>-</u>	<u>-</u>
Total actuarial gains and losses recognised in the STRGL (ii)	<u>639</u>	<u>1.5%</u>	<u>(6,627)</u>	<u>(18.2)%</u>

SAIC Europe Limited

Notes to the accounts Year ended 31 January 2004

22. Reconciliation of operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	4,269	5,347
Depreciation charges	857	687
Amortisation	148	27
Loss on sale of fixed assets	47	10
Increase in work in progress	(792)	(619)
Decrease in debtors	17,682	10,599
(Decrease)/increase in creditors	(22,465)	2,718
Net cash (outflow)/inflow from operating activities	(254)	18,769

23. Net cash flow to movement in net funds

	2004 £'000	2003 £'000
Decrease in cash in the year	(6,564)	(5,026)
Change in net funds resulting from cash flows	(6,564)	(5,026)
New loan notes (note 2)	(2,971)	-
	(9,535)	(5,026)
Net funds at the beginning of the year	21,708	26,734
Net funds at the end of the year	12,173	21,708

Analysis of net funds

	2003 £'000	Cash flow £'000	Other non-cash changes £'000	2004 £'000
Cash in hand and at bank	21,708	(6,564)	-	15,144
Debt due within one year (note 2)	-	-	(2,971)	(2,971)
Total	21,708	(6,564)	(2,971)	12,173

SAIC Europe Limited

Notes to the accounts

Year ended 31 January 2004

24. Related party transactions

Advantage has been taken of the exemption under Financial Reporting Standard No. 8 not to disclose transactions between entities, 90% or more of whose voting rights are controlled within Science Applications International Corporation.

Data Systems & Solutions Limited is deemed to be related by virtue of the 49.999997% non controlling interest held at the year end.

The aggregate amount of the group's trade with Data Systems & Solutions Limited in the year was:

(a) sales of IT services £212,550 (2003: £215,202).

At the year end, the aggregate amount:

(a) due from the related company, included within debtors of £15,058 (2003: £3,154).

25. Ultimate parent undertaking

The immediate and ultimate parent undertaking and controlling entity is Science Applications International Corporation (SAIC), a company incorporated in the State of Delaware in the United States of America. Financial statements for SAIC are available at 8/9 Stratton Street, Mayfair, London, W1J 8LF.

SAIC is the parent of the largest and smallest group for which group accounts are prepared of which the company is a member.