



## DRS Data & Research Services plc

Interim Financial Statements 2008

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## Chairman's Statement

### Results

The first half of 2008 has provided a contrasting result. UK education and overseas census markets have performed better than expected, whereas elections and DocXP sales have been disappointing. Although revenue and profit for 2008 are down compared to the first half of 2007 this is primarily because last year's results benefited from a very substantial revenue contribution from the Scottish elections. In addition, we normally participate in the May local elections but, as stated in our 2007 annual report, a change in government policy resulted in scanning technology not being used in these elections.

Whilst there has been a significant increase in Peladon's DocXP sales in the first half of the year sales remain below expectations. As a consequence, a formal review of the projected cashflows of the Peladon software business was undertaken at the interim in accordance with IAS36 'Impairment of Assets'.

Significant changes in the management and development of the business have been achieved in the first half of 2008 and these are assisting the Group to meet new market requirements created by current economic circumstances and to develop our product portfolio. The changes have included;

- A new management structure in Peladon Software Inc which is now headed by the Vice President of Sales.
- All UK DocXP activity is now centred in Milton Keynes in order to achieve a greater integration of the business.
- A newly created Product Management function is now working closely with the DRS Sales and Marketing team.

### Financial Summary

Turnover for the six months ending 30 June 2008 was £8,119,000 with a loss before tax of £162,000 prior to the £600,000 impairment charge. This compares with the same period in 2007 where turnover was £14,123,000 delivering £1,186,000 profit. However in this period of 2007, £7,558,000 of revenue was generated by the Scottish elections. Without the election contract, sales in the first half of 2008 are 24% up on the corresponding period in 2007 primarily due to the increased volume of UK examination marking services and census work in Africa.

As a consequence of the impairment adjustment, the total loss before tax relating to the Peladon Software companies amounted to £982,000 (2006: £563,000) for the first half of the year. Excluding this loss, the remainder of the DRS Group continues to be profitable recording a £220,000 (2006: £1,749,000) profit before tax in the period.

Cash flow is very strong with reserves of £4,716,000 at June 2008 compared to £3,779,000 at the end of 2007. This position has been achieved by firm control of our trade receivables, reducing our debt to a minimum. Also, there has been a strong return on the assets that were acquired last year during the delivery of the election project.

### Dividend

Based on our underlying business activity and prospects, the Board recommends an interim dividend payment of 0.30p per share (2007: 0.30p), payable on 7 November 2008 to those shareholders on the register of the Company on 3 October 2008.

## **Trading Highlights**

This year has been particularly productive for census work. Projects in Ethiopia and Sudan were both underway at the beginning of the year. The Ethiopian census had established a number of good techniques for data capture and validation in this type of project and these were used to fulfil the requirements in Sudan. The reputation gained in both these projects also helped us to win the census contract in Malawi. We worked on a voter registration project in Malawi during 1998 so were very pleased to be awarded another major project in the country.

Our e-Marker<sup>®</sup> business continues to grow both in size and in the number of customers using our systems. This year more than six million examination scripts have been marked using various e-Marker<sup>®</sup> products and over twenty thousand markers have used the systems online. The complexity of work and number of examination subjects has also increased and a considerable amount of preparation work was undertaken to ensure a smooth and efficient experience for all of the markers using our systems over the Internet. AQA (Assessment and Qualifications Alliance), our major customer for e-Marker<sup>®</sup>, regards this year as the most successful to date, providing results quicker and to a guaranteed level of accuracy.

Although Peladon's DocXP sales in the US are below expectations there has been a significant increase in the first half of the year and a number of new resellers have been acquired. Sales of our intelligent forms capture solutions have also increased in areas such as invoice processing.

Sales of our specialist Photoscribe<sup>®</sup> PS900 scanners have continued to be very buoyant and they have been sold into a number of countries around the world for varied applications. The speed, accuracy and flexibility of these scanners has kept them at the forefront of the market for large scale data capture projects.

## **Our People**

The first six months of the year have been extremely busy for all of our staff. They have successfully met the challenges of our varying business and adapted to the changes that are taking place to the management and structure within the Company. The very positive attitude that our people take to driving the business forward is a major strength of the Company.

We are delighted that Sir David Brown has joined the Board as a non-executive director and as Deputy Chairman. He brings a wealth of experience with him and is an ideal addition to the DRS team.

## **Outlook**

Our main products and markets are looking well positioned for future trade and growth. This growth covers both our domestic and international territories. e-Marker<sup>®</sup> has grown over the years to become a major part of the business in the UK, but it has also been used successfully in other countries and is now attracting considerable attention across the international marketplace. We are currently working on a project in Poland and we are in talks with several other international prospects. Our work with AQA continues to expand and next year the number of examination scripts marked on-screen is expected to be substantially larger than in 2008.

At the beginning of the year the UK government flagged a requirement for schools to provide parents with online information about their children's progress. This will give a major boost to our recently launched range of biometric registration products. These products are capable of capturing lesson level attendance data in real time and are compatible with the school management information systems in the vast majority of schools in the UK.

The expansion of the business over the past few years has necessitated the use of an increasing number of premises in Milton Keynes to run our production operations. To meet future needs we are planning to move all of our production facilities into one unit. A suitable building was located during this year and the move is expected to take place at the start of 2009. The new facility will provide substantially more capacity and improved efficiency for our operations from the beginning of next year.

In summary, the first half of 2008 has achieved the change we required to shape the Company for sustainable growth and profit. In keeping with previous years, the revenue from the AQA Summer Series examination marking will be recognised in quarter 3 ensuring revenue in the second half of 2008 will be marginally up on the corresponding period in 2007. The second half of the year will consolidate this progress. Although the business is not immune from the economic problems now being felt which have inhibited the Peladon business, the board is pleased to have a strong balance sheet at this time.

# DRS Data & Research Services plc

## UNAUDITED RESULTS

### Interim group income statement

	<b>6 months ended 30 June 2008 £000</b>	<b>6 months ended 30 June 2007 £000</b>	<b>12 months ended 31 December 2007 £000</b>	
Revenue	8,119	14,123	22,460	
Cost of sales	(5,232)	(9,750)	(14,751)	
<b>Gross profit</b>	<b>2,887</b>	<b>4,373</b>	<b>7,709</b>	
Other operating income	86	45	125	
Selling and marketing costs	(933)	(827)	(1,762)	
Administrative expenses	(2,128)	(2,275)	(4,370)	
Impairment charge	(600)	-	-	
Finance costs	(74)	(130)	(215)	
<b>(Loss)/profit before income tax</b>	<b>(762)</b>	<b>1,186</b>	<b>1,487</b>	
Tax charge	(362)	(324)	(464)	
<b>(Loss)/profit for the period</b>	<b>(1,124)</b>	<b>862</b>	<b>1,023</b>	
 <b>(Loss)/Earnings per share attributable to the equity holders of the Company during the year (expressed in pence per share)</b>				
- basic	3	(3.56p)	2.68p	3.21p
- diluted	3	(3.56p)	2.65p	3.17p

## Interim group balance sheet

	At 30 June 2008 £000	At 30 June 2007 £000	At 31 December 2007 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3,673	3,804	3,921
Intangible assets	2,533	3,777	3,397
Deferred income tax assets	116	420	381
	<u>6,322</u>	<u>8,001</u>	<u>7,699</u>
<b>Current assets</b>			
Inventories	1,493	1,264	1,446
Trade and other receivables	3,063	6,335	2,797
Cash and cash equivalents	4,716	4,276	3,779
	<u>9,272</u>	<u>11,875</u>	<u>8,022</u>
<b>Total assets</b>	<u>15,594</u>	<u>19,876</u>	<u>15,721</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	1,731	1,731	1,731
Share premium account	5,377	5,377	5,377
Capital redemption reserve	115	115	115
Treasury shares	(1,166)	(1,166)	(1,166)
Own shares reserve	(335)	(109)	(335)
Translation reserve	(266)	(267)	(269)
Profit and loss account	2,071	3,324	3,387
<b>Total equity</b>	<u>7,527</u>	<u>9,005</u>	<u>8,840</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	2,250	2,250	2,250
Deferred consideration	-	312	-
Deferred income tax liabilities	156	262	188
	<u>2,406</u>	<u>2,824</u>	<u>2,438</u>
<b>Current liabilities</b>			
Trade and other payables	5,510	7,198	3,992
Current income tax liabilities	151	849	451
	<u>5,661</u>	<u>8,047</u>	<u>4,443</u>
<b>Total liabilities</b>	<u>8,067</u>	<u>10,871</u>	<u>6,881</u>
<b>Total equity and liabilities</b>	<u>15,594</u>	<u>19,876</u>	<u>15,721</u>

## Interim statement of changes in Group's shareholders' equity

	Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Treasury Shares £000	Own Shares Reserve £000	Profit and Loss Account £000	Translation Reserve £000	Total £000
At 1 January 2007	1,731	5,377	115	(1,166)	(113)	2,536	(248)	8,232
Profit for the period	-	-	-	-	-	862	-	862
Employee share based compensation	-	-	-	-	-	19	-	19
Deferred tax on items relating to equity	-	-	-	-	-	-	(19)	(19)
Shares purchased by Restricted Share Scheme trust	-	-	-	-	(8)	-	-	(8)
Dividend	-	-	-	-	-	(81)	-	(81)
Own shares vesting	-	-	-	-	12	(12)	-	-
At 30 June 2007	1,731	5,377	115	(1,166)	(109)	3,324	(267)	9,005
Currency translation adjustment	-	-	-	-	-	-	(36)	(36)
Profit for the period	-	-	-	-	-	161	-	161
Employee share based compensation	-	-	-	-	-	15	-	15
Deferred tax on items relating to equity	-	-	-	-	-	-	34	34
Shares purchased by Restricted Share Scheme trust	-	-	-	-	(245)	-	-	(245)
Dividend	-	-	-	-	-	(94)	-	(94)
Own shares vesting	-	-	-	-	19	(19)	-	-
At 31 December 2007	1,731	5,377	115	(1,166)	(335)	3,387	(269)	8,840
Currency translation adjustment	-	-	-	-	-	-	3	3
Loss for the period	-	-	-	-	-	(1,124)	-	(1,124)
Employee share based compensation	-	-	-	-	-	(3)	-	(3)
Deferred tax on items relating to equity	-	-	-	-	-	-	-	-
Shares purchased by Restricted Share Scheme trust	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	(189)	-	(189)
Own shares vesting	-	-	-	-	-	-	-	-
At 30 June 2008	1,731	5,377	115	(1,166)	(335)	2,071	(266)	7,527

## Interim group cash flow statement

	6 months 30 June 2008 £000	6 months 30 June 2007 £000	12 months 31 December 2007 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	1,477	3,379	4,483
Interest paid	(69)	(80)	(158)
Income tax paid	-	-	(560)
Net cash generated from operating activities	<u>1,408</u>	<u>3,299</u>	<u>3,765</u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)	(75)	(165)	(642)
Proceeds from sale of PPE	39	14	19
Purchase of intangible assets	(261)	(265)	(713)
Interest received	86	33	125
Net cash used in investing activities	<u>(211)</u>	<u>(383)</u>	<u>(1,211)</u>
<b>Cash flows from financing activities</b>			
Purchase of EBT shares	-	-	(253)
Dividends paid to Group's shareholders	(189)	(81)	(175)
Net cash used in financial activities	<u>(189)</u>	<u>(81)</u>	<u>(428)</u>
<b>Net increase in cash and cash equivalents</b>	1,008	2,835	2,126
Cash and cash equivalents at beginning of period	3,558	1,441	1,441
Exchange (decrease) on cash	-	-	(9)
<b>Cash and cash equivalents at end of period</b>	<u>4,566</u>	<u>4,276</u>	<u>3,558</u>

## **Notes to the interim financial statements**

### **1 Accounting policies and basis of preparation**

The financial information comprises the unaudited results for the six months to 30 June 2008 and to 30 June 2007 together with the audited results for the year ended 31 December 2007. The figures and financial information for the year to 31 December 2007 do not constitute the statutory financial statements for that year. Those financial statements have been delivered to the Registrar and included the auditors' report which was unqualified and did not contain a statement either under section 237(2) of the Companies Act 1985, or section 237(3).

DRS have adopted International Financial Reporting Standards (IFRS) with effect from 1 January 2005. These unaudited Group interim results have been prepared on a basis consistent with IFRS accounting policies as set out in the Report and Accounts for the year ended 31 December 2007. Information provided is in accordance with IAS34 interim reporting requirements.

#### ***Basis of Consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### ***Goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

#### ***Significant areas of judgement***

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The Group believes that a significant area of judgement and estimation arises from the accounting for the IAS36 'Impairment of Assets' adjustment relating to the investment in Peladon Software Inc. (See Note 3).

## 2 Segment Information

The principal activities of the Group continue to be the provision of data capture services, the manufacture, sale and support of optical and image scanning equipment, design and printing of documentation used for data capture and associated software and bureau services. Approximately half the Group's revenue relates to products and services, and the other half relates to providing tailored data capture solutions. The Group is organised functionally, with each function of the business specialising in its own area of expertise. Project managers look to the functional areas to provide the appropriate tailored mix of products and services to fulfil each specific contract. In turn the functional areas are supported by indirect cost centre departments such as Research and Development, Communication and Information Development and IT Support.

### *Primary reporting format – business segments*

Reflects the principal activities of the Group split between: Scanning Equipment; Print; and Software and Bureau services.

The segmental results for the six months ended 30 June 2008 are as follows:

	<b>Scanning Equipment £000</b>	<b>Print £000</b>	<b>Software and Services £000</b>	<b>Total £000</b>
Sales	2,125	2,457	3,537	8,119
Apportioned costs	(1,347)	(2,020)	(4,317)	(7,684)
Operating margin	778	437	(780)	435
Unallocated costs				(1,197)
Loss before tax				(762)

The segmental results for the six months ended 30 June 2007 are as follows:

	<b>Scanning Equipment £000</b>	<b>Print £000</b>	<b>Software and Services £000</b>	<b>Total £000</b>
Sales	3,588	3,282	7,253	14,123
Apportioned costs	(3,162)	(2,287)	(6,505)	(11,954)
Operating margin	426	995	748	2,169
Unallocated costs				(983)
Profit before tax				1,186

The segmental results for the 12 months to 31 December 2007 are as follows:

	<b>Scanning Equipment £000</b>	<b>Print £000</b>	<b>Software and Services £000</b>	<b>Total £000</b>
Sales	5,630	4,924	11,906	22,460
Apportioned costs	(4,136)	(4,187)	(10,356)	(18,679)
Operating margin	1,494	737	1,550	3,781
Unallocated costs				(2,294)
Profit before tax				1,487

### 3 Goodwill

	30 June 2008 £000	30 June 2007 £000	31 December 2007 £000
Balance b/f	1,560	1,894	1,894
Fair value adjustment to deferred consideration	-	-	(347)
Provision for impairment	(600)	-	-
Effect of change on tax rates	-	-	(12)
Exchange rate revaluation	-	(19)	25
Balance c/f	960	1,875	1,560

The goodwill relates to the acquisition of Peladon Software and is valued on the basis of expected income stream, discounted at 15% over the next four years. The four years' projected performance details are based on revenue and cost expectations discussed with the relevant management. The conclusions drawn from the data available are subjective and are based on product comparisons to competitor products, the size of potential markets and the perceived ease of market penetration recognising current economic conditions.

The Directors conducted a goodwill impairment review in accordance with IAS36 'Impairment of assets' in which the future cashflow of the business unit was assessed. The growth in expected revenue and profit generated by DocXP is slower than first expected and in the current economic circumstances it will take longer than the four years used in the discounted cashflow calculation to realise the full investment. Therefore we have recognised a charge of £600,000 in the income statement to impair the goodwill to £960,000.

### 4 Deferred income tax

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the period:

	Revaluation of property £000	Fair value adjustments £000	Losses £000	EBT obligations £000	Accelerated tax depreciation £000	General provision £000	Total £000
At 1 January 2008	18	170	(317)	(13)	(48)	(3)	(193)
Charge to income for the period	-	(30)	317	13	(67)	2	235
Charge to equity for the period	-	(2)	-	-	-	-	(2)
At 30 June 2008	18	138	-	-	(115)	(1)	40

The deferred tax asset is calculated assuming unused tax losses will be utilised over the next four years. Unused tax losses of £317,000 for Peladon Software Inc have been released to the income statement as a consequence of the impairment review referred to in Note 3 above.

### 5 (Loss)/earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period. Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted (loss)/earnings per share is based on the basic (loss)/earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the (loss)/earnings and weighted average number of shares used in the calculations are set out below:

	June 2008			June 2007			December 2007		
	Loss £	Weighted average number of shares	Per Share	Earnings £	Weighted average number of shares	Per Share	Earnings £	Weighted average number of shares	Per Share
Basic (loss)/earnings per share									
(Loss)/earnings attributable to ordinary shareholders	(1,124,000)	31,591,071	(3.56p)	862,000	32,180,380	2.68p	1,023,000	31,897,619	3.21p
Dilutive effect of shares in restricted share scheme		-			320,000			180,000	
Dilutive effect of options under unapproved share option scheme		-			48,890			44,588	
Dilutive effect of options under the Enterprise Management Incentive Scheme		-			-			50,000	
Dilutive effect of options under LTIP option scheme		-			-			89,574	
Dilutive (loss)/earnings per share	(1,124,000)	31,591,071	(3.56p)	862,000	32,549,270	2.65p	1,023,000	32,261,781	3.17p

In the half year to 30 June 2008 the share options were anti-dilutive due to the loss for the period.

## 6 Dividends per share

	<b>2008</b> <b>Pence</b> <b>/share</b>	<b>2007</b> <b>Pence</b> <b>/share</b>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
Amounts recognised as distributions to equity holders in the year:				
Interim dividend for the year ended 31 December 2007		0.30		95
Final dividend for the year ended 31 December 2007	0.60		189	
Proposed interim dividend for the year ended 31 December 2008	0.30		95	

The Directors have declared an interim dividend out of prior years' retained earnings payable on 7 November 2008 to all shareholders on the register at 3 October 2008 at a rate of 0.30p per share. The 2008 interim dividend amounts to £95,000. In accordance with IFRS, the interim dividend will be charged in the Group results to the second half year.

## Principle risks and uncertainties

The principal risks and uncertainties affecting the Group's activities are included on pages 18 and 38 of the Annual Report and Financial Statements for the year ended 31 December 2007. A copy of the 2007 Annual Report and Financial Statements is available on the Company's website at <http://www.drs.co.uk/results.html>.

## Statement of Responsibility of Directors

We confirm to the best of our knowledge:

(i) This Half-Yearly Financial Report has been prepared in accordance with IAS34 Interim Financial Reporting as adopted by the EU;

(ii) The Half-Yearly Financial Report includes a fair review of the information required by:

- **DTR 4.2.7.R** of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Half-Yearly Financial Report; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- **DTR 4.2.8.R** of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the latest annual financial statements that could do so.

For and on behalf of the Board

**Mark Tebbutt**  
Finance Director  
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