



DRS Data & Research Services plc  
Preliminary Results  
11 March 2008

Preliminary Results for the year ended 31 December 2007

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## Financial Highlights

DRS Data & Research Services plc (DRS+) is pleased to announce its preliminary results for the year to 31 December 2007.

	2007 £000	2006 £000
Revenue	22,460	16,690
Profit before income tax	1,487	233
Basic EPS	3.21p	0.52p
Final dividend per share	0.60p	0.25p

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## Chairman's statement

### Results

Financial results for 2007 show continued growth in turnover and profit. Turnover for the year increased by 35% and profit before tax was increased to £1,487,000. Elections business in the first half of the year contributed strongly to both turnover and profit. The second half of the year had major contributions from e-Marker® and International projects but profit for the period remained low due to poor performance by our subsidiary Peladon Software Inc.

Turnover for the calendar year 2007 was £22,460,000 with pre-tax profits of £1,487,000 compared with £16,690,000 and £233,000 respectively for 2006.

The Company paid an interim dividend during the year of 0.3p. The results for the year are consistent with the expectations at the half year and profit is substantially higher than that of last year. Therefore the Board is pleased to recommend a final dividend payment of 0.6p per share, giving a total dividend for the year of 0.9p per share (2006 total: 0.5p)

### e-Marker®

All three of the GCSE and A level awarding bodies in England now recognise the merits of using electronic marking and are introducing the process. We are pleased to be in a continuing contractual relationship with the largest of those three, AQA (Assessment and Qualifications Alliance). Our original strategy has proved to be correct and the combined e-Marker® services contributed to more than a quarter of our turnover this year.

### Elections

DRS continues to work with the Government and election officials to improve the election process and ensures it runs smoothly, efficiently and returns accurate results.

## **Peladon**

Unfortunately 2007 was a poor year for the financial sector in the United States with many companies delaying decisions on purchases. However, we were keen to target this very large market sector and enable the company to spread the risk of our business and capitalise on this new area of high volume data capture. Peladon signed a number of new reseller agreements in the financial sector during the year and we believe the market has started to improve.

## **Staff**

We have met the demands of our expanding e-Marker® business by recruiting more project management support. The Scottish Elections created a sizeable challenge requiring expertise to be recruited to the counting centres throughout Scotland for the election count. We also needed to enlist the help of many of our permanent staff and as always our staff proved more than worthy of the task and did a splendid job. This is equally true of those who were not involved directly in the project but worked tirelessly to ensure the rest of the company ran smoothly. I wish to give my thanks to all staff for their tremendous achievements during the year.

## **Summary**

It has been a successful year with turnover at a record level. Profit is also up significantly on last year despite poor performance in the Peladon business. We believe the performance issue with Peladon was mainly due to operating conditions which we do not expect to continue. For the future we are also placing extra resource and focus on the markets for Peladon's software product (DocXP) to grow business not only in the US and UK but also in the rest of the world.

The elections business has made a particularly good contribution to the year but we know this business will not repeat every year. This is an aspect of the company's performance which has been recognised and is receiving particular attention. Our strategic plan places a high priority on increasing repeatable business and thereby reducing the effects that the peaks and troughs of our turnover have on the profit line. We still wish to be involved in large one-off projects but are working to improve the profitability of the underlying business.

The Executive Management team has implemented a major new programme of activity to achieve this change in the company's profile and I look forward to seeing the benefits.

## **Malcolm Brighton**

Chairman  
10 March 2008

## **Financial and operating review**

The profit for the year before taxation amounted to £1,487,000 (2006: £233,000). Earnings per share were 3.21p (2006: 0.52p). The directors recommend the payment of a final dividend of 0.60p per ordinary share payable on 23 May 2008 to all shareholders on the register at 25 April 2008.

The balance sheet at 31 December 2007 remains very strong with cash and cash equivalents of £3,779,000 (2006: £1,441,000) and net assets increased by 7.4% over the year to 25.5p (2006: 23.8p).

### **Dynamics of the business**

Record sales were achieved in 2007 of £22,460,000 up 35% on the previous year. Turnover in the first half of the year was particularly good at £14,123,000 due mainly to the provision of over £7,500,000 of print and software services for the Scottish Elections. The resulting increase in business activity generated a profit of £1,186,000 in the first six months.

As expected performance for the second half of the year was similar to the comparable period of the previous year. Although the major contribution was from the e-Marker® work for AQA the final result was dependent on winning contracts during the period. We were therefore pleased to be awarded two census projects towards the end of the year, and although the projects will not be completed until 2008 they made a positive contribution to 2007. Trade in the second half of the year was £8,337,000 with a profit of £301,000.

After a promising start to the year for Peladon and the DocXP products the business in the United States was affected badly by the downturn in the financial markets and the crisis in the subprime mortgage arena. The processing of financial documents of various types is a significant application for DocXP. However in the fourth quarter of the year we saw a return of confidence in the marketplace and sales started to increase to their expected levels.

### **Highlights of the year**

Undoubtedly the dominant project in the first half of the year was the Scottish Elections. DRS printed the ballot papers, supplied the ballot boxes and implemented the electronic counting of the votes for all of the 32 local authorities across Scotland. There are over 5 million voters in Scotland and these elections combined three contests on to two ballot papers per voter including the use of a STV (Single Transferable Vote) for the local elections. Electronic counting was introduced by the Scottish Authority because manual counting an election of this scale which includes STV was predicted to take several days. DRS started counting the ballot papers after the polls closed on the Thursday evening and most results were returned within a few hours. A small number of the counting centres did experience a problem with the management information systems but these centres resumed counting on the Friday afternoon and all counts were successfully concluded by late afternoon, which was much earlier than could have been achieved by manual counting.

Our business in Africa has remained very buoyant and is still the major section of our international trade. The supply of printing and scanning equipment to educational organisations in Nigeria has been the largest part of our yearly international business and that still remains. However we continue to win large one-off projects in many other countries in Africa, predominantly for voter registration and census applications. This year we added to the long list of countries we have worked with by winning UN financed census projects in Ethiopia and Sudan. Work on the Ethiopian census was well underway by the end of the year.

### **Research and Development**

Our elections products have been developed in two different areas. Firstly, our electronic counting and voting software has been developed to comply with the new election framework instigated by the Ministry of Justice (MOJ). We are very pleased to be working in collaboration

with Imeta to offer a comprehensive range of election services. Imeta are a leading company in the development and supply of secure transaction software. The second area of work is connected with postal voting. There is now a requirement for local authorities to check the validity of voters' signatures when returning postal votes. Work in this area has produced a product to allow automatic comparison of signature and date of birth information and any discrepancies are highlighted to allow further investigation to take place.

The schools marketplace has been part of DRS's business for many years and in particular, the registration of pupils at the start of the morning and afternoon teaching sessions. This market has been changing over the past few years with a need to make more frequent checks on attendance to reduce truancy. However the traditional registration process increases the load on teaching staff and reduces the teaching time per lesson. DRS has therefore been researching different ways to implement the process. Last year we introduced a biometric system of registration allowing pupils to register by placing their fingertips on a device installed in the school or college. We have continued to develop this technology during the year and showed a new system at the BETT education show at the beginning of 2008.

Peladon's DocXP suite of software has been enhanced over the year to keep it at the forefront of the industry and to meet new customer requirements that have been identified. A strong selling point of the products is the ability to automatically detect different types of forms for processing and data extraction. This concept has been further enhanced to allow forms with complex data tables to be classified and processed. An increasing market need has also been addressed with the development of a feature called 'Auto Redaction'. This enables documents to be scanned and stored while having sensitive information automatically removed, for example National Insurance numbers and other personal data. This is particularly relevant to organisations and companies when needing to meet the requirements of the Freedom of Information Act.

### **Environmental and employees**

The Group has employed an average of 203 employees throughout 2007, of which 6 are based in Peladon Software Inc in the United States.

In the second half of 2007 we started a major programme to improve business development across the company. The focus is on improving processes and procedures in the company to win more business and achieve higher efficiencies and repeatability. Consultancy resources are being used to assist the programme and ensure it produces results as quickly as possible without disrupting day to day work. The plan extends over two years and is based on a methodology called the Capability Maturity Model. We are confident that the programme will have a positive effect on the business in 2008 and will start to reduce the cyclical nature of our revenue and profits.

During the year many of our staff assisted the Quality Department in obtaining two important ISO accreditations, the 9001 Quality Standard and the 14001 Environmental Standard. Our Print Division was accredited with the Quality Standard ten years ago but we had not formally brought the rest of the company into line. With the critical nature of the work we do, and the importance of minimising our impact on the environment, we considered it imperative to demonstrate that the company is working to the highest levels and within these standards.

### **Current trading and outlook**

The elections market in the UK is entering a period of uncertainty. For several years the government has been implementing a series of trials using technology to enhance the election process. DRS has been a major player in these trials and is the leading supplier of e-counting technology. The MoJ is now controlling the government framework for the use of technology in elections and trials had been planned for the May 2008 local elections. However at the end of 2007 the MoJ announced that election trials will now not take place during these elections. We are currently awaiting news of the revised government plans. In the meantime we continue to supply our election products in other areas and in other

countries around the world. Our scanners are being sold into the US election market and we are hopeful of sales leading up to the Presidential elections.

The number of census projects is expected to increase as we approach the end of the decade which is when most countries undertake their censuses. Being awarded the Ethiopia and Sudan projects has put us into a good position for winning other projects.

Sales of Peladon's DocXP products are a major focus for the company during 2008. We now have a number of key resellers in the US market and have started a programme to create a reseller network in other parts of the world. Although sales were depressed in 2007, knowledge of the business has shown that our products are highly competitive and meet the expectations set during acquisition of Peladon.

2007 has been a financially successful year which has been achieved through the tenacity and hard work of all our staff. However it will be a challenge to match the turnover of 2007 during 2008 and significant change to the business will be required to maintain profitability. This change to meet our new market requirements is planned and being implemented in sales and marketing, product management and direct cost centres. I am confident that this change will succeed.

**Tony Lee**  
Managing Director  
10 March 2008

## Consolidated income statement for the year ended 31 December 2007

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Revenue	22,460	16,690
Cost of sales	(14,751)	(10,782)
<b>Gross profit</b>	<b>7,709</b>	<b>5,908</b>
Other operating income	125	44
Selling and marketing costs	(1,762)	(1,329)
Administrative expenses	(4,370)	(4,136)
Finance costs	(215)	(254)
<b>Profit before income tax</b>	<b>1,487</b>	<b>233</b>
Tax charge	(464)	(67)
<b>Profit for the period</b>	<b>1,023</b>	<b>166</b>

	<b>2007</b>	<b>2006</b>
<b>Earnings per share for profit attributable to the equity holders of the company during the year (expressed in pence per share)</b>		
- basic	<b>3.21p</b>	0.52p
- diluted	<b>3.17p</b>	0.51p

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Dividends		
- interim paid	95	81
- final proposed / paid	192	80
	<b>287</b>	<b>161</b>

## Consolidated balance sheet at 31 December 2007

	2007 £000	2006 £000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3,921	4,045
Intangible assets	1,837	2,021
Goodwill	1,560	1,894
Deferred income tax assets	381	185
	<u>7,699</u>	<u>8,145</u>
<b>Current assets</b>		
Inventories	1,446	1,700
Trade and other receivables	2,797	3,812
Other financial assets at fair value through profit or loss	-	-
Cash and cash equivalents	3,779	1,441
	<u>8,022</u>	<u>6,953</u>
<b>Total assets</b>	<u>15,721</u>	<u>15,098</u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to the company's equity holders</b>		
Share capital	1,731	1,731
Share premium account	5,377	5,377
Capital redemption reserve	115	115
Treasury shares	(1,166)	(1,166)
Own shares reserve	(335)	(113)
Translation reserve	(269)	(248)
Retained Earnings	3,387	2,536
<b>Total equity</b>	<u>8,840</u>	<u>8,232</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	2,250	2,250
Deferred income tax liabilities	188	268
Provisions and other liabilities	-	312
	<u>2,438</u>	<u>2,830</u>
<b>Current liabilities</b>		
Trade and other payables	3,771	3,751
Current income tax liabilities	451	285
Borrowings	221	-
	<u>4,443</u>	<u>4,036</u>
<b>Total liabilities</b>	<u>6,881</u>	<u>6,866</u>
<b>Total equity and liabilities</b>	<u>15,721</u>	<u>15,098</u>

## Consolidated cash flow statement for the year ended 31 December 2007

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
<b>Cash flows from operating activities</b>		
Cash generated from operations	4,483	1,098
Interest paid	(158)	(129)
Income tax paid	(560)	(43)
Net cash generated in operating activities	<u>3,765</u>	<u>926</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment (PPE)	(642)	(635)
Proceeds from sale of PPE	19	18
Purchase of intangible assets	(713)	(867)
Peladon acquisition purchase	-	(2,469)
Purchases of financial assets at fair value through profit or loss	-	-
Proceeds from sale of financial assets at fair value through profit or loss	-	1,063
Interest received	125	44
Net cash (used) from investing activities	<u>(1,211)</u>	<u>(2,846)</u>
<b>Cash flows from financing activities</b>		
Repayment of subsidiary loans	-	(73)
Re-mortgage on Linford Wood office	-	1,250
Purchase of EBT shares	(253)	-
Dividends paid to Group's shareholders	(175)	(81)
Net cash (used)/generated in financial activities	<u>(428)</u>	<u>1,096</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	2,126	(824)
Cash and cash equivalents at beginning of period	1,441	2,284
Exchange (losses) on cash	(9)	(19)
<b>Cash and cash equivalents at end of period</b>	<u>3,558</u>	<u>1,441</u>

## Notes to the financial statements for the year ended 31 December 2007

### 1. Segment information

#### Business segments for the year ended 31 December 2007

	Scanning Equipment	Print	Software and Services	Total
	£000	£000	£000	£000
Revenue	5,630	4,924	11,906	22,460
Apportioned costs	(4,136)	(4,187)	(10,356)	(18,679)
Segment result	1,494	737	1,550	3,781
Unallocated costs				(2,294)
Profit before tax				1,487
Segmented assets	3,981	2,709	5,658	12,348
Unallocated assets	-	-	-	3,373
Total assets				15,721
Segmented liabilities	(2,272)	(1,353)	(3,211)	(6,836)
Unallocated liabilities	-	-	-	(45)
Total liabilities				(6,881)
Capital additions	115	86	1,154	1,355
Depreciation and amortisation	174	221	1,261	1,656

#### Geographical segments for the year ended 31 December 2007

	United Kingdom	Africa	North America	Rest of World	Total
	£000	£000	£000	£000	£000
Revenue	17,567	4,090	155	648	22,460

Revenue of £22,305,000 was generated from UK operations and the remaining £155,000 was generated in the USA.

Comparative figures for the year ended 31 December 2006 are as follows:

	Scanning Equipment	Print	Software and Services	Total
	£000	£000	£000	£000
Revenue	4,200	5,188	7,302	16,690
Apportioned costs	(3,216)	(3,746)	(7,520)	(14,482)
Segment result	984	1,442	(218)	2,208
Unallocated costs	-	-	-	(1,975)
Profit before tax				233
Segmented assets	3,928	2,383	7,632	13,943
Unallocated assets	-	-	-	1,155
Total assets				15,098
Segmented liabilities	(1,766)	(884)	(3,926)	(6,576)
Unallocated liabilities	-	-	-	(290)
Total liabilities				(6,866)
Capital additions	167	97	1,238	1,502
Depreciation and amortisation	244	139	1,043	1,426

Geographical segments for the year ended 31 December 2006

	United Kingdom	Africa	North America	Rest of World	Total
	£000	£000	£000	£000	£000
Revenue	10,553	4,314	1,437	386	16,690

Revenue of £15,898,000 was generated from UK operations and the remaining £792,000 was generated in the USA.

## 2. Income tax expense

	31 December 2007	31 December 2006
	£000	£000
Current tax - domestic	755	286
Adjustment in respect of previous period	(23)	(10)
Total current tax	732	276
Deferred tax	(268)	(209)
	464	67

Domestic income tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Profit before tax	1,487	233
Tax at domestic income tax rate of 30% (2006: 30%)	446	70
Tax effect of expenses that are not deductible in determining taxable profit	(21)	45
Tax losses not recognised	86	-
Effect of marginal rate	(7)	(4)
Effect of overseas tax rates	(41)	-
Effect of change in tax rates	5	(34)
Adjustment in respect of previous periods	(4)	(10)
Tax expense	464	67

### 3. Earnings per share

The calculation of 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 year. Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic 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 earnings and weighted average number of shares used in the calculations are set out below:

	<b>31 December 2007</b>			<b>31 December 2006</b>		
	<b>Earnings</b>	<b>Weighted</b>	<b>per</b>	<b>Earnings</b>	<b>Weighted</b>	<b>per</b>
	<b>£</b>	<b>average</b>	<b>share</b>	<b>£</b>	<b>average</b>	<b>share</b>
		<b>number of</b>			<b>number of</b>	
		<b>shares</b>			<b>shares</b>	
Basic earnings per share						
Earnings attributable to ordinary shareholders	1,023,000	31,897,619	3.21p	166,000	32,134,907	0.52p
Dilutive effect of shares in restricted share scheme		180,000			230,000	
Dilutive effect of options under unapproved share option scheme		44,588			51,597	
Dilutive effect of options under the Enterprise Management Incentive Scheme		50,000			143,627	
Dilutive effect of options under LTIP option scheme		89,574			-	
Dilutive earnings per share	1,023,000	32,261,781	3.17p	166,000	32,560,131	0.51p

#### 4. Dividends per share

	<b>2007 Pence /share</b>	<b>2006 Pence /share</b>	<b>2007 £000</b>	<b>2006 £000</b>
Amounts recognised as distributions to equity holders in the year:				
Interim dividend for the year ended 31 December 2006		0.25		81
Final dividend for the year ended 31 December 2006	0.25		80	
Interim dividend for the year ended 31 December 2007	0.30	-	95	-
Proposed final dividend for the year ended 31 December 2007	0.60		192	

The proposed final dividend was approved by the Board of Directors on 10 March 2008 and is subject to the approval of the shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 31 December 2007, in accordance with IAS 10 *Events after the balance sheet date*. It will be paid on 23 May 2008 to shareholders on the register of members at close of business on 25 April 2008.