

DRS Data & Research Services plc

Half Year Results for the Six Month Period Ended 30 June 2009

Highlights

- Education revenue increased by 12% to £5,628,000
- e-Marker[®] revenue increased to 39% of group revenue
- Closing cash of £2,934,000
- New products launched in census and education markets
- Continued investment in new products

Results Summary

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Change
Education revenue	5,628	5,033	12%
Non-education revenue	954	3,086	(69%)
Total revenue	<u>6,582</u>	<u>8,119</u>	<u>(19%)</u>
Loss before tax	(1,685)	(762)	(221%)
Loss per share	(4.10p)	(3.56p)	(15%)
Net cash from operating activities	684	1,408	(51%)

Sir David Brown, Chairman, commented:

“The Group’s half-year performance in its education markets has been strong and profitable. However the Group’s business in its other markets has been affected by both the difficult economic conditions and the uneven nature of its election and census business, and has declined quickly and significantly, leading to disappointing half-year results overall.

“We responded urgently and decisively with major cost reductions, which are continuing, and a determined approach to asset management which has increased our cash holdings despite the trading loss.

“The first-half pattern of strong performance in the education markets and weak performance in the non-education markets is expected to continue through the second half of the year. Higher revenue from the UK education markets together with the effect of the stringent cost-reduction programme lead us to be hopeful of being able to report an improvement at the time of the preliminary results.

“Looking further ahead, we expect that the Group’s continuing, determined focus on building best-in-class customer relationships coupled with increasing product and service innovation, particularly in its education markets, will secure the Group’s return to sustainable profitability and provide a robust foundation for long-term growth.”

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Chairman's Statement

Results

The results for the first half of 2009, are disappointing with turnover down 19% on the same period last year at £6,582,000 (2008: £8,119,000) and a loss before tax of £1,685,000 (2008: £762,000).

The Group's performance in its education markets has been strong and profitable, with first-half revenue increasing by 12% to £5,628,000 (2008: £5,033,000). Indeed e-Marker[®] first-half sales were the highest ever and alone accounted for 39% of DRS' total first-half revenue. First-half revenue from our more traditional education business, which includes UK student registration and the printing of forms for overseas education bodies, increased by 19% to £3,057,000 (2008: £2,572,000). Overall, revenue from the education markets was 86% of total first half revenue.

However, the Group's performance in its non-education markets has declined quickly and significantly. First-half census and election revenue fell by 83% to £395,000 (2008: £2,380,000), partly because of the uneven nature of election and census business. The economic downturn is affecting our commercial markets, particularly in the United States where Peladon Software Inc has not made the progress which was expected, but now is focused on good prospects for DocXP[™] in the US healthcare market.

Part of the Group's response has been to reflect the rapidly changing balance in its market emphasis in an extensive programme of changes to its cost base. Major cost reductions have been implemented in the first half of the year, including the postponement to next year of the intended move of the company's operational divisions to new premises, and further cost reductions will be completed by the end of the year.

Diligent control of expenditure and a determined approach to asset management has resulted in an increase in cash holdings of £168,000 to £2,934,000, despite the trading loss.

The Directors do not recommend the payment of an interim dividend (2008: 0.30p per share).

Trading Highlights

In 2005, DRS adopted IFRS accounting policies and provided segmental reporting for the first time. At that time the majority of the Group's products and services fell into three groups; scanning equipment, print, and software services. These business segments were directly correlated to internal functional departments and were the key elements of cost and revenue management within the business. However, in recent years the Group's strategic direction has been increasingly to develop and sell products and services which use varying combinations of the Group's resources in an integrated way. Therefore reporting based on the historical segmentation is no longer appropriate.

Education

The Group's examinations and assessment business continues to grow with e-Marker[®] as our leading product and service offering. Our major UK customer, AQA (Assessment and Qualifications Alliance), continues to expand its use of e-Marker[®] for processing GCSE and 'A' level examinations. The Directors anticipate that more than 9 million AQA answer scripts will be processed this year using e-Marker[®] compared to approximately 7.5 million in 2008. The efficiency and accuracy that e-Marker[®] brings to the process has led to an extremely successful summer series of examination marking generating higher revenue than in previous years.

A new feature of e-Marker[®] went live for the first time this summer with the introduction of Long Form Answer (LFA) processing. It was used in two subjects and is a significant competitive advance in the portfolio e-Marker[®] has to offer customers. Using LFA processes, examiners were able to mark essay-style answers on-screen with the ability to annotate directly into the system. Also prior to being distributed to the markers, the scripts were automatically segmented into different answer groups making marking more efficient and allowing answers of particular types to be routed separately by the e-Marker[®] system.

We were also pleased to sign a major new contract for e-Marker[®] services in June with the Associated Board of the Royal Schools of Music. The contract is for four years initially.

In the first half of the year we successfully installed into several schools a new version of our IntelliReg[®] product. IntelliReg[®] offers a wall-mounted fingertip biometric method of registering pupil's attendance at school. The product builds on our many years of experience in this market where we have supplied paper-based registration systems to most secondary schools in the UK. The new product addresses the growing need of schools to have immediate access to attendance information and to monitor pupil attendance at all lessons rather than just twice per day. IntelliReg[®] provides an ideal solution for both of these requirements and is able to register each student in less than one second with no intervention by staff and no loss of valuable teaching time. An entry-level solution for primary and small secondary schools has also been developed and supplied. This version reduces the price and complexity of installation by interfacing to a teacher's laptop computer. Both versions integrate fully with schools' information management systems and provide immediate on-line access to the data.

Education-related printing for the African market remains good business for DRS. We have long-standing trading relationships in countries such as Nigeria, Ghana and Zambia, where we provide high quality paper forms for machine processing of data. Most of these forms are for use in education, and many countries use our range of scanners for reading the completed forms. In the first half we secured significant scanner sales from both Nigeria and Zambia.

Census and Elections

The Group continues to be one of the prominent suppliers of census projects around the world. Two major census projects in Malawi and Sudan, which were started in 2008, were completed successfully in the first half-year. We designed and printed the millions of specialised forms required for these projects in addition to capturing the census data using our unique PhotoScribe[®] scanners. The Group's ability to deliver comprehensive services dedicated to census-taking again proved to be reliable and efficient even in challenging geographical locations.

Our established range of census services was complemented in the first half-year with a new product which uses GPS to capture positional information simply and cheaply as part of the census process. The product, called Cense[™], is a hand-held device which can be used by enumerators, with minimal training, to capture the longitude and latitude of their location. The location, once transferred to census forms, can be processed with the other data and provide valuable extra information. Pre-production units have been manufactured and released to census organisations around the world and have been received well.

The Group delivered e-counting services for two Scottish by-elections in the first half-year, in Glasgow and East Ayrshire. The services included the supply of ballot papers and boxes, the scanning of all ballot papers and the e-counting.

Commercial

The current economic pressures in the market for the Group's commercial products and services contributed to a 21% decrease in first-half commercial revenue to £559,000 (2008: £706,000). The proportion of commercial revenue attributable to DocXP[™] was flat at 64% (2008: 68%).

Outlook

The prospects for e-Marker[®] appear promising, both in the UK and internationally. In June we won a contract for a pilot project in the Caribbean which we expect to lead to a longer term contract in due course. The successful introduction of the Long Form Answer process during the summer with AQA is likely to lead to new business with the awarding bodies for professional qualifications. The examinations which these awarding bodies conduct are based predominantly on essay-style answers and the cost of marking time is high. The latest version of e-Marker[®] offers benefits in both reducing costs and providing results more quickly.

Also, our existing customers in Africa are keen to implement e-Marker[®]. During recent years the communication infrastructure within a number of countries has grown enormously in coverage and capability, and high speed data communications and availability of the Internet now makes e-Marker[®] a viable solution for examination processing in these countries. A number of negotiations have taken place and a pilot with a key customer is likely this year.

Sustaining the competitiveness of e-Marker[®] and its associated services is of central importance to the Group's strategy for returning to profitability and growth, and the company expects to continue to invest in e-Marker[®] accordingly.

To capitalise on our early successes with IntelliReg[®] we are working to establish a partnership with leading suppliers of biometric systems into schools, including those engaged in the BSF (Building Schools for the Future) programme. This will broaden our sales and marketing strategy and enable us to cover substantially more schools directly and build relationships with local authorities.

The possibilities for selling PhotoScribe[®] scanners into the American elections market appear promising. The US market has been moving away from electronic voting in recent years and electronic counting of paper ballots is seen as a better alternative by a number of States. The DRS scanner has been sold into States which have their own certification processes but the scanner has been waiting for Federal certification for approved use in all States. A prolonged waiting time for such approval has delayed matters but approval is expected this year. Our reseller in the United States believes that a significant take up of sales is possible when Federal certification is confirmed.

Next year and 2011 are expected to be major years for census activity internationally and DRS is already shortlisted for several of these projects. Although competition is increasing significantly, we have an excellent reputation for delivery and we are developing new features to enhance our solution. The GPS (Global Positioning System) Cense[™] device will also offer customers increased levels of census data.

A new market for Cense[™] is also possible in UK education. GPS has been introduced into the geography syllabus from September 2009 and interest has already been shown by academics and school suppliers. We are using our established links with schools and their supply chains to explore this opportunity.

The US market for DocXP[™] is expected to remain very difficult for the rest of this year at least, with the singular exception of healthcare applications. DocXP[™] has a technological advantage over the competition in the processing of complex forms, particularly "Explanation of Benefits" (EOB) forms. These can be many hundreds of pages long and have traditionally only been processed manually. Peladon Software Inc has demonstrated to key prospects the ability of DocXP[™] to extract the data from these forms automatically, and expects to receive the first orders this year.

In summary, the first-half pattern of strong performance in the education markets and weak performance in the non-education markets is expected to continue through the second half of the year. Revenue from the UK education markets is expected to be higher in the second half than in the first half, principally because of the seasonality in the e-Marker[®] revenue. Taken together with the stringent cost-reduction programme, which will have full effect in the second half, the Directors are hopeful of being able to report an improvement at the time of the preliminary results.

Looking further ahead, the Directors expect that the Group's continuing, determined focus on building best-in-class customer relationships coupled with increasing product and service innovation, particularly in its education markets, will secure the Group's return to sustainable profitability and provide a robust foundation for long-term growth.

DRS Data & Research Services plc

UNAUDITED RESULTS

Consolidated income statement

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Revenue	6,582	8,119	17,429
Cost of sales	(4,980)	(5,232)	(11,560)
Gross profit	<u>1,602</u>	<u>2,887</u>	<u>5,869</u>
Other operating income	11	86	763
Selling and marketing costs	(1,012)	(933)	(1,903)
Administrative expenses	(1,883)	(2,728)	(7,004)
Finance costs	(403)	(74)	(272)
Loss before income tax	<u>3</u> (1,685)	<u>(762)</u>	<u>(2,547)</u>
Tax credit/(charge)	4 387	(362)	(445)
Loss for the period	<u>3</u> (1,298)	<u>(1,124)</u>	<u>(2,992)</u>

Consolidated statement of comprehensive income

Loss for the period	(1,298)	(1,124)	(2,992)
Other comprehensive income			
- exchange difference on translation of foreign operations	307	3	(70)
Total comprehensive loss for the period	<u>(991)</u>	<u>(1,121)</u>	<u>(3,062)</u>

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

- basic	5	(4.10p)	(3.56p)	(9.46p)
- diluted	5	(4.10p)	(3.56p)	(9.46p)

Consolidated statement of financial position

		At 30 June 2009 £000	At 30 June 2008 £000	At 31 December 2008 £000
ASSETS				
Non-current assets				
		3,268	3,673	3,511
		1,245	2,533	1,174
	7	468	116	6
		<u>4,981</u>	<u>6,322</u>	<u>4,691</u>
Current assets				
		1,122	1,493	1,421
		2,772	3,063	2,557
	6	2,975	4,716	2,766
		<u>6,869</u>	<u>9,272</u>	<u>6,744</u>
Total assets		<u>11,850</u>	<u>15,594</u>	<u>11,435</u>
EQUITY				
Capital and reserves attributable to the Company's equity holders				
		1,731	1,731	1,731
		5,377	5,377	5,377
		115	115	115
		(1,166)	(1,166)	(1,166)
		(319)	(335)	(319)
		(72)	(266)	(379)
		(1,242)	2,071	68
Total equity		<u>4,424</u>	<u>7,527</u>	<u>5,427</u>
LIABILITIES				
Non-current liabilities				
		2,250	2,250	2,250
	7	17	156	34
		<u>2,267</u>	<u>2,406</u>	<u>2,284</u>
Current liabilities				
		5,085	5,510	3,549
		74	151	175
		<u>5,159</u>	<u>5,661</u>	<u>3,724</u>
Total liabilities		<u>7,426</u>	<u>8,067</u>	<u>6,008</u>
Total equity and liabilities		<u>11,850</u>	<u>15,594</u>	<u>11,435</u>

Consolidated statement of changes in equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury shares £000	Own shares reserve £000	Retained earnings £000	Translation reserve £000	Total £000
At 1 January 2008	1,731	5,377	115	(1,166)	(335)	3,387	(269)	8,840
Dividend	-	-	-	-	-	(189)	-	(189)
Employee share based compensation	-	-	-	-	-	(3)	-	(3)
Transactions with owners	-	-	-	-	-	(192)	-	(192)
Loss for the period	-	-	-	-	-	(1,124)	-	(1,124)
Other comprehensive income:								
Currency translation adjustment	-	-	-	-	-	-	3	3
Total comprehensive income for the six months	-	-	-	-	-	(1,316)	3	(1,313)
At 30 June 2008	1,731	5,377	115	(1,166)	(335)	2,071	(266)	7,527
At 1 July 2008	1,731	5,377	115	(1,166)	(335)	2,071	(266)	7,527
Dividend	-	-	-	-	-	(96)	-	(96)
Employee share based compensation	-	-	-	-	-	(23)	-	(23)
Own shares vesting	-	-	-	-	16	(16)	-	-
Transactions with owners	-	-	-	-	16	(135)	-	(119)
Loss for the period	-	-	-	-	-	(1,868)	-	(1,868)
Other comprehensive income:								
Currency translation adjustment	-	-	-	-	-	-	(73)	(73)
Deferred tax on items relating to equity	-	-	-	-	-	-	(40)	(40)
Total comprehensive income for the six months	-	-	-	-	16	(2,003)	(113)	(2,100)
At 31 December 2008	1,731	5,377	115	(1,166)	(319)	68	(379)	5,427
At 1 January 2009	1,731	5,377	115	(1,166)	(319)	68	(379)	5,427
Employee share based compensation	-	-	-	-	-	(12)	-	(12)
Transactions with owners	-	-	-	-	-	(12)	-	(12)
Loss for the period	-	-	-	-	-	(1,298)	-	(1,298)
Other comprehensive income:								
Currency translation adjustment	-	-	-	-	-	-	307	307
Total comprehensive income for the six months	-	-	-	-	-	(1,310)	307	(1,003)
At 30 June 2009	1,731	5,377	115	(1,166)	(319)	(1,242)	(72)	4,424

Consolidated statement of cash flows

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Cash flows from operating activities			
Loss after taxation	(1,298)	(1,124)	(2,992)
Adjustments for:			
Tax (credit)/charge	(387)	362	445
Depreciation of property, plant and equipment	273	342	630
Amortisation of intangible assets	382	488	988
Impairment charge	-	600	2429
IFRS 2 (credit) in respect of EBT	-	(13)	(32)
IFRS 2 (credit)/charge in respect of LTIP shares	(12)	18	6
Profit on sale of property, plant & equipment and intangibles	(2)	(22)	(5)
Exchange losses/(gains) put through income statement	353	(4)	(607)
Investment income	(11)	(86)	(156)
Interest expense	50	69	138
Decrease/(increase) in inventories	299	(266)	25
(Increase)/decrease in trade and other receivables	(215)	(47)	240
Increase/(decrease) in trade and other payables	1,495	1,589	(222)
Cash generated from operations	927	1,906	887
Interest paid	(50)	(69)	(138)
Income tax paid	(193)	(429)	(538)
Net cash generated from operating activities	684	1,408	211
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)	(46)	(75)	(221)
Proceeds from sale of PPE	2	39	47
Purchase of intangible assets	(453)	(261)	(747)
Interest received	11	86	156
Net cash used in investing activities	(486)	(211)	(765)
Cash flows from financing activities			
Dividends paid to Group's shareholders	-	(189)	(285)
Net cash used in financial activities	-	(189)	(285)
Net increase/(decrease) in cash and cash equivalents	198	1,008	(839)
Cash and cash equivalents at beginning of period	2,766	3,558	3,558
Exchange (decrease)/increase on cash	(30)	-	47
Cash and cash equivalents at end of period	2,934	4,566	2,766

Notes to the half year results

1. Nature of operations

DRS Data & Research Services plc is a public limited company with a full listing on the London Stock Exchange incorporated and domiciled in England. The address of the registered office is 1 Danbury Court, Linford Wood, Milton Keynes, MK14 6LR.

Accounting policies and basis of preparation

The financial information comprises the unaudited results for the six months to 30 June 2009 and to 30 June 2008 together with the audited results for the year ended 31 December 2008. The figures and financial information for the year to 31 December 2008 do not constitute the statutory financial statements for that year. Those financial statements have been delivered to the Registrar and included the auditor's 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 adopted International Financial Reporting Standards (IFRS) with effect from 1 January 2005. These unaudited half year 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 2008. Information provided is in accordance with IAS34 interim reporting requirements.

These half year results have not been audited or reviewed by the auditor pursuant to the Auditing Practices Board's guidance on financial information.

Basis of preparation

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.

These condensed half year results have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2008 except for the adoption of IAS 1 Presentation of Financial Statements (Revised 2007), IFRS 8 Operating Segments.

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were recognised directly in equity are now recognised in other comprehensive income.

The adoption of IFRS 8 has changed the segments that are disclosed in the half year results. In the previous annual and half year results, segments were identified by reference to the dominant source and nature of the group's risks and returns. Under IFRS 8 the accounting policy for identifying segments is now based on the internal management reporting information that is regularly reviewed by the chief operating decision maker.

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

The principal accounting policies of the Group are set out in the Group's 2008 Annual Report. They remain unchanged from the previous year and have been consistently applied to all periods presented in these financial statements.

Significant areas of judgement

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

In preparing these accounts:

- (i) the following areas were considered to involve significant judgement:

- when sales of services are recognised in the accounting period in which the work on the services is performed and the obligations have been satisfied in accordance with the customers' agreed requirements.
 - value of intangibles being covered by the future potential income that is expected to be derived from their use relating to internally generated software and research and development costs.
 - recognition of deferred tax on trading losses in assessing if they will be recovered by future trading profits.
 - carrying value of work in progress assumes that work will be completed in accordance with contractual expectations.
- (ii) the following areas were considered to involve significant estimates:
- stock provisions reflect future sales estimates over the useful life of the product.
 - receivable provisions reflect future trade receivable amounts collectable.

2. Segment Information

In 2005 DRS adopted IFRS accounting policies and provided segmental reporting for the first time. At that time the majority of the company's products and services fell into three groups; scanning equipment, print, and software services. These business segments were directly correlated to internal functional departments and were the key elements of cost and revenue management within the business.

In the period since 1 January 2006, the Group has taken a strategic decision to develop and sell products and services which integrate multi-functional skills and technologies. These market solutions use varying combinations of the Group's resources and are controlled by cross company project management. Consequently management of the business is now centred on revenue markets and project cost control and therefore the correlation between functional costs and revenue has been reduced significantly. Although the Group considers that it only has one operating segment, it reviews revenue according to various segments and the revenue split is disclosed below.

The delivery of market focused solutions results in a "many to many" relationship between department costs and revenue streams. The individual standard costs of each type of supply are carefully controlled, but due to the effect sales mix has on recovery rates, reporting the relative profitability of the revenue streams would not be consistent with management processes within the company.

Recognising the manner in which management currently reviews the business, the revenue for 2008 has been restated in the new format for comparison purposes.

The revenue analysis for the six months ended 30 June 2009 is as follows:

Region	Education revenue		Non-education revenue		Total £000
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	
UK	3,134	831	273	24	4,262
Africa	1,603	(12)	26	296	1,913
Rest of world	46	26	260	75	407
Total	4,783	845	559	395	6,582
Revenue arising from specific products and related services thereon:					
e-Marker®	2,571				
Doc-XP™			358		
e-Counting				165	
IntelliReg®		12			

The revenue analysis for the six months ended 30 June 2008 is as follows:

Region	Education revenue		Non-education revenue		Total £000
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	
UK	3,016	1,217	387	-	4,620
Africa	732	44	39	2,085	2,900
Rest of world	6	18	280	295	599
Total	3,754	1,279	706	2,380	8,119

Revenue arising from specific products and related services thereon:

e-Marker®	2,461				
Doc-XP™			481		
e-Counting				488	
IntelliReg®		96			

The revenue analysis for the year ended 31 December 2008 is as follows:

Region	Education revenue		Non-education revenue		Total £000
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	
UK	8,904	2,346	513	70	11,833
Africa	1,901	55	62	2,439	4,457
Rest of world	130	33	614	362	1,139
Total	10,935	2,434	1,187	2,871	17,429

Revenue arising from specific products and related services thereon:

e-Marker®	7,734				
Doc-XP™			767		
e-Counting				741	
IntelliReg®		153			

3. Exceptional items

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Loss before exceptional items and tax	(1,685)	(162)	(118)
Exceptional items – impairment charge	-	(600)	(2,429)
Loss before tax	(1,685)	(762)	(2,547)
Tax credit/(charge) before exceptional items	387	(45)	(274)
Exceptional items - deferred tax charge	-	(317)	(171)
Tax credit/(charge)	387	(362)	(445)
Loss for the period	(1,298)	(1,124)	(2,992)

The Peladon Software Group was purchased to acquire the DocXP™ document management product and to provide the DRS Group with a channel to distribute the product throughout North America. The volume of DocXP™ sales since acquisition has been materially below expectation and in 2008 the decision was taken to write off the carrying value of the investment down to zero. A more detailed explanation is provided in Note 14 of the 2008 Annual Report and Accounts.

The exceptional items in the consolidated income statement represent:

- impairment charge against know-how, unpatented intangibles and goodwill on acquisition which is charged to administrative expenses
- deferred tax charge for the write off of deferred tax asset in respect of unused tax losses in Peladon Software Inc as future utilisation is no longer considered probable, and the release of deferred tax provision related to the carrying value of know-how and unpatented intangibles following their impairment.

4. Income tax expense

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Current tax - domestic	92	129	262
Adjustment in respect of previous period	-	-	2
Total current tax	92	129	264
Deferred tax (Note 7)	(479)	233	181
	(387)	362	445

Domestic income tax is calculated at 28% (2008: 28.5%) of the estimated assessable profit for the year.

The deferred tax asset is calculated on the basis of unused tax losses assumed to be utilised over the next four years. In view of this no deferred tax asset is recognised in the balance sheet for £825,000 of unused tax losses for Peladon Software Inc.

£477,000 of the deferred tax credit relates to accelerated tax allowances within DRS Data Services Limited that will be recovered at the year end.

5. Loss per share

The calculation of basic loss per share is based on the loss 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 loss per share is based on the basic loss per share, adjusted where applicable 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:

Basic loss per share

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Loss attributable to ordinary shareholders being loss for the period	(1,298,000)	(1,124,000)	(2,992,000)
Weighted average number of shares	31,671,071	31,591,071	31,618,858
Basic loss per ordinary share	(4.10p)	(3.56p)	(9.46p)

Diluted loss per share

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
Basic loss per share			
Loss attributable to ordinary shareholders being loss for the period	(1,298,000)	(1,124,000)	(2,992,000)
Weighted average number of shares			
Basic	31,671,071	31,591,071	31,618,858
Dilutive effect of:			
- shares in restricted share scheme	-	-	-
- options under unapproved share option scheme	-	-	-
- options under the Enterprise Management Incentive Scheme	-	-	-
- options under LTIP option scheme	-	-	-
Diluted	31,671,071	31,591,071	31,618,868
Diluted loss per ordinary share	(4.10p)	(3.56p)	(9.46p)

6. Cash and cash equivalents

	At 30 June 2009 £000	At 30 June 2008 £000	At 31 December 2008 £000
Cash at bank and in hand	27	62	279
Short-term bank deposits	2,907	4,654	2,487
	<u>2,934</u>	<u>4,716</u>	<u>2,766</u>

The effective interest rate on short term bank deposits was 0.76% (2008: 4.82%). These deposits have an average maturity of 1 day (2008: 3 days).

Cash and bank overdrafts include the following for the purposes of the cashflow statement:

	At 30 June 2009 £000	At 30 June 2008 £000	At 31 December 2008 £000
Cash and cash equivalents	2,975	4,716	2,766
Bank overdrafts	(41)	(150)	-
	<u>2,934</u>	<u>4,566</u>	<u>2,766</u>

The Group's approach to managing liquidity and currency risks is set out in Note 3.1(ii) of the 2008 Annual Report and Accounts.

The tables below show the extent to which the Group has monetary assets in currencies other than Sterling.

	At 30 June 2009 US Dollars £000	At 30 June 2009 Euro £000	At 30 June 2008 US Dollars £000	At 30 June 2008 Euro £000	At 31 December 2008 US Dollars £000	At 31 December 2008 Euro £000
Sterling equivalent	52	97	336	83	67	126

7. Deferred income tax

	6 months ended 30 June 2009	6 months ended 30 June 2008	Year ended 31 December 2008
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	£000	£000	£000
Analysis for financial reporting purposes			
Deferred tax liabilities	17	156	34
Deferred tax assets	(468)	(116)	(6)
	(451)	40	28

The movement in the Group's net deferred tax position was as follows:

	6 months ended 30 June 2009 £000	6 months ended 30 June 2008 £000	Year ended 31 December 2008 £000
At 1 January	28	(193)	(193)
(Credit)/charge to income for the year	(479)	235	181
(Credit)/charge to equity for the year	-	(2)	40
At 31 December	(451)	40	28

The losses in the table above relate to deferred tax losses in Peladon Software Inc. The charge to income arose from the decision taken to impair the carrying value of the assets relating to the Peladon Software Group, an explanation of which is given in the 2008 Annual Report and Accounts.

The withdrawal of industrial building allowances in 2008 has resulted in an increase in the deferred tax charge of £144,000 for the year.

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

	Revaluation of property £000	Accelerated tax depreciation £000	General provision £000	Total £000
At 1 January 2009	18	16	(6)	28
Charge to income for the period	(1)	(480)	2	(479)
Charge to equity for the period	-	-	-	-
At 30 June 2009	17	(464)	(4)	(451)

The explanations for the movements have been provided in Note 4.

8. Dividends per share

	2009 Pence /share	2008 Pence /share	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the year:				
Final dividend for the year ended 31 December 2007	-	0.60	-	190
Interim dividend for the year ended 31 December 2008	-	0.30	-	95

The Directors do not recommend an interim dividend.

9. Principal risks and uncertainties

The Group is subject to risks and uncertainties relating to its future business which might affect the financial performance of the Group. The Board has implemented systems to identify risks, to assess them and to ensure that reasonable mitigation plans are in place. The Board is paying particular attention to the operational risks and uncertainties of current recessionary conditions in all of the Group's markets and further details are provided under the heading 'Internal controls and risk management' within the Corporate Governance Report on page 36 of the Annual Report and Accounts for the year ended 31 December 2008. A copy of the 2008 Annual Report and Accounts is available on the Company's website at <http://www.drs.co.uk/results.html>.

The main risk issues that are specific to the business are set out below and remain consistent with 2008.

Information technology

The Group is increasingly dependent on IT (Information Technology) systems, including Internet-based systems, for internal communication as well as communication with customers and suppliers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect the Group's operations.

Our business involves handling large databases containing high volumes of data to be accessed by thousands of users from their homes. We are therefore heavily dependent on the resilience of both the application software and the data-processing support services together with the service providers for sound network infrastructure. A serious failure in any of these areas could immediately and materially affect our business.

We continue to invest in reliable and fault-tolerant IT infrastructures to mitigate these risks.

Trading volumes

A significant proportion of the Group's business can comprise one-off large contracts providing tailored solutions. The nature of these contracts requires each to be managed as a unique project with project teams required to address the specific complexities and commercial risks. Group sales have a tendency to be lumpy, dependent on when these contracts occur. The Group has a high proportion of fixed overheads and consequently these fluctuations in revenue can lead to significant variations in profitability.

Spread of customers

An analysis of the revenue generated in the 6 months to 30 June 2009 identified 68.1% of the Group's sales coming from its top five customers. It is an issue the management team recognises and the strategy to invest in new products and markets is designed to broaden the number of key recurring revenue generating customers.

Cautionary statement

The Chairman's Statement has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. It should not be relied upon by any other party for any other purpose.

The Chairman's Statement contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

10. Going Concern

The Group meets its day-to-day working capital and other funding requirements through a combination of long-term funding and short-term cash holdings. The Group's principal financing facility is a mortgage of £2.25m secured by a fixed charge against the freehold land and buildings of the parent company which expires in March 2011.

The Group actively manages its strategic, commercial and day-to-day operational risks and through its Treasury function operates Board-approved financial policies. During the first half of 2009 the Group cash holding increased.

After making enquiries, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future and therefore adopt the going concern principle.

11. 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 and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- (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.

This report was approved by the Board of Directors on 25 August 2009 and is available on the Company's website (www.drs.co.uk).

For and on behalf of the Board

Mark Tebbutt
Finance Director
01908 666088