

One direction

a strategy for growth



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CODA provides strategic, finance-based management information solutions.

These include award winning accounting and procurement systems linked to a suite of applications that support finance, reporting and analytic processes across the organisation. It also offers a suite of powerful new process control applications that help organisations streamline and automate key

business processes, such as: regulatory compliance, financial period-end close and corporate responsibility programmes. CODA's product offerings are all underpinned by expert consultancy, education and support services, delivered by teams of experienced accountants and technology specialists.



SciSys provides IT Services, bespoke systems and applications management to large corporations, government and quasi-government organisations in the UK and abroad.

Much of the business is derived from long term customers, often driven by regulatory, reporting or business process changes.

The Division originally provided IT services to the European Space Agency (still an important customer). Today it

has expanded to provide specialist IT services in a number of sectors, notably Space, Defence and Public Sector. Much of its work is conducted through long term framework contracts which provide for stability of the underlying relationship with its customers as well as predictability of its revenues.



Business Collaborator is a leading collaboration software product, used to manage large scale projects. It is widely used within the construction and property refurbishment sectors.

The Business Collaborator product is an out-of-the-box 'Knowledge Collaboration' solution which provides secure access to, and management of, up-to-date information from anywhere in the world. The product set is used by clients to create web-based systems across organisations for

applications as diverse as tracking and processing customer observations and CV and skills data through to supply chain management.

Founded in 1997, Business Collaborator was acquired by CODASciSys during 2003.

	1980	1986	1989	1994	1997	2000	2002	2003	2004
SCIENCE SYSTEMS	Commenced trading	Management purchase a majority shareholding from the original investors	Commercial division founded - becomes premier CODA partner		Admitted to AIM as Science Systems plc				
 25 years of growth						Science Systems purchases the CODA business	Science Systems plc renamed as CODASciSys plc	CODASciSys purchases SquareSum and Business Collaborator	Group achieves record profits (EBITDA) of £7.7m
CODA	Commenced trading				Listed on London Stock Exchange				

Optimising shareholder returns

“Going forward, the Board’s attention will be focused on expanding both the CODA and SciSys Divisions”

Mike Love, Chairman





Mike Love
Chairman

It is pleasing to report that 2004 saw a return to growth in both the profits and profitability of the Group. The CODA Division, despite increased competition and pricing pressure, delivered continued improvements in profitability in the period, while the SciSys Division emphasised the continued return to health with a year on year improvement in pre-tax profits of more than £2m.

Profitability

Profit before tax, interest, goodwill amortisation and exceptional items improved by 18.5% to £7.7m (2003: £6.5m) on turnover of £67.8m (2003: £68.0m). The CODA Division achieved a 2.8% increase in operating profits (before goodwill amortisation of £2.4m) to £7.3m (2003: £7.1m). Although this division's turnover fell back slightly (approximately 2%) for the period as a whole, the last quarter of the year showed a marked upturn in business, a trend which has continued into the first part of 2005. The changing product mix within this division (many products now require shorter implementation timescales) resulted in a release of deferred revenue in relation to licences of £0.6m across the period. The SciSys Division (after adjusting for SciSys Commercial which is now shown separately) produced an overall operating profit of £1.8m (2003: operating loss £0.4m). This profit was spread evenly across the period, marking a return to stability in the division's operations.

Group operating margins improved overall to 11.4% (2003: 9.6%). Profit before tax was £3.9m (2003: £3.9m), after charging £3.7m (2003: £2.7m) for amortisation of goodwill, goodwill impairment, and abortive disposal costs, and crediting profit on sale of fixed assets of £0.25m.

Cash

Operating cash flows during the year remained strong and the year end net cash position was £7.5m (2003: £6.8m), despite net outflows of £3.9m on freehold property in relation to our Harrogate operations. The Board is mindful to focus the use of its cash reserves on improving overall shareholder returns. The Group's growth strategy will continue to involve targeted acquisitions (such as the recent acquisition in France). Cash will be retained within the business to facilitate this. However shareholders have indicated the desire for a continuation of the progressive dividend policy we have adopted previously. In view of this we have decided to recommend a final dividend of 3.7p per share (2003: 2.7p), making a total of 5.0p for the year (2003: 3.8p). This represents an increase of 31.6%.

The Board

During the year a review of the composition of the Board was undertaken. As a result Bryan Hucker, Financial Director during the Group's flotation, resumed that role, with Ruth McRitchie departing. We would wish to take this opportunity to acknowledge and thank Ruth for her contribution during a critical period in the Group's growth. Jeremy Roche, head of the CODA Division, was appointed to the Board. These changes have brought increased focus and a more representative balance to the Board.

The results for the year reflect the dedication, commitment and professionalism of the whole team at CODASciSys. I would like to take this opportunity to thank all staff members for their contribution during the past year.

The Future

Going forward, the Board's attention will be focused on expanding both the CODA and the SciSys Divisions, and stabilising and growing Business Collaborator. The first steps in this direction have already been taken with the recent announcement of the acquisition of our French CODA distributor and the opening of two offices in Germany, one to service each major division.

The early indications are that the upturn in business experienced in the last quarter of 2004 is continuing and we remain positive in our expectations for 2005.

Dividend

The proposed final dividend for the year ended 31 December 2004 of 3.7p per share will be paid on 4 July 2005 to shareholders on the register at 1 April 2005. The shares will go ex-dividend on 30 March 2005.

Focused group strategy

“The Group strategy which underpins this return to growth in profits is a simple one. CODASciSys focuses on its core competencies, remains flexible to market conditions and responds to business demands by delivering solutions which address real customer needs”

Graham Steinsberg, Group CEO





Graham Steinsberg
Group CEO

The CODASciSys Group has over the years taken much pride in reporting an unbroken track record in profits growth. It is therefore gratifying to report record profits of £7.7m for the year.

Contribution

Both major operating divisions, CODA and SciSys, have contributed to this position. CODA showed great resilience by countering pricing pressure and increased competition with a rationalisation in both business structure and product mix. The result was improved profitability across the year and a growing revenue stream across the second half of the period. SciSys's return to health, signalled last time, has shown itself to be sustainable with a turnaround in operating profits of £2.2m year on year.

Focused Group Strategy

The Group strategy which underpins this return to growth in profitability is a simple one. CODASciSys focuses on its core competencies, remains flexible to market conditions and responds to business demands by delivering solutions which address real customer needs.

By way of example in 2004, Finance Directors around the world became increasingly sensitive to the need to improve reporting in relation to their Corporate Governance obligations. CODA responded by becoming the first global provider of financial systems to deliver software, which not only assisted the reporting in this arena, but which also automated the often complex procedures to facilitate this task. Within the SciSys Division, it was clear that to remain a major supplier to the European Space Agency, we needed to establish a direct presence in Germany.

In October 2004 we opened an office in Darmstadt. Within two months we were awarded a position as one of the five prime suppliers across Europe to be allowed to bid to ESA under a framework agreement and won an initial contract worth approximately €0.9m over the next two years.

Organic and Acquisitive

By adopting this simple focused approach we believe that we will achieve positive organic growth. However it is clear that the software and IT services markets remain challenging and organic growth will need to be supplemented by a well defined acquisition strategy to provide shareholders with good levels of return. CODASciSys's balance sheet has significant strength and the Group is therefore well placed to make suitable acquisitions to assist in the next phase of its growth. The recent acquisition of its French distributor will allow direct access to a key market for CODA and is a good example of how we intend to use the funds at our disposal.

CODA Focus

In 2005 CODA will continue to focus on delivering solutions to Finance Directors which assist them to control and reduce transactional costs and address the ever increasing compliance requirements within their businesses. The geographical expansion upon which CODA embarked by the acquisition of its French distributor will be developed further.

SciSys Focus

SciSys's focus remains on three key sectors, Space, Defence and Public Sector. In 2004 it continued to establish itself as a major force in the first two of these. It secured a position as one of only a small number of prime suppliers to the European Space Agency, thereby making it a leader in the European Space software market. In Defence it added to its involvement in the BISA (Battlefield Information Systems Application) program. It had already established its credibility through Bowman and the NBC BISA. In 2004, against strong competition, it won a place in the consortium for the JETTS initiative. In 2005 it will seek to continue to enhance its reputation within these sectors and grow a similar level of credibility within the Public Sector, by focusing on its core competencies within both the transportation and regulatory compliance markets.

Business Collaborator

In 2004, Business Collaborator made a significant investment in "SEDEX" – the Ethical Trading Initiative designed to report on labour practices. This initiative is now supported by many household name retailers such as Tesco, Marks & Spencer, Sainsbury and Waitrose. The return from this investment will accrue as more third parties subscribe to this initiative. This division will also remain focused on its core competencies of providing extranet systems to two key markets, Property Refurbishment; and AEC (Architecture, Engineering & Construction).

Strong Platform for Growth

“The Group continues to place considerable emphasis on cash management”

Bryan Hucker, Group Financial Director





Bryan Hucker
Group Financial Director

Despite challenging market conditions during the year the Group has seen an improvement in operating profits (before exceptional items) from £6.5m in 2003 to £7.7m in 2004.

CODA Grows Licence Revenues

These profits of £7.7m exclude a one off cost of £0.37m which resulted from an unsolicited offer for the purchase of the SciSys Division and a gain of £0.25m which arose from the disposal of Follifoot Hall, a property that was acquired as a part of SquareSum plc. Revenues of the CODA Division fell by 2% to £43.3m (2003: £44.2m) which was largely the result of currency movements and some pricing pressure in the services division. However, pleasingly, licence revenues showed growth overall when compared with last year, with a significant improvement in the latter part of 2004. Maintenance also continued to advance, reflecting continuing confidence from CODA's customers. Both the CODA-Financials and CODA-Dream product sets continue to make a strong contribution to the CODA results.

SciSys – Significant Improvement

The SciSys Division (after adjusting for SciSys Commercial which is now shown separately) has achieved the most significant improvement during the year with an operating profit of £1.8m (2003: loss of £0.4m). This follows a major restructuring and improvements to management reporting systems. Revenues increased slightly to £22.0m (2003: £21.9m). Of particular note is that all units (Space, Defence and Public Sector) contributed to the Division's success.

Business Collaborator made a strategic decision to invest into the SEDEX (Ethical Trading) initiative during the year. The cost of this investment has been fully expensed during the period and this

accounted for a significant part of the reported operating loss of £0.40m (before amortisation). It is expected that this initial investment will provide appropriate returns as the SEDEX initiative (which now has many "blue chip" members) begins to expand. However, new licence sales by Business Collaborator have not met our expectations during the year and as a result the Board has decided to make a goodwill impairment adjustment of £0.87m to the goodwill in the company.

Product Investment

During the year CODA spent £8.8m (2003: £8.9m) on product development costs which continue to be written off in the year in which they occur. CODA also purchased, for £5.0m, the freehold of CODA's Harrogate office.

Deferred income, at 31st December 2004, decreased from £19.2m to £18.6m. This is made up of £15.8m (2003: £16.3m) for the CODA Division, £2.3m (2003: £2.6m) for the SciSys Division and the balance of £0.5m (2003: £0.3m) for Business Collaborator. An analysis of the total figure shows £12.1m (2003: £12.1m) of maintenance income, deferred licence fee revenues of £3.5m (2003: £4.1m) and advance payments for projects/consultancy of £3.0m (2003: £3.0m). The reduction in deferred licence fees reflects the faster implementation times associated with the more recent product releases.

Cash Management

The Group continues to place considerable emphasis on cash management. During the year the Group generated cash from operating activities of £7.6m (2003: £11.3m). The figure for

2004 significantly exceeds profits after tax and appears even stronger when due account is taken of the reduction in deferred income of £0.6m (2003: increase £4.4m). The year end net cash balance of £7.5m (2003: £6.8m) was after net expenditure of £3.9m in the year on the acquisition/disposal of freehold property.

Currency

The Group translates all non sterling transactions at the year end exchange rates. There was very little movement in the Euro exchange rate at 31 December 2004 compared to the equivalent rate for 2003. Comparative rates for the US Dollar show a decrease in its value of 8.3% to 1.9258. The effect of this fall has been that revenues transacted in US Dollars and subsequently expressed in Sterling have reduced by £0.4m when compared with the same revenues converted at constant exchange rates. The Group had net exchange losses for the year of £0.1m (2003 gain: £0.3m).

Tax

The effective tax rate (excluding goodwill amortisation) for the Group of 20.6% (2003: 20.3%) remained below the standard rate of corporation tax in the UK, due to the effect of tax credits available on Research and Development expenditure made by the Group. Constructive meetings with the Inland Revenue have included to a more informed estimate of the likely outcome of claims already submitted in respect of years 2002 and 2003. As a result, the tax provision now reflects an increase in the Board's estimate of amounts reclaimable for Research & Development tax credits.

CODA Operational Review

“Throughout the year, CODA continued to establish itself as a leading voice in the field of Financial Intelligence”





For the CODA Division, the focus on helping organisations through the maze of complex regulation and legislation effective from 2005 has become pivotal. A number of initiatives to demonstrate CODA's thought and product leadership in the area started to deliver results in the second half of 2004 and are set to build momentum in 2005.

Financial Intelligence, the combination of CODA's established best-of-class financial accounting solutions and other transactional software with an expanding range of analytic tools, underpinned by consultancy and support services, remains the foundation of CODA's offering. In addition, our latest offering, the CODA-Control product line, with its capabilities as a financial process management and development tool, is scoring high-profile successes in several countries.

Clients range from mid-sized businesses and organisations to major enterprises, such as IKEA, P&O, Vivendi Universal, Next, Spicers and Baring Asset Management in the commercial sector, and major government agencies and departments, such as the Learning and Skills Council, the Welsh Assembly and gemeente IJsselstein in The Netherlands.

Performance in 2004

Overall revenue fell slightly (approximately 2%), largely because of pricing pressure on services (down from £13.9m to £12.2m) and currency movements. However licence sales to both new and existing customers moved ahead (from £9.6m to £9.9m) as did maintenance (from £20.7m to £21.2m).

In volume terms CODA sold more user licences than ever before, although pricing pressure kept the revenue growth on these licences to only 3%. It is hoped that as the fall-out from the PeopleSoft/Oracle acquisition settles, prices will return to more realistic levels.

Highlights of 2004

Throughout the year, CODA continued to establish itself as a leading voice in the field of Financial Intelligence. In particular, it made advances in the fields of Corporate Governance and Corporate Performance Management. The year saw Jeremy Roche co-authoring the book "Beyond Governance: delivering corporate value through conformance, performance and responsibility". We also hosted a Corporate Responsibility round table event, and a Corporate Governance discussion panel in New York with key speakers such as SEC Commissioner, Harvey Goldschmid.

CODA-Dream won the prestigious Accountancy Age Awards, Best Mid-Range Software category. Investment in this product set continues and version 3.2 is expected to be launched in the first half of 2005, re-engineered as a .NET solution to take advantage of the latest Microsoft technologies.

We continued to see the trend in customers migrating from older proprietary platforms to CODA-Financials and CODA-Dream, maintaining both the customer base and levels of support revenue.

CODA continued its development and marketing collaborations with Microsoft. CODA became the first Microsoft partner to make use of the new Microsoft Technology Centre for Independent Software Vendor (ISV) Development in Vedbaek, and will incorporate several new and previously unreleased Microsoft technologies in its product development programme. Since year end CODA has signed a partnership agreement with Microsoft which will see the two companies launch a joint brand, Finance Fusion, supported by a three-year marketing programme.

CODA's long-standing partnership with IBM has also continued, building on existing development collaboration, with joint direct marketing activity, targeting users of older IBM systems and those who could benefit by upgrading to the latest CODA solutions.

Notable new business wins in 2004 included: Alliance Unichem, Spicers, Higher Education Funding Council for England, gemeente IJsselstein. CODA also beat off strong competition from SAP to secure a Pan-European finance system for a major logistics business, based in Germany.

The year ahead

Looking ahead to 2005, the pipeline is increasingly encouraging. The announcement of a partnership with ATOS Consulting to promote and market CODA's compliance products in Europe, a new Solutions Partnership with CUBIC (suppliers of transportation systems to a number of the world's great cities) and a renewed confidence in operations throughout Europe and North America (which saw its best results since CODA was acquired by CODASciSys) lead us to believe we should expect a competitive but healthy 2005.

Product development

The launch of CODA-Financials version 10 in the middle of 2004 was very successful. The enhanced quality control disciplines we have implemented formed a central part of an improved product release process. Customers benefited from significant performance improvements and extended scalability, as well as many new features, and a process orientated approach that combines well with CODA-Control to help implement a compliance management system. Uptake by clients was rapid and many clients are now live on the system.

CODA continues successfully to build its reputation and proficiency in supplying and implementing financial planning, budgeting and forecasting applications. Sales of Cognos Enterprise Planning grew well and in the UK the strength of CODA's planning expertise was such that Cognos itself subcontracted a number of implementations to the CODA team. However, during 2004 it became clear that many customers and prospects were looking for a simpler budgeting and planning solution. 2005 will see the release of a new, smaller-footprint CODA-Planning (based on the underlying technology of the highly successful CODA-XL application). This will be followed by CODA Collaborative Planning which combines technology behind CODA-Planning with the Task Engine from CODA-Control to apply sophisticated process control to the planning process.

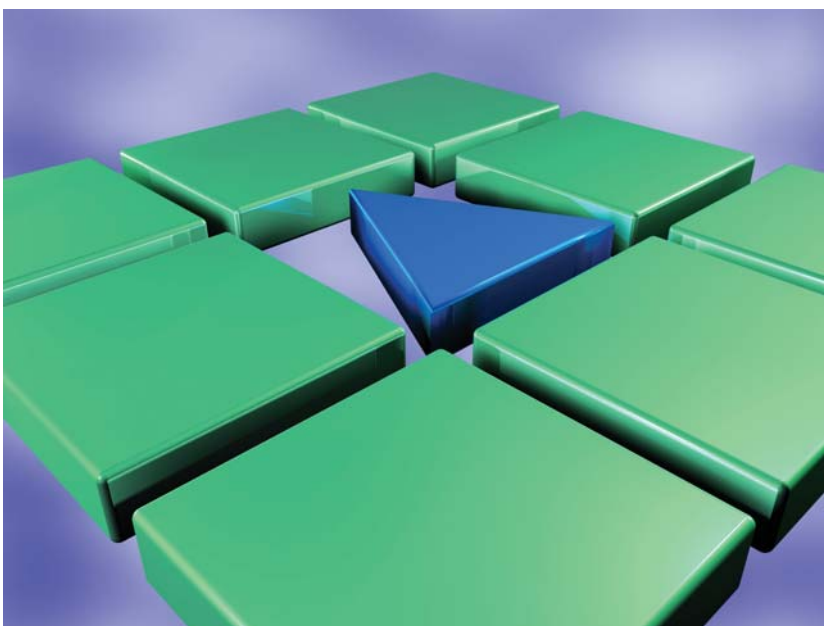
Supporting corporate compliance

CODA's product set continues to receive positive feedback from analysts and customers for its ability to support the latest standards, regulations, legislation and practices in delivering improved Corporate

Governance. It has performed well in sales situations where the customer's requirements include conformance to both the new International Financial Reporting Standards (IFRS) and existing national GAAP rules.

Supporting new business models

During the year CODA identified an opportunity to support clients or partners seeking to adopt shared services or business process outsourcing models. A number of customers already operate in these environments, and CODA believes its solution could be highly attractive to medium sized and larger organisations wishing to implement these practices but unwilling to commit the considerable investment and resources needed to put in place a solution based on the high-end ERP systems used by most early adopters. 2005 will see CODA raise its profile in this market and seeking to exploit the investment made in establishing relationships with key systems integrators and influencers in this market.





Case Study

Finding the bandwidth: shared services and a single instance of CODA lead to greater efficiency for VIA NET.WORKS.

VIA NET.WORKS, formed in 1997, specialises in serving the managed Internet services needs of small to medium-sized enterprises. It has operations across 26 companies, located in 14 countries across the Americas and Europe.

Jamie Bodenham, Group Finance Systems Manager, explains how the expansion affected VIA: "During 2000, we recognised that consolidating the large number of reports was complex and at a corporate level, we desired greater accuracy in our financial reporting systems. We needed a central finance system that could be deployed across all operations. This would eliminate any potential reporting problems while ensuring global consistency."

VIA already had experience of CODA-Financials at its corporate head office and decided to engage CODA's global service organisation to implement a single instance of its Microsoft Windows / SQL Server 2000™-based system.

CODA's consultants also recommended replacing a series of interlinking spreadsheets, as this method couldn't guarantee adequate control for group reporting. To address this, VIA chose Cognos Impromptu™ and PowerPlay™ to complement CODA's inbuilt reports. The company was able to replace around 90 per

cent of its spreadsheet reports and now uses CODA-XL for journal creation and to load data to CODA.

Financial operations have since been streamlined further, to take maximum advantage of the ability to extract information directly from CODA for processes such as reviewing inter-company reconciliations and accruals.

VIA has the ability to create data marts that augment financial data with billing and customer management systems. VIA can obtain fine-grained detail about individual department and product performance, and even extract performance data for an individual salesperson.

After implementing a turnaround plan in 2002, VIA focused on improving its operational performance and reducing its administrative expenses. VIA outsourced certain accounting, credit and collections, general ledger transaction recording and other financial back-office services to Accenture to improve the flow of internal financial information and the efficiency of its financial operations.

As a result of this outsourcing arrangement, operations are centralised, and VIA can utilise its existing financial systems infrastructure with CODA-Financials at its core.

The company estimates savings of approximately \$1.8 million annually, but a shared services centre provides other significant benefits to VIA, such as process standardisation and best practice. This environment also helps VIA concentrate on higher-value tasks such as financial controls, business support, planning and analysis.

VIA is currently evaluating a move to CODA e-Finance. This will allow the company to make optimum use of available network bandwidth which, in turn, will allow VIA to extend its use of CODA e-Procurement to all operations.

Since 1997, CODA has proven that it can adapt and grow with changes at VIA NET.WORKS. "We are convinced we have a reliable, robust system capable of handling anything we throw at it," concludes Bodenham.

SciSys Operational Review

“SciSys was named “Innovator of the Year” ...
We were selected for our outstanding software
development work in the Space sector”



2004 was a satisfying year for the SciSys Division. The recovery experienced during the second half of 2003 continued into 2004 picking up momentum as the year progressed. The result was a performance considerably ahead of the original expectations for the Division.

The decision, taken in the first half of the year, to merge all the different divisions into the one single entity proved successful, enabling us to achieve improved utilisation of professional staff whilst retaining focus on our key market areas. It has also allowed us to deploy different skills and experiences across all sectors of the business. The integration of the business support functions within the Division has also brought better visibility of the associated costs and a clearer focus on its direction.

Each year the industry magazine Computing holds an "Awards for Excellence" event – widely regarded as the pre-eminent awards in the IT industry. At the 2004 ceremony SciSys was named "Innovator of the Year" beating several more "household" name IT suppliers. We were selected for our outstanding software development work in the Space sector on both the Beagle 2 and Rosetta space missions. Clearly this was a most pleasing result and a great accolade to the quality and dedication of the staff on these projects.

In the latter half of the year we set up a German subsidiary with an office in Darmstadt. This office has been opened in order to support our long term contracts with the European Space Operations Centre (ESOC), the operational arm of the European Space Agency, and with the European meteorological organisation (EUMETSAT) both of whom are based in Darmstadt. Longer term this

provides a base to diversify further into the European non-space marketplace.

During 2004 the SciSys Division worked on almost 200 different projects across a wide range of applications and customers. The Division now has four "market facing" units, Space, Defence, Public Sector and Support & Maintenance.

Space

The Space Unit contributed approximately 40% of the Division's turnover. We continued to focus on sophisticated software systems for use both on-board satellites and within the ground control and data processing segments so crucial to space mission success.

The inevitable disappointment associated with the demise of the Beagle 2 Mars lander early in the year (even before our developments had the opportunity to be deployed) was largely offset by the ongoing success of ESA's Mars Express programme (which initially carried Beagle). SciSys supplied the software to control the spacecraft on its voyage to and around Mars. This has been followed by further success recently with the landing of the Huygens spacecraft on Titan (Saturn's largest moon). SciSys supplied the software to monitor the spacecraft and perform in-flight software updates on its seven year journey to Titan.

The Space unit achieved further successes by securing a number of pre-development contracts. These allow the business to obtain an insight into the needs and concerns of the customer prior to the award of development contracts. Specific examples of this approach include the joint EU/ESA Galileo and GMES programmes. With the depth of background knowledge that SciSys has now gained from its early involvement in these programmes, it is well positioned to secure work from the future development programmes.



Titan's Atmosphere: courtesy of ESA

During 2004 ESOC combined a number of its framework contracts into a single large framework. SciSys led one of the four successful consortia, giving access to tenders worth in the order of €70M over the next five years. One of the first tenders to be awarded (for the Aeolus simulator) was secured by the SciSys team.

Another recent notable win is the contract for the development of the LISA Pathfinder on-board software. This mission is essentially a prototype for a later, much larger mission intended to prove Einstein's concept of a gravitational wave.

Defence

The Defence Unit contributed approximately 20% of the Division's turnover. In the year we continued to strengthen our position as a leading supplier to the UK's battlefield digitisation programme. We made several major deliveries including the NBC BISA, a system for warning and reporting nuclear, biological and chemical threats.

As an example of the technological crossover that can be gained from synergies across the business, we recently won a study contract from the

MoD to deploy the "formation flying" concepts developed by the Space Unit to underwater unmanned vehicles. SciSys is now widely regarded as one of the leading industrial authorities on formation flying control techniques.

Public Sector

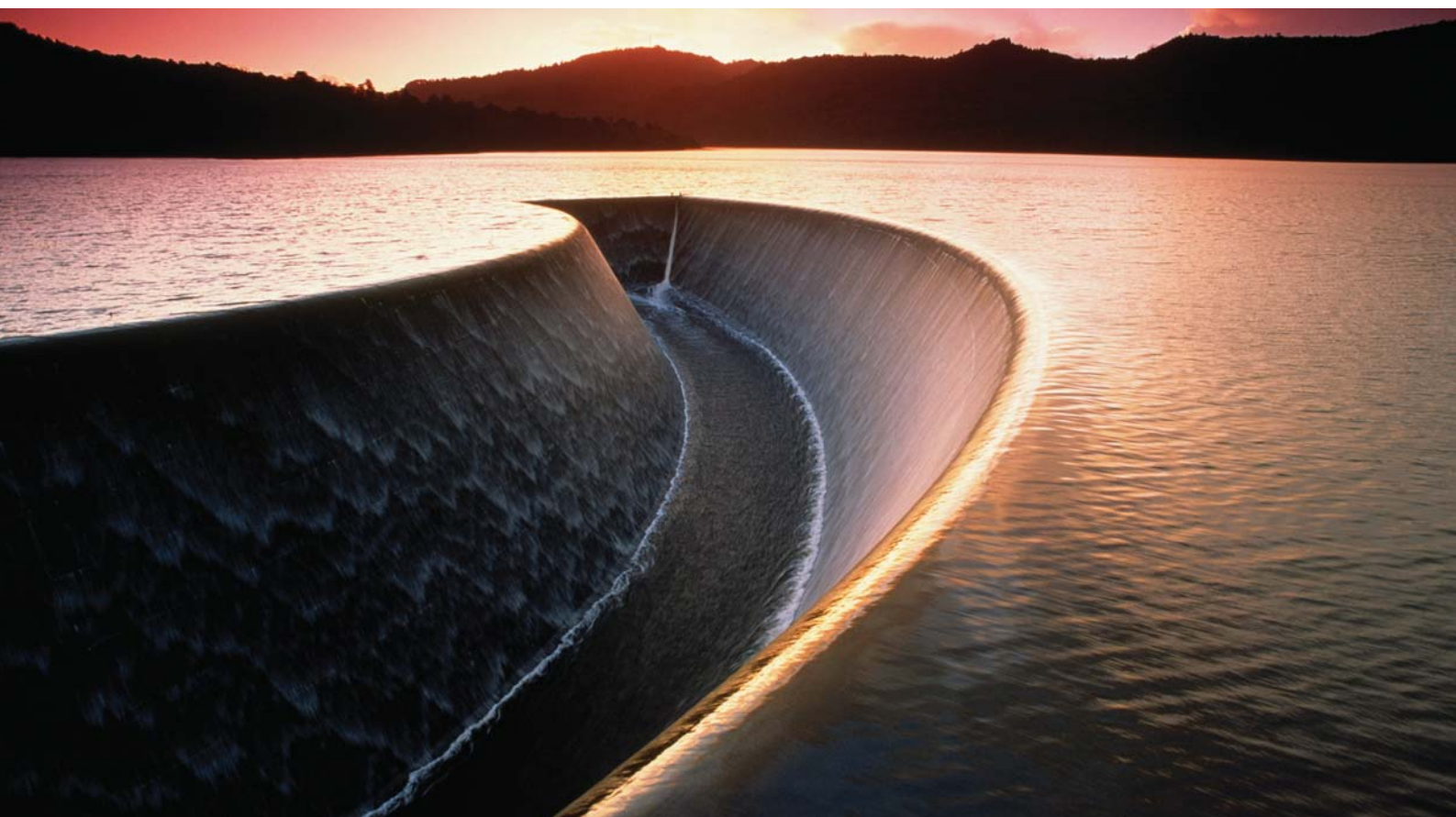
The Public Sector Unit contributed approximately 30% of the Division's turnover. The year saw several projects for the Environment Agency (EA) where a number of enhancements to the Permit Administration System (PAS) were successfully rolled out. These enhancements included functions such as Operator and Pollution Risk Appraisal (£200K) and Reservoir Enforcement and Surveillance (£550k). Phase 3 of the National Flood and Coastal Defence Database is now in the final stages of acceptance before being rolled out in the first part of 2005. This phase (worth £900K) incorporates flood warning data, the Welsh language and other enhancements. Further work was also secured from the Metropolitan Police with a number of enhancements for the Missing Persons database, Merlin. More recently SciSys has been tasked with the provision of a range of

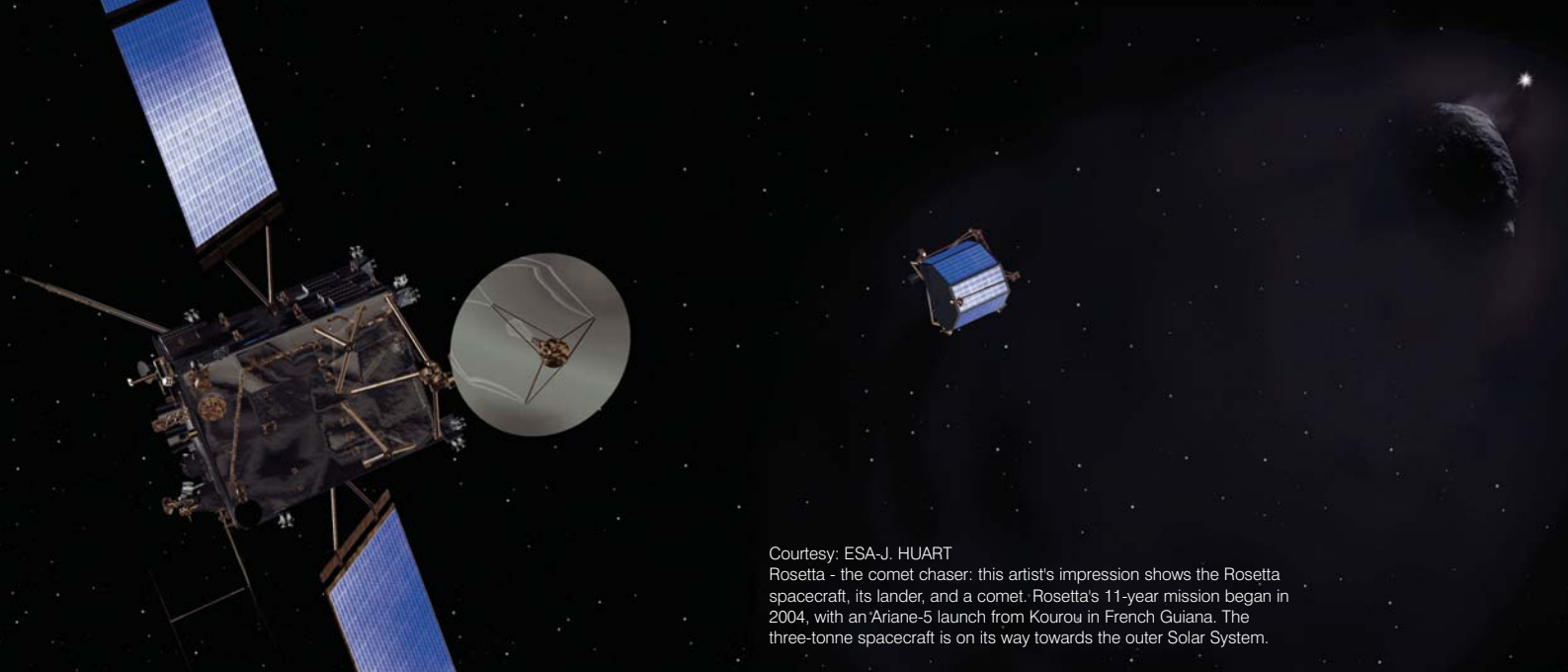
business and technical consultancy services to support the introduction of a number of new financial tools and products for a major UK Treasury department.

We were also successful in gaining an extension to the framework contract with the Rural Payments Agency (RPA). Under this contract SciSys provides a range of consultancy services covering the implementation of new business processes that support the RPA's remit to introduce automated claims processing in readiness for the new Single Payment Scheme, a key element of the Common Agricultural Policy reform.

Support and Maintenance Unit (S&M)

The S&M unit contributed approximately 10% of the Division's turnover. The number of developments under support and maintenance continued to grow across the year. We combined all these under one management team, late in the period, allowing us both to provide a more comprehensive service to our clients and to better control the associated costs.





Courtesy: ESA-J. HUART
Rosetta - the comet chaser: this artist's impression shows the Rosetta spacecraft, its lander, and a comet. Rosetta's 11-year mission began in 2004, with an 'Ariane-5' launch from Kourou in French Guiana. The three-tonne spacecraft is on its way towards the outer Solar System.

Case Study

In 2004 SciSys was named 'Innovator of the Year' at the Computing Awards for Excellence, the 'Oscars' of the IT industry. SciSys was nominated by the editors of Computing, along with IBM, BT, Microsoft, Accenture and Cisco. SciSys won the award for its truly innovative software, developed for Rosetta and Beagle 2, the UK mission to put a lander on Mars. This further strengthens SciSys' increasing profile for excellence in the industry, after being short-listed in 2003, for work with the Environment Agency on the National Flood and Coastal Defence Database (NFCDD).

One of SciSys' innovative award winning projects was the European Space Agency's (ESA) mission, Rosetta. Rosetta, launched in March 2004, will be the first ever mission to touch-down on a flying comet. Comets are considered to be the primitive building blocks of the Solar System. Rosetta will help scientists understand if life on Earth began with the help of 'comet seeding'.

For the past five years SciSys has been developing software systems to support Rosetta's ground and mission control. However it will be almost ten years into Rosetta's interplanetary journey before the craft dispatches a robotic lander to Comet 67P/Churyumov-Gerasimenko. The SciSys systems will therefore need to remain problem free from launch, to mission completion over a decade later.

"As you can imagine this project is very complex with no room for delays or maintenance problems and places huge demands on the underlying software control systems. Mission specific issues are the high data rates from the spacecraft and long transmission delays. Communications from the spacecraft to the large receiving antenna in Australia can take 30-50 minutes. We modified our own, proven, automated mission planning product to allow for this, but these delays still add considerable complexity" explains John Auburn, SciSys Sales Director. "SciSys also supported the development of the flight dynamics system at the European Space Operations Centre (ESOC). This determines the spacecraft's orbit, optimises its manoeuvres, and provides the optical navigation for approaching the comet with its orbit parameter estimation."

The mission control system is based on ESA's SCOS 2000 software system, developed by SciSys in consortium with other European companies. SciSys has built, and continues to build, many other spacecraft control systems based on this infrastructure. These include a major commercial system for EUTELSAT in Paris and systems for ESA's Mars Express satellite.



Business Collaborator Operational Review

“Business Collaborator has been highly praised by independent studies on its well thought out products and quality of service”



Business Collaborator Limited (BCL) joined the CODASciSys Group following its acquisition from Enviros in April 2003. The first eighteen months have seen a growth both in new business and extensions within the customer base and business partners.



Business Collaborator, the flagship offering of BCL, is a market-leading collaborative software product which facilitates the running of major projects and programmes across the extended enterprise and across the entire project lifecycle. The need for Collaboration has been evident in the AEC market (Architecture, Engineering & Construction) for many years. It is in this sector that BCL has specialised, offering demonstrable return on investment to its customers.

Business Collaborator has been highly praised by independent studies on its well thought out products and quality

of service. At the heart of the collaboration solution BC offers comprehensive document management combined with flexibility and ease of use. The company is uniquely positioned within the market having the ability to offer required functionality in a form which suits the existing working practices of each customer.

In the Property Refurbishment sector BC added Primark to its already impressive list of customers such as Royal Bank of Scotland, Nationwide and Lloyds/TSB. Nationwide, one of Business Collaborator's first ever customers, continues to broaden and extend its usage of BC with its most recent deployment now considered “business critical” after only a few months of live usage.

The depth and breadth of the product, combined with its flexibility and the business' experience in providing Collaborative solutions, has enabled BC to win, implement and deliver one of the group's most exciting projects to date – SEDEX (Supplier Ethical Data EXchange). The project has

been developed in collaboration with Tesco, M&S, Waitrose, Geest, Northern Foods, Uniq and RHM. SEDEX allows retailers to collaborate and promote best practice across their supply chain whilst providing an easier method for suppliers to submit self assessment audit to their clients. This delivers significant cost savings both to the supplier and to the subscribed retailers and has already attracted subscriptions from the non-food sector.

The decision was taken early in 2004 to invest in the solution. The investment proved fruitful during the period with the securing of the contract from Sedex to supply and support the software solution for the next 5 years.





Case Study

The Supplier Ethical Data Exchange (SEDEX) chose Business Collaborator as the basis for its collection and reporting suite. The software allows major organisations to identify and tackle ethical trading problems within their supply chains.



SEDEX enables suppliers to maintain data on labour standards at production sites and make that information available to any company with which they trade. The system is also designed to reduce site audit costs, saving time and money at the factory level.

Business Collaborator won the contract to design and build the system for four key reasons:

- 1 the need for close collaboration between thousands of business partners. Collaboration is at the heart of BC's design philosophy
- 2 independence of technology. BC is designed to support the usage of a wide variety of technologies.
- 3 to allow data entry from anywhere in the world from practically any device connected to the internet. Business Collaborator's provides just such flexibility.

- 4 The scale of its use, amongst such large organisations, required a robust system capable of coping with large amounts of data whilst remaining quick and intuitive to use. BC provides this scalability.

Terry Babbs, SEDEX Director and head of the Ethical Trade Unit at Tesco commented "In the development of SEDEX we feel that the retail industry has made a truly major step towards improving the working lives of those people who ultimately provide the goods on our shelves. Business Collaborator is key to the successful development of SEDEX. It is essential to the success of this project that SEDEX can receive data from literally anywhere in the world, from potentially a vast range of difference sources and devices – and, of course, to organise it well and provide easy access. BC allows us to all do all of this quickly and simply – it is an excellent tool for the job. The implementation of the system has gone well – and we have met all our deadlines. The Business Collaborator system has proved easy to use and is already reaching high acceptance levels with users."

The SEDEX system went live in September of 2004 and within 3 months more than 1,000 new members had been registered.

The system is used by many of the UK's leading retailers and suppliers including:

MARKS & SPENCER

Waitrose

Sainsbury's



TESCO



UNIQA

Directors' Biographies

Non-Executive Directors

Mike Love

Chairman, aged 56. Was Chief Executive of CODASciSys from 1986 (when he led the management buy-in of the business) until 2003, when he became Chairman. He studied physics at university and obtained his PhD in theoretical nuclear physics. He entered the software industry in 1976 with Logica, moved to the European Space Agency in the late seventies and joined Science Systems in 1981. He also serves as Non-Executive Director at Surface Technology Systems plc, is Chairman-designate at ClearStream Technologies plc, is a Director of WP2 Limited and is a member of the AIM Advisory Board.

Cliff Preddy

Non-Executive Director, aged 57. Joined the Board as a Non-Executive Director in March 1997. Served as Chairman from 1997 to 2003. Earlier in his career he spent 27 years with Logica, including 9 years on the Logica plc Board. He is also Deputy Chairman of Charteris plc, a Non-Executive Director of Computacenter plc and Non-Executive Director of Acquisition Accounting Limited.

David Jones

Non-Executive Director, aged 53. Joined the Board as a Non-Executive Director in June 2002. His earlier career includes some 20 years at Admiral plc, where he held a number of director level appointments including Group Operations Director and Managing Director of Admiral Computing Limited. He has also been Chief Operations Officer for Allied Worldwide Limited and was a founding member of the DRA Software Engineering Centre Advisory Board.

Executive Directors

Graham Steinsberg

Group Chief Executive Officer, aged 48. Was appointed to the Group Chief Executive role during 2003 after being Chairman of CODA during 2002, and 2 years as CEO of CODA (2000 to 2002). He had an earlier career as a chartered accountant before joining the sales and marketing division of IBM. This was followed by a period as a Regional Director of Lychgate before being appointed Managing Director of Science Systems (Commercial) Limited in 1989.

Bryan Hucker

Group Financial Director, aged 55. Studied chemical engineering at university before qualifying as a chartered accountant with KPMG. He joined Science Systems in 1986 at the time of the management buy-in, having previously worked with several major companies including Burmah Oil, Hawker Siddeley and Tunstall Telecom.

John Haynes

Executive Director, aged 55. Obtained his PhD in mechanical engineering before starting his employment with British Rail in its research division. He moved to the European Space Agency in the late seventies and joined Science Systems in 1983. He was appointed Managing Director of Science Systems (Space) Limited in 1992 and is currently Chief Executive Officer of SciSys.

Jeremy Roche

Aged 40, Appointed Executive Director in July 2004. Graduated in 1987 with a degree in business studies. Started his career at IBM, after which he joined the software house Lychgate UK, where he held a number of senior systems engineering and sales roles. He joined Science Systems as commercial director in 1990 and, following the acquisition of CODA in March 2000, was appointed as Chief Technology Officer. He was appointed Chief Executive of CODA Group in 2002.

Corporate Governance

The Board supports the principles of good governance. In fulfilling their responsibilities, the Directors believe that they govern the Company in the best interests of the shareholders, whilst having due regard to the interests of other stakeholders in the Group including, in particular, customers, employees and suppliers. Being listed on AIM, the Company is not bound by the London Stock Exchange Listing Rules, including those relating to corporate governance. The Board is therefore providing the following information on a voluntary basis.

The Workings of the Board and its Committees

The Board

The Board currently comprises the Chairman, two Independent Non-Executive and four Executive Directors. The Chairman serves in a part time capacity. All Directors are obliged to submit themselves for re-election at least every three years. The two Independent Non-Executive Directors are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Cliff Preddy is the current Senior Independent Director. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. They are also able to take independent professional advice as appropriate.

The Board meets at least eight times each year and has adopted a formal schedule of matters specifically reserved for decision by it, thus ensuring that it exercises control over appropriate strategic, financial, operational and compliance issues. At these meetings the Board reviews trading performance, ensures adequate financing, sets and monitors strategy, examines investment and acquisition opportunities and discusses reports to shareholders. The following Committees have been established to deal with specific aspects of the Group's affairs.

Executive Committee

The Executive Committee comprises the Group Chief Executive Officer ('CEO'), the Group Financial Director, and the CEOs of the CODA and SciSys Divisions. It meets regularly to discuss operational and strategic matters.

Audit Committee

The Audit Committee comprises the Chairman and Independent Non-Executive Directors and meets three times a year. The Group CEO, Group Financial Director and external Auditors attend by invitation. The Audit Committee advises the Board on the appointment, independence and objectivity of the external auditors, on their remuneration both on audit and non audit work, and discusses the nature, scope and results of the audit with the external auditors.

The Audit Committee reviews external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual accounts before they are presented to the Board for approval. It is also required to review the effectiveness of the Group's internal control systems, to review the Company's statement on internal control systems prior to endorsement by the Board and to consider, from time to time, the need for a 'risk sub-committee' to assist in monitoring the Group's internal control systems.

Nomination Committee

The Nomination Committee comprises the Chairman, the Senior Independent Director and the Group CEO. Meetings are arranged as necessary. The Committee is responsible for nominating candidates (both Executive and Non-Executive) for the approval of the Board to fill vacancies or appoint additional persons to the Board.

Remuneration Committee

The Remuneration Committee comprises the Chairman, the Independent Non-Executive Directors and, by invitation, the Group CEO. It is responsible for recommending to the Board the contract terms, remuneration and other benefits for Executive Directors, including performance related bonus schemes and participation in the Group's long term share option schemes.

The Remuneration Report, which includes details of Directors' remuneration, pension entitlements and Directors' interests, together with information on service contracts is set out on pages 22 to 25.

Corporate Governance

continued

Internal Controls

The Board has overall responsibility for the Group's system of internal control. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement. In order to discharge that responsibility in a manner which ensures compliance with laws and regulations and promotes effective and efficient operations, the Directors have established an organisation structure with clear operating procedures, lines of responsibility and delegated authority. There is an established framework of internal controls set out in procedures approved by Executive Management and readily accessible to staff, who follow their guidance. The more important elements of this framework are as follows:

Management structure

The Board has overall responsibility for the Group and each Executive Director has been given responsibility for specific aspects of the Group's affairs.

Corporate accounting and procedures

Responsibility levels are communicated throughout the Group as part of the corporate communication procedure. Accounting, delegation of authority and authorisation levels, segregation of duties and other control procedures, together with the general ethos of the Group are included in these communications, and standardised accounting policies are in place reflecting this policy.

Quality and integrity of personnel

The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. Quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through senior members of staff.

Budgetary process

Each year the Board approves the annual budget, which includes an assessment of key risk areas. Performance is monitored and relevant action taken throughout the year by monthly reporting to the Board of updated forecasts together with information on key risk areas.

Investment appraisal

Capital expenditure is regulated by the use of authorisation levels. For all expenditure beyond specified levels, Board approval is required.

Internal monitoring

The Audit Committee considers and determines relevant action in respect of any control issues raised by the Auditors. Given the size of the Group and the close day to day control exercised by the Executive Directors and senior management, no formal financial internal audit department is considered necessary. The Group Quality Assurance Department is responsible for maintaining quality related certifications and defining and agreeing across all trading companies the procedures, standards and practices to be followed on each project and in all other aspects of the Group's business.

The Directors have reviewed the effectiveness of the system of internal controls in operation during the year through the compliance monitoring process set out above and by reports from senior managers concerning the operations for which they are responsible. It must be recognised that such a system can provide only reasonable and not absolute assurance and, in that context, the review revealed nothing which, in the opinion of the Directors, indicates that the system was inappropriate or unsatisfactory.

The Board currently has in place a risk assessment committee with a remit to review the key business, operational and compliance risks facing the Group, to prioritise their significance and determine current procedures and processes in place to detect and address them. The findings are used to better target resources to control the main areas of risk and to improve the process of regular reporting on controls to the Board.

Relations with Shareholders

The Company seeks to maintain good communications with shareholders. The Executive Directors make presentations to institutional shareholders covering the interim and full year results. The Company dispatches the notice of Annual General Meetings ('AGM'), with an explanatory circular describing items of special business, at least 21 working days before the meeting. All shareholders have the opportunity formally or informally to put questions to the Company's AGM and the Group CEO makes a statement on current trading conditions at that meeting. The Chairman of each of the Audit, Nominations and Remuneration Committees attends the AGM and will answer questions which may be relevant to the remit of those Committees. At each AGM the Chairman advises shareholders of the proxy voting details on each of the resolutions which are dealt with on a show of hands.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

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 Group and of the profit or loss for that period. In preparing the accounts, 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, subject to any material departures disclosed and explained in the accounts
- Prepare the accounts 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Remuneration Report

This section of the Annual Report describes the role and composition of the Remuneration Committee ('the Committee'), the Group's remuneration policy and the arrangements currently in place for remuneration of both Executive and Non-Executive Directors.

The Remuneration Committee

The Committee advises the Board and makes recommendations to it about all elements of the remuneration packages of the Executive Directors and certain senior executives of the Group. It recommends the terms of service contracts with Executive Directors and any compensation arrangements resulting from the termination by the company of an Executive Director's service contract. The Committee also makes recommendations concerning the grant of executive share options. The Committee comprises the Chairman, the two Independent Non-Executive Directors and, by invitation, the Group CEO. It was chaired by David Jones during 2004.

Remuneration Policy

The Committee and the Board believe that in order to attract and maintain a senior management team of the right calibre, which can make a significant contribution to maximising shareholder value, it is necessary to provide a competitive remuneration structure. The Board's policy for executive remuneration is to:

- Pay basic salaries which compete with those paid by other comparable companies
- Give Executives the opportunity to increase their earnings by achieving and exceeding key performance objectives
- Encourage Executives to hold shares in the Company
- Reward Executives fairly and responsibly for their contribution to the Group's performance and avoid paying more than is necessary to achieve this objective.

Service Contracts

All Directors are subject to re-election by shareholders at least once every three years. The Board's policy is that service contracts of Executive Directors should provide for termination by the Company on one year's notice. The service contracts of each of the current Executive Directors provide for such a period of notice.

The Independent Non-Executive Directors have letters of appointment providing fixed three year service periods which may be terminated by giving six months' notice. The Chairman currently holds a service contract under which the period of notice is 12 months.

Directors standing for re-election

Jeremy Roche was appointed by the Board during the year and, as required by the articles of association of the Company, will retire at the forthcoming Annual General Meeting. Graham Steinsberg and Bryan Hucker have held office for three years since their last reappointment to the Board and will also retire at that meeting. Each of these Directors is recommended by the Board for re-election.

Non-Executive Directors' Remuneration

The fees for the Chairman and Independent Non-Executive Directors are determined by the Board. The Chairman and Non-Executive Directors are not involved in any discussions or decisions about their own remuneration.

The Independent Non-Executive Directors do not receive bonuses or pension contributions and are not entitled to participate in any of the Group's share schemes. They are entitled to be reimbursed the reasonable expenses incurred by them in carrying out their duties as Directors of the Company.

Directors' interests in shares

The Directors who held office at the end of the financial year had the following beneficial interests in the 25p ordinary shares of the Company:

	As at 31 December 2004	As at 31 December 2003 (or date of appointment)
Mike Love	2,743,013	2,742,485
Graham Steinsberg	844,237	825,100
Bryan Hucker	382,282	372,672
John Haynes	906,353	936,353
Jeremy Roche	446,830	431,461
Cliff Preddy	40,000	40,000
David Jones	5,000	5,000

Bryan Hucker and Mike Love are trustees of and have a non-beneficial interest in the shares held by the Science Systems Employee Share Trust. At 31 December 2004 this interest amounted to 1,831,571 25p ordinary shares (2003 – 1,852,611 25p ordinary shares).

Executive Directors' Remuneration

The remuneration package of the Executive Directors includes the following elements:

Basic salary

Salaries are normally reviewed annually and any changes are effective from 1 January in each year. Pay reviews take into account Group and personal performance.

Other benefits

Benefits for executives principally comprise a car (or car allowance), petrol, private health care, life cover of four times basic salary and permanent health cover.

Performance related pay scheme

The performance related pay scheme for Executive Directors is in line with the scheme covering other senior members of staff. Payments under the scheme are based upon the achievement of budgeted profit targets for a Division or for the Group as appropriate.

Pensions

The Executive Directors are entitled to a company pension contribution at the rate of 6.75% of pensionable pay to be paid into the Group defined contribution pension scheme open to all of its permanent employees. Pensionable pay is set at basic salary plus 10%. Mike Love, Bryan Hucker and John Haynes are members of the Group Executive Pension Plan, which is also a defined contribution plan. Graham Steinsberg does not receive pension contributions.

Employee share schemes

The Company operates an all staff Share Incentive Plan ('SIP') which was set up during 2001. The Executive Directors may participate in this scheme.

During the year, eligible staff were able to invest up to £125 per month out of pre tax pay in purchasing so called Partnership Shares. As at 31 December 2004, the Trust set up to administer the Free and Partnership shares held 240,435 25p ordinary shares (2003 – 201,859 25p ordinary shares) in the Company.

Share option schemes

The Company operates a performance linked share option scheme normally geared to earnings per share ('EPS') related growth. Options may be exercised between three and ten years following grant, provided that the performance criteria have been met.

Grants of options under the scheme are made to senior executives and managers across the Group as a combined reward and incentive for those who have made a major contribution to the business and will continue to play a key role in helping the Group achieve its strategic objectives. Additionally, awards are made to key staff with high potential or in recognition of significant achievements.

Remuneration Report

continued

Share option schemes (continued)

At 31 December 2004, the following options were outstanding to purchase ordinary shares under the Executive Share Option Scheme:

Date of grant	Type	Total number of options under grant	Total held by Executive Directors	Exercise price per share	Relevant year for exercise
24 September 1997	A	54,250	-	129p	2000
29 September 1998	A	34,625	-	180.5p	2001
1 December 1998	A	692	-	156p	2001
30 March 1999	A	14,280	-	210.5p	2001
5 January 2000	A	149,000	20,000	378p	2002
5 January 2000	B	200,000	200,000	378p	2002
7 April 2000	A	205,000	-	540p	2002
7 April 2000	B	300,000	300,000	540p	2002
7 April 2000	C	200,000	200,000	540p	2002
5 January 2001	A	182,500	32,000	485p	2003
4 July 2001	A	8,000	-	528p	2003
11 January 2002	A	185,108	5,000	510p	2004
24 January 2003	A	164,500	-	260p	2005
10 June 2003	A	20,000	-	260p	2005
17 July 2003	D	200,000	200,000	270p	2006
28 November 2003	A	105,000	-	270p	2006
28 November 2003	D	300,000	300,000	270p	2006
30 April 2004	D	200,000	200,000	352.5p	2006
Total under option		<u>2,522,955</u>	<u>1,457,000</u>		

Type A options may be exercised any time after the publication of the accounts of the Company for the year shown in the above table, provided this is within 10 years of the date on which the option was granted. For the options to become exercisable in full, the rate of percentage growth in the EPS of the Group between that for the base year for the options and the relevant year for exercise (a period of three years) must be not less than 50%. A sliding scale exists for growth between 35% and 50%, whereby a proportion of the options may be exercised (the remaining options then lapsing). This condition has been met for those options with a 31 December 2000, 2001, 2002 and 2003 relevant year for exercise. The Board keeps the performance criteria set for option awards under regular review, and, in the context of the more difficult market conditions that the Group currently faces, has, for options granted in 2003, determined that for the options to be exercisable in full, the rate of percentage growth in EPS should be 35%, with an associated sliding scale between 20% and 35%.

Type B options are as for type A, but had an additional criterion that the combined profit before taxation (excluding goodwill amortisation) of CODA Division and SciSys (Commercial) Limited should exceed an agreed target for the three years ended 31 December 2002. This criterion has been achieved.

Type C options are exercisable after the results for year ended 31 December 2002 are published. The performance criterion related to the financial performance of the combined CODA and Commercial sectors for 2000. This criterion has also been achieved.

Type D options are as for Type A, but with different criteria set if they are to be exercised in full. These options are tied to achieving operating profit per share and/or share price related growth targets over the period from 2004 to 2006.

The outstanding share options of 2,522,955 are partly matched by shares purchased by and held in the Employee Share Trust (EST). At 31 December 2004 the EST owned 1,831,571 25p ordinary shares.

During 2004, options over 21,040 shares were exercised at a price per share of between £1.29 and £1.81.

Directors' emoluments

Emoluments comprise salaries, fees, performance related pay and taxable benefits. The Directors' aggregate emoluments in the year ended 31 December 2004 were £1,180,000 (2003 - £1,209,000). Individual emoluments for the year were:

	Fees/salary	Benefits	Performance related pay	Severance	Total	Total	Pension	Pension
	£000	£000	£000	£000	2004	2003	2004	2003
					£000	£000	£000	£000
Executive Directors								
Graham Steinsberg	240	12	88	-	340	513	-	-
Bryan Hucker	93	12	45	-	150	251	19	19
John Haynes	95	16	47	-	158	111	10	17
Jeremy Roche	100	9	36	-	145	-	7	-
Ruth McRitchie	54	8	13	207	282	122	4	7
Non -Executive Directors								
Mike Love	40	13	-	-	53	152	4	18
Cliff Preddy	32	-	-	-	32	40	-	-
David Jones	20	-	-	-	20	20	-	-
Total	674	70	229	207	1,180	1,209	44	61

Notes:

1. The emoluments of the highest paid Director were £340,000 (2003 - £513,000). No pension contributions were paid on his behalf.
2. No share options were exercised by Directors (2003: £16,000 gain).

Options

The interests of the Directors in Company share option schemes at the end of the year were as follows:

Date of grant	Exercise price per share	Graham Steinsberg	Mike Love	Bryan Hucker	John Haynes	Jeremy Roche	Total
24 September 1997	129p	-	15,500	-	-	-	15,500
5 January 2000	378p	100,000	20,000	20,000	-	100,000	240,000
7 April 2000	540p	230,000	-	100,000	-	170,000	500,000
5 January 2001	485p	8,000	8,000	8,000	8,000	8,000	40,000
11 January 2002	510p	-	-	-	-	5,000	5,000
17 July 2003	270p	200,000	-	-	-	-	200,000
28 November 2003	270p	-	-	100,000	-	200,000	300,000
30 April 2004	352.5p	200,000	-	-	-	-	200,000
Total under option		738,000	43,500	228,000	8,000	483,000	1,500,500

The market price of the Company's shares on 31 December 2004 was 337.5p per share. The high and low share prices during the year were 420p and 295p respectively.

Directors' Report

The Directors present their annual report and audited consolidated accounts for the year ended 31 December 2004.

Principal activities and review of the business

The Company is the holding company of a Group that provides a range of professional services in support of the planning, development and use of computer systems. There was no significant change in this activity during the year. The subsidiary companies of the Group are listed on page 48. A review of the business, together with comments on the future development of the Group is contained on pages 2 to 17.

Results and dividends

The Group's consolidated accounts show a profit before tax for the year of £3,914,000 (2003 - £3,861,000) on a turnover of £67,830,000 (2003 - £68,026,000). An interim dividend of 1.3 pence per share was paid to shareholders on 5 January 2005 and the Directors recommend the payment of a final dividend of 3.7 pence per share. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 4 July 2005 to those shareholders on the register at the close of business on 1 April 2005.

Directors

The names of the present Directors and their biographical details are set out on page 18. Details of the interests of the Directors in the Company's shares, and of those Directors seeking re-election at the forthcoming Annual General Meeting, are set out in the Remuneration Report on pages 22 to 25.

Substantial shareholdings

As at 24 March 2005, the Company had been notified of the following interests in its share capital of over 3%:

• Artemis Investment Management Limited	4,437,051	17.5%
• Mike Love	2,743,093	10.8%
• Science Systems Employee Share Trust	1,830,879	7.2%
• John Haynes	906,353	3.6%
• Terry Evans	861,925	3.4%
• Graham Steinsberg	844,237	3.3%

Employees

The Board recognises that the most significant issue for the Group is how to attract, motivate, develop and retain the right people. The Group operates a Share Incentive Plan that is available to all qualifying employees. In addition the Group operates Executive share option schemes to incentivise and reward Directors and senior management. These should provide a route to staff attraction, retention and motivation that is relatively tax efficient, works over a period of years and aligns employee's motivations closely with those of shareholders. Furthermore, several employees are also shareholders, having bought shares at the time of the flotation on the Alternative Investment Market in September 1997 and/or at the time of the acquisition of the CODA business in April 2000.

During the year, the Group has continued its practice of informing and consulting employees on matters affecting them as employees and on various matters concerning Group performance.

The Group recognises its obligations to give disabled persons full and fair consideration for all vacancies. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Charitable and political contributions

During the year the Group made contributions for charitable purposes of £12,000 (2003 - £14,000). There were no political donations.

Payments to suppliers

The Group's policy is to pay its suppliers in accordance with terms of business agreed with them at the time of entering into contracts, provided that the supplier has fulfilled its obligations to deliver the relevant goods or services in accordance with the contract. The Company is a holding company and as such it had no significant trade creditors at the end of the financial year.

Annual General Meeting

The Company's Annual General Meeting will be held at Methuen Park, Chippenham, Wiltshire, SN14 0GB on Wednesday 25 May 2005 at 12.00 noon. The Notice convening the Annual General Meeting and an explanation of the business to be put to the meeting are contained in the separate circular to shareholders which accompanies this document.

Auditors

A resolution proposing that KPMG Audit Plc be re-appointed as auditors will be put to the shareholders at the forthcoming Annual General Meeting.

By order of the Board

Dave Belmont
Secretary
24 March 2005

Methuen Park
Chippenham
Wiltshire
SN14 0GB

Report of the Independent Auditors to the members of CODASciSys plc

We have audited the financial statements on pages 29 to 48.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 21, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 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 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 affairs of the Company and the Group as at 31 December 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.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Bristol

24 March 2005

Group Profit and Loss Account

for the year ended 31 December 2004

	Note	2004 £000	2004 £000	2004 £000	2003 £000
Turnover	1		67,830		68,026
Staff costs	2	(40,641)		(42,209)	
Depreciation	12	(1,833)		(1,885)	
Amortisation of goodwill	11	(3,742)		(2,680)	
Other operating charges		(18,059)		(17,398)	
			(64,275)		(64,172)
Operating profit	4		3,555		3,854
Operating profit before goodwill amortisation and exceptional items			7,670		6,534
<i>Non recurring items</i>					
<i>Abortive disposal costs</i>			(373)		-
<i>Goodwill impairment</i>			(875)		-
<i>Goodwill amortisation</i>			(2,867)		(2,680)
Operating profit			3,555		3,854
Profit on sale of fixed assets	5		254		-
Other interest receivable	6		110		70
Interest payable and similar charges	7		(5)		(63)
Profit on ordinary activities before taxation			3,914		3,861
Tax on profit on ordinary activities	8		(1,580)		(1,328)
Profit on ordinary activities after taxation			2,334		2,533
Dividends paid and proposed	9		(1,178)		(895)
Retained profit for the year	19		1,156		1,638
Earnings per share	10				
Basic			9.9p		10.8p
Diluted Basic			8.9p		9.9p
Adjusted Basic (excluding goodwill amortisation)			25.8p		22.2p
Diluted Adjusted Basic (excluding goodwill amortisation)			23.2p		20.5p

All operations are continuing in both the current and previous year.

Group Balance Sheet

at 31 December 2004

	Note	2004 £000	2004 £000	2003 restated £000	2003 restated £000
Fixed assets					
Intangible assets	11	36,123		39,866	
Tangible assets	12	13,180		9,824	
			49,303		49,690
Current assets					
Debtors	14	21,385		23,147	
Cash at bank and in hand		7,512		6,754	
		28,897		29,901	
Creditors: amounts falling due within one year	15	(8,968)		(10,921)	
Net current assets			19,929		18,980
Total assets less current liabilities			69,232		68,670
Deferred income	17		(18,580)		(19,224)
Net assets			50,652		49,446
Capital and reserves					
Called-up share capital	18		6,350		6,350
Share premium account	19		42,980		42,980
Capital redemption reserve	19		83		83
Profit and loss account	19		1,239		33
Equity shareholders' funds			50,652		49,446

The accounts were approved by the Board of Directors on the 24th March 2005 and were signed on its behalf by:

Graham Steinsberg
Director

Bryan Hucker
Director

Company Balance Sheet

at 31 December 2004

	Note	2004	2004	2003	2003
		£000	£000	restated £000	restated £000
Fixed assets					
Tangible assets		4		-	
Investments	13	38,121		29,421	
			38,125		29,421
Current assets					
Debtors	14	12,307		23,448	
Cash at bank and in hand		1,315		92	
		13,622		23,540	
Creditors: amounts falling due within one year	15	(1,353)		(3,555)	
Net current assets			12,269		19,985
Net assets			50,394		49,406
Capital and reserves					
Called-up share capital	18		£000		£000
Share premium account	19		6,350		6,350
Capital redemption reserve	19		42,980		42,980
Profit and loss account	19		83		83
			981		(7)
Equity shareholders' funds			50,394		49,406

The accounts were approved by the Board of Directors on the 24th March 2005 and were signed on its behalf by:

Graham Steinsberg
Director

Bryan Hucker
Director

Group Cash Flow Statement

for the year ended 31 December 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
Net cash inflow from operating activities	24		7,641		11,255
Returns on investments and servicing of finance					
Interest received		110		70	
Interest paid		(5)		(62)	
Interest element of finance lease rental payments		-		(1)	
Net cash inflow from returns on investments and servicing of finance			105		7
Taxation					
UK and overseas corporation tax paid			(1,281)		(1,365)
Capital expenditure and financial investment					
Payment to acquire tangible fixed assets		(6,057)		(1,168)	
Receipts from sale of investments		30		25	
Receipts from sales of tangible fixed assets		1,125		24	
Net cash outflow from capital expenditure and financial investment			(4,902)		(1,119)
Acquisitions					
Purchase of SquareSum		-		(7,942)	
Purchase of Business Collaborator		-		(2,814)	
Net cash outflow from acquisitions			-		(10,756)
Equity dividends paid			(895)		(798)
Net cash inflow / (outflow) before financing			668		(2,776)
Financing					
Capital element of finance lease rental payments		-		(37)	
Net cash outflow from financing			-		(37)
Increase / (decrease) in cash in the year	25		668		(2,813)

Reconciliations of Movements in Shareholders' Funds for the year ended 31 December 2004

GROUP	2004 £000	2003 £000
Profit for the financial year	2,334	2,533
Dividends	(1,178)	(895)
Retained profit for the financial year	1,156	1,638
Exchange adjustments	20	(63)
Issue of new shares	-	131
Premium on issue of new shares	-	1,153
Net movement of shares owned in Employee Share Trust	30	24
Net addition to shareholders' funds	1,206	2,883
Opening shareholders' funds	49,446	46,563
Closing shareholders' funds	50,652	49,446
COMPANY	2004 £000	2003 £000
Profit for the financial year	2,136	2,463
Dividends	(1,178)	(895)
Retained profit for the financial year	958	1,568
Issue of new shares	-	131
Premium on issue of new shares (net of costs)	-	1,153
Net movement of shares owned in Employee Share Trust	30	24
Net addition to shareholders' funds	988	2,876
Opening shareholders' funds	49,406	46,530
Closing shareholders' funds	50,394	49,406

Statement of Total Gains and Losses for the year ended 31 December 2004

GROUP	2004 £000	2003 £000
Profit for the financial year	2,334	2,533
Exchange adjustments	20	(63)
Total recognised gains and losses	2,354	2,470

The Company has no recognised gains or losses other than the profit for the year.

Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts. Under section 230 (4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

1 Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. They have been prepared on the same basis as for the year ended 31 December 2003, with the exception of restatement of own shares under UITF38 (Note 19).

2 Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary undertakings made up to 31 December 2004. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

3 Revenue recognition

Revenue is stated net of value added tax. Revenue from consultancy and other professional services is recognised as the services are performed. Revenue is taken on fixed price contracts while the contract is in progress, having regard to the proportion of the total contract which has been completed at the balance sheet date, estimated by reference to the costs incurred to date versus the total estimated costs to completion. Provision is made for all foreseeable losses. Revenue for maintenance contracts is recognised equally over the period to which the maintenance relates. Revenue for software licences is recognised at the end of a project, typically when a client's system goes live.

4 Amounts recoverable on contracts

Amounts recoverable on contracts represent revenue recognised, primarily on fixed price projects, which has not yet been invoiced to clients. Such amounts are separately disclosed within debtors.

5 Deferred income

Deferred income comprises:

- The element of maintenance revenues invoiced for which the period of maintenance extends beyond the year end (typically maintenance is invoiced annually upfront);
- Amounts received for software licences for which the recognition criterion has not been met;
- Amounts invoiced to clients on fixed price projects which has not yet been recognised as revenue;
- Amounts invoiced for consultancy work ahead of the work being carried out (pre-billed consultancy).

6 Product development costs

Product development costs are written off in the profit and loss account as they are incurred.

7 Financial instruments and derivatives

The Group's financial instruments comprise cash and borrowings and various items such as trade debtors and creditors that arise directly from its operations. The Group's policy towards financial instruments is to manage interest rate, liquidity and foreign exchange risk without exposing the Group to undue risk or speculation.

Derivatives are used by the Group to reduce or eliminate exposure to foreign exchange risk. Instruments used include forward exchange deals, cylinder options and currency swaps. They are considered to be hedges as they are used to reduce the risk profile of an existing underlying exposure. Where instruments are used for hedging purposes, the Group defers the impact on profit until it recognises the underlying hedged item in the profit and loss account. Where a forward exchange deal is used to hedge an on balance sheet item, the balance sheet item is translated at the rate of exchange contained within the hedge. Where the instrument is used to hedge against future transactions, gains and losses are deferred until the transaction occurs.

8 Intangible assets - goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given and the associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised by equal instalments over its estimated useful life. The estimated useful life is the period over which the directors estimate that the value of the underlying business is expected to exceed the value of the underlying assets. Goodwill is being amortised as follows:

Acquisition	Month / year	Estimated useful life
CODA	March 2000	20 years
SquareSum	January 2003	17.25 years (to make write down co-terminus with CODA)
Business Collaborator	April 2003	5 years

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

There is no purchased goodwill (either positive or negative) arising on consolidation in respect of acquisitions prior to 1 January 1998 that has been written off to reserves.

In the Company's accounts, investment in subsidiary undertakings is stated at cost, less any impairment in value. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 131 Companies Act 1985 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and transaction costs.

9 Fixed assets and depreciation

Depreciation is provided to write off the cost (less the estimated residual value) of tangible fixed assets by equal instalments over their estimated useful lives, as follows:

Land	Not depreciated
Freehold and long leasehold buildings	50 years
Short leasehold	Over the life of the lease
Plant and machinery	10 - 20 years
Office equipment	6 years
Motor vehicles	5 years
Computer equipment	2 - 3 years

10 Employee share schemes/Own shares held by Employee Share Trust

Share schemes are accounted for in accordance with UITF Abstract 17 (Employee Share Schemes). Any difference between the exercise price and the market value of share options at the date of grant is charged to the profit and loss account on a straight line basis over the period to which the performance criteria relates.

Own shares held in the Employee Share Trust (EST) are accounted for in accordance with UITF Abstract 38 (Accounting for ESOP Trusts):

- Until such time as the Company's own shares held by the EST vest unconditionally in employees, the consideration paid for the shares is deducted from the profit and loss account in arriving at shareholders' funds;
- Other assets and liabilities of the EST are recognised as the assets and liabilities of the Company;
- Consideration paid or received for the purchase or sale of the Company's own shares are shown as separate amounts in the reconciliation of movements in shareholders' funds;
- Finance costs and any administration expenses of the EST are charged as they accrue;
- Any dividend income arising on own shares is excluded in arriving at profit before tax and deducted from dividends paid and proposed.

11 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rate and gains or losses on translation are included in the profit and loss account. The assets and liabilities and profit and loss account of overseas subsidiaries are translated at the year end exchange rate. Gains and losses arising on the retranslation of the opening balance sheet of the overseas subsidiaries at the year end exchange rate are taken to reserves.

12 Leasing and hire purchase commitments

Assets acquired under finance leases and hire purchase contracts are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

13 Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

14 Pension costs

The Group operates six defined contribution pension schemes, the assets of which are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Notes (forming part of the accounts) for the year ended 31 December 2004

1 Segmental information

1a Segmental analysis of turnover, profit before interest and taxation, and net assets

The Group provides services and business solutions based on IT technologies. It comprises two main divisions:

- CODA – focused on the delivery of financial intelligence through solutions based around financial analytics and accounting;
- SciSys – focused on the delivery of professional software services and the design and build of systems incorporating third party packaged software.

	2004	2003
	£000	£000
Turnover		
CODA (including SquareSum)	43,341	44,202
SciSys	22,000	21,880
Other (Business Collaborator and SciSys Commercial)	2,489	1,944
	67,830	68,026
	67,830	68,026
Operating profit / (loss) before interest and taxation		
CODA (including SquareSum)	5,008	4,827
SciSys	1,839	(381)
Other (Business Collaborator and SciSys Commercial)	(1,617)	(177)
Group	(1,302)	(415)
Abortive disposal costs re the SciSys division	(373)	-
	3,555	3,854
	3,555	3,854
Net assets / (liabilities)		
CODA (including SquareSum)	15,159	11,557
SciSys	3,227	2,087
Other (Business Collaborator and SciSys Commercial)	(1,511)	5,867
Group	33,777	29,935
	50,652	49,446
	50,652	49,446

Note: In the above segmental analysis, the comparatives have been restated to account for the reclassification of Business Collaborator and the SciSys Commercial division into "Other", and to include goodwill and land and buildings within the relevant business segments.

1b Geographical analysis of turnover by destination

	2004	2003
	£000	£000
United Kingdom	36,389	38,133
Rest of Europe	25,202	22,214
Rest of World	6,239	7,679
	67,830	68,026
	67,830	68,026

1c Geographical analysis of turnover, profit before interest and taxation, and net assets by origin

Turnover

United Kingdom
Rest of Europe
Rest of World

2004	2003
£000	£000
49,983	49,369
12,231	12,021
5,616	6,636
67,830	68,026

Profit before interest and taxation

United Kingdom
Rest of Europe
Rest of World

2004	2003
£000	£000
3,067	3,294
330	361
158	199
3,555	3,854

Net assets

United Kingdom
Rest of Europe
Rest of World

2004	2003
£000	£000
48,846	48,056
1,168	821
638	569
50,652	49,446

2 Staff numbers and costs

The average number of persons employed by the Group during the year was as follows:

Management
Professional
Administration

2004	2003
No.	No.
30	37
747	776
68	75
845	888

The aggregate payroll costs of these persons were as follows:

Wages and salaries
Social security costs
Pension costs

2004	2003
£000	£000
34,921	36,479
3,954	3,940
1,766	1,790
40,641	42,209

3 Remuneration of Directors

Details of Directors' emoluments, share options and pension entitlements are given in the Remuneration Report on pages 22 to 25.

Notes (forming part of the accounts) for the year ended 31 December 2004

4 Operating profit	2004	2003
	£000	£000
This is stated after charging / (crediting):		
Redundancy and restructuring costs	1,048	979
Research & development costs	8,816	8,923
Fees paid to the auditors and their associates:		
Audit:		
Company	16	15
Group	107	101
Other non audit services	111	116
Exchange gains on operating activities	(54)	(262)
Loss / (profit) on sale of fixed assets	10	(6)
Hire of plant and machinery – rentals payable under operating leases	1,101	1,184
Hire of other assets – operating leases	639	997

5 Profit on sale of fixed assets

On 24th August 2004 a property owned by SquareSum was sold for £1,125,000 at a profit before tax of £253,597.

6 Interest receivable	2004	2003
	£000	£000
Other	110	70

7 Interest payable and similar charges

On bank loans and overdrafts
On finance leases and hire purchase contracts

2004	2003
£000	£000
5	62
-	1
5	63

8 Tax on profit on ordinary activities

UK corporation tax @ 30%
Adjustment relating to an earlier year

Overseas corporation tax
Adjustment relating to an earlier year

Total current tax

UK income tax

Deferred taxation
Adjustment relating to an earlier year

2004	2004	2003	2003
£000	£000	£000	£000
1,289		1,052	
(545)		61	
	744		1,113
129		239	
-		(1)	
	129		238
	873		1,351
	-		10
692		77	
15		(110)	
	707		(33)
	1,580		1,328

8 Tax on profit on ordinary activities (continued)

The standard rate of tax for the year, based upon the UK standard rate of corporation tax is 30% (2003 - 30%). The actual effective tax rate for the current year is higher (2003 - higher) than this standard rate. The differences are analysed as follows:

	2004 £000	2003 £000
Profit on ordinary activities before taxation	3,914	3,861
Tax at standard rate of 30% (2003 - 30%)	1,174	1,158
Expenses not deductible for tax purposes		
• Goodwill	480	553
• Other	170	81
Other items including permanent differences		
• Research & Development credits	(435)	(478)
• Other	-	28
Adjustment in respect of foreign rate taxes	(19)	26
Deferred tax relating to reversal of timing differences in the year	(692)	(77)
Current tax adjustments in respect of prior periods	195	60
Total current tax charge	873	1,351

9 Dividends

	2004 £000	2003 £000
Interim dividend 1.3p per share (2003 - 1.1p)	330	279
Final dividend proposed 3.7p per share (2003 - 2.7p)	940	686
	1,270	965
Dividend income on own shares held by Employee Share Trust	(92)	(70)
	1,178	895

10 Earnings per share

Basic earnings per ordinary share are calculated by dividing the profit after taxation attributable to the shareholders of £2,334,000 (2003 - £2,533,000) by the weighted average number of shares in issue during the year (excluding own shares held) of 23,559,775 (2003 - 23,521,538).

Diluted basic earnings per ordinary share are calculated by dividing the profit after taxation attributable to the shareholders of £2,334,000 (2003 - £2,533,000) by the weighted average number of shares in issue during the year (excluding own shares held, but after taking into account options outstanding during the year) of 26,176,757 (2003 - 25,460,354).

Adjusted basic earnings per ordinary share excluding amortisation of goodwill are calculated by dividing the profit after taxation excluding amortisation of goodwill attributable to the shareholders of £6,076,000 (2003 - £5,213,000) by the weighted average number of shares in issue during the year (excluding own shares held) of 23,559,775 (2003 - 23,521,538).

Diluted adjusted basic earnings per ordinary share excluding amortisation of goodwill are calculated by dividing the profit after taxation excluding amortisation of goodwill attributable to the shareholders of £6,076,000 (2003 - £5,213,000) by the weighted average number of shares in issue during the year (excluding own shares held, but after taking into account options outstanding during the year) of 26,176,757 (2003 - 25,460,354).

Notes (forming part of the accounts) for the year ended 31 December 2004

11 Intangible fixed assets

GROUP

Goodwill on acquisition of:

	CODA (including SquareSum) £000	Business Collaborator £000	Total £000
<i>Cost:</i>			
At beginning of year	44,635	2,813	47,448
At end of year	44,635	2,813	47,448
<i>Amortisation:</i>			
At beginning of year	7,208	375	7,583
Charge for year	2,304	563	2,867
Impairment charge	-	875	875
At end of year	9,512	1,813	11,325
Net book value 31 December 2004	35,123	1,000	36,123
Net book value 31 December 2003	37,427	2,439	39,866

An impairment charge of £875,000 has been made on the basis of the Group's view of the recent performance of Business Collaborator.

12 Tangible fixed assets

GROUP	Freehold and long leasehold property £000	Short leasehold property £000	Computer equipment £000	Office equipment £000	Motor vehicles £000	Plant and machinery £000	Total £000
<i>Cost:</i>							
At beginning of year	6,254	91	5,714	2,979	25	2,423	17,486
Additions	5,055	8	772	162	-	61	6,058
Disposals	(847)	(15)	(169)	(29)	(3)	-	(1,063)
Exchange adjustments	-	(3)	(22)	(9)	(2)	-	(36)
At end of year	10,462	81	6,295	3,103	20	2,484	22,445
<i>Depreciation:</i>							
At beginning of year	459	51	4,367	2,168	21	596	7,662
Charge for year	175	18	1,145	325	3	167	1,833
Disposals	-	(15)	(166)	(18)	(2)	-	(201)
Exchange adjustments	-	(1)	(21)	(5)	(2)	-	(29)
At end of year	634	53	5,325	2,470	20	763	9,265
Net book value 31 December 2004	9,828	28	970	633	-	1,721	13,180
Net book value 31 December 2003	5,795	40	1,347	811	4	1,827	9,824

12 Tangible fixed assets (continued)

Land and buildings

The net book value of land and buildings can be analysed as follows:

	2004 £000	2003 £000
Freehold	9,661	5,622
Long leasehold	167	173
	9,828	5,795

Freehold land and buildings includes amounts for land of £493,000 (2003 - £493,000) which is not depreciated.

13 Fixed asset investments

COMPANY

Shares in group undertakings

Cost:

	£000
At beginning of year	42,998
Additions	1,900
Disposals	-
At end of year	44,898

Provisions:

At beginning of year	13,577
Released during the year	(6,800)
At end of year	6,777

Net book value 31 December 2004	38,121
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Net book value 31 December 2003	29,421
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Notes (forming part of the accounts) for the year ended 31 December 2004

14 Debtors

GROUP

Trade debtors	15,427	18,002
Amounts recoverable on contracts	2,595	1,671
Other debtors	194	247
Deferred tax asset (see note 16)	262	983
Prepayments and accrued income	2,907	2,244

2004	2003
£000	£000
15,427	18,002
2,595	1,671
194	247
262	983
2,907	2,244
21,385	23,147

Debtors include prepayments of £267,000 (2003 - £246,000) due after more than one year.

COMPANY

Amounts owed by group undertakings	11,757	23,439
Other debtors	6	4
Corporation tax	488	-
Prepayments and accrued income	56	5

2004	2003
£000	£000
11,757	23,439
6	4
488	-
56	5
12,307	23,448

15 Creditors: amounts falling due within one year

GROUP

Trade creditors	1,202	1,956
Corporation tax	649	1,063
Taxation and social security	958	1,022
Other creditors	3,430	3,241
Accruals	2,729	3,639

2004	2003
£000	£000
1,202	1,956
649	1,063
958	1,022
3,430	3,241
2,729	3,639
8,968	10,921

COMPANY

Bank loans and overdrafts	-	2,060
Trade creditors	27	7
Amounts owed to group undertakings	-	526
Corporation tax	-	13
Taxation and social security	57	9
Other creditors	1,179	896
Accruals	90	44

2004	2003
£000	£000
-	2,060
27	7
-	526
-	13
57	9
1,179	896
90	44
1,353	3,555

16 Deferred taxation

GROUP

	Accelerated capital allowances £000	Trading losses £000	Short term timing differences £000	Total £000
At beginning of year (shown within debtors)	(96)	(75)	(812)	(983)
Exchange adjustments	1	1	12	14
(Credit) / charge for year (see note 8)	(30)	-	737	707
At end of year (shown within debtors)	(125)	(74)	(63)	(262)

17 Deferred income

GROUP

	2004 £000	2003 £000
Maintenance	12,070	12,130
Licence fees	3,525	4,117
Fixed price projects	2,346	2,626
Consultancy / other	639	351
	18,580	19,224

18 Called up share capital

GROUP and COMPANY

Authorised

50,000,000 Ordinary shares of 25p each

Allotted, called up and fully paid

At beginning and end of year

	2004 £000	2003 £000
	12,500	12,500
	No. of shares	£000
	25,399,570	6,350

Notes (forming part of the accounts) for the year ended 31 December 2004

19 Share premium and other reserves

GROUP

	Share premium account £000	Other reserves £000	Capital reserve redemption £000	Profit and loss account £000
At beginning of year as restated	42,980	Nil	83	33
Retained profit for the year	-	-	-	1,156
Disposal of own shares in year	-	-	-	30
Exchange adjustments	-	-	-	20
At end of year	42,980	Nil	83	1,239

COMPANY

	Share premium account £000	Other reserves £000	Capital reserve redemption £000	Profit and loss account £000
At beginning of year as restated	42,980	Nil	83	(7)
Disposal of own shares in year	-	-	-	30
Retained profit for the year	-	-	-	958
At end of year	42,980	Nil	83	981

Included within the retained profit of the Group and Company is £753,000 (2003 - £683,000) and £1,193,000 (2003 - £1,123,000) respectively held by the Employee Share Trust which can only be used in accordance with the Trust Deed for the benefit of employees. The nominal value of own shares held by the Group and Company at 31 December 2004 was £458,000 (2003 - £463,000). Own shares are held in the Employee Share Trust (see note 23) and are listed investments. Their market value at 31 December 2004 was £6,182,000 (2003 - £5,465,000).

Adoption of UITF Abstract 38 (Accounting for ESOP Trusts) in 2003 caused fixed asset investments, relating to the Group's Employee Share Trust, to be reclassified as a deduction from shareholders' funds within other reserves. In 2004 these assets have been deducted directly from the profit and loss account to give a clearer representation of distributable profits. For comparability, the 2003 profit and loss account has been restated to reflect this new presentation.

20 Contingent liabilities

The Company has given an unlimited bank guarantee in respect of all of its UK subsidiary companies. At 31 December 2004 the gross borrowings of these companies was £103,000.

21 Commitments

Annual commitments under non-cancellable operating leases are as follows:

GROUP	2004	2004	2003	2003
	£000	£000	£000	£000
	Land and buildings	Other	Land and buildings	Other
Operating leases which expire:				
Within one year	84	36	35	289
In second to fifth years inclusive	335	70	484	560
Over five years	-	-	369	-
	<u>419</u>	<u>106</u>	<u>888</u>	<u>849</u>

22 Pensions

The Group operates six defined contribution pension schemes, four of which are closed to new entrants. The pension charge for the year represents contributions payable by the Group to the schemes and amounted to £1,765,886 (2003 - £1,790,634).

23 Science Systems Employee Share Trust

The Company and Group results include those of the Employee Share Trust (EST). The EST provides a warehouse for the Company's shares, by acquiring and holding shares that are to be sold to employees in the future under the Group's share option arrangements. The trustees may purchase the shares with finance provided by the Company (by way of cash contribution or interest free loan). The EST has also subscribed directly for shares issued by the company.

Finance costs are borne by the EST. Administrative costs, such as legal fees are borne by the Group. All costs are accounted for as they accrue. At 31 December 2004 it held 1,831,571 25p ordinary shares (2003 - 1,852,611 25p ordinary shares), 7.2% of the Company's issued share capital. At that date outstanding options granted under the Executive Share Option Scheme amounted to 2,522,995 (2003 - 2,437,995). The EST made no purchases of Company shares during the year.

Notes (forming part of the accounts) for the year ended 31 December 2004

24 Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£000	£000
Operating profit	3,555	3,854
Depreciation charge	1,833	1,885
Amortisation of goodwill	3,742	2,680
Exchange gains	(54)	(262)
Profit on sale of fixed assets	(10)	(6)
Decrease in debtors	1,041	302
(Decrease) / increase in creditors and deferred income	(2,466)	2,802
Net cash inflow from operating activities	<u>7,641</u>	<u>11,255</u>

25 Reconciliation of net cash flow to movement in net debt

	2004	2003
	£000	£000
Increase / (decrease) in cash in the year	668	(2,813)
Cash outflow from decrease in debt and lease financing	-	37
Changes in net debt arising from cash flows	668	(2,776)
Exchange adjustments	90	118
	<u>758</u>	<u>(2,658)</u>
Net cash at beginning of year	6,754	9,412
Net cash at end of year	<u>7,512</u>	<u>6,754</u>

26 Analysis of net debt

	1 January 2004	Cash flow	Other movements	31 December 2004
	£000	£000	£000	£000
Cash at bank and in hand	6,754	668	90	<u>7,512</u>

27 Financial instruments

The main risks arising from the Group's financial instruments are interest rate, liquidity and foreign currency risk.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows and invests surplus cash at floating rates of interest based upon bank base rate. Details of the Group's borrowings are set out in note 15.

Liquidity risk

The Group's operations are cash generative. During the year some of the surplus cash has been used to purchase the freehold of the Harrogate office. The Group considers that it has sufficient financial resources to meet its foreseeable requirements.

Foreign currency risk

The Group has a number of fixed price contracts denominated in Euros for which costs are incurred in Sterling. The main currency risk for such contracts lies in the period between tender and signature of contract during which it is impractical to enter into committed forward foreign exchange contracts. In order to mitigate this risk, the Group's policy is to take out cylinder option cover for anticipated invoicing under existing and tendered contracts going out approximately 18 months.

Cylinder options are taken out to coincide with the half year and full year end dates. Depending on the exchange rate of the Euro at the time cash is received from a customer compared to the cylinder option rates, the Group may enter into currency swaps to transfer any currency receipts during a six month period into sterling, thereby saving sterling overdraft interest, until such time as the currency is needed to fulfil a particular cylinder deal at the end of the six month period.

Although the Group is based in the UK, it has a significant investment in overseas operations in the USA, Holland and Belgium. As a result, the Group's sterling balance sheet can be affected by movements in the \$ / £ and € / £ exchange rates.

As at the year end the Group had the following cylinder options in place:

Date of expiry of cylinder	Amount of Euros covered	Cylinder cap	Cylinder collar
In respect of CODA:			
31 March 2005	2,500,000	1.4500	1.3847
30 June 2005	1,500,000	1.4500	1.3660
30 September 2005	1,500,000	1.4500	1.3488
21 December 2005	1,500,000	1.4500	1.3332
In respect of SciSys:			
30 June 2005	3,500,000	1.4700	1.4150
23 December 2005	4,000,000	1.4700	1.3805

The table below shows the Group's currency exposures. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating currency of the operating unit involved:

Functional currency of Group operation	Net foreign currency monetary assets in £000s				Total
	Euros	US Dollars	Swedish KR	Norwegian KR	
Sterling	5,091	655	149	24	5,919

Notes (forming part of the accounts)

for the year ended 31 December 2004

27 Financial instruments (continued)

At year end, the Group had net monetary assets / (liabilities) denominated in foreign currency as follows:

	£000
Euros	5,028
US Dollars	592
Singapore Dollars	(136)
Malaysian Ringits	217
Australian Dollars	35
Norwegian Krone	149
Swedish Krone	24
	5,909

Fair value of financial assets and liabilities

The book value of primary financial instruments held or issued to finance the Group's operations are not materially different from the fair value of those instruments.

28 Subsidiary undertakings

Company	Country of registration	Principal activity	Class of shares
CODASciSys (Resources) Limited	England	Central services	1p ords
CODA Group Holdings Limited	England	Central services	£1 ords
CODA plc*	England	Computer software	£1 ords
CODA Financials Incorporated*	USA	Computer software	\$1 ords
CODA NV*	Holland	Computer software	€100 ords
CODA Belgium NV*	Belgium	Computer software	€100 ords
CODA Financial Systems GmbH*	Germany	Computer software	€100 ords
CODA Systems Asia Pacific PTE Limited *	Singapore	Computer software	SGD1 ords
CODA Business Systems Sdn Bhd*	Malaysia	Computer software	MR1 ords
CODA Systems Australia Pty Limited*	Australia	Computer software	A\$1 ords
SquareSum Plc	England	Computer software	10p ords
SciSys Limited	England	Computer software	£1 ords
SciSys (Space & Defence) Limited*	England	Computer software	£1 ords
Science Systems (Space) Limited*	England	Computer software	£1 ords
SciSys (Government & Utilities) Limited*	England	Computer software	£1 ords
SciSys (Commercial) Limited	England	Computer software	10p ords
SciSys (Commerce & Industry) Limited*	England	Computer software	£1 ords
SciSys GmbH*	Germany	Computer software	€100 ords
Business Collaborator Limited	England	Computer software	£1 ords
Trenkinch Limited	England	Dormant	£1 ords
Science Systems QUEST Trustee Limited	England	Trustee for SAYE	£1 ords

* The shareholdings in these companies are held by a wholly owned subsidiary of the parent undertaking.

All subsidiaries are wholly owned and principally operate in the country in which they are registered.

Directors and Advisors

Directors

Mike Love
(Chairman)

Cliff Preddy
(Non-Executive Director)

David Jones
(Non-Executive Director)

Graham Steinsberg
(Group Chief Executive Officer)

Bryan Hucker
(Group Financial Director)

John Haynes
(Chief Executive Officer,
SciSys Division)

Jeremy Roche
(Chief Executive Officer,
CODA Division)

Company Secretary

Dave Belmont

Registered office

Methuen Park
Chippenham
Wiltshire
SN14 0GB

Solicitors

Burges Salmon
Narrow Quay House
Prince Street
BS1 4AH

Brokers

Rowan Dartington & Co Limited
The Colston Tower
Colston Street
Bristol
BS1 4RD

Bankers

National Westminster Bank
32 Corn Street
Bristol
BS99 7UG

Auditors

KPMG Audit Plc
100 Temple Street
Bristol
BS1 6AG

Registrars

Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Shareholder Reports

Questions relating to the Group's business or requests for additional copies of the Annual Report 2004 should be addressed to:

Jane Curry
CODASciSys plc
Methuen Park
Chippenham
Wiltshire SN14 0GB UK

Tel: 01249 466466
Fax: 01249 466658
Email: jane.curry@codascisys.co.uk
Internet: www.codascisys.co.uk

Methuen Park
Chippenham
Wiltshire
SN14 0GB UK
www.codascisys.co.uk

