



DRS Data & Research Services plc

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Interim Financial Statements 2007

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Chairman's Statement

Results

I am very pleased to report significant improvements in revenue and profits for the first half of 2007. Compared to the same period last year, turnover increased by 57% per cent and profit before tax has trebled.

A significant part of the first half year was spent in the delivery of the Scottish elections which have had a strong influence on the results generating over £7.5m of revenue. This, coupled with increased sales of e-Marker[®] and continued DRS international sales has helped to produce these improved trading results.

Financial Summary

Turnover for the six months ending 30th June 2007 was £14,123,000 with profit before tax standing at £1,186,000. This compares well with the same period in 2006 where turnover of £8,985,000 delivered £336,000 profit.

Cash flow is strong with reserves of £4,276,000 at 30th June compared to £1,441,000 at the end of 2006. Our continued focus on cost controls and performance management are clearly delivering ongoing benefits. Trade receivables are up on the year end but these are mostly related to the Scottish election and which have been collected in the third quarter.

Dividend

Based upon the growth of the business and the half year results, the Board is pleased to recommend an interim dividend payment of 0.30p per share (2006: 0.25p), payable on 2nd November 2007 to those shareholders on the register of the Company on 28 September 2007. The Board expects to recommend a final dividend which will reflect a total dividend commensurate with profits for the year.

Trading Highlights

The Scottish Elections were completed in the first half of the year. All 32 of the Scottish local authorities signed contracts for DRS to supply e-Counting services for the Parliamentary and local elections which were held on 3rd May 2007. The project, which started at the beginning of 2006, was highly complex and required all areas of DRS' operation to provide a total solution.

It was the first time that these elections had included STV and this was a major reason for the decision to use electronic counting. The complexity and novelty of combining different and new contest types was always going to be a challenge for both the Scottish Authorities and DRS. The vast majority of the project was implemented as planned, however some delays did occur. Unfortunately poor and inaccurate reporting by the media exaggerated the situation and criticism was levelled at DRS, and the e-counting system, for some of the problems which were outside of our control.

DRS did experience problems with the management information systems at several of the count sites which delayed the results for those areas – issues which have now been investigated and resolved. Nonetheless, all 32 counts were completed successfully and accurately and all results were announced during Friday 4th May. The electronic processing of the STV ballot papers was the largest ever count of its type.

e-Marker[®] work, processed on behalf of AQA (Assessment and Qualifications Alliance), increased again this year and now represents a significant part of DRS' business. A large range of GCSE examination subjects were marked by examiners with the assistance of e-Marker[®] thus enabling AQA to automate the collection of marks, allow marking from images of scripts and categorise answers for efficient marking by senior examiners. This work was on-going at the half year and the revenue for the AQA summer series exams will be recognised in the second half of the year.

The use of e-Marker[®] over the Internet is an integral part of the process and has required substantial investment over the past few years to build the necessary infrastructure and resources to support it. This investment is now showing positive returns and will enable the business to grow over the coming years.

Peladon is now in its second year as part of the DRS group. A number of strategic US reseller agreements are building its reputation as a market leader in ICR forms processing. Sales in Peladon Software Inc were strong in the first quarter followed by a downturn in the second quarter as a result of weaker market conditions in the financial sector within the US. As predicted, interest from the financial marketplace is growing and a number of key businesses have signed up to integrate DocXP with their own products and/or services.

Our international business has completed sales in new areas as well as maintaining our existing business in an extensive number of countries during the first half of the year. A successful pilot for a census project has been completed in Sudan and the first part of the census in Ethiopia has also been finished. Nigeria has represented a significant proportion of DRS' business over a number of years and the supply of education related services remains buoyant.

Our People

The lead up to the Scottish elections required extensive work from a large proportion of our staff. Considerable activity to recruit and train temporary staff in Scotland was undertaken as well as providing training for all the Scottish local authority staff. Very soon after the election took place, our e-Marker[®] work began which required a combination of 24-hour, seven days a week work patterns and management of more than 200 staff per day in our bureau operation.

As always, the flexible nature and professionalism of our people makes all of this possible. It was particularly pleasing to receive letters from a number of the Scottish local authorities thanking our staff for their tremendous work and looking forward to being able to work with us again.

Prospects

A new version of the PS900 Photoscribe scanner is now ready for release and testing has shown it has some considerable improvements over the previous model. Performance and paper handling features were proven during the election and e-Marker[®] work demonstrating that the PS900 remains a leader in its class.

Last year, DRS applied to be included on the DCA (Department for Constitutional Affairs) framework for election trials in England and Wales. The framework is now controlled by the MoJ (Ministry of Justice) and I'm pleased to report we were successful in our application. DRS is now eligible to supply all types of e-Voting and e-Counting services for future UK elections trials.

In 2003 we were delighted to win a contract to supply election equipment and ballot papers to Oman. The project was a great success and DRS is proud to have been selected again to provide services to Oman for the election to be held later this year. On this occasion we will be printing ballot papers and renting 76 PS900 scanners to count votes in the polling locations.

Our continued development of e-Marker[®] is following a 'road-map' designed to offer marking solutions for a wider range of subjects and examination types. As each phase of the project is completed we are able to supply services to more awarding bodies and professional institutions. These opportunities will widen the market for e-Marker[®] and allow us to spread the requirement for services over more of the year and away from the very busy summer examination time.

The Peladon development of DocXP into their existing markets should continue to grow. The use of complex forms in the healthcare and property industries could lead to additional opportunities for the use of DocXP. Peladon has been able to demonstrate its excellent capabilities in this area where other competitive products have failed.

Outlook

Performance in the second half of the year is expected to be similar to the comparable period last year. A number of orders have been received for the new version of the PS900 which we will be able to ship at the end of the third quarter. Our print business continues to make a steady contribution, but the year end results will be affected by the timing of census work and other international projects.

The outlook for the future still depends on large contracts that do not occur on an annual basis. At present the level of sales in 2008 is not expected to match those achieved in 2007. However, the continued investment in e-Marker[®], e-Counting and DocXP should generate an underlying growth in the volume of recurrent annual revenue. Overall the Directors are very pleased with the recent progress made by the Group and view the future with confidence.

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UNAUDITED RESULTS

Interim group income statement

	6 months ended 30 June 2007 £000	6 months ended 30 June 2006 £000	12 months ended 31 December 2006 £000
Revenue	14,123	8,985	16,690
Cost of sales	(9,750)	(5,392)	(10,782)
Gross profit	4,373	3,593	5,908
Other operating income	45	11	44
Selling and marketing costs	(827)	(740)	(1,329)
Administrative expenses	(2,275)	(2,480)	(4,136)
Finance costs	(130)	(48)	(254)
Profit before income tax	1,186	336	233
Tax charge	(324)	(128)	(67)
Profit for the period	862	208	166

Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)

- basic	3	2.68p	0.65p	0.52p
- diluted	3	2.65p	0.63p	0.51p

Interim group balance sheet

	At 30 June 2007 £000	At 30 June 2006 £000	At 31 December 2006 £000
ASSETS			
Non-current assets			
Property, plant and equipment	3,804	4,376	4,045
Intangible assets	3,777	4,087	3,915
Deferred income tax assets	420	132	185
	8,001	8,595	8,145
Current assets			
Inventories	1,264	1,095	1,700
Trade and other receivables	6,335	7,913	3,812
Cash and cash equivalents	4,276	384	1,441
	11,875	9,392	6,953
Total assets	19,876	17,987	15,098
EQUITY			
Capital and reserves attributable to the Company's equity holders			
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	(109)	(113)	(113)
Translation reserve	(267)	3	(248)
Profit and loss account	3,324	2,628	2,536
Total equity	9,005	8,575	8,232
LIABILITIES			
Non-current liabilities			
Borrowings	2,250	2,250	2,250
Deferred consideration	312	347	268
Deferred income tax liabilities	262	376	312
	2,824	2,973	2,830
Current liabilities			
Trade and other payables	7,198	6,155	3,751
Current income tax liabilities	849	284	285
	8,047	6,439	4,036
Total liabilities	10,871	9,412	6,866
Total equity and liabilities	19,876	17,987	15,098

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 2006	1,731	5,377	115	(1,166)	(120)	2411	-	8,348
Profit for the Period	-	-	-	-	-	208	-	208
Employee Share Based Compensation	-	-	-	-	-	16	-	16
Deferred tax on items relating to equity	-	-	-	-	-	-	3	3
Dividend	-	-	-	-	-	-	-	-
Own Shares vesting	-	-	-	-	7	(7)	-	0
At 30 June 2006	1,731	5,377	115	(1,166)	(113)	2,628	3	8,575
Currency Translation Adjustment	-	-	-	-	-	-	(281)	(281)
Loss for the Period	-	-	-	-	-	(42)	-	(42)
Employee Share Based Compensation	-	-	-	-	-	31	-	31
Deferred tax on items relating to equity	-	-	-	-	-	-	30	30
Dividend	-	-	-	-	-	(81)	-	(81)
Own shares vesting	-	-	-	-	-	-	-	-
At 31 December 2006	1,731	5,377	115	(1,166)	(113)	2,536	(248)	8,232
Currency Translation Adjustment	-	-	-	-	-	-	-	-
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

Interim group cash flow statement

	6 months 30 June 2007 £000	6 months 30 June 2006 £000	12 months 31 December 2006 £000
Cash flows from operating activities			
Cash generated from/(used in) operations	3,379	(765)	1,098
Interest paid	(80)	(66)	(129)
Income tax paid	-	-	(43)
Net cash generated from/(used in) operating activities	<u>3,299</u>	<u>(831)</u>	<u>926</u>
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)	(165)	(425)	(635)
Proceeds from sale of PPE	14	11	18
Purchase of intangible assets	(265)	(456)	(867)
Peladon acquisition cost	-	(2,483)	(2,469)
Proceeds from sale of financial assets at fair value through profit or loss	-	1,063	1,063
Interest received	33	45	44
Net cash (used) in investing activities	<u>(383)</u>	<u>(2,245)</u>	<u>(2,846)</u>
Cash flows from financing activities			
Repayment of Subsidiary directors loans	-	(73)	(73)
Re-mortgage of Linford Wood office	-	1,250	1,250
Dividends paid to Company's shareholders	(81)	-	(81)
Net cash generated/(used in) from financial activities	<u>(81)</u>	<u>1,177</u>	<u>1,096</u>
Net increase/(decrease) in cash and cash equivalents	2,835	(1,899)	(824)
Cash and cash equivalents at beginning of period	1,441	2,284	2,284
Exchange increase/(decrease) on cash	-	-	(19)
Cash and cash equivalents at end of period	<u>4,276</u>	<u>385</u>	<u>1,441</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 2007 and to 30 June 2006, together with the audited results for the year ended 31 December 2006. The figures and financial information for the year to 31 December 2006 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 has 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 2006. 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.

2 Segment Information

The principal activities of the Company 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 Company's revenue relates to products and services, and the other half relates to providing tailored data capture solutions. The Company 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 Company: Scanning Equipment; Print; and Software and Bureau services.

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

	Scanning Equipment £000	Print £000	Software and Services £000	Total £000
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 six months ended 30 June 2006 are as follows:

	Scanning Equipment £000	Print £000	Software and Services £000	Total £000
Sales	2,098	4,020	2,867	8,985
Apportioned costs	(1,556)	(2,439)	(3,414)	(7,409)
Operating margin	542	1,581	(547)	1,576
Unallocated costs				(1,240)
Profit before tax				336

The segmental results for the 12 months to 31 December 2006 are as follows:

	Scanning Equipment £000	Print £000	Software and Services £000	Total £000
Sales	4,200	5,188	7,302	16,690
Apportioned costs	(3,216)	(3,746)	(7,520)	(14,482)
Operating margin	984	1,442	(218)	2,208
Unallocated costs				(1,975)
Profit before tax				233

3 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 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:

	June 2007			June 2006			December 2006		
	Earnings £	Weighted average number of shares	Per Share	Earnings £	Weighted average number of shares	Per Share	Earnings £	Weighted average number of shares	Per Share
Basic earnings per share									
Earnings attributable to ordinary shareholders	862,000	32,180,380	2.68p	208,000	32,128,628	0.65p	166,000	32,134,907	0.52p
Dilutive effect of shares in restricted share scheme		320,000			368,578			230,000	
Dilutive effect of options under unapproved share option scheme		48,890			51,842			51,597	
Dilutive effect of options under the LTIP Scheme		-			231,454			143,627	
Dilutive earnings per share	862,000	32,549,270	2.65p	208,000	32,780,501	0.63p	166,000	32,560,131	0.51p

4 Dividends per share

	2007 Pence /share	2006 Pence /share	2007 £000	2006 £000
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	-	81	-
Proposed interim dividend for the year ended 31 December 2007	0.30	-	95	-

The directors have declared an interim dividend out of the profit for the six months to 30 June 2007, payable on 2 November 2007 to all shareholders on the register at 28 September 2007, at a rate of 0.30p per share. The 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.

Contact Details:
Mark Tebbutt
Finance Director
01908 666088