

A NATURAL PROGRESSION

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2005

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

CODA **scisys**

OVERVIEW

The CODASciSys Group is a leading provider of IT software and services to blue-chip and government organisations worldwide.

Its business objective is to become the supplier of choice for IT software and services in the markets in which it operates, including Financial Intelligence, Space & Defence, Public Sector and Business Collaboration.

The Group was founded in the UK in 1980 and has its headquarters in Chippenham, England. There are three Divisions within the business:

CODA, which is focused on the delivery of financial intelligence through solutions based around financial analytics and accounting;

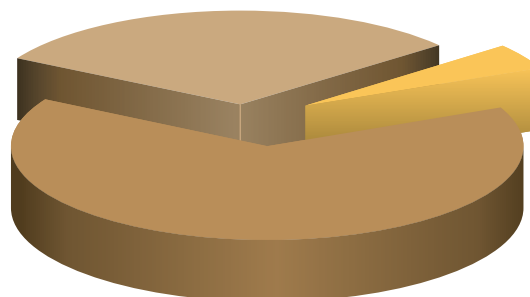
SciSys, which provides IT services, bespoke software and applications management to large corporations and government organisations; and

Business Collaborator, which sells collaboration software and services, primarily to the UK construction industry and related sectors.

CODASciSys was admitted to the Alternative Investment Market in 1997 and forms part of the FTSE AIM ALL-SHARE and FTSE AIM 100 indices.

Within the UK, the Group has offices in Chippenham, Harrogate, Bristol, Reading and Nottingham. It services clients internationally through a network of direct offices in North America, The Netherlands, Belgium, Germany, France, Sweden, Hungary, Singapore, Malaysia and Australia and partners throughout the rest of the world.

2005 CODASciSys turnover by Division



■ CODA 65% ■ SciSys 31%
■ Business Collaborator/other 4%

Total turnover £72.8m

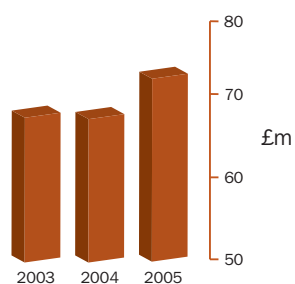
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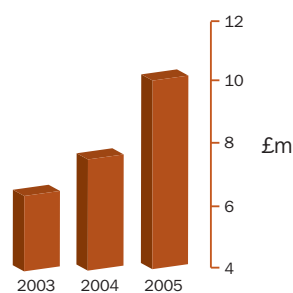
KEY POINTS

- Financial results for 2005:
 - Operating profit, turnover and operating profit margin all at record levels;
 - Operating profit, turnover and dividend ahead of market expectations;
 - Revenue 7.4% ahead at £72.8m (2004: £67.8m);
 - Profit before tax, interest, goodwill amortisation and exceptional items improved by 33.8% to £10.3m (2004: £7.7m);
 - Profit before tax: £7.7m (2004: £3.9m), an increase of 97.4%;
 - The CODA Division increased operating profits (before goodwill amortisation of £2.5m (2004: £2.3m)) by 30.1% to £9.5m (2004: £7.3m);
 - The SciSys Division increased operating profits by 11.1% to £2.0m (2004: £1.8m);
 - Adjusted basic earnings per share (excluding goodwill amortisation) up 42.2% to 36.7p (2004: 25.8p).
 - Basic earnings per share 24.7p (2004: 9.9p)
- Proposed final dividend increased 35% to 5.0p (2004: 3.7p), making 7.0p in respect of this financial year (2004: 5.0p) – an increase of 40%.
- Year-end net cash of £10.1m (2004: £7.5m), despite outflows of £4.7m on acquisitions.
- Deferred income: £19.3m (2004: £18.6m).

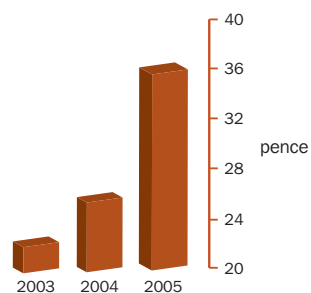
Turnover



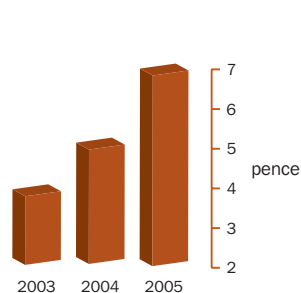
Earnings before interest, tax and amortisation



Adjusted basic earnings per share



Dividends





BUSINESS PERFORMANCE OVERVIEW

Operating cash flows during the year remained positive and the year-end net cash position was £10.1m despite outflows of £4.7m on acquisitions during the period.



CODA provides strategic financial intelligence through a range of products and services, built around its core global accounting systems: CODA-Financials and Dream.

Using innovative yet proven technology, CODA delivers products that cover core administrative functions such as finance and procurement. These form the platform from which it delivers financial intelligence to senior management and to all corners of the organisation, where such information adds value and helps to drive the users' business forward.



SciSys is a leading developer of ICT services, e-Business and advanced technology solutions, renowned for quality and efficiency.

The Division operates in a broad spectrum of market sectors including space, defence, public sector, communication, business services and transport. Within these markets, SciSys has been involved in significant developments in key technologies that have changed the way people do their jobs. SciSys clients are predominantly blue chip, government and quasi-government organisations. Customers include the Environment Agency, Ministry of Defence, Astrium, Rural Payments Agency, European Space Agency and the Metropolitan Police.



Business Collaborator (BC), is a pioneering collaboration software product widely used within the architecture, engineering and construction (AEC) sectors, facilitating the management of a single project, enterprise-wide projects and programmes of works via a secure website.

The product set is used to create web-based systems, providing access to (and management of) up-to-date documents and information from anywhere in the world. Its usage in e-tendering, supply chain

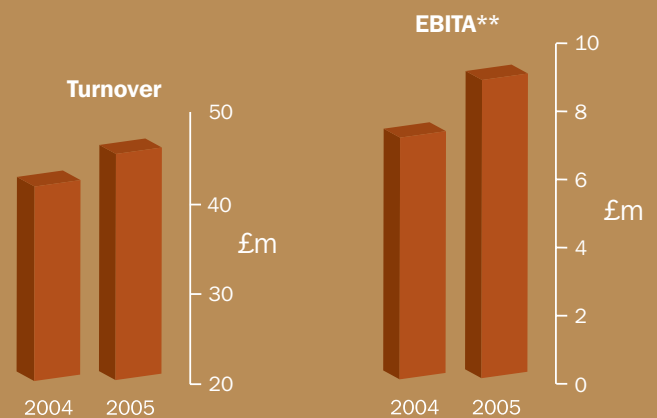
During 2005, operating profit, turnover and operating margins all moved ahead within each Operating Division; underpinning our goal of making each Division independently strong.

**EBITA - Earnings before interest, taxation and amortisation

CODA also addresses the requirements of its customers through a suite of applications designed to help customers control business processes and manage compliance.

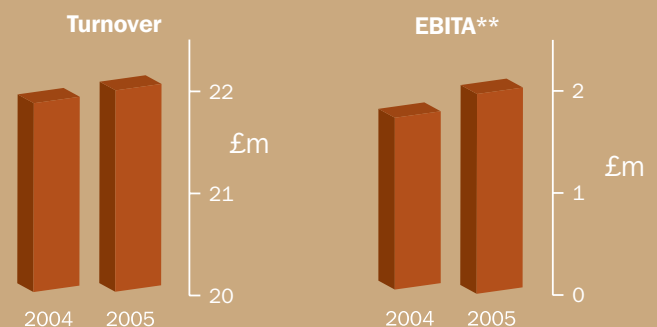
During 2005, CODA acquired operations in five countries, adding new offices in France, Germany, Hungary, Sweden and Estonia.

As a result of growth that was both organic and through acquisition, CODA sold a record number of new licences during the year.



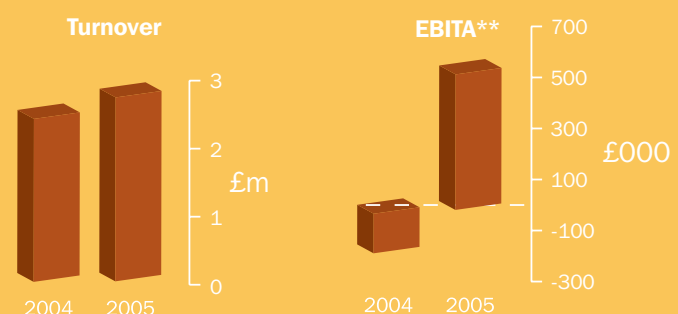
The company has high levels of retained business. By exhibiting a detailed understanding of each customer's domain and key issues, whether regulatory, technical or business oriented, SciSys continually builds on and maintains strong relationships with key industry clients and partners. A large proportion of SciSys' business is conducted through long-term framework contracts.

During 2005, SciSys succeeded in increasing revenue and profits, despite investing considerable time to secure several major contracts, which will provide a strong platform for the future.



management and skills databases is proven to increase efficiency, reduce project delivery times and reduce the risk of costly errors.

This combination has particularly appealed to the utility sectors where new wins in 2005 included several of the UK's largest water companies – Thames Water, United Utilities, and Southern Water-through the 4D consortium.



CHAIRMAN'S STATEMENT

I am delighted to report that 2005 has been a year of profitable, controlled expansion across the Group. The CODA Division recorded a healthy growth in both revenue and profits, supported by a number of acquisitions across Europe. Meanwhile, SciSys made a significant number of investments into each of its main sectors, which saw returns becoming apparent late in the year. Business Collaborator also saw a pleasing return to profitability.

Profitability

Profits, turnover and margin all reached record levels in 2005. Operating profit (before goodwill amortisation) exceeded £10m for the first time, improving by 33.8% to £10.3m (£7.7m). Operating profit increased to £7.4m (£3.6m). Turnover improved 7.4% to £72.8m (£67.8m); and overall operating profit margin (excluding amortisation) rose to 14.1% (11.4%). Operating profit margin rose to 10.2% (5.2%). Each Division contributed to these improvements. CODA's operating profits (before goodwill amortisation) rose 30.1% to £9.5m (£7.3m) on turnover 9.9% higher at £47.6m (£43.3m), with operating profit margins (before goodwill amortisation) rising to 20.0% (16.9%). Operating profit rose 33.3% to £8.0m (£6.0m) and the operating profit margin rose to 16.8% (13.9%). A healthy balance of new and traditional offerings distributed across a wider number of outlets underpinned this result. Within SciSys, turnover improved to £22.3m (£22.0m), and although much of this improvement arose late in the period, the rise in operating profit margin to 9.0% (8.2%) shows that the strategy of targeted investment into profitable business has begun to yield improving returns.

**PROFIT BEFORE TAX,
INTEREST AND
GOODWILL
AMORTISATION
EXCEEDED £10M
FOR THE FIRST TIME**

Cash

Operating cash flows during the year remained positive and the year end net cash position was £10.1m (2004: £7.5m), despite outflows of £4.7m on acquisitions during the period. The Board has consistently stated its strategy of using cash reserves to improve overall shareholder returns. The prime focus will remain targeted acquisitions and cash will be retained within the business to facilitate this. However, dividends also represent an important mechanism for returning value to shareholders, and therefore (in keeping with our progressive dividend policy and to reflect the strong growth in both profitability and cash reserves) we have decided to recommend a final dividend of 5.0p per share (prior year: 3.7p), making a total of 7.0p for the year (prior year: 5.0p) – an increase of 40% for the full year.

The Board

During the year, John Haynes stepped down from the Board. John provided excellent service to the CODASciSys Group throughout his 22 years service and we would like to extend our sincere thanks to him. I am also delighted that John has agreed to continue to provide his expertise when the need arises. John was succeeded as the SciSys CEO by Mark Hampson. Mark has had an excellent track record throughout his 7 years with the Group. As Chief Operating Officer of SciSys, Mark was responsible for engineering many of the changes that have been at the heart of the increasing strength of this Division and I was delighted to welcome him to the Group Board at the start of 2006.

The results for the year reflect the dedication, commitment and professionalism of all members of staff. I would like to take this opportunity to thank them on behalf of the Board for their invaluable contribution to these results.



The early indications are that the factors underpinning the increasing strength of each Division and the group as a whole are continuing, and our expectations for the business in 2006 remain positive.

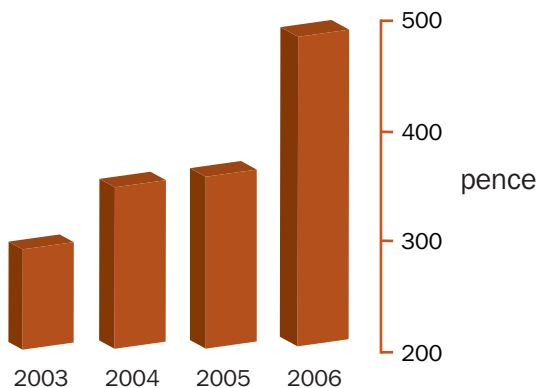
Mike Love, Chairman

The Future

The Board's attention remains focused on the continued growth of all Divisions. Within CODA, we shall initially be looking to take maximum advantage from the investments made during 2005. Within SciSys, we shall look to accelerate the momentum gained through the major successes in each of the sectors in which we operate, whilst evaluating expansion opportunities for the Division. For Business Collaborator, we shall be looking to maintain the excellent turnaround during 2005. The early indications are that the factors underpinning the increasing strength of each Division and the Group as a whole are continuing, and our expectations for the business in 2006 remain positive.

OPERATING CASH FLOWS DURING THE YEAR REMAINED POSITIVE AND THE YEAR END NET CASH POSITION WAS £10.1M (2004: £7.5M)

CODASciSys Share Price at 1 March 2003 – 2006



GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

The CODASciSys Group made significant strides forward in 2005. Turnover, pre-tax profits and margins all moved ahead within each Operating Division; underpinning our goal of making each Division independently strong, and providing a healthy environment for the next phase in the Group's evolution.

Contributions from all Operating Divisions

CODA, SciSys and Business Collaborator ("BC") all made positive contributions to the Group in 2005. CODA continued to sell a balanced portfolio of traditional higher value accounting solutions and the more recently developed and higher volume analytics offerings. This balanced approach saw operating profit margins (before goodwill amortisation) reach 20% (operating profit margin reached 16.8%). SciSys achieved its results whilst investing in opportunities to secure several major long-term contracts. Success in each of these brought improving returns as the year progressed and has created the platform for future growth. BC capitalised on the investments made in 2004, by recording a year-on-year improvement in operating profit of approximately £0.7m (excluding the effects of a goodwill impairment write-down in 2004), and delivering operating profit margins (before goodwill amortisation) of 15.2% (operating profit margin of nil).

CODA, SCISYS AND BUSINESS COLLABORATOR ALL MADE POSITIVE CONTRIBUTIONS TO THE GROUP IN 2005

Focused group strategy – driving independent growth.

Throughout 2005, our focus has been to make sure the Operating Divisions continue to grow independently stronger. As well as financial improvements, this strength is also measured both against external factors – such as how well the offerings are defined, clarifying the markets to which they relate, the uniqueness of our position – and on internal issues – such as succession management, systems and operational controls.

All Divisions can demonstrate examples of this in action. Within CODA, there was the acquisition of a product set from the United States to help address the growing compliance software market; and Steve Dashwood was appointed as the new UK Managing Director. Within SciSys, Mark Hampson took over as CEO. Attention was directed away from generalist consultancy and development and focused into areas such as Environmental Regulation where the uniqueness of our knowledge is more likely to create sustainable longer term revenues and protect margin. BC changed its pricing policy in order to reduce its dependency on large "one-off" licence sales, and this helped to generate a higher proportion of long-term recurring revenues.

The results of this focus have delivered a solid platform for the future.

The growth of the business has come both organically and from targeted acquisitions. The strong cash flows and the overall health of the balance sheet position us well to continue with this dual approach without the need for external finance.



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Graham Steinsberg, Group CEO

CODA Focus

In 2005, CODA continued its “best-of-class” approach delivering solutions to address the ever-increasing challenges of the world’s Finance Directors. It made several acquisitions in mainland Europe, bringing additional product offerings and allowing it to distribute its message directly to a wider audience. In 2006, the Division will look to ensure maximum return from these acquisitions and will actively promote all three ranges within its offerings – traditional accounting, analytics and compliance

SciSys Focus

In 2005, each of SciSys’ target sectors (space, defence and public sector) brought significant opportunities. In space, the Galileo programme began to move ahead. Defence saw the continuation of our involvement in the BISA programmes (Battlefield Information System Application) through the FRES initiative which is designed to provide the British Army with a new family of armoured vehicles. Whilst, in the public sector, the Environment Agency was selecting SciSys as its partner of choice for the development of its modernised regulatory programme. The Division secured significant work in all three, justifying the levels of investment during the period. During 2006, the focus will be on profitable delivery in all these areas, and on developing its presence in all of these markets, but particularly in the public sector, where the Division’s reputation as a niche specialist is gaining momentum.

Business Collaborator

In 2005, BC capitalised on its strengths to win contracts in its traditional extranet markets (architecture, engineering & construction (“AEC”) and property refurbishment), at the same time extending into the utilities sector, seeing successes in three of the country’s major water utilities. 2006 will see a continuation of its current focus in the AEC, property refurbishment and utilities markets as well as on the SEDEX (Supplier Ethical Data Exchange) initiative where the membership - now standing at over 4,000 – grew fourfold during the year.

**THROUGHOUT 2005
OUR FOCUS HAS BEEN
TO MAKE SURE THE
OPERATING DIVISIONS
CONTINUE TO GROW
INDEPENDENTLY
STRONGER**

GROUP FINANCIAL DIRECTOR'S REVIEW

The Group made considerable advances against its own financial objectives during 2005. Profitability and margins continued to advance; and it is particularly pleasing to report a growth in turnover of 7.4%, taking the Group beyond £70m for the first time.

CODA – Growth in Revenue and Margin

Overall revenue for the CODA Division advanced 9.9%, with all revenue streams (licences, services and maintenance) showing an increase in the year. £2m of this growth was organic, with the balance coming from the acquisitions made in France and in Sweden. The other two acquisitions, in Germany and Hungary, were made at the very end of the period and there is therefore no contribution to be shown. All acquisitions in the period were made without recourse to external finance. Operating profit margins (before goodwill amortisation) within the Division continued their upward trend moving ahead from 16.9% to 20% (operating profit margin 16.8% (13.9%)).

The acquisitions in France and Sweden for a maximum consideration of £5.6m (subject to earn-out arrangements) together made a contribution of £2.3m to revenues and operating profits before goodwill amortisation of £0.3m (operating profits £0.1m).

OVERALL REVENUE FOR THE CODA DIVISION ADVANCED 9.9%, WITH ALL REVENUE STREAMS (LICENCES, SERVICES AND MAINTENANCE) SHOWING AN INCREASE IN THE YEAR.

SciSys – increasingly strong as the period progresses

Within SciSys, all sectors made positive contributions to the overall operating profit. Of particular note, is the impact of the success late in the second half in all three major initiatives (Galileo, FRES and Environmental Regulation) in which the Division invested. These saw utilisation, and hence revenues, rising steadily to new levels during the latter part of the year; also bringing improved operating profit margins, which rose to 9.9% (8.3%) in the second half and 9.0% (8.2%) for the year as a whole. Early indications are that these new levels are being maintained into 2006.

Business Collaborator – turnaround

We reported last time that Business Collaborator had made a strategic investment in the SEDEX program (Supplier Ethical Data Exchange). It is pleasing that as membership of that exchange grows (an increase of 3,000 in 2005 alone) so does the return made by BC. This helped to contribute to a considerable turnaround in the fortunes of the Division, reporting profits (before goodwill amortisation) of £0.3m against a loss of £0.4m last year (operating profit £nil (2004: loss £1.8m)). Operating profit margins (before goodwill amortisation) reached 15.2% for the year.

Product investment

Within CODA, we continued our significant product investment programme. In the year, we spent £8.8m (2004: £8.6m). All product development costs are written off in the year in which they occur.



Our operating profits and operating profit margins continued to advance; the growth in turnover was more than 7%, taking the Group beyond £70m for the first time.

Bryan Hucker, Group Financial Director

Deferred income

Deferred income, at the year end, rose from £18.6m to £19.3m. This is made up of £16.7m for the CODA Division, £2.0m for the SciSys Division and the balance of £0.6m for Business Collaborator. An analysis of the total figure shows £13.1m (2004: £12.1m) of maintenance income, deferred licence fee revenues of £3.5m (2004: £3.5m) and advance payments for projects/consultancy of £2.7m (2004: £3.0m). Within the £13.1m of deferred maintenance is £12.8m in respect of CODA.

Cash management

Operating cash flows have risen significantly throughout the year with cash inflow from operating activities of £11.6m (2004: £7.6m). The Group has continued its sharp focus on cash management. The year end net cash balance of £10.1m (2004: £7.5m) was after spending £4.7m during the year on acquisitions.

Currency

During the year, the main currencies the Group deals in (the euro and US dollar) again moved in opposite directions relative to sterling, and the Group had net exchange losses for the year of £0.1m (2004 gains: £0.3m).

Tax

The effective tax rate (excluding goodwill amortisation) for the Group of 17.5% (2004: 23.3%) remained below the standard rate of corporation tax in the UK, due principally to the effect of tax credits available on Research and Development expenditure made by the Group.

Dividend

The proposed final dividend for the year ended 31 December 2005, of 5p per share, will be paid on 5 July 2006 to shareholders on the register at 31 March 2006. The shares will go ex-dividend on 29 March 2006.

OPERATING CASH FLOWS HAVE REMAINED SOLID THROUGHOUT THE YEAR WITH CASH INFLOW FROM OPERATING ACTIVITIES OF £11.6M (2004: £7.6M).

Throughout 2005, CODA continued to develop its position and reputation as a thought leader and technology innovator in the field of Financial Intelligence. The concept has evolved to include a wide range of applications that support the increasing challenges of performance management, of compliance and of governance issues faced by CFOs and their staff.

Overview

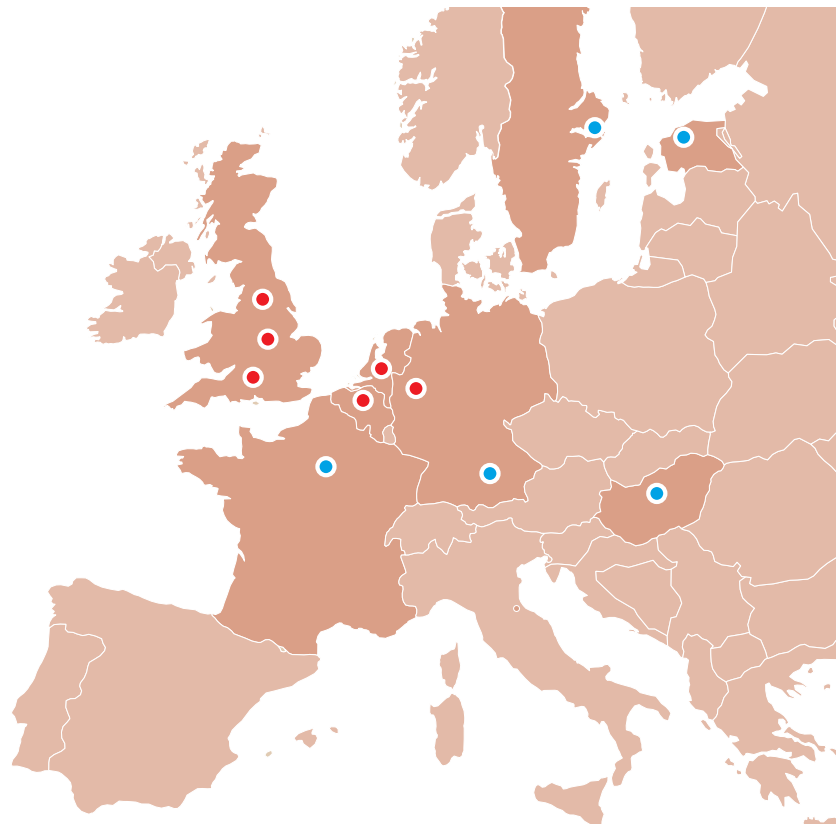
CODA has continued its strategy of considered expansion during 2005, achieving growth both organically and through acquisition. In 2005, CODA attracted a record number of new customers. 2006 will see CODA building on that success to ensure that the acquisitions and investments made last year are integrated, established and successful. However, we will also continue to seek appropriate opportunities for both organic and acquisitive growth.

During the year CODA received further awards and accreditations for its products, including its fifth Accountancy Age Award in five years (the third for CODA-Financials) and a 2005 Documentation Award from the Institute of Scientific and Technical Communicators.

Geographic expansion

During 2005, CODA acquired operations in five countries through four acquisitions. As a result, we added direct offices in France, Germany, Hungary, Sweden and Estonia. These have brought both sales offices and a second research and development centre in Estonia where we will be continuing development of analytical products and developing pilot studies on potential future products. Plans are also (at time of writing) well advanced for a small sales office in Prague (Czech Republic), increasing our coverage of fast developing markets in Eastern Europe.

- New Offices
 - Tallinn, Estonia
 - Paris, France
 - Munich, Germany
 - Budapest, Hungary
 - Stockholm, Sweden
- Previously existing offices
 - Antwerp, Belgium
 - Essen, Germany
 - Utrecht, Netherlands
 - Chippenham, UK
 - Harrogate, UK
 - Nottingham, UK





2005 saw steady expansion for CODA on three fronts - in product scope, in geography and in capacity. We closed the year with a product offering even more capable of addressing the changing and growing challenges faced by CFOs and their staff. We have also created a better network of offices from which to service customers across Europe, as well as the rest of the world.

Jeremy Roche, CODA CEO

Partnerships

During the year, CODA extended and developed partnerships with technology organisations. The most significant of these was with Microsoft, which announced a strategic relationship with CODA involving a three year programme of joint development and marketing activities, focused on financial accounting, analytics and compliance. CODA also further developed its partnership with IBM and continues to build partnerships with other infrastructure developer providers. A growing focus on the Solution Partner programme, where other software houses build CODA's finance applications into their specialist business solutions, saw early success with

Cubic Transportation Systems, Inc., as well as further business with established partners. Extended product functionality and technical advances, including all functions being made available as Web Services through a Service Oriented Architecture, make CODA-Financials particularly attractive to solutions providers. We plan to expand this programme during 2006. CODA has also adopted the latest generation of Microsoft developer tools, which has helped to boost developer productivity during the last few months of the year.

ARLINGTON SECURITIES CASE STUDY

Arlington Securities builds around CODA

Arlington Securities is one of the UK's leading property services and investment management businesses; operating across UK, European and international markets. It has £6.7bn of funds under management, currently has 11 business parks in development and conducted £38m sales in property services and development in 2004. Arlington's high-profile business developments include Aztec West in Bristol, Birmingham Business Park, and Hatfield Business Park.

Arlington took the decision to upgrade CODA-Financials to Version 10 in conjunction with a hardware upgrade and a review of its property management system. According to finance manager Graham Weir, "CODA-Financials offers excellent integration facilities and a wide choice of hardware platforms. This gives us great flexibility when choosing the other applications needed to support our business. This latest version has some great new features and improved ease of use, yet the upgrade was straight-forward with no unexpected problems to sort out. This is the kind of high-quality product we have come to expect from CODA."

Arlington Securities also added CODA-XL for secure, spreadsheet-based reporting and input, integrated to its CODA-Financials system.



Analytic products

The acquisition of Simple Concepts (now known as CODA Nordic) during the summer added the Odra consolidation and cash management system to our product portfolio, as well as our Stockholm and Tallinn offices. Since that time, we have extended the user base for the product by more than 10% with sales both inside and outside Scandinavia. The year also saw the launch of Microsoft SQL Server 2005 and Microsoft Analysis Services. CODA analytic products such as CODA-Intelligence now make full use of these latest Microsoft technologies, and the skills our consultants have developed in these areas are already in high demand. New versions of CODA-Intelligence and a new multi-dimensional analysis tool (CODA-Analytic Explorer) should create considerable interest both amongst new clients and across the existing customer base during 2006.

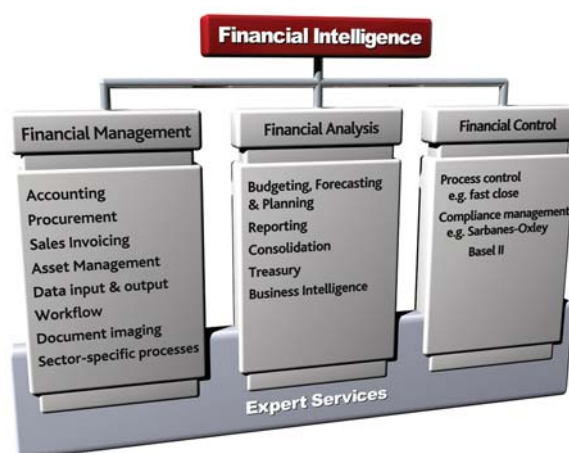
CODA-Control

2005 was also a year of significant developments for the CODA-Control product line. We have found a number of new applications for the core technology, and have added two completely new products to create one of the most complete compliance solutions on the market. CODA-Control is now also seeing take-up outside the USA, with sales at Inbo in The Netherlands and Elan in the UK. CODA-Control continues to gain interest amongst users, consultants and auditors in the areas of compliance, internal controls and process automation, and CODA is well positioned as this niche starts to build momentum.

Product portfolio

Transactional systems continue to be the core of CODA's product portfolio, and we have continued to invest in both the enterprise level CODA-Financials and Dream, the UK-focused finance system for SMEs. However, investment in analytic and Business Process Management applications are also paying off, by both differentiating CODA from competitors and by opening new markets and sales opportunities to us.

Investment in CODA-Financials and Dream has positioned us well, at a time when the market prospects for such systems seem to have taken an upturn, and places us at a considerable technical advantage over several of our competitors. During the year, we launched CODA-Financials V10.1, which included a number of new features. We also launched Dream V3.2 with a new underlying architecture that makes use of the latest generation Microsoft .NET technology and thus 'future proofs' the product for the foreseeable future.



CODA's product portfolio continues to be centred around transactional financial management systems while maintaining a clear focus on the increasing challenges of performance management, of compliance and governance issues faced by the CFOs and their staff

Summary

CODA enjoyed an excellent year during 2005, achieving both organic and acquisitive growth, fulfilling its strategic objectives for the year and positioning itself well for further growth in the future. The CODA team is set for a successful 2006, which should see growth in core business, increased success in new business areas and the continued investment in establishing a true global brand.



CODA-Financials was awarded the Accountancy Age Award for Best Enterprise Software System in November 2005. This is the fifth Accountancy Age Award in five years won by CODA's transactional financial management systems, and the third by CODA-Financials.

LIN TV CASE STUDY

CODA helps LIN TV drive down compliance audit costs

The Sarbanes-Oxley Act is posing considerable audit challenges to US-listed companies and is driving up finance costs. LIN TV Corp has added CODA-Control to its established CODA-Financials implementation to improve control of distributed business processes across its 28 sites and 300 users, and help the company eliminate manual financial processes, thus reducing Sarbanes-Oxley related audit costs.

LIN TV operates 23 television stations and has investments in five others. Like many companies, accurately reporting on these business units requires a significant number of 'manual' accounting processes and adjustments. The additional requirements of the new Sarbanes-Oxley Act increase the amount of required manual processing, which significantly increases the cost of compliance.

By automating processes using CODA-Control, LIN TV expects to reduce the ongoing cost of testing manual financial controls to comply with the requirements of Sarbanes-Oxley. The new system manages the entire compliance process, greatly reducing ongoing compliance risks and associated audit costs.

LIN TV expects to see a return on investment in the form of reduced audit fees within two years.



OPERATIONAL REVIEW

Throughout 2005, SciSys has worked hard to achieve target and to further develop its core strengths, securing major wins in each of its main markets: space, defence and public sector.

Introduction

SciSys continues along the evolutionary path to be the pre-eminent supplier in its chosen fields of activity. In 2004, the various parts of the business were brought together into a single operational unit, sharing the available resource pool; allowing more efficient and cost-effective delivery of projects. The process continued in 2005, with a strengthening of the sales and marketing capabilities within each sector. The appointment of Business Managers at the head of each sector team has brought enhanced market focus and an improved ability to share opportunities, expertise and solutions across the sectors. One immediate payback came through the increased emphasis of our senior consultants on account Management allowing the sales force to focus on new opportunities. This strategy allows us to continue to look after our current customers, who still provide us with an extremely high level of repeat business, but to start expanding into new customers within our recognised areas of expertise, thus giving a platform for stability, diversification and growth.

Review of 2005

SciSys performed well during 2005, seeing improved levels of profitability whilst undertaking major bid activity to support our future growth. As well as engaging with a significant number of new prospects, each sector also pursued and secured one major programme of work: the Integrated Regulation programme for the Environment Agency (public sector) the Galileo programme (space sector) and the FRES future armoured vehicle for the MoD (defence). Taken together, these give us a very high level of secured business in 2006 to underpin growth and the business is now actively recruiting to address the demands of these programmes.

The sectors

Space remains the largest area of activity within SciSys, with this team employing some 125 people in the UK, Germany and the United States. The majority of its business is ultimately funded by ESA (The European Space Agency), with our key accounts ESOC and Eumetsat now supported and account managed from a local office. The space sector team continues to work on a mix of long term T&M assignments, innovative R&D studies and high-profile Fixed Price developments, such as the highly acclaimed on-board software for Cryosat, a mission to monitor global warming. However, one of the major activities during the year related to the Galileo project, Europe's own global satellite navigation system, where a high investment in bid activity dominated. Despite this, the Sector increased revenues and profits during the year and secured over £5m of Galileo work, the bulk of which takes place in 2006/2007.

The public sector team employs around 60 people, primarily in Chippenham and Reading. The recent successes in this sector means that it is currently enjoying the fastest growth. The work for this sector continues to be dominated by the Environment Agency and a huge effort went into securing the new Integrated Regulation programme, which will underpin work for the next three years (potentially worth in excess of £14m). In parallel, the sector's management team set about the challenge of identifying and winning contracts with new customers. In this regard, notable progress was made at the Debt Management Office and the Rural Payments Agency, whilst we also explored new avenues at Thames Water, another long standing customer.

The Defence Sector, incorporating Aerospace and Transport employs around 50 people, primarily in Bristol and Chippenham. It continues to benefit from SciSys' early involvement in the Bowman communications programme as our expertise is now sought on other MoD BISA (Battlefield Information System Application) programmes which use the Bowman infrastructure. Our business model of working closely with many of the major Defence Primes has served us well, and we are now extending that into the aerospace market.



SciSys invested heavily in the year to secure several major opportunities in each key sector. The benefits of these investments became increasingly evident later in the period and will continue through 2006 and beyond.

Mark Hampson, SciSys CEO

In particular we are very excited to be part of the Lockheed Martin team working on the FRES programme for the next generation of light to medium armoured vehicles for the MoD. Our involvement is in part the success of collaboration across the sectors which led to the transfer of space R&D capability into defence and transport, a trend we are looking to continue.

The Applications Maintenance and Support sector which employs around 30 people in Reading and Chippenham performed well during the year, exceeding its targets. Whilst taking a carefully defined niche offering to market to look for new customers, it continues to do very well at extending the business with key existing accounts, especially Thames Water and the EA. The management team has engaged directly with the other sectors issuing several high profile bids.

RESPOND CASE STUDY

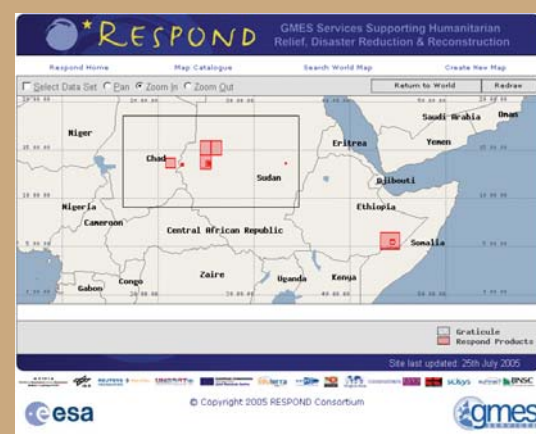
SciSys is involved in “Respond”, a European Project to provide maps and spatial information to humanitarian aid HQ decision makers and field operatives.

Arriving in an area devastated by a natural disaster to deliver aid and having minimal information concerning the extent of the disaster or even accessible transportation routes has so far been “business as usual” to many organisations such as the United Nations and specialist rescue or health organisations.

SciSys is using its system integration skills to understand the business need and identify how and where software can be integrated to improve this position. By joining existing mapping systems together SciSys ensures information is easily accessible to all interested humanitarian parties.

Respond needs firm and independent leadership, SciSys provided the project leader and key consultants. Staff time was also given to help catalogue and distribute some 200 maps produced in response to the Asian Tsunami.

Apart from the moral imperative, this represents a good business opportunity for SciSys. Respond is part of the emerging EC/ESA “Global Monitoring for Environment and Security” (GMES) initiative, and the profile raised to date has allowed SciSys to bid into large contracts to shape the GMES infrastructure. Additionally collaborations with a large number of companies and institutions across Europe have been strengthened, leading to contracts already in 2005, with further work projected in 2006. The GMES initiative ensures local, regional and global environmental information is available in support of policy and civilian security.



OPERATIONAL REVIEW CONTINUED

Highlights of 2005

During 2005, SciSys has increased its focus on key sectors, supported by a well-integrated team. This has built an excellent platform for the Division's future growth. SciSys also continued to work on – and deliver on – a wide range of projects, leading to some excellent testimonials from satisfied customers across all our sectors, including the following:

“The consultant quickly grasped the key facets from complex and inter-related issues. They were able to translate their experiences from other fields and meaningfully apply such in the fire and rescue service arena. We were delighted with SciSys' performance and would definitely seek to work with them again”. – Chief Fire Officers' Association

“SciSys have worked as an IS partner with Thames Water since 1998 and have delivered a consistently high level of service. They are a friendly, flexible and effective supplier who deliver on their promises and add value to the business”. – Thames Water

“With Scisys' help, we have implemented our first services-based architecture. They are willing to suggest new ways of working, as well as pushing the boundaries of our current technical understanding. We are working as a partnership team defining new enterprise architecture services”. – Environment Agency

“The consultant(s) demonstrated a very high level of knowledge and expertise in the field of interest. That is, within the project there were very detailed and to-the-point discussions that put in evidence that the consultant was not a person with only a few years of experience in the field but a person with relevant experiences and ability to filter out key issues of interest to the project”. – European Space Agency

THE SCISYS DIVISION WORKED ON MORE THAN 210 PROJECTS DURING 2005

Looking ahead

SciSys is a confident organisation with a clear vision and strategy to implement that vision. We know where we excel, and we know that our customers value our staff and our capabilities. There are major opportunities to sell these capabilities to new customers, utilising our experience to address the business benefits that customers will achieve by employing our services. During 2006, we will be taking this message out into the market. We will also continue to value and invest in our

key assets: the staff and management of the company. We are seeking to enhance our competitiveness by adopting best practice in our methods, and by harnessing new technology. Winning major contracts in 2005 has given us the opportunity to increase recruitment and thereby augment the existing pool of talent and ideas. SciSys is a business that is ready to take its customers and partners forward into the future with confidence.

REGULATION CASE STUDY

The Environment Agency: Integrated Regulation Programme

In August 2005, SciSys was awarded a three-year contract by the Environment Agency to provide software and services to assist in the modernisation of its regulatory programme, confirming SciSys' position as the Agency's preferred supplier of regulatory solutions.

The aim of the project is to streamline the Agency's regulatory business processes by implementing a common, unified business process delivery architecture, across all of its regulatory activities.

The architecture team worked in partnership with selected Agency business staff, to ensure the Model derived to describe the Regulation business domain was an accurate and comprehensive representation. Due to the innovative nature of this project, it was essential that the Environment Agency staff involved with the project had a high-level view across Regulation, as well as regime-specific knowledge. This is vital, as this model then drives the development of the solution.

Our Regulation Software Architecture allows generic regulation software to be constructed and "configured" to support multiple regimes. The programme incorporates a diverse range of permitting and licensing regulations, from Environmental Protection Waste Management, to Water Management Abstraction Licensing.

SciSys is providing end-to-end delivery, including: architecture; design; build; and test services, followed by support and maintenance services. The Integrated Regulation architectural vision is revolutionary, although it uses established technologies. This highlights that innovation does not need to be a high-risk activity.

This programme is supported by a suite of systems that address all components of the regulatory process, using a unified and generic methodology. This means that one solution can support multiple regulations simultaneously, and allows new regulations to be easily accommodated in the future.

SciSys is influential in formulating this Integrated Regulation vision, and is helping carry this vision across all Agency regulatory business.





OPERATIONAL REVIEW

2005 saw a strong improvement in the performance of the Division, which has reported profits (before goodwill amortisation) of £0.3m against a loss of £0.4m.

Performance in 2005

A healthy combination of high and low value contracts has provided a solid contribution for the business with the Division returning to profitability. Of particular note were new contract wins in the utility sector with Thames Water and Southern Water, through the 4D consortium, and United Utilities. Meanwhile new wins in the traditional construction sector included Morrison Construction and Edmund Nuttall. Another major contribution to revenue has been the number of existing clients increasing their user licences and purchasing further services and solutions, reinforcing our commitment to building strong client relationships.

Highlights of 2005

A new release of the product at the beginning of the year underlined our reputation as having the most feature-rich and flexible project collaboration software aimed at the AEC market. We've improved and streamlined the processes and worked in close collaboration with our customers and the product is now firmly aimed at the main areas of focus in the AEC sector – project extranets, enterprise collaboration and property refurbishment.

PRIMARK CASE STUDY

With ambitious plans for expansion throughout the UK, Primark Stores Ltd recognised the need to review the internal administrative systems within its Store Development and Facilities Management department, in order to move towards a paperless office, and improve overall efficiency. A web-based system, known internally as Digital Administration Data Management System (DAD), was developed and implemented using Business Collaborator's (BC) online programme management solution. With around 30 development projects being delivered at any one time, the new system has improved storage and retrieval of all information and allowed for more effective collaboration with suppliers, by enabling a standard approach to be used across all projects. As a result, it has facilitated a significant increase in new store openings and **reduced project administration costs by 50%**, with a dramatic reduction of paper processing, improved document version control, and reduced email overload. Primark has steadily increased the number of user licences, from their initial 100, up to 1000 this year, with the system deployed across all store development projects.



“Right from the very start BC provided excellent after-sales service and support, and was able to offer a good depth of knowledgeable input in how to optimise the system. It helped us to identify and analyse our business needs and worked closely with us to show how the system should be set up to meet these needs”.

Derek Hannick, Project Executive, Primark

The utilities sector presents a great opportunity for collaboration software and, likewise, our software can add real value to people working in this sector.

Sanjeev Shah, Group Director, Business Collaborator Ltd

THAMES WATER CASE STUDY

Every 5 years, Ofwat, the water industry regulator, reviews the level of investment that water companies need to make in their Asset Management Programme (AMP4), to ensure that the supply and quality of water meets expectations, and that the wastewater infrastructure can deal with predicted increases in volume. The Thames Water AMP4 programme is expected to cost more than £3billion with over 2000 projects planned.

Business Collaborator worked closely with Thames Water on its extranet, (known as TWEXnet), to meet the organisation's needs, and reflect, rather than determine, its processes. As such, it has been successfully rolled out to its' extensive supply chain, including Laing O'Rourke, MJ Gleeson and Costain.

Of all the products Thames Water evaluated, BC was the only one that satisfied the organisation's key requirements for strong document management and collaboration capabilities, in addition to supporting AEC processes, such as document issuing and review. Thames Water views Business Collaborator as a long term solution, providing on-going support for the AMP4 programme, but with the capability to be easily reconfigured to support future projects.



“TWEXnet is fundamental in underpinning the Thames Water Engineering business strategy, for the delivery of the Thames Water Capital programme for the next 5 years. It will enable substantial business benefits, particularly reduced project delivery times, and enable true collaborative team working with our partners, and others, regardless of geographical location. The direct business benefits of having a single, controlled, source of live project information, accessible across the Internet, will significantly improve our business efficiency and minimise the risk of costly errors. We are also cognisant of the environmental, and human, benefits in reducing the need for travel”.

Paul Meredith, Design Manager, Thames Water.

DIRECTORS' BIOGRAPHIES

Non-Executive Directors

Mike Love

Chairman, aged 57. 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 at ClearStream Technologies plc, is a Director of WP2 Limited and is a member of the AIM Advisory Board. There has been no change in the Chairman's other directorships during the year.

Cliff Preddy

Senior Independent Non-Executive Director, aged 58. 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, and a Non-Executive Director of Computacenter plc.

David Jones

Non-Executive Director, aged 54. 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. Chairman of Ashlar Property Management Limited, a property development and rental company.

Executive Directors

Graham Steinsberg

Group Chief Executive Officer, aged 49. Was appointed as Group Chief Executive in 2003. Graham joined the Science Systems Group in 1989 as Managing Director of the Commercial Division. He became CEO of CODA, following its acquisition by the Group in 2000, and was appointed Chairman of that Division in 2002. He had an early career in chartered accountancy with Coopers and Lybrand, followed by a period with IBM in its sales and marketing division.

Bryan Hucker

Group Finance Director, aged 56. 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.

Jeremy Roche

Chief Executive Officer, CODA Division. Aged 41, Jeremy was appointed Executive Director in July 2004. He began 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. Jeremy joined Science Systems as Sales Manager and was appointed Commercial Director in 1995. Following the acquisition of CODA in March 2000, he became Chief Technology Officer of CODA, and was promoted to CODA's Chief Executive in 2002.

Mark Hampson

Chief Executive Officer, SciSys Division. Aged 42, Mark was appointed Executive Director on 10 January 2006. He has considerable experience in all the main markets in which the SciSys Division operates: space, defence and public sector, having joined Science Systems (Space) in 1997 after 13 years at Logica. He was appointed Chief Executive Officer of SciSys in April 2005.

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 Directors 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 that 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 six 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 once a month 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, as well as on their remuneration, both on audit and non audit work. It also 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 24 to 28.

CORPORATE GOVERNANCE CONTINUED

Board and Board Committee attendance 2005

The number of formal meetings held during 2005 were as follows:

	Board	Audit Committee	Remuneration Committee
Number of formal meetings	6	3	4
Number of meetings attended			
Mike Love	6	3	4
Cliff Preddy	6	3	4
David Jones	6	3	4
Graham Steinsberg	6	3*	3 ^{*(1)}
Bryan Huckler	6	3*	
Jeremy Roche	5		

* Meetings attended by invitation

⁽¹⁾ Graham Steinsberg was invited to attend three meetings of the Remuneration Committee

There were no meetings of the Nomination Committee during 2005.

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 that ensures compliance with laws and regulations and promotes effective and efficient operations, the Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. There is an established framework of internal controls, which is 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. Each year, the Committee reviews whether a formal financial internal audit department is required. Using the power of CODA-Financials, all accounting transactions of all the Group companies worldwide are available for review at any time by senior management. Given this, the size of the Group, and the close day-to-day control exercised by the Executive Directors and senior management, it is considered that a formal financial internal audit department is not necessary.

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; 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, and maintain regular dialogue throughout the year. They ensure that the Board is regularly updated on institutional views following meetings with them. The Company despatches 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 AGMs and the Group CEO makes a statement on current trading conditions at that meeting. The Chairman of each of the Audit, Nomination and Remuneration Committees attends the AGM and will answer questions that 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. With effect from the AGM in 2005, shareholders have been given the opportunity of withholding their vote on AGM resolutions and to vote specifically on the report of the Remuneration Committee. The Company has also offered shareholders the opportunity to receive company announcements by email.

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 in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the group and company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2005.

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 also holds a letter of appointment, which may be terminated by giving six months’ notice.

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 2005	As at 31 December 2004
Mike Love	2,632,751	2,743,013
Graham Steinsberg	844,237	844,237
Bryan Hucker	382,635	382,282
Jeremy Roche	447,183	446,830
Cliff Preddy	40,000	40,000
David Jones	5,000	5,000

Each Director is interested as a potential beneficiary in all shares held by the Science Systems Employee Share Trust, of which Mike Love and Bryan Hucker are trustees. At 31 December 2005, these interests amounted to 229,354 25p ordinary shares (2004 – 1,831,571 25p ordinary shares).

In addition, on 7 November 2005, Directors acquired interests in shares under the Executive Share Ownership Plan as detailed in the table on page 28.

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%. Bryan Hucker and Jeremy Roche are members of the Group Executive Pension Plan, which is also a defined contribution plan.

Share Incentive Plan

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 2005, the Trust set up to administer the Free and Partnership shares held 259,045 25p ordinary shares (2004 – 240,435 25p ordinary shares) in the Company.

REMUNERATION REPORT CONTINUED

Share option schemes

The Company continues to operate share plans for 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.

The Company continues to offer HM Revenue & Customs approved share options. These awards have tax advantages for both the participants and the Company.

New Executive Share Ownership Plan

The Company has introduced a new share plan during 2005, the Executive Share Ownership Plan ("Plan"), that is intended to replace "unapproved" share options. Under the Plan, selected employees are, together with a Company employee trust, granted a shared beneficial interest in the issued shares of the Company. This interest entitles those employees to benefit from an increase in market value of the shares that may occur following the date of the grant. The first awards under the Plan were made on 7 November 2005, at 422.5p, which

was the market value of CODASciSys shares on that date. The participants will not normally be entitled to realise the benefit from this award unless they are still employed by the Company on 1 September 2007. Furthermore, it should be noted that since the interest is granted over existing shares, the Plan will not be dilutive as may have been the case with unapproved options.

The initial awards under the Plan replaced existing unapproved options. As these unapproved options had a weighted average exercise price below the initial value (422.5p), and the exercise criteria had been met (or were due to be met) for the overwhelming majority of these surrendered options, the initial awards are not subject to additional Company performance measures. A total of 1,875,982 unapproved share options were surrendered, and 1,575,250 new awards granted under the Plan.

As an AIM company, there was no formal requirement to obtain shareholder approval for the Plan. However the Company consulted its major institutional shareholders during the month prior to the scheme being introduced.

At 31 December 2005, there were a total of 1,550,250 shares subject to awards under the Plan.

Share options

The remaining share options under the Company's share option scheme are 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.

At 31 December 2005, 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	42,625	-	129p	2000
29 September 1998	A	23,545	-	180.5p	2001
30 March 1999	A	10,710	-	210.5p	2001
5 January 2000	A	37,471	-	378p	2002
5 January 2000	B	11,915	9,269	378p	2002
7 April 2000	A	16,665	-	540p	2002
5 January 2001	A	43,000	-	485p	2003
24 January 2003	A	95,730	-	260p	2005
10 June 2003	A	20,000	-	260p	2005
17 July 2003	C	7,406	7,406	270p	2006
28 November 2003	A	40,000	-	270p	2006
28 November 2003	C	7,406	7,406	270p	2006
30 March 2005	C	3,387	-	352.5p	2007
Total under option		359,860	24,081		

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 faced, 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 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.

During 2005, options over 34,903 shares were exercised at a price per share of between £1.29 and £3.78.

REMUNERATION REPORT CONTINUED

Directors' emoluments

Emoluments comprise salaries, fees, performance related pay and ancillary benefits. Individual emoluments for the year were:

	Fees/ salary	Benefits	Performance related pay	Severance	Total paid by Company	Total paid by Company	Pension	Pension	ESOP benefit (note 1)
	£000	£000	£000	£000	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000
Executive Directors									
Graham Steinsberg	240	14	127	-	381	340	18	-	302
Bryan Hucker	106	12	93	-	211	150	20	19	93
Jeremy Roche	225	15	159	-	399	145	17	7	232
John Haynes	35	5	29	49	118	158	3	10	-
Ruth McRitchie	-	-	-	-	-	282	-	4	-
Non-Executive Directors									
Mike Love	44	-	-	-	44	53	-	4	10
Cliff Preddy	28	-	-	-	28	32	-	-	-
David Jones	23	-	-	-	23	20	-	-	-
Total	701	46	408	49	1,204	1,180	58	44	637

Notes:

- The ESOP benefit arises from the benefit which occurs from awards under the Executive Share Ownership Plan ("ESOP") described on page 26. Payment has been made on behalf of the employees out of a surplus arising in the Science Systems Employee Share Trust and therefore does not represent a cost to the Company. The amounts shown are the grossed up values of the benefit. There were no comparative ESOP benefits in 2004.
- The aggregate emoluments of the highest paid Director were £381,000 (2004 - £340,000). In addition, an ESOP benefit of £302,000 (2004: £nil) arose and pension contributions amounted to £18,000 (2004: £nil).
- No share options were exercised by Directors (2004: no share options exercised)

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	Jeremy Roche	Total
24 September 1997	129p	-	15,500	-	-	15,500
5 January 2000	378p	2,646	2,646	2,646	3,977	11,915
17 July 2003	270p	7,406	-	-	-	7,406
28 November 2003	270p	-	-	7,406	-	7,406
Total under option		10,052	18,146	10,052	3,977	42,227

Executive Share Ownership Plan awards

The interests of the Directors under the Executive Share Ownership Plan at the end of the year were as follows:

Name of Director	Interests awarded during the year (shares)	Market value at award date	Earliest maturity date
Graham Steinsberg	650,000	422.5p	1 September 2007
Mike Love	22,500	422.5p	1 September 2007
Bryan Hucker	200,000	422.5p	1 September 2007
Jeremy Roche	500,000	422.5p	1 September 2007

The market price of the Company's shares on 30 December 2005 was 416p per share. The high and low share prices during the year were 435p and 335p respectively.

DIRECTORS' REPORT

The Directors present their annual report and audited consolidated accounts for the year ended 31 December 2005.

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 57. A review of the business, together with comments on the future development of the Group is contained on pages 2 to 19.

Results and dividends

The Group's consolidated accounts show a profit before tax for the year of £7,666,000 (2004 - £3,914,000) on a turnover of £72,771,000 (2004 - £67,830,000). An interim dividend of 2.0 pence per share was paid to shareholders on 5 January 2006 and the Directors recommend the payment of a final dividend of 5.0 pence per share. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 5 July 2006 to those shareholders on the register at the close of business on 31 March 2006. Following the adoption of FRS21 (see note 9), neither the interim nor proposed final dividend for the current financial year have been

included in creditors as they were not approved (or, in the case of the interim dividend, paid) before the year end.

Directors

The names of the present Directors and their biographical details are set out on page 20. Details of the interests of the Directors in the Company's shares are set out in the Remuneration Report on pages 24 to 28.

Directors standing for re-election

Mark Hampson was appointed by the Board after the last Annual General Meeting and, as required by the articles of association of the Company, will retire at the forthcoming Annual General Meeting. David Jones has held office for three years since his last reappointment to the Board and will also retire at that meeting. Each of these Directors is recommended by the Board for re-election.

Directors' indemnity provisions

The directors benefited from third party indemnity provisions in place during the financial year and at the date of this report.

Substantial shareholdings

As at 28 February 2006, the Company had been notified of the following interests in its share capital of over 3%:

Artemis Investment Management Limited	4,322,951	17.0%
Mike Love	2,632,808	10.4%
Insight Investment Management	2,301,011	9.1%
Employee share trusts	1,804,604	7.1%
AXA Framlington Investment Management	1,371,650	5.4%
Credit Suisse Asset Management	1,189,230	4.7%
Henderson Global Investors	920,112	3.6%
Graham Steinsberg	844,237	3.3%

The holdings in the employee share trusts consist of 229,354 shares held by the Science Systems Employee Share Trust and 1,575,250 shares held by Lloyds TSB Group plc on behalf of the CODASciSys No. 1 Employees' Share Trust (in respect of the Executive Share Ownership Plan).

DIRECTORS' REPORT CONTINUED

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 employees' 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 £18,000 (2004 - £12,000). 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 Thursday 25 May 2006 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
15 March 2006

Methuen Park
Chippenham
Wiltshire
SN14 0GB

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CODASCISYS PLC

We have audited the group and parent company financial statements (the "financial statements") of CODASciSys plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the Consolidated Statement of Total Recognised Gains and Losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
100 Temple Street
Bristol
BS1 6AG

15 March 2006

Group Profit and Loss Account

for the year ended 31 December 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Turnover					
Existing operations		70,450		67,830	
Acquisitions		2,321		-	
Total turnover	1		72,771		67,830
Staff costs	2	(42,651)		(40,641)	
Depreciation	13	(1,605)		(1,833)	
Amortisation of goodwill	12	(2,820)		(3,742)	
Other operating charges		(18,249)		(18,059)	
			(65,325)		(64,275)
Operating profit					
Existing operations		7,382		3,555	
Acquisitions		64		-	
Total operating profit	4		7,446		3,555
Operating profit before goodwill amortisation and exceptional items					
<i>Non Recurring items</i>					
Abortive disposal costs			-		(373)
Goodwill impairment			-		(875)
Goodwill amortisation			(2,820)		(2,867)
Operating profit			7,446		3,555
Profit on sale of fixed assets			-		254
Other interest receivable	6		229		110
Interest payable and similar charges	7		(9)		(5)
Profit on ordinary activities before taxation			7,666		3,914
Tax on profit on ordinary activities	8		(1,840)		(1,580)
Profit on ordinary activities after taxation	22		5,826		2,334
Earnings per share					
Basic	10		24.7p		9.9p
Diluted			22.6p		8.9p

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

Group Balance Sheet

at 31 December 2005

	Note	2005	2005	2004	2004
		£000	£000	(restated) (see note 9) £000	(restated) (see note 9) £000
Fixed assets					
Intangible assets	12	39,858		36,123	
Tangible assets	13	13,202		13,180	
			53,060		49,303
Current assets					
Debtors	16	24,450		21,385	
Cash at bank and in hand		10,097		7,512	
		34,547		28,897	
Creditors: amounts falling due within one year	17	(10,527)		(7,790)	
Net current assets			24,020		21,107
Total assets less current liabilities			77,080		70,410
Creditors: amounts falling due after more than one year	18		(1,206)		-
Deferred income	20		(19,323)		(18,580)
Net assets			56,551		51,830
Capital and reserves					
Called-up share capital	21		6,352		6,350
Share premium account	22		43,008		42,980
Capital redemption reserve	22		83		83
Profit and loss account	22		7,108		2,417
Equity shareholders' funds			56,551		51,830

The accounts were approved by the Board of Directors on 15 March 2006 and were signed on its behalf by:

Graham Steinsberg
Director

Bryan Hucker
Director

Company Balance Sheet

at 31 December 2005

	Note	2005	2005	2004	2004
		£000	£000	(restated) (see note 9) £000	(restated) (see note 9) £000
Fixed assets					
Tangible assets	13	2		4	
Investments	14	43,398		38,121	
			43,400		38,125
Current assets					
Debtors	16	10,372		12,307	
Cash at bank and in hand		3,335		1,315	
		13,707		13,622	
Creditors: amounts falling due within one year	17	(664)		(175)	
Net current assets			13,043		13,447
Net assets			56,443		51,572
			£000		£000
Capital and reserves					
Called-up share capital	21		6,352		6,350
Share premium account	22		43,008		42,980
Capital redemption reserve	22		83		83
Profit and loss account	22		7,000		2,159
Equity shareholders' funds			56,443		51,572

The accounts were approved by the Board of Directors on 15 March 2006 and were signed on its behalf by:

Graham Steinsberg
Director

Bryan Hucker
Director

Group Cash Flow Statement

for the year ended 31 December 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Net cash inflow from operating activities	27		11,552		7,641
Returns on investments and servicing of finance					
Interest received		229		110	
Interest paid		(9)		(5)	
Net cash inflow from returns on investments and servicing of finance			220		105
Taxation					
UK and overseas corporation tax paid			(1,687)		(1,281)
Capital expenditure and financial investment					
Payment to acquire tangible fixed assets		(1,499)		(6,057)	
Receipts from sale of investments		43		30	
Receipts from sales of tangible fixed assets		15		1,125	
Net cash outflow from capital expenditure and financial investment			(1,441)		(4,902)
Acquisitions					
Purchase of CODA France		(1,723)		-	
Purchase of CODA Nordic		(2,110)		-	
Settlement of Nordic royalty		(365)		-	
Purchase of other CODA subsidiaries		(549)		-	
Net cash outflow from acquisitions			(4,747)		-
Equity dividends paid			(1,178)		(895)
Net cash inflow / (outflow) before financing			2,719		668
Financing					
Issue of ordinary share capital		30		-	
Net cash inflow from financing			30		-
Increase in cash in the year	28		2,749		668

Reconciliations of Movements in Shareholders' Funds for the year ended 31 December 2005

GROUP	2005	2004 (restated) (see note 9)
	£000	£000
Profit for the financial year	5,826	2,334
Dividends	(1,178)	(895)
Retained profit for the financial year	4,648	1,439
Exchange adjustments	(1)	20
Issue of new shares	2	-
Premium on issue of new shares	28	-
Net movement of shares owned in Employee Share Trust	44	30
Net addition to shareholders' funds	4,721	1,489
Opening shareholders' funds (as restated)	51,830	50,341
Closing shareholders' funds	56,551	51,830
COMPANY	2005	2004 (restated) (see note 9)
	£000	£000
Profit for the financial year	5,975	2,136
Dividends	(1,178)	(895)
Retained profit for the financial year	4,797	1,241
Issue of new shares	2	-
Premium on issue of new shares (net of costs)	28	-
Net movement of shares owned in Employee Share Trust	44	30
Net addition to shareholders' funds	4,871	1,271
Opening shareholders' funds (as restated)	51,572	50,301
Closing shareholders' funds	56,443	51,572

Statement of Total Recognised Gains and Losses for the year ended 31 December 2005

GROUP	2005	2004
	£000	£000
Profit for the financial year	5,826	2,334
Exchange adjustments	(1)	20
Total recognised gains and losses	5,825	2,354

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 2004, except that the Company has adopted the accounting standards FRS21 (see note 9); and FRS22, as a result of which adjusted earnings per share is shown in note 11 rather than on the face of the profit and loss account.

2 Consolidation

The consolidated accounts include the accounts of the Company and its subsidiary undertakings made up to 31 December 2005. 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.

Accounting policies

Continued

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
CODA France	February 2005	15.2 years (to make write down co-terminus with CODA)
Simple Concepts	July 2005	14.7 years (to make write down co-terminus with CODA)
CODA Hungary	December 2005	14.25 years (to make write down co-terminus with CODA)
bAs GmbH	December 2005	14.25 years (to make write down co-terminus with CODA)

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 & 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

Accounting policies

Continued

10 Employee share schemes/own shares held

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 Science Systems Employee Share Trust (EST) and under the Executive Share Ownership Plan ("Plan") 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;
- The Company's own shares awarded under the Plan are deducted from the profit and loss account in arriving at shareholders' funds. It should be noted that under the Plan, the beneficial interest is shared between the trust and the employee;
- Other assets and liabilities of the EST and the Plan 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 and the Plan 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 five 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 2005

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 – which provides IT services, bespoke software and applications management to large corporations and government organisations.

Turnover	2005	2004
	£000	£000
Existing Operations		
CODA	45,292	43,341
SciSys	22,258	22,000
Business Collaborator and SciSys Commercial	2,900	2,489
Total existing operations	70,450	67,830
Acquisitions		
CODA	2,321	-
Total Turnover	72,771	67,830
Operating profit / (loss) before goodwill amortisation, exceptional items, interest and taxation	2005	2004
	£000	£000
Existing operations		
CODA	9,203	7,312
SciSys	2,007	1,839
Business Collaborator and SciSys Commercial	530	(179)
Group	(1,754)	(1,302)
Total existing operations	9,986	7,670
Acquisitions		
CODA	280	-
Total operating profit before goodwill amortisation, exceptional items, interest and taxation	10,266	7,670

Notes (forming part of the accounts) for the year ended 31 December 2005

	2005	2004
	£000	£000
Operating profit / (loss) before interest and taxation		
Existing Operations		
CODA	6,899	5,008
SciSys	2,007	1,839
Business Collaborator and SciSys Commercial Group	230	(1,617)
Abortive disposal costs re the SciSys Division	(1,754)	(1,302)
	-	(373)
Total existing operations	7,382	3,555
Acquisitions		
CODA	64	-
Total operating profit before interest and taxation	7,446	3,555
Net assets / (liabilities)		
	2005	2004
	£000	(restated) £000
CODA	13,009	15,159
SciSys	4,156	3,227
Business Collaborator and SciSys Commercial Group	(265)	(1,511)
	35,814	34,955
Total existing operations	52,714	51,830
Acquisitions		
CODA	3,837	-
Total net assets	56,551	51,830

Notes (forming part of the accounts) for the year ended 31 December 2005

1 Segmental information (continued)

1b Geographical analysis of turnover by destination

United Kingdom
Rest of Europe
Rest of World

2005 £000	2004 £000
36,617	36,389
29,190	25,202
6,964	6,239
72,771	67,830

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

Turnover

United Kingdom
Rest of Europe
Rest of World

2005 £000	2004 £000
49,278	49,983
17,000	12,231
6,493	5,616
72,771	67,830

Profit before interest and taxation

United Kingdom
Rest of Europe
Rest of World

2005 £000	2004 £000
5,786	3,067
1,486	330
174	158
7,446	3,555

Net assets

United Kingdom
Rest of Europe
Rest of World

2005 £000	2004 (restated) £000
53,232	50,024
2,484	1,168
835	638
56,551	51,830

Notes (forming part of the accounts) for the year ended 31 December 2005

2 Staff numbers and costs

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

Management
Professional
Administration

2005 No.	2004 No.
28	30
751	747
64	68
843	845
2005 £000	2004 £000
36,401	34,921
4,507	3,954
1,743	1,766
42,651	40,641

The aggregate payroll costs of these persons were as follows:

Wages and salaries
Social security costs
Pension costs

3 Remuneration of Directors

Details of Directors' emoluments, share options and pension entitlements are given in the Remuneration Report on pages 24 to 28.

4 Operating profit (acquisitions)

	2005 Existing £000	2005 Acquisitions £000	2005 Total £000	2004 Existing £000	2004 Acquisitions £000	2004 Total £000
Turnover	70,450	2,321	72,771	67,830	-	67,830
Staff costs	(40,499)	(2,152)	(42,651)	(40,641)	-	(40,641)
Depreciation	(1,573)	(32)	(1,605)	(1,833)	-	(1,833)
Amortisation of goodwill	(2,604)	(216)	(2,820)	(3,742)	-	(3,742)
Other operating charges	(18,392)	143	(18,249)	(18,059)	-	(18,059)
Operating profit	7,382	64	7,446	3,555	-	3,555

Notes (forming part of the accounts) for the year ended 31 December 2005

5 Operating profit

This is stated after charging / (crediting) :

	2005	2004
	£000	£000
Redundancy and restructuring costs	790	1,048
Research and development costs	8,798	8,582
Fees paid to the auditors and their associates		
Audit		
Company	23	16
Group	118	107
Other non audit services	61	111
Exchange loss / (gains) on operating activities	51	(54)
(Profit) / loss on sale of fixed assets	(13)	10
Hire of plant and machinery – rentals payable under operating leases	1,235	1,101
Hire of other assets – operating leases	808	639

6 Interest receivable

Other

2005	2004
£000	£000
229	110

7 Interest payable and similar charges

On bank loans and overdrafts

2005	2004
£000	£000
9	5
9	5

Notes (forming part of the accounts) for the year ended 31 December 2005

8 Tax on profit on ordinary activities

	2005 £000	2005 £000	2004 £000	2004 £000
UK corporation tax	2,351		1,289	
Adjustment relating to earlier years	(742)		(545)	
		1,609		744
Overseas corporation tax	240		129	
Adjustment relating to earlier years	3		-	
		243		129
Total current tax		1,852		873
UK income tax		14		-
Adjustment relating to earlier years		25		-
UK deferred taxation	(128)		692	
Overseas deferred taxation	13		-	
Adjustment relating to earlier years	64		15	
		(51)		707
		1,840		1,580

The standard rate of tax for the year, based upon the UK standard rate of corporation tax is 30% (2004 – 30%). The actual effective tax rate for the current year is lower (2004 – lower) than this standard rate. The differences are analysed as follows:

	2005 £000	2004 £000
Profit on ordinary activities before taxation	7,666	3,914
Tax at standard rate of 30% (2004 – 30%)	2,300	1,174
Expenses not deductible for tax purposes		
• Goodwill	710	480
• Other	102	170
Other items including permanent differences		
• Research & Development credits	(636)	(435)
Adjustment in respect of foreign rate taxes	-	(19)
Deferred tax relating to reversal of timing differences in the year	115	(692)
Adjustment relating to earlier years	3	-
Current tax adjustments in respect of prior periods	(742)	195
Total current tax charge	1,852	873

Notes (forming part of the accounts) for the year ended 31 December 2005

9 Dividends

Interim dividend paid in year 1.3p per share (2004 – 1.1p)
Final dividend paid in year 3.7p per share (2004 – 2.7p)

Dividend income on own shares held by Employee Share Trust

2005	2004 (restated)
£000	£000
330	279
940	686
1,270	965
(92)	(70)
1,178	895

The new Accounting Standard, FRS21, requires that dividends should not be recognised in the accounts of the Company until such time as they have been formally declared, or in the case of interim dividends, paid. The comparative Balance Sheets for the year ended 31 December 2004 have been restated in accordance with FRS21.

The effect of FRS21 on each Balance Sheet is to restate the amount of creditors and reserves. As a result, the creditors due within one year has reduced by £1,178,000 at 31 December 2004, with the profit and loss reserve being increased by the same amount.

10 Basic & diluted earnings per share

Basic earnings per ordinary share are calculated by dividing the profit after taxation attributable to the shareholders of £5,826,000 (2004 – £2,334,000) by the weighted average number of shares in issue during the year (excluding own shares held in the Science Systems Employee Share Trust (“EST”) and the CODASciSys No. 1 Employees’ Share Trust (“No. 1 Trust”) which holds shares in respect of the Executive Share Ownership Plan) of 23,583,905 (2004 – 23,559,775).

Diluted earnings per ordinary share are calculated by dividing the profit after taxation attributable to the shareholders of £5,826,000 (2004 – £2,334,000) by the weighted average number of shares in issue during the year (excluding own shares held in the EST, but after taking into account options outstanding during the year) of 25,788,245 (2004 – 26,176,757). No adjustment to the number of shares in issue has been made in respect of the No. 1 Trust since these shares have been awarded under the Executive Share Ownership Plan detailed on page 26.

11 Adjusted earnings per share

Basic adjusted
Diluted adjusted

2005	2004
36.7p	25.8p
33.5p	23.2p

Basic adjusted 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 £8,646,000 (2004 – £6,076,000) by the weighted average number of shares in issue during the year (excluding own shares held in the EST and the No. 1 Trust) of 23,583,905 (2004 – 23,559,775).

Diluted adjusted 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 £8,646,000 (2004 – £6,076,000) by the weighted average number of shares in issue during the year (excluding own shares held in the EST, but after taking into account options outstanding during the year) of 25,783,245 (2004 – 26,176,757). No adjustment to the number of shares in issue has been made in respect of the No. 1 Trust since these shares have been awarded under the Executive Share Ownership Plan detailed on page 26.

Notes (forming part of the accounts) for the year ended 31 December 2005

12 Intangible fixed assets

GROUP

Goodwill on acquisition of:

Cost:

At beginning of year

Additions during year (note 15)

At end of year

Amortisation:

At beginning of year

Charge for year

At end of year

Net book value 31 December 2005

Net book value 31 December 2004

	CODA £000	Business Collaborator £000	Total £000
At beginning of year	44,635	2,813	47,448
Additions during year (note 15)	6,555	-	6,555
At end of year	51,190	2,813	54,003
At beginning of year	9,512	1,813	11,325
Charge for year	2,520	300	2,820
At end of year	12,032	2,113	14,145
Net book value 31 December 2005	39,158	700	39,858
Net book value 31 December 2004	35,123	1,000	36,123

13 Tangible fixed assets

GROUP

Cost:

At beginning of year

Acquisitions

Additions

Disposals

Exchange adjustments

At end of year

Depreciation:

At beginning of year

Acquisitions

Charge for year

Disposals

Exchange adjustments

At end of year

Net book value at 31 December 2005

Net book value at 31 December 2004

	Freehold & long leasehold property £000	Short leasehold property £000	Computer equipment £000	Office equipment £000	Motor vehicles £000	Plant & machinery £000	Total £000
At beginning of year	10,462	81	6,295	3,103	20	2,484	22,445
Acquisitions	-	27	374	132	-	-	533
Additions	39	15	958	81	27	380	1,500
Disposals	-	(8)	(78)	(9)	(23)	-	(118)
Exchange adjustments	-	4	10	11	3	-	28
At end of year	10,501	119	7,559	3,318	27	2,864	24,388
At beginning of year	634	53	5,325	2,470	20	763	9,265
Acquisitions	-	5	333	77	-	-	415
Charge for year	201	21	922	282	5	174	1,605
Disposals	-	(8)	(77)	(8)	(23)	-	(116)
Exchange adjustments	-	1	8	5	3	-	17
At end of year	835	72	6,511	2,826	5	937	11,186
Net book value at 31 December 2005	9,666	47	1,048	492	22	1,927	13,202
Net book value at 31 December 2004	9,828	28	970	633	-	1,721	13,180

Notes (forming part of the accounts) for the year ended 31 December 2005

13 Tangible fixed assets (continued)

COMPANY

Cost:

At beginning of year

At end of year

Depreciation:

At beginning of year

Charge for year

At end of year

Net book value at 31 December 2005

Net book value at 31 December 2004

Computer equipment £000	Total £000
4	4
<hr/> 4	<hr/> 4
-	-
2	2
<hr/> 2	<hr/> 2
<hr/> <hr/> 2	<hr/> <hr/> 2
<hr/> <hr/> 4	<hr/> <hr/> 4

Land and Buildings

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

Freehold

Long leasehold

2005 £000	2004 £000
9,505	9,661
161	167
<hr/> 9,666	<hr/> 9,828

Freehold land and buildings includes amounts for land of £493,000 (2004 – £493,000) which is not depreciated.

Notes (forming part of the accounts) for the year ended 31 December 2005

14 Fixed asset investments

COMPANY

Shares in group undertakings

Cost:

	£000
At beginning of year	44,898
Additions	2,000
At end of year	<u>46,898</u>
<i>Provisions:</i>	
At beginning of year	6,777
Released during the year	(3,277)
At end of year	<u>3,500</u>
Net book value 31 December 2005	<u>43,398</u>
Net book value 31 December 2004	<u>38,121</u>

15 Acquisitions

CODA France

On 2 February 2005 CODA Group Holdings Limited, a wholly owned subsidiary of CODASciSys plc, acquired the entire share capital of BLGS Holding. BLGS Holding owns the entire share capital of CODA Software SA, the CODA Software reseller in France, and Adalys SA an associated software company, together, "CODA France". The assets and liabilities acquired under this acquisition were as follows:

	Book value acquired £000	Fair value adjustments £000	Fair value acquired £000
Fixed assets	56	-	56
Debtors	1,934	-	1,934
Cash	548	-	548
Creditors	(1,355)	-	(1,355)
Deferred income	(335)	-	(335)
	<u>848</u>	<u>-</u>	<u>848</u>
Goodwill			2,113
Consideration (cash)		(2,081)	
Consideration (deferred cash)		(690)	
Costs		(190)	
Total consideration			<u>2,961</u>

Notes (forming part of the accounts) for the year ended 31 December 2005

15 Acquisitions (continued)

CODA France (continued)

The acquisition method of accounting has been applied. There were no fair value adjustments in relation to this acquisition.

The deferred consideration relates to earn-out arrangements determined according to the net profit after tax for the three years ended 31 December 2006. The deferred consideration will be a minimum of £nil and a maximum of £1,550,000.

The profit after tax for the consolidated BLGS Group for the year ended 31 December 2004 was £417,100 and the loss after tax for the period from 1 January 2005 until the date of acquisition was £75,000.

CODA Nordic

On 21 July 2005 CODA Group Holdings Limited, a wholly owned subsidiary of CODASciSys plc, acquired 100% of the share capital of GWG Holdings Limited. GWG Holdings Limited owns 100% of the share capital of Simple Concepts Scandinavia AB, a software company and 100% of Simple Concepts Eesti OU, a software development company, together, "CODA Nordic". The assets and liabilities acquired under this acquisition were as follows:

	Book value acquired	Fair value adjustment change of accounting policy	Fair value adjustment unrecorded liability	Fair value acquired
	£000	£000	£000	£000
Software development	265	(265)	-	-
Fixed assets	45	-	-	45
Debtors	83	-	-	83
Cash	(153)	-	-	(153)
Creditors	(399)	-	(365)	(764)
Deferred income	-	(175)	-	(175)
	(159)	(440)	(365)	(964)
Goodwill				3,093
Consideration (cash)			(1,855)	
Consideration (deferred dash)			(172)	
Costs			(102)	
Total consideration				2,129

The acquisition method of accounting has been applied. Fair value adjustments to deferred income were to bring the accounting policy for licence and maintenance income in line with that of the Group, and in respect of capitalised software development to write off such costs in line with the Group policy. A fair value adjustment was also made to record a liability of £365,000 payable to the Swedish Industrial Fund in order to remove the obligation to pay future royalties in respect of licence sales made by the acquired company.

The deferred consideration is fixed at £172,000 and is payable immediately following the audit of the statutory accounts of the acquired company during March 2006.

The profit after tax of GWG Holdings Limited, adjusted to the accounting policies of the Company, for the year ended 31 December 2004, was £85,000 and the loss after tax for the period from 1 January 2005 until the date of acquisition was £32,000.

Notes (forming part of the accounts) for the year ended 31 December 2005

15 Acquisitions (continued)

Other

On 30 December 2005 CODA Group Holdings Limited, a wholly owned subsidiary of CODASciSys plc, acquired the entire share capital of CODA Hungary Kft. As part of the transaction, CODA Hungary Kft acquired the trade and assets of Singular Hungary Rt, the reseller of CODA Software in Hungary.

On 30 December 2005 CODA Financial Systems GmbH, a wholly owned subsidiary of CODASciSys plc, acquired the entire share capital of Business Application Support GmbH, a reseller of CODA Software based in Germany.

The assets and liabilities acquired under these two acquisitions were as follows:

	Book value acquired £000	Fair value adjustments £000	Fair value acquired £000
Fixed assets	24	-	24
Debtors	386	-	386
Cash	317	-	317
Creditors	(412)	-	(412)
Deferred income	(282)	-	(282)
	<u>33</u>	<u>-</u>	<u>33</u>
Goodwill			1,349
Consideration (cash)		(706)	
Consideration (deferred cash)		(516)	
Costs		(160)	
Total consideration			<u>1,382</u>

The acquisition method of accounting has been applied. There were no fair value adjustments required for these acquisitions.

The deferred consideration in respect of CODA Hungary Kft. relates to earn-out arrangements determined according to the net profit before tax for the year ended 31 December 2006. The deferred consideration will be a minimum of £nil and a maximum of £176,000.

The deferred consideration in respect of Business Applications Support GmbH relates to earn-out arrangements determined according to the net profit after tax for the two years ended 31 December 2007. The deferred consideration will be a minimum of £nil and a maximum of £704,000.

The profit after tax of CODA Hungary Kft. for the year ended 31 December 2005 was £50,000 and the company was acquired at its year end.

The profit after tax of Business Applications Support GmbH for the year ended 31 October 2005, was £37,000 and the loss after tax for the period from 1 November 2005 until the date of acquisition was £42,000.

Notes (forming part of the accounts) for the year ended 31 December 2005

16 Debtors

GROUP

Trade debtors
Amounts recoverable on contracts
Other debtors
Deferred tax asset (see note 19)
Prepayments and accrued income

2005 £000	2004 £000
17,390	15,427
3,288	2,595
-	194
330	262
3,442	2,907
24,450	21,385

Debtors include prepayments of £277,808 (2004 – £267,000) due after more than one year.

COMPANY

Amounts owed by group undertakings
Other debtors
Corporation tax
Prepayments and accrued income

2005 £000	2004 £000
9,636	11,757
249	6
478	488
9	56
10,372	12,307

17 Creditors: amounts falling due within one year

GROUP

Trade creditors
Corporation tax
Taxation and social security
Other creditors
Accruals

2005 £000	2004 (restated) (see note 9) £000
2,416	1,202
839	649
1,460	958
2,409	2,252
3,403	2,729
10,527	7,790

COMPANY

Trade creditors
Taxation and social security
Other creditors
Accruals

2005 £000	2004 £000
22	27
241	57
236	-
165	91
664	175

Notes (forming part of the accounts) for the year ended 31 December 2005

18 Creditors: amounts falling due after more than one year

	2005	2004
	£000	£000
GROUP		
Deferred consideration on acquisitions (note 15)	1,206	-

19 Deferred taxation

GROUP	Accelerated capital allowances £000	Trading losses £000	Short term timing differences £000	Total £000
At beginning of year (shown within debtors)	(125)	(74)	(63)	(262)
Exchange adjustments	6	-	(23)	(17)
Charge for prior years (see note 8)	9	-	55	64
(Credit) for year (see note 8)	(13)	-	(102)	(115)
At end of year (shown within debtors)	(123)	(74)	(133)	(330)

20 Deferred income

GROUP	2005	2004
	£000	£000
Maintenance	13,118	12,070
Licence fees	3,469	3,525
Fixed price projects	2,156	2,346
Consultancy / other	580	639
	19,323	18,580

21 Called up share capital

GROUP and COMPANY	2005	2004
	£000	£000
<i>Authorised</i>		
50,000,000 Ordinary shares of 25p each	12,500	12,500
<i>Allotted, called up and fully paid</i>	No. of shares	£000
At beginning of year	25,399,570	6,350
During the year	7,936	2
At end of year	25,407,506	6,352

Notes (forming part of the accounts) for the year ended 31 December 2005

22 Share premium and other reserves

GROUP

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	42,980	83	1,239
Adoption of FRS21 (see note 9)	-	-	1,178
At beginning of year as restated	42,980	83	2,417
Issue of new shares	28	-	-
Dividends paid	-	-	(1,178)
Profit for the year	-	-	5,826
Amounts charged to profit paid by the Employee Share Trust	-	-	287
Disposal of own shares in year	-	-	44
Distribution of surplus within the Employee Share Trust	-	-	(287)
Exchange adjustments	-	-	(1)
At end of year	43,008	83	7,108

COMPANY

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	42,980	83	981
Adoption of FRS21 (see note 9)	-	-	1,178
At beginning of year as restated	42,980	83	2,159
Issue of new shares	28	-	-
Amounts charged to profit paid by the Employee Share Trust	-	-	287
Disposal of own shares in year	-	-	44
Distribution of surplus within the Employee Share Trust	-	-	(287)
Profit for the year	-	-	5,975
Dividends paid	-	-	(1,178)
At end of year	43,008	83	7,000

Included within the retained profit of the Group and Company is £998,000 (2004 – £753,000) and £1,438,000 (2004 – £1,193,000) respectively held by the Employee Share Trust which can only be used in accordance with the Trust Deed for the benefit of employees.

Notes (forming part of the accounts) for the year ended 31 December 2005

23 Contingent liabilities

The Company has given an unlimited bank guarantee in respect of all of its UK subsidiary companies. At 31 December 2005 the gross borrowings of these companies was £219,000.

24 Commitments

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

GROUP

Operating leases which expire:
Within one year
In second to fifth years inclusive
Over five years

2005 £000	2005 £000	2004 £000	2004 £000
Land and buildings	Other	Land and buildings	Other
90	192	84	36
516	313	335	70
75	-	-	-
681	505	419	106

25 Pensions

The Group operates five defined contribution pension schemes in the United Kingdom, four of which are closed to new entrants. The pension charge for the year, which represents contributions payable by the Group to these schemes together with the cost of retirement provision outside the United Kingdom, amounted to £1,743,000 (2004 – £1,766,000).

26 Employee Share Trusts

The Company and Group results include those of the Employee Share Trust (EST) and the CODASciSys No. 1 Employees' Share Trust (No. 1 Trust) which holds shares in respect of the Executive Share Ownership Plan. The EST provides a warehouse for the Company's shares that are to be awarded under the new Executive Share Ownership Plan detailed on page 26. 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 respective trusts. Administrative costs, such as legal fees are borne by the Group. All costs are accounted for as they accrue. At 31 December 2005 the EST held 229,354 25p ordinary shares (2004 – 1,831,571 25p ordinary shares), 0.9% of the Company's issued share capital, and the No. 1 Trust held 1,575,250 25p ordinary shares (2004 – nil), 6.2% of the Company's issued share capital. At that date, outstanding options granted under the Executive Share Option Scheme amounted to 359,860 (2004 – 2,522,955). The 1,575,250 shares held by the No. 1 Trust have been allocated to a joint ownership arrangement with selected employees under which those employees are entitled to benefit from any increase in the market value of the shares that may occur subsequent to those arrangements being put in place. The EST made no purchases of Company shares during the year.

The nominal value of own shares held by the Group and Company at 31 December 2005 was £451,151 (2004 – £458,000). Own shares are held in the Employee Share Trust and the CODASciSys No. 1 Employees' Share Trust and are listed investments. Their market value at 31 December 2005 was £7,507,153 (2004 – £6,182,000).

At 31 December 2005, there was an amount due from the No. 1 Trust to the Company of £6,655,000 and a further amount due from the Company to the Employee Share Trust of £567,000.

Notes (forming part of the accounts) for the year ended 31 December 2005

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

	2005	2004
	£000	£000
Operating profit	7,446	3,555
Depreciation charge	1,605	1,833
Amortisation of goodwill	2,820	3,742
Exchange gains	133	(54)
Profit on sale of fixed assets	(13)	(10)
(Increase) / decrease in debtors	(594)	1,041
Increase / (decrease) in creditors and deferred income	155	(2,466)
Net cash inflow from operating activities	11,552	7,641

28 Reconciliation of net cash flow to movement in net debt

	2005	2004
	£000	£000
Increase in cash in the year	2,749	668
Cash outflow from decrease in debt and lease financing	-	-
Changes in net debt arising from cash flows	2,749	668
Exchange adjustments	(164)	90
	2,585	758
Net cash at beginning of year	7,512	6,754
Net cash at end of year	10,097	7,512

Notes (forming part of the accounts) for the year ended 31 December 2005

29 Analysis of net debt

	At 1 January 2005 £000	Cash flow £000	Other movements £000	At 31 December 2005 £000
Cash at bank and in hand	7,512	2,749	(164)	10,097

30 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.

Liquidity risk

The Group's operations are cash generative. 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 Euro / £ exchange rates.

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

Date of expiry of cylinder	Amount of currency covered	Cylinder cap	Cylinder collar
In respect of SciSys:			
	Euros		
30 June 2006	1,000,000	1.5000	1.3982
20 Dec 2006	1,000,000	1.5000	1.3715
27 June 2007	1,000,000	1.5000	1.3442
19 Dec 2007	1,000,000	1.5000	1.3219
In respect of CODA:			
	US Dollars		
29 March 2006	1,200,000	1.7500	1.6890
28 June 2006	800,000	1.7500	1.6881
27 Sept 2006	900,000	1.7500	1.6895
20 Dec 2006	1,400,000	1.7500	1.6935

Notes (forming part of the accounts) for the year ended 31 December 2005

30 Financial instruments (continued)

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 Krona	Norwegian Krona	Cypriot Pounds	
Sterling	3,581	955	77	33	(5)	4,641

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

	£000
Euros	3,927
US Dollars	257
Singapore Dollars	(39)
Malaysian Ringgits	189
Australian Dollars	(58)
Swedish Krona	45
Estonian Kroons	(8)
Cypriot Pounds	(2)
Hungarian Forints	30
Norwegian Krona	33
	4,374

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.

Notes (forming part of the accounts) for the year ended 31 December 2005

31 Subsidiary undertakings

<i>Company</i>	<i>Country of registration</i>	<i>Principal activity</i>	<i>Class of shares</i>
CODASciSys (Resources) Limited	England	Central services	1p ords
CODA Group Holdings Limited	England	Central services	£1 ords
BLGS Holding*	France	Central services	Euro 1 ords
GWG Holdings Limited*	Cyprus	Central services	CYP 1 ords
CODA plc*	England	Computer software	£1 ords
CODA Financials Incorporated*	USA	Computer software	\$1 ords
CODA NV*	Holland	Computer software	Euro 100 ords
CODA Belgium NV*	Belgium	Computer software	Euro 100 ords
CODA Financial Systems GmbH*	Germany	Computer software	Euro 100 ords
Business Application Support GmbH*	Germany	Computer software	Euro 1 ords
CODA Hungary Informatikai Kft*	Hungary	Computer software	HUF 1000 ords
CODA Software SA*	France	Computer software	Euro 1 ords
Adalys SA*	France	Computer software	Euro 1 ords
Simple Concepts Scandinavia AB*	Sweden	Computer software	Kr 10 ords
CODA Eesti OU*	Estonia	Computer software	EEK 100 ords
CODA Systems Asia Pacific PTE Limited*	Singapore	Computer software	SGD 1 ords
CODA Business Systems Sdn Bhd*	Malaysia	Computer software	MR1 ords
CODA Systems Australia Pty Limited*	Australia	Computer software	A\$1 ords
SciSys Limited	England	Computer software	£1 ords
SciSys (Commercial) Limited	England	Computer software	1p ords
SciSys GmbH*	Germany	Computer software	Euro 100 ords
Business Collaborator Limited	England	Computer software	£1 ords
SquareSum Plc	England	Dormant	10p ords
SciSys (Space & Defence) Limited*	England	Dormant	£1 ords
Science Systems (Space) Limited*	England	Dormant	£1 ords
SciSys (Government & Utilities) Limited*	England	Dormant	£1 ords
SciSys (Commerce & Industry) Limited*	England	Dormant	£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 ADVISERS

Directors

Mike Love (*Chairman*)
Cliff Preddy (*Senior Independent Non-Executive Director*)
David Jones (*Non-Executive Director*)
Graham Steinsberg (*Group Chief Executive Officer*)
Bryan Hucker (*Group Financial Director*)
Jeremy Roche (*Chief Executive Officer, CODA Division*)
Mark Hampson (*Chief Executive Officer, SciSys Division*)

Company Secretary

Dave Belmont

Registered office

Methuen Park
Chippenham
Wiltshire
SN14 0GB

Registered number

3426416

Bankers

National Westminster Bank
32 Corn Street
Bristol
BS99 7UG

Solicitors

Burges Salmon
Narrow Quay House
Prince Street
Bristol
BS1 4AH

Auditors

KPMG Audit Plc
100 Temple Street
Bristol
BS1 6AG

Nominated Advisers and House Brokers

Bridgewell Securities Limited
Old Change House
128 Queen Victoria Street
London
EC4V 4BJ

Brokers

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

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 2005 Annual Report should be addressed to:

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