

**World-beating  
data-capture solutions  
for world-leading  
organisations**

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## DRS

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**DRS products and solutions are used across the globe on large-volume, time-critical projects** such as the capture and processing of data for large-scale examinations, elections, population censuses and financial documentation.

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## HIGHLIGHTS

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“Although revenue and profits have fallen this year **we have been building a solid base for future growth.** Investment in products, skills and infrastructure have been maintained at a high level to ensure long-term sustainable growth is achieved.”

Malcolm Brighton, OBE  
Chairman

**£17.4** million

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**Turnover**  
2007: £22.4 million

**-£2.5** million

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**Profit before tax**  
2007: £1.5 million

**-9.46** pence

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**Earnings per share**  
2007: 3.21 pence

**£2.7** million

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**Product development**  
2007: £1.7 million

**£2.8** million

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**Cash (cash reserves)**  
2007: £3.8 million

**£5.9** million

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**Gross profit**  
2007: £7.7 million

### 2010 census preparations underway

New innovations and a wider range of solutions are being designed & developed to fit the individual needs of the National Statistical Offices and census officials around the world.

### Government announcement favours IntelliReg® product growth

Our IntelliReg® product is ideally placed to fulfil government advice to schools to provide parents with real-time access to pupil information, including attendance – by 2010 for secondary schools and 2012 for primary schools.

## **CURRENT BUSINESS PROFILE**

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## CURRENT BUSINESS PROFILE

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### Who we are

Our combined experience, knowledge and expertise has earned DRS the **reputation of being the global leader in scanning, recognition and processing products and solutions** for the public, private and not-for-profit sectors.

DRS was established in London in 1969 as a data-capture bureau. The printing and scanning services were later expanded to include the design and manufacture of OMR (Optical Mark Recognition) scanners, predominantly selling them into the education market to capture student assessment, registration and attendance data. Our experience in the education sector, coupled with our skills in producing forms optimised for scanning and electronic capture, led to our involvement in large-volume OMR projects.

Our reputation has grown and we have now become the name to trust for delivering time-critical and large-scale one-off contracts for exercises such as examinations, voter registration, elections and censuses. Now we not only provide forms and scanners, but we implement complete solutions for logistically challenging projects in these markets.

DRS floated as a fully listed company on the London Stock Exchange in 1994. Since then, we have grown in strength and employ over 200 of the highest calibre people in their respective fields, delivering mission-critical projects all over the globe. We operate from several sites in Milton Keynes and, in 2006, we acquired Peladon Software Inc. with offices in San Diego.

## What we do

**DRS products and solutions are used across the globe on large-volume, time-critical projects** such as the capture and processing of data for large-scale examinations, elections, population censuses and financial documentation.

Our products & services can be broken down as follows:

### Expertise

### Solutions

### Technologies

The DRS Group has a wealth of experience in delivering time-critical, high-volume and complex data-capture projects for clients spanning the globe. From international aid agencies, national governments, public and private sector organisations to the not-for-profit sector and specialist organisations, our core business focuses on the successful delivery of projects such as:

- Education administration and examination processing
- Electronic examination marking
- National population census
- National voter registration
- Election ballot counting
- Financial document processing
- Large volume or complex survey work

We have built up a deep knowledge of the capture process in these areas and are able to pass this onto our customers, ensuring they adopt the most appropriate techniques and methodologies for the best results.

We work in partnership with our customers and are known as the 'safe pair of hands' when it comes to managing sensitive data-capture exercises. We are proud to have delivered products, services and solutions in over 50 countries around the world.

"DRS has made a great difference... access to fast, accurate data without the burden of manual keying benefits not only our students, but our staff as well"

**The College of Law, London**

## CURRENT BUSINESS PROFILE

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### What we do/ Expertise

Our staff have been instrumental in **building our reputation to the world-leading status** we enjoy today.

#### Research and Development

Market demands and requirements change frequently, but it is our ability to recognise these and develop new and innovative solutions that keep us at the forefront of our core markets. Our highly skilled and experienced R&D team are continually developing, testing and strengthening our range of products to meet product and market trends.

#### Manufacturing

Our equipment is assembled by the manufacturing division, where our skilled technicians ensure the best components are sourced. Quality is never compromised; from our award-winning PhotoScribe® scanners, through to our IntelliReg® biometric readers, quality remains at the very forefront of our manufacturing ethos.

#### Software Development

Our developers and programmers are frequently involved in customer projects at ground level, so fully appreciate that they must be delivered successfully first time. Our bespoke solutions are designed around the most rigorous quality-assurance and testing techniques because there is simply no room for mistakes in the global business undertaken by DRS.

#### Technical Support

Our qualified engineering and support teams will ensure our technology is deployed in the most efficient manner and maximised for the best possible result. We pride ourselves in our ability to provide the highest quality technical support to our customers, distributors and partners, and our professional and dependable work ethic sets us apart from our competitors.

#### Print

Our Print Division is one of the cornerstones of our business, producing over 200 million forms every year. We operate a fully equipped print plant that houses sophisticated print production technology and presses, designed for use with specialist inks and printing with pinpoint accuracy.

#### Bureau

Our Bureau is an integral element of our full service offering and is used heavily by education establishments for securely processing national tests. With a first-class reputation for quality, speed and efficiency, we work in partnership with our public and private sector customers to establish the aims of their projects and advise on the best way to optimise results.

## What we do/ Solutions

We work in partnership with our customers and are known as **the 'safe pair of hands'** when it comes to managing sensitive data-capture exercises.

### Examination and Assessment

We support global awarding, assessment and educational bodies in reducing administrative pressures, whilst improving the accuracy and reliability of examination and assessment data. Our four decades of experience in this area have earned us the reputation of a world leader in reducing costs, improving quality, simplifying logistics, reducing turnaround times and improving security in the examination and assessment marking process.

### e-Registration

Our e-Registration solutions reduce administrative costs whilst helping to improve student attendance rates and restore confidence in the education system. Our biometric solutions are designed to specifically meet the new and unique demands of real-time update of data and can be combined with access control, cashless catering, smart copiers, library systems and SMS to students and parents to help combat truancy.

### Elections and Voter Registration

Our wealth of experience in delivering large-scale, complex electoral projects has earned us a reputation as the industry's 'safe pair of hands', proven to improve the security, integrity, speed and accuracy of election results. We work in partnership with global

governments, public authorities and international election stakeholders in computerising voter-registration lists and electronically processing complex ballots, giving us unique skills and expertise in managing entire election counts.

### Census

National population census is usually conducted every 10 years and is a massive undertaking with many logistical challenges. Having successfully delivered 15 census projects around the world, using our range of proven and innovative data-capture methods, we have improved efficiencies and delivered results much quicker than traditional methods. We have been called upon by the United Nations to offer advice to National Statistics Offices around the world on census-capture methodologies and technologies and we are proud to be recognised as a global leader in this complex area.

### Business document and data capture

Our business transactional document processing solutions are proven to reduce document and data-capture overheads, whilst at the same time improving efficiency, processing levels and accuracy of results. With a range of software and hardware solutions, along with our full-service bureau facility, we are able to provide our customers with full system integration, consultancy and ongoing support.

## CURRENT BUSINESS PROFILE

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### What we do/ Technologies

**DRS designs and manufactures its own range of (OMR) Optical Mark Recognition, (ICR) Intelligent Character Recognition and Imaging scanners** that can all be easily integrated into any organisation's IT infrastructure.

#### **IntelliReg®**

IntelliReg® offers the latest biometric fingertip sensing technologies for monitoring and tracking student attendance in schools, further and higher education establishments. Optical biometric scanners code the unique points of each fingerprint and use an algorithm to convert it into a mathematical template, removing the need for a fingerprint image to be stored. With complex reporting and real-time query abilities, IntelliReg® is helping to keep students safe by supporting the duty of care within the educational environment.

#### **Cense**

Our experience of successfully delivering over 15 national population census projects using our OMR, ICR and imaging technologies and solutions has earned us a global reputation as a leader in this field. We have developed CENSE a low-cost hand-held portable capture device that records the global positioning co-ordinates of a dwelling at the point of census enumeration. It can be used to link the data directly into a Geographic Information System which can bring added value to government departments around the world in areas such as disaster planning.

#### **DocXP®**

Designed to process highly complex tables and line items, whilst carrying out auto-inspection, correction and verification of data at the same time, our DocXP® software suite brings significant organisational cost-savings and efficiency gains. With its ability to automatically identify a document type, DocXP® is used to capture and process a wide range of business transactional documents including invoices, purchase orders, explanation of benefits and delivery notes.

#### **e-Marker®**

Our highly configurable modular and scalable e-Marker® solution brings improvements in both marking quality and the ability for awarding and assessment bodies to improve the marking progress. Designed to add value, reduce time to collect results and improve accuracy and reliability of examination marking, e-Marker® harnesses the power of our own real-time, award-winning image-capture readers, specialist bureau services and sophisticated software delivered

across the internet, to securely capture item-level responses and marks from examiners.

#### **PhotoScribe® PS900 Series Scanners**

Our flagship PhotoScribe® PS900 series of OMR, ICR and Imaging scanners offer full duplex bitonal or greyscale image-capture and can process forms up to 18" in length. They set new standards in data-and image-processing innovation and have been used around the world to process complex and time-critical exercises. These robust, real-time data-processing readers lie at the very core of our examination, election and census work and won the prestigious 2008 DM Hardware Product of the Year Award.

#### **CD230**

The CD230 hand-fed Optical Mark Reader is designed for low-volume form processing and predominantly used by a large proportion of UK schools processing paper-based attendance and assessment information. Marks are made on specially designed DRS stock forms, scanned on the CD230 and the data is automatically captured into the school Management Information System.

# 20,000

markers used e-Marker®  
in 2008

### Specialist Forms

Our specialist Forms Design and Print Division produces hundreds of millions of forms designed for purpose every year. From school assessment stock forms, to highly complex election forms and multi-page census booklets designed for real-time recognition and processing, our skills in managing large-volume work in short timescales whilst maintaining exceptional levels of quality are unrivalled. The Print Division is one of the cornerstones of our complete service.

# 10,500

potential number of forms  
scanned per hour with  
PhotoScribe® Scanners

### Bureau Service

Our secure Bureau Division is equipped with our own award winning scanners. Used as an integral element to our complete bureau service for examination, survey, questionnaire and data-processing projects, our technologies and specialist project management teams are expert at establishing the aims of a customer project and managing the logistics to ensure accurate and timely results. Services include mail-out, fulfillment, document-indexing, document-scanning, web imaging and retrieval and guidance on imaging, recognition and validation techniques. The bureau is equipped to run 24 hours a day to satisfy our customers' requirements.

### e-Marker® in action with AQA

Working with the Assessment and Qualifications Alliance, DRS has developed marking solutions ideal for different subject matter and different types of examination questions.

Through DRS' work with awarding bodies, e-Marker® has become a world-leading product which can be used in examination processes all over the globe. It was launched four years ago and has grown to contribute a significant amount to DRS' revenue.

"Within the specialist high-volume, mission-critical data-capture markets that DRS has served so long and so well, there is simply no other product in the world that can compete on a level playing field with the PS960. Customers old and new will undoubtedly be beating a path to their door."

**DM Magazine**

## CURRENT BUSINESS PROFILE

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### Who we serve

Our unique combination of skills and expertise enables us to **deliver complete solutions designed for our customers' needs**. Our strengths stem from developing close partnerships with our customers which enable us to fully understand their requirements and for us to deliver solutions that meet those needs.

#### Education

We work in partnership with global awarding and assessment bodies, local authorities, schools and tertiary establishments to improve accuracy and reduce the administrative pressures associated with education data-capture. Frequently called on to give advice to governments and public bodies on educational matters associated with the collection of examination and education data, we are regularly approached to present papers at international and national educational conferences. We are a member of BESA and Becta and are proud to work with the Federation of Awarding Bodies, Association of Educational Assessment in Africa, International Association of Education & Assessment, European Association of Educational Assessment and the Institute of Educational Assessors.

#### Public Authorities

We work with international and national public authorities all over the world in the management of sensitive government and public sector data-collection projects. From national population censuses, statutory elections, national voter registration and a wide range of sensitive projects for international aid and law enforcement agencies, we have a reputation for being a trusted, reliable and safe pair of hands. We are approached by the United Nations on many occasions to support its international events calendar by presenting best-practice techniques and methodologies for collecting and processing sensitive data. Working with the Association of Electoral Administrators, Association of Central & Eastern European Election Officials, International Federation of Election Suppliers and International Statistics Institute, we have a proven record of successfully delivering sensitive projects first time, every time.

#### Commercial

Our experience of working in partnership with a wide range of commercial organisations gives us a clear appreciation of the data- and document-capture challenges and complexities faced in today's environments. From the banking and financial markets, through to the healthcare and insurance sector, we reduce our customers' business transactional document processing costs and enable improvements in the efficiency of their processes. As a member of the Association for Information and Image Management, we are fully committed to providing 'best of breed' solutions to our business customers.

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## Where we operate

# +50

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countries where DRS products and solutions have been deployed

### **Trusted Adviser to the UN**

DRS was invited to present at a series of international workshops by the United Nations Statistics Division (UNSD) in 2008. As a trusted advisor, DRS delivered presentations on data-collection technologies and techniques to aid census-gathering throughout the world.

DRS presented alongside the UN at workshops in Qatar, Tanzania and Thailand.

## CURRENT BUSINESS PROFILE

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### What we deliver/ Education

“The technology also allows us to conduct enhanced checking and quality control, which has a direct impact on the accuracy of the marking process.”

Andrew Bird, Deputy Director General, AQA

#### 1. Improving UK marking standards with e-Marker®

During the 2008 summer examination cycle, 20,000 home-based and centre markers marked 7,500,000 AQA GCE and GCSE scripts using e-Marker®, bringing AQA the following benefits:

- greater accuracy of marking and quality-control
- improved speed of mark transmission
- improved management data
- improved post-examination data analysis
- more future study information for students

“The technology streamlines the process for examiners and allows them to concentrate on the key task – accurate and efficient marking.”

**Andrew Bird,**  
Deputy Director General, AQA

#### 2. IntelliReg® leads the way in FE sector

The DRS e-Registration and access-control solution was deployed across three of Barnet College’s campuses – marking a first installation of its kind in the Further Education sector.

IntelliReg® seamlessly interfaced with Barnet College’s MIS, providing real-time updates of data for accurate attendance monitoring whilst saving teaching and administrative time.

“The DRS e-Registration system not only provides us with clean, instant, accurate and consistent data but also enables us to utilise our resources more efficiently.”

**Tracey McIntosh,**  
Director of MIS, Barnet College

#### 3. Successful e-Marker® pilot deployed in Poland

Polish examination board, Centralna Komisja Egzaminacyjna, marked the start of DRS’ international e-Marker® roll-out in October 2008 by piloting the electronic marking solution with 6,000 scripts across four marking centres in Poland. DRS also provided on-site support in Krakow and delivered training to support all 348 markers who were involved.

At a later, high profile, visit arranged by the British Council for CKE to learn how e-Marker® has been instrumental in improving accuracy within the UK examination marking process, Denton van Niekerk, DRS Sales & Marketing Director said, “this was an important visit for both CKE and DRS as it demonstrates best-practice examination and marking processes being applied in Poland.”

## 348 markers

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received training and on-site support from DRS for the pilot

## What we deliver/ Public Authorities

“The election count was a huge success, with results being available within one-and-a-half hours.”

Ballochmyle Ward Returning Officer, Fiona Lees

### 1. Most complex election in the world delivered accurately and securely

The first use of e-Counting in Scotland was arguably the most complex election project ever undertaken in the world. Two ballot papers with three different voting systems were being introduced. One ballot paper contained two contests on the same paper, the second ballot paper containing a voting system that had never been used before in Scotland – the Single Transferable Vote.

This was an election of significant scale and despite the logistical complexities, we successfully delivered all 32 secure counts across Scotland in a matter of hours. Under intense scrutiny and global media interest, we produced results for just under 500 individual contests, transparently, securely and in under 24 hours.

### 2. UNFPA chose DRS to manage the Sudan Census

With 11,000,000 census forms and 12 high-speed PS900 scanners loaded onto 27 articulated trucks, DRS travelled to Sudan to support the northern and southern administration teams in managing this complex data collection exercise.

90,000 enumerators were involved in the data-collection exercise which started in April 2008 and had to be completed before the rainy season forced parts of the population to migrate. Enumeration was completed in August and the PS900 scanners, along with sophisticated coding software, had captured and processed the data in a matter of a few months.

### 3. Oman national elections

DRS were called on to undertake the last general election count in Oman. We provided 400,000 ballot papers in Arabic script including a full-colour photograph of each candidate, along with a dedicated team of DRS engineers to provide on-site support in delivering this logistically complex election.

61 count centres across Oman were set up with our PS900 scanners to count the votes for the representatives for the Omani National Consultative Council, known as the Majlis Al Shura. All votes were counted, across the country, within just a few hours of close of polls.

# 24

hours

We produced results for just under 500 individual contests, transparently, securely in under 24 hours

# 90,000

enumerators were involved in the data-collection

“The elections had been successful and well organised.”

**Sayyid Saud bin Ibrahim Al Busaidi,**  
Interior Minister of Oman

## CURRENT BUSINESS PROFILE

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### What we deliver/ Commercial

“The implementation has achieved all of our objectives. DocXP® has not only fully automated the processing of our catalogue stock and direct supply orders but has also removed the need for manual filing, by providing electronic images of the orders. As an additional benefit, the accuracy levels have further improved.”

Yorkshire Purchasing Organisation

#### 1. Healthcare company reduces costs of processing medical records

Peladon Software Inc, has been reducing the costs and improving the processing of HRA Medical Management’s healthcare billing, consulting and data management, with the use of DocXP®.

HRA is now able to quickly and accurately capture data from Explanation of Benefit forms and other medical records, validate the information, and balance claim totals.

#### 2. Yorkshire Purchasing Organisation improves efficiency with DocXP®

The largest formally constituted local authority purchasing consortium in the UK halved its resource responsible for customer orders, whilst still increasing processing levels by 12% through using DocXP®.

YPO is able to automatically capture, process and verify customer reference numbers, supplier addresses and product codes, as well as many more complex checks, including mathematical validation in areas such as totaling quantities and financial values.

#### 3. World-leading software company integrates DocXP®

SunGard serves more than 25,000 customers in more than 70 countries, including the world’s largest financial services companies. Turning over \$4 billion, Peladon Software Inc is the provider of data-capture software with DocXP® being an integral part of SunGard’s US-based product portfolio.

As part of SunGard’s mission-critical software and IT services in the financial sector, DocXP® is able to help drive SunGard’s customers’ unique business strategies, whether they are increasing efficiency, improving customer service, complying with regulations, or capturing growth opportunities through innovation.

“By automating the EOB data entry process, HRA Medical Management will reduce costs, improve turnaround time and remain compliant with HIPAA guidelines. Plus, the system will pay for itself in less than one year.”

**Brian Hood, IT Manager,  
HRA Medical Management**

# 12%

increased processing levels through using DocXP®

## Driving unique business strategies

Increasing efficiency, improving accuracy, capturing growth opportunities through innovation

## Where we are going

We aim to achieve revenue growth by **implementing clear strategies** in product and market development.

Our staff have been instrumental in building our reputation to the world-leading status we have today, and we will continue to invest in our teams to ensure we continue to build on this unique knowledge-base.

Our objective is to achieve accelerated revenue growth in order to create real shareholder value and we will achieve this by implementing clear strategies in terms of product and market development.

Significant investments are planned in the development and internationalisation of our e-Marker® solution and, in parallel, we will be following clear product roadmaps for DocXP®, IntelliReg®, our scanner range, election and census solutions, all of which will ensure we remain the leaders in the fields in which we operate.

**£2.7** million

**Product development**  
2007: £1.7 million

2010 census preparations are underway. New innovations and a wider range of solutions are being designed to fit the individual needs of the National Statistical Offices and census officials around the world.

Organisations using census data often need precise geographical information too. Existing satellite positioning devices are expensive, so DRS has created an easy-to-use and inexpensive hand-held device called 'Cense' to capture precise location information.

Cense has been welcomed by United Nations and other worldwide census offices. Sample units will be available in early 2009, with full production later in the year to meet the predicted peak demand of 2010 and 2011.

At the BETT education trade exhibition secondary schools were advised to provide parents with real-time access to pupil information, including attendance, by 2010. It was also recommended that primary schools provide the same information by 2012.

The IntelliReg® product is ideally placed to fulfil these requirements. A major new marketing campaign is informing schools of our capabilities.

## GROUP REPORT & ACCOUNTS 2008

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This year, DRS has built a **solid base for future growth.**

Increased investments in people, products and infrastructure are set to achieve long-term sustainable business.

The main DRS sales markets of education, census and elections have proven less prone to the economic climate. Strong e-Marker® revenues in 2008, coupled with the international election and census opportunities, gives rise to confidence for 2009.

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## GROUP REPORTS & ACCOUNTS

### Chairman's Statement

Demand for our educational products and services has been strong throughout 2008 and into 2009 and appears to be unaffected by the general economic recession.

Malcolm Brighton,  
Chairman

#### Summary of results

**£17.4** million

Turnover  
2007: £22.4 million

**£5.9** million

Gross profit  
2007: £7.7 million

#### Financial results for 2008

Revenue for 2008 was £17,429,000, down 22% compared to the 2007 achievement of £22,460,000. The fall results from there being no large election contract in 2008 to compare with the £7,615,000 Scottish Election contract undertaken in 2007. The reduced turnover combined with continued investment in new products and support of Peladon Inc has led to an operating loss for the year of £118,000.

It is disappointing to report an operating loss following the profits of last year. However, the Group increased its revenue in the education market place by 18% (2007: 4%) mainly as a result of investment in e-Marker®.

The general economic climate appears to have had little effect on sales into schools and examination marking during the year. However, it has had an impact on other areas of the business, most notably DocXP® selling into the financial services market. A half year provision of £600,000 was made against goodwill relating to the Peladon Software investment, but sales remained weak in the second half of the year and we have now made a final provision of £1,829,000. As a consequence, 2008 results show a £2,547,000 loss before tax after providing for £2,429,000 of impairment charges, compared to a profit before tax of £1,487,000 in 2007.

The balance sheet at 31 December 2008 remains strong with cash and cash equivalents of £2,766,000 (2007: £3,779,000).

	2008	2007
	£'000	£'000
(Loss)/profit before impairment and tax	(118)	1,487
Impairment charge	(2,429)	–
(Loss)/profit before tax	(2,547)	1,487
Total net assets	5,427	8,840
Total net assets per share	17.2p	27.7p
Tangible net assets	4,281	5,250
Tangible net assets per share	13.5p	16.5p

## International business is showing great potential in both elections and census.

In view of the results for the year, the directors do not recommend a final dividend for 2008. The directors will review the payment of a dividend at the end of the year based on the results for 2009.

### Key events

This year has been another year of growth for our education market, and in particular the area of examinations and assessment. Since launching our e-Marker® product four years ago we have grown the business consecutively each year and it now contributes more than a third of our revenue. The work with our main partner AQA (Assessment and Qualifications Alliance) has created a range of sophisticated marking solutions ideal for different subject matter and different types of examination questions. Our relationships with a number of awarding bodies over many years has helped us to shape e-Marker® into a world-leading product which is adaptable for use in examination processes all over the globe.

### Census and elections

DRS first started winning national scale projects back in 1996 with the award of a voter registration project in Sierra Leone. Since then we have completed many elections, voter registration and census projects. DRS' unique combination of skills in forms design, printing, scanning, software and logistics has made us the leading authority on capturing and processing data on a countrywide scale. We create simple to use forms which yield comprehensive and accurate information in the most cost-effective manner.

We have assisted many international organisations, such as UNFPA (The United Nations Population Fund) and OSCE (Organisation for Security and Co-operation in Europe), to complete these large projects to critical time scales. This year has been no exception with completion of the Ethiopian census and new projects in Sudan and Malawi. The peak time for most national census projects is around the end of a decade so we expect to be involved in more of these projects over the next few years.

Our election work in Scotland has continued during the year with printing and electronic counting of ballot papers in five by-elections. We have a world leading e-Counting product

which is capable of counting complex single transferable vote contests and we were delighted to see its continued use by the Scottish Local Authorities.

### DocXP®

Economically, 2008 was a poor year for the United States (US) market which has impacted on our sales of DocXP® into the financial sector. Promising sales trends during the first half of the year were reversed when the problems with US economy became evident in the second half. We took action during the year to minimise costs in Peladon both in the UK and US by transferring all UK operations to DRS and consolidating activity in the US. Although we do not expect a quick recovery of the American market, our sales of DocXP® in the UK have grown and we are preparing for an international launch of the DocXP® product range. The ability of DocXP® to automatically capture and interpret data from complex documents keeps it at the forefront of the international marketplace for processing business forms.

### IntelliReg®

At the BETT education trade exhibition secondary schools were told by the government they were expected to provide parents with real-time access to pupil information, including attendance, by 2010. It was also recommended that primary schools provide the same information by 2012. Our IntelliReg® product is ideally placed to fulfil these requirements and a major new marketing campaign was launched during the year to inform schools of our capabilities.

### Staff

We have been successful in attracting and recruiting talented people into some key roles during the year to meet the demanding requirements of our business. The whole team is working extremely well and we have introduced a comprehensive training programme for skills, management and communication to ensure we develop and retain our staff. The work we undertake in other countries and the time critical nature of many of our projects is very challenging but as always our people are committed to supporting DRS to the very highest standard and I wish to thank them for their consistent dedication.

## GROUP REPORTS & ACCOUNTS

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### Chairman's Statement

We are working on a number of prospects, and new products are broadening the range of solutions that we are able to supply.

As announced earlier in the year, we are delighted that Sir David Brown has joined the Board as a non-Executive director and Deputy Chairman. Having been Chairman of Motorola Ltd for well over a decade he brings enormous value to DRS. In his short time with us so far he has proved to be a great asset with his breadth of knowledge and business experience.

#### Summary

Although revenue and profits have fallen this year we have been building a solid base for future growth. Investment in products, skills and infrastructure have been maintained at a high level to ensure long term sustainable growth is achieved. Our e-Marker® business has been very strong this year and with new product developments that have been implemented we are aiming to achieve significant new business next year.

International business is showing great potential in both elections and census. We are working on a number of prospects in countries with which we have not traded before and our new products are broadening the range of solutions that we are able to supply.

The Board remains committed to improving the Group's performance in its recurrent market sectors and reducing its dependence on one off significant single contracts to deliver consistent profitability.

A number of new people have joined the Executive Management this year and we now have our strongest team. This team and our range of world leading products combine to keep DRS at the forefront of the data capture market. Although the economic conditions are particularly challenging, our main sales markets of education, census and elections are less prone to these difficulties than other more commercial areas. Your Board is optimistic that despite the general slowdown of the economy DRS can grow over the coming year.

**Malcolm Brighton**  
Chairman

11 March 2009

## Financial and Operating Review

2008 has been a demanding year in a challenging economic environment.

Tony Lee,  
Managing director

### Summary of results

**£2.7** million

Product development  
2007: £1.7 million

**+16.7%**

Underlying sales growth

For 2008 there is a trading loss before tax of £118,000 and a one off impairment charge relating to a write down in the carrying value of the assets acquired in the acquisition of the Peladon Software Group of £2,429,000 creating a reported loss before tax of £2,547,000 (2007: trading profit £1,487,000). Loss per share was 9.46p (2007: earnings per share 3.21p).

The impairment is a judgement of short term returns on one of the Group's products that does not compromise the overall fiscal stability of the business or undermine the optimistic outline in the Group generally.

The balance sheet at 31 December 2008 remains strong with cash and cash equivalents of £2,766,000 (2007: £3,779,000).

2008 has been a demanding year in a challenging economic environment. DRS has taken an aggressive approach to investing in its products and people to ensure it is ideally placed to grow the business over the next two years. £2,680,000 was invested during the year (2007: £1,734,000) in development of the Group's products.

### Dynamics of the business

As was stated in the 2007 annual report, it was going to be a challenge to match the revenue of last year because of the scale of Scottish election project in 2007. Although the underlying revenue excluding election work has increased by 19%, the overall sales for 2008 of £17,429,000 were down on the previous year (2007: £22,460,000).

	2008		2007		2006	
	£'000	% Split	£'000	% Split	£'000	% Split
UK Sales	11,833	67.9%	17,567	78.2%	10,553	63.2%
Non-UK Sales	5,596	32.1%	4,893	21.8%	6,137	36.8%
	17,429		22,460		16,690	

The election revenue was £741,000 in 2008 compared to £8,484,000 in 2007.

## GROUP REPORTS & ACCOUNTS

### Financial and Operating Review

We have **continued to invest in our future with a focused programme of research and development** which both supports and extends the DRS business.

The primary market for DRS is UK education where 64.6% of its sales were generated in 2008 where e-Marker® is becoming increasingly important. DocXP® sales in the US, although still behind expectation, had shown promising increases in the first half of the year. However, our sales in the American markets are heavily dependent upon applications in the financial markets which have suffered particularly in the economic downturn.

A profit before tax of £433,000 (2007: £2,449,000) was generated by DRS Data Services Limited but losses in Peladon Software Inc and the £2,429,000 impairment charge resulted in a loss by the Group of £2,547,000.

The Group continues to manage the business in the segments described in Note 4. e-Marker® and DocXP® are the responsibility of software and services. IntelliReg® and Cense fall in scanning equipment and the print business covers all market sectors.

#### Impairment charge on Peladon Software investment

The Peladon Software Group was purchased in order to acquire the DocXP® document management products and to provide the DRS Group with a channel to distribute the products throughout North America. The investment was justified using a discounted cash flow (DCF) calculation that applied a 15% discount to future expected earnings generated by the DocXP® products on the future forecasted sales at the time of the investment, over a period of four years.

The volume of DocXP® sales since acquisition have been materially below expectation. In April 2007 Peladon Software Inc faced a sudden downturn in sales when the US banks stopped discretionary investment to take account of their problems. At the end of 2007 this was viewed as a short term issue which would correct during 2008. The UK then faced a downturn in the revenue from sales of DocXP® products and it became obvious during 2008 that the problem was more

widespread. The revenue forecasts were reduced in line with sales expectations. In the interim accounts an impairment provision of £600,000 against goodwill and £318,000 of unrecoverable deferred tax losses in Peladon Software Inc were charged to the income statement.

The revenue from sales of DocXP® products remained poor in the second half of the year and did not cover the cost of supporting and promoting the product in 2008. Current economic forecasts suggest recovery in the economic climate will be slow. As a consequence management have reassessed the value in use based on revised forecasts of future cash flows discounted at 15% per annum. This calculation gives a negligible value in use, resulting in an impairment charge of £2,429,000 in accordance with accounting requirements.

This charge relates to the carrying value of all assets associated with the Peladon Software Inc and DocXP® investment reducing their carrying value to nil. The breakdown of the charge is:

	£'000
Intangible assets	
– Unpatented technology	11
– Know-how	513
Goodwill	1,905
	2,429

Writing down the value of these assets does not change the directors' belief in the product and its potential. An explanation of future commitment to this product is given opposite in the Research and Development section.

As we gear up for the 2010 census round, we continue to **develop new innovations and a wider range of solutions**

### Highlights of the year

Our e-Marker® business continues to grow each year. Of particular value is the fact that this is recurring business which is increasing the per centage of our revenue which can be predicted each year and reducing our dependence on large one-off projects. We are delighted that AQA remains our largest customer for e-Marker® and that their use of e-Marker® is also growing each year. AQA is the leading awarding body in England providing nearly fifty per cent of all GCSE and A level qualifications. They are respected around the world for their academic prowess and are an excellent reference for our growing international market for e-Marker®. During 2008 e-Marker® was used by 20,000 markers to process 7.5 million examination scripts, the equivalent of 95 per cent of AQA's GCE and GCSE summer examinations.

International interest in e-Marker® is growing and we have completed pilot work with the Polish central examination body, Centralna Komisja Egzaminacyjna. This involved four different marking centres and was successfully delivered utilising 348 markers using the system. This project is now ready to start live processing of examinations and new pilots in other countries are planned including one in the Caribbean.

We continue to enhance our reputation as the leading supplier of paper-based census projects and have won more work in Africa. The Ethiopian census last year led to the project in the Sudan which has been our largest international project for 2008. Centres in the north and south of the country have been using local staff and our PhotoScribe® PS960 scanners to process the census papers which were printed by DRS. Full training was given by DRS staff and the project will be completed in 2009. A national census in Malawi was also won in 2008 and this continues a long and successful relationship with Malawi for processing their data.

Following the Scottish elections in 2007, a number of local authorities in Scotland have had to undertake by-elections. Because these by-elections have needed to be counted using STV (Single Transferable Voting), which is complex to count manually, most authorities decided to count them electronically. I am pleased to state that all of these authorities decided to use DRS for the printing and e-Counting of their ballot papers, and these included Glasgow and Edinburgh.

### Research and development

We have continued to invest in our future with a focused programme of research and development which both supports and extends the DRS business. Investment has increased from £1,734,000 in 2007 to £2,680,000 in 2008. Other than the creation of new functionality in the e-Marker® product, all of this expenditure has been expensed through the income statement.

### e-Marker®

To enhance the capabilities of e-Marker®, a major project was undertaken to create new techniques for the marking of Long Form Answers (LFAs). These are typically essay type answers which are written 'free format' in answer booklets. LFAs pose a number of problems when trying to optimise electronic marking because of the need to automatically recognise the location of individual answers. DRS has developed a process which, the Board believes is superior to competing technologies and enables most answers to be segmented automatically without manual intervention. The facilities available to markers of LFAs have also been radically improved to enable fast and convenient manipulation of on-screen essay images. This development, combined with the ability to annotate text while marking has produced a 'marker experience' which is efficient and easy to use and has been welcomed by expert examiners.

e-Marker® development costs were first capitalised in 2005 when the AQA contract was first secured. £1,105,000 was spent on the product during 2008 of which £578,000 has been capitalised (2007: £650,000) which specifically relates to the creation of new functionality. In total £2,515,000 has been capitalised to be amortised over a 3 year period from the time of spend. At the 31 December the carrying value of the capitalised investment of £974,000 is justified by a revenue stream that exceeded £7,500,000 in 2008. e-Marker® revenue is expected to continue to increase throughout 2009 and 2010 with the introduction of the new LFA functionality.

## GROUP REPORTS & ACCOUNTS

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### Financial and Operating Review

The DRS product is **unique in the marketplace** offering both high speed of registration and the ability to have multiple finger-tip sensors on each unit.

#### IntelliReg®

Development of the IntelliReg® e-registration product continued during the year. IntelliReg® enables students to register their attendance at lessons by touching their finger on a wall-mounted device. The information is immediately updated on the educational institution's records and removes the need for teachers to spend time carrying out this administrative task. The DRS product is unique in the marketplace offering both high speed of registration and the ability to have multiple fingertip sensors on each unit. This minimises the time taken to register a class of students and allows lesson level attendance monitoring without encroaching on teaching time.

The investment in IntelliReg® during 2008 was £612,000 and initial production units have now been produced by our manufacturing team. We are in the early phase of launching the product into a competitive market where product advantages and prices are still being established. Considering these uncertainties and the cost of electronic component fluctuating widely due to the Dollar exchange rate, it was considered prudent not to capitalise this investment.

#### DocXP®

The DocXP® suite of software has been developed to meet a number of new document management applications, in particular its ability to process complex tables of data embedded in multiple page documents. This type of data is prevalent in many business areas such as medical insurance claim forms that have previously only been handled by manual keying of data. With documents that can be several tens or hundreds of pages long, manual processing is very time consuming, error prone and expensive. DocXP® adapts to different table configurations and has proved itself fully capable of processing such data in a fraction of the previous time leading to significant cost savings. In independent tests it has successfully extracted data from documents that rival products have failed to process.

The writing off of the existing intangible assets relating to DocXP® is covered in the impairment disclosure. The accounting decision to write down the value of these assets does not overcome the directors' belief in the product and its potential. £347,000 was invested in the product during 2008 which was expensed through the income statement.

#### Census

As we gear up for the 2010 census round, we continue to develop new innovations and a wider range of solutions designed to fit the individual needs of the National Statistical Offices and census officials around the world. Our new hand-held device called 'Cense' was prototyped in 2008 and is based on our knowledge of census requirements and the need for geographical position data. The device captures and displays longitude and latitude information and is in the very early stage of development.

#### Liquidity and investments

At the end of 2008 the Group held £2,766,000 (2007: £3,779,000) in cash. It is the Group's policy to take a very cautious approach to cash management. In terms of treasury management only short term investments that do not put the capital at any risk are considered. The Group tries to maintain a high level of liquidity in order to have the funds to support the working capital requirements to be able to deliver large election and census contracts. DRS Data Services Limited has a £1,000,000 overdraft facility and a £1,000,000 credit line to cover operational performance bonds and guarantees that are not due to be reviewed until the end of 2010. In view of these arrangements the directors believe the access to cash resources are adequate to meet the foreseeable needs of the business over the next 12 months.

DRS objectives are to **achieve accelerated revenue growth** and **create increased shareholder value**.

### Future strategy and objectives

DRS objectives are to achieve accelerated revenue growth and create increased shareholder value.

The key elements of our strategy to support these objectives are to:

- increase the per centage of revenue generated from recurring business and expand the number of key customers.
- reduce indirect cost as a per centage of sales.
- expand e-Marker® services into the professional examinations market.
- complete the development of the core e-Marker® product to allow it to be licensed to overseas service providers.
- support the DocXP® product to achieve the original expectations of the product.
- market our census products to win a significant number of the projects from 2010 to 2012.

### Key performance indicators (KPIs)

Work has been undertaken during the year to re-organise the internal controls and processes of the business to achieve the strategy started in 2007. The impact of these changes are covered in the Internal Controls and Risk Management section of the Corporate Governance Report on page 36. To monitor the success of these changes and the progress of the business a number of performance indicators have been introduced:

	2008	2007	2006
Sales Growth pa	(22.4%)	34.6%	34.0%
Operating return on sales <sup>#1</sup>	0.6%	8.5%	2.8%
Top 5 customers <sup>#2</sup>	66.5%	67.2%	55.0%
Development expenditure <sup>#3</sup>	15.4%	7.7%	8.1%
Return on capital employed <sup>#4</sup>	(1.5%)	13.2%	2.1%

#1 ratio of operating profit as a per centage of total group sales (before amortisation of intangibles arising on Peladon acquisition and exceptional costs)

#2 ratio of revenue generated from 5 biggest customers as a per centage of total group sales

#3 ratio of development expenditure as a per centage of total group sales

#4 ratio of operating profit as a per centage of total assets less current liabilities (before exceptional costs)

It is the Group's goal to achieve accelerated revenue growth and increase the operating return on sales. The impact of sales concentration, new product development expenditure and return on capital employed are being monitored to enable a balanced approach being taken.

## GROUP REPORTS & ACCOUNTS

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### Financial and Operating Review

Part of our strategic objectives have been to **increase recurring revenue** and this has had a very positive affect on the mix of business in the Group during 2008.

#### Environmental and employees

The Group employed an average of 192 employees throughout 2008, of which 9 were based in Peladon Software Inc in the US. We have continued to improve our working practices and established a Project Management Department during the year to ensure all projects are managed using the PRINCE 2 project management methodology.

In 2007 our Quality Department led the introduction and ISO accreditation of the 9001 Quality Standard and the 14001 Environmental Standard. During 2008 they have added the 27001 Security Standard to our accreditations. This standard is particularly important to DRS because of the critical nature of much of the data which we process on behalf of our customers in areas such as education and elections.

#### 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 any 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.

The main risk issues that are specific to the business are set out below.

#### 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 2008 identified 66.5% of the Group's sales coming from its top five customers of which two customers relate to non-recurring business. It is an issue the management team recognises and the strategy to investment in new products and markets is designed to broaden the number of key recurring revenue generating customers.

#### Cautionary statement

This Financial and Operating Review has been prepared solely to provide additional information to shareholders to access 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 Financial and Operating Review contains certain forward-looking statements. These statements are made by the directors in good faith based on the

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We expect the education sector to continue to be the main element of our business with e-Marker® growing both in the UK and international markets.

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.

#### **Current trading and outlook**

One of our strategic objectives has been to increase recurring revenue and this has had a very positive affect on the mix of business in the Group during 2008. More than half of our revenue in the year came from such repeat business. Although large one off projects still contribute significantly to revenue in most years, we are on-track to increase the contribution from recurring revenue and ensure profitability without such dependence on single projects.

The expansion of our production facilities is still planned for 2009 but we have decided under the current economic climate not to proceed with a move into a single production unit. Several alternative plans are being considered and the expansion will probably be staged over two years to reduce costs.

We expect the education sector to continue to be the main element of our business with e-Marker® growing both in the UK and international markets. Our long established presence in the schools market will also benefit from the new IntelliReg® e-registration products. Strong contributions from hardware sales and print are also predicted. Although the world economic downturn has affected our DocXP® sales, the rest of our business is in areas we believe will be less vulnerable to the slowdown and we still expect to be able to grow both revenue and profit. Also in the commercial markets we believe that companies will be looking for ways to improve the efficiency of their operations as a means of combatting the slowdown and implementing DocXP® offers immediate and tangible savings.

**Tony Lee**  
Managing director

11 March 2009

## GROUP REPORTS & ACCOUNTS

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### Board of Directors and Officers

#### Malcolm Brighton

OBE, DL  
Chairman

Malcolm Brighton was Managing director from the company's establishment in 1969 until 2001. An Economics graduate, he previously worked in market research and served as Vice Chairman of the British Market Research Society. He is currently Chairman of Milton Keynes Primary Care Trust, and a member of Milton Keynes Economic and Learning Partnership, and Milton Keynes Partnership (the SPV for expanding Milton Keynes). He is also a director of two small private companies; Daybright Limited and Hintlesham Hall Limited.

#### Tony Lee

BSc, MPhil  
Managing director

Tony Lee joined the company in March 1997 as Technical director, having previously been European Technical director for Dolch Computer Systems. He has worked in the electronics and computer industry for more than twenty five years. In the late 1980s he was Head of Research and Development for Epson and was involved in a number of international projects developing printing, communications, image scanning and recognition technologies. He was appointed to the Board in September 1997 and appointed Managing director in March 2001.

#### Mark Tebbutt

ACMA  
Finance director

Mark Tebbutt qualified as a Chartered Management Accountant in 1984. He gained a broad operational knowledge of financial management with Bass and Grand Met before joining Misys as the Financial director for two of its subsidiaries. Thereafter, he held an operational role for six years in Stanley Works and joined DRS in 2001 as Head of Finance. Mark was appointed Finance director in March 2002.

#### Ann Limb

PhD, MA  
non-Executive director

Ann Limb was appointed to the Board of DRS as a non-Executive director in March 2003. A modern linguist and teacher by profession, she worked extensively in further education for 25 years spending over half her career as Principal and Chief Executive, firstly at Milton Keynes College and then Cambridge Regional College. Between 2001 and 2004, Ann was Group Chief Executive of the University for Industry, the government's national e-learning and e-services flagship responsible for the operation of learndirect and UK on-line. Ann is currently Chair of the Homes and Communities Milton Keynes Partnership Board and serves on boards of a number of other companies, charities and public bodies. She is founder and Chair of the Helena Kennedy Foundation for Social Justice.

**Rt. Hon. Lord Kinnock of Bedwellty**

non-Executive director

Lord Kinnock was appointed as a non-Executive director of DRS in March 2005. An Industrial Relations and History Graduate, he taught industrial and trade union studies before being elected Member of Parliament for Bedwellty and Islwyn in 1970. In 1979 he was appointed Labour's Chief Opposition Spokesperson on Education and was elected Leader of the Labour Party in 1983, a position he held until 1992. He was appointed to the European Commission in 1995, with the Transport portfolio to 1999 and then as Vice President 1999-2004. He was appointed to the Peerage in January 2005 and has been Chairman of the British Council since 2004.

**Chris Batterham**FCA, MA  
Senior Independent non-Executive director

Chris Batterham was appointed as a non-Executive director in September 2005. Chris qualified as a Chartered Accountant with Arthur Andersen. He was Finance director of Unipalm plc, the first internet company to IPO and stayed with the company for five years following its takeover by UUnet. More recently, he was CFO of Searchspace Group until 2005 and is currently a non-Executive director of SDL plc, The Risk Advisory Group Limited, Iomart plc and The Sporting Exchange Group Limited (Betfair). He has also served on the Boards of Staffware plc, DBS Management plc and The Invesco Techmark Enterprise Trust plc. Chris brings a wealth of experience in the strategic development of companies within the IT sector.

**Sir David Brown**

non-Executive director and Deputy Chairman

Sir David Brown was appointed to the Board of DRS as a non-Executive director and Deputy Chairman in August 2008. He graduated in electrical engineering in 1972 and worked for Motorola from 1991 to 2008 first as director of UK Operations and later as Chairman of Motorola Limited. He is currently senior independent director of Ceres Power Holdings plc and a non-executive director of Domino Printing Sciences plc. Sir David is a Fellow of the Royal Academy of Engineering, an Honorary Fellow of the Institution of Engineering and Technology and an Honorary Fellow of the Chartered Quality Institute. He was President of the Institution of Electrical Engineers, President of the Chartered Quality Institute, President of the Federation of the Electronics Industry and President of the Association for Science Education. He was knighted in 2001 for services to British Industry.

**Sally Hopwood**BSc  
Company Secretary

After studying economics and history at the London School of Economics and Political Science, Sally retrained as a solicitor, qualifying in 1990. She joined Argos as Company Secretary in 1992 and since leaving Argos in 1998, has held various corporate and commercial legal roles, working in both private practice and in-house in the banking and retailing sectors. She joined DRS in 2005 as Legal and Contracts Manager and was appointed Company Secretary of the UK subsidiary companies in 2006 and Company Secretary for the DRS Group in December 2007.

## GROUP REPORTS & ACCOUNTS

### Directors' Report

The directors present their report together with the audited Group and company financial statements for the year ended 31 December 2008.

#### Principle activities

The principle activities of the Group are the provision of data capture services, the manufacture and sale of optical and image scanning equipment and complementary services.

#### Business review

A review of the business during the year, likely future developments and the Group's activities in Research and Development are given in the Chairman's statement and the Financial and Operating Review.

#### Financial risk management

Details of the Group's financial risk management objectives and policies are given in Note 3 to the financial statements.

#### Key operational risks/uncertainties

Key operational risks and uncertainties have been covered in the Financial and Operating Review on page 26.

#### Financial and non-financial KPIs

KPIs have been covered in the Financial and Operating Review on page 25.

#### Results and dividends

2008 results show a £2,547,000 loss before tax after providing for £2,429,000 of impairment charges, compared to a profit before tax of £1,487,000 in 2007.

The directors do not recommend a final dividend for 2008.

#### The Board of directors

The current members of the Board, together with biographical details of each director are set out on pages 28 to 29.

All the directors (except Sir David Brown) served throughout the year.

Sir David Brown was appointed a non-Executive director on 1 August 2008. In accordance with Article 102 of the Articles of Association, shareholders will be asked to confirm his appointment at the Annual General Meeting.

Details of directors' service contracts and a statement of the interests of the directors and their families in the ordinary shares of the company is given in the Directors' Remuneration Report on pages 39 to 43.

No director had any material interest in any contractual agreement subsisting during or at the end of the year which is or may be significant to the Group.

#### Retirement and re-election of directors

In accordance with Article 98 of the Company's Articles of Association, one-third (or nearest whole number below one-third) of the directors of DRS Data & Research Services plc are required to retire at each AGM, together with directors appointed since the previous AGM. In addition, under the Combined Code on Corporate Governance, directors are required to submit themselves for re-election by shareholders every three years.

A C Lee and A G Limb retire by rotation and, being eligible, offer themselves for re-election at the 2009 AGM.

#### Takeover directive disclosures

The company's share capital is as follows:

	Ordinary shares of 5p each At 31 December 2008 and 2007	
	Number	£000
Authorised	46,000,000	2,300
Allotted, issued, called up and fully paid	34,621,600	1,731

All shares have equal rights and there are no restrictions on the transfer of securities in the company or on the voting rights.

There are no securities that carry special rights with regard to control of the company.

Employees are able to exercise voting rights over their beneficial shareholdings within the company's employees' share scheme.

The directors' powers to issue shares are set out below in the section relating to the Annual General Meeting (page 31) in which the right of authority to allot and disapplication of pre-emption rights is to be asked of the shareholders.

The directors do not have the authority to buy back shares as the Chairman's shareholding is subject to the rules governing concert party shareholdings.

Details of substantial shareholdings:

At the date of this report the company has been notified of the following shareholdings of 3% or more in the issued share of the company:

	Ordinary shares of 5p each	Percentage holding
Malcolm Brighton (Chairman)	7,079,697	20.45%
S D Stewart	2,000,000	5.78%
G Brighton	2,000,000	5.78%
J A Brighton	2,000,000	5.78%
Mark Brighton	2,000,000	5.78%
DRS Data & Research Services plc – Treasury shares	1,930,000	5.57%
J P MacArthur	1,139,400	3.29%

A statement setting out the interest in shares in the company of each director and their connected persons as at 31 December 2008 is provided in the Directors' Remuneration Report.

### Articles of Association

The articles of association may be amended by special resolution of the shareholders.

### Significant agreements

The agreement with Assessment and Qualifications Alliance (AQA) relating to e-Marker<sup>®</sup> services which became effective on 1 October 2005 and remains in force, contains provisions allowing AQA rights of termination following a successful takeover of DRS Data Services Limited by certain rival companies.

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

### Creditor payment policy

The Group's normal practice is to agree terms and conditions with all suppliers before business takes place. Payment is then made on these terms subject to satisfactory performance by the supplier. Trade creditors at the year end represented 21 days (2007: 23 days) of average supplies for the year.

### Treasury shares

The company continues to hold 1,930,000 ordinary shares of 5p purchased between 3 June and 15 July 2004 for a total consideration of £1,166,000 as treasury shares. This represents 5.57% of the company's called up share capital.

### Annual General Meeting

The Annual General Meeting of the company will be held on Monday 11 May 2009 at 3.00pm at the Registered Office, 1 Danbury Court, Linford Wood, Milton Keynes MK14 6LR at which shareholders will be asked, as items of special business, to give power to the directors to allot shares and to give power to the directors to disapply the pre-emption requirements of Section 89 of the Companies Act 1985. Also the shareholders will be asked to approve the Rules of the new DRS Data & Research Services plc Value Creation Plan details of which are provided in the Circular to Shareholders.

### Renewal of authority to allot

The current authority to allot relevant securities within the meaning of Section 80 of the Companies Act 1985 will expire on 30 June 2009 or at the 2009 Annual General Meeting, if earlier. Resolution 8 as set out in the Notice of the Annual General Meeting, will be proposed as an Ordinary Resolution to authorise the directors to allot ordinary shares in the capital of the company up to an aggregate nominal amount of £568,920. The authority (unless previously varied, revoked or renewed) will expire 15 months after the date of passing of the resolution or, if earlier at the 2010 Annual General Meeting.

### Disapplication of pre-emption rights

The current authority for directors to allot equity securities for cash without first being required to offer such securities to existing shareholders in proportion to their existing holdings expires on the 30 June 2009 or at the 2009 Annual General Meeting, if earlier. Resolution 9 as set out in the Notice of Annual General Meeting, will be proposed as a Special Resolution to renew the authority of the directors under Section 95 of the Companies Act 1985 to allot shares for cash otherwise than on a pre-emptive basis. The number of shares which may be allotted will be limited to an aggregate nominal value of £86,554 (representing 5% of the issued share capital of the company). The authority (unless previously varied, revoked or re-worked) will expire 15 months after the date of passing of the resolution or, if earlier at the 2010 Annual General Meeting.

Although there is no present intention of issuing any shares (other than pursuant to the company's share option schemes), the directors consider it is desirable to maintain the flexibility afforded by these provisions.

## **GROUP REPORTS & ACCOUNTS**

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### **Directors' Report**

#### **Going concern**

In considering going concern, the directors have reviewed the Group's future cash requirements and earning projections. The directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The directors have concluded that the Group should be able to operate within its current facilities and comply with its banking covenants for the foreseeable future and therefore believe it is appropriate to prepare the financial statements of the Group on a going concern basis. This is supported by the Group's liquidity position as set out in the Financial and Operating Review on page 24.

#### **Auditors**

The auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office and a resolution re-appointing it as auditor will be proposed at the 2009 AGM.

#### **By order of the Board**

**Sally Hopwood**  
Company Secretary

11 March 2009

## Corporate Governance Report

The Board is committed to high standards of Corporate governance.

It is accountable to the company's shareholders for good governance and regularly reviews its procedures to take account of the principles of the Combined Code on Corporate Governance. ("the Code".) The Code, issued by the Financial Reporting Council in June 2006, sets out the standards of good governance practice for the company.

This statement sets out how the Board has complied with the provisions set out in Section 1 of the Code.

### Compliance with the Combined Code

The Board considers that the company fully complied with the main principles of the Code throughout the year ended 31 December 2008 other than in respect of the following items:

- A3.1 Malcolm Brighton is not considered by the Board to be independent within the meaning provided in the Code.
- A4.6 Details concerning the appointment of Sir David Brown to the board as Deputy Chairman are provided on page 20.
- A6.1 The performance evaluation undertaken in 2007 identified the need to strengthen the company's internal controls relating to the sharing of appropriate information within the Group companies. A separate evaluation has not been completed in 2008; instead work has been ongoing throughout the year to improve information flow and corporate Group structure. This will conclude during 2009 during which a separate evaluation of Board Committees and individual directors will also be undertaken in accordance with the Code's requirements.
- D1.1 The responsibility of communicating with the major shareholder and institutional investors rests with the Chief Executive and the Finance director. It is the company's policy to make the directors available at the shareholders' request.

### Board of directors

The Board of directors provides leadership to the company and is responsible for directing the employees of the company in accordance with good corporate governance practices in order to promote the success of the company.

At 31 December 2008 and at the date of this report, the Board comprises the Chairman, Malcolm Brighton who has

no executive responsibilities, two Executive directors, Tony Lee, the Chief Executive Officer, Mark Tebbutt, the Finance director and four non-Executive directors, Chris Batterham, Lord Kinnock, Ann Limb and Sir David Brown, who was appointed to the Board as Deputy Chairman in August 2008. With the exception of the Chairman, the Board considers all the non-Executive directors as independent under the Code. The names and biographical details of the current directors are given on pages 28 to 29.

The roles of the Chairman and Chief Executive Officer are separated and their responsibilities are clearly established, set out in writing and are agreed by the Board. The Chairman is responsible for the leadership and workings of the Board and ensuring its effectiveness and setting its agenda. The Chief Executive Officer, is responsible for the running of the business and the implementation of the Board strategy and policy.

The non-Executive directors possess broad business and commercial experience with the independent and objective judgement in markets that DRS operates in and, as part of their role as members of the Board, they constructively challenge and help deliver proposals on strategy. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are appropriate. They are responsible for determining appropriate levels of remuneration of Executive directors and take an active role in appointing, and where necessary removing, Executive directors, and in succession planning.

The Board provides effective leadership and control of the company and its subsidiary companies ensuring that the decision making process cannot be dominated by any individual or by a small group of individuals.

The Board has a schedule of matters reserved for its decision. It is responsible for determining overall Group strategy; establishing policies and objectives, ensuring that necessary financial and human resources are in place to enable these objectives to be met and reviewing management performance. The Board provides leadership of the Group within a framework of prudent and effective controls which enable risk to be assessed and managed and it ensures that obligations to shareholders and others are understood and met. All directors take decisions objectively and in the interests of the company.

In accordance with the requirements of the Companies Act 2006 ("the Act"), all directors are required to disclose all matters to the Board that may involve that director breaching his duty to avoid conflicts of interest.

## GROUP REPORTS & ACCOUNTS

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### Corporate Governance Report

The company's Articles of Association include arrangements for Board authorisation to be granted in certain circumstances and in accordance with the provisions of the Act.

Chris Batterham is appointed the Senior Independent director. He is available for the company's shareholders to contact with matters of concern and he is also the contact for arrangements by which Group employees may, in confidence, raise concerns about possible wrong-doing in financial reporting or other matters (so called 'whistle-blowing' procedures) and is responsible for ensuring that arrangements allow proportionate and independent investigation of such matters and for appropriate follow up action.

The Board meets as regularly as necessary in order to discharge its duties effectively. During 2008 the Board met seven times and the directors' attendance record is set out on page 35 of this report. In addition, the non-Executive directors (led by Chris Batterham) met with the Chairman a number of times without Executive directors being present.

In February and April 2008 the Board met to discuss improvements to communications and structure within the Group at which discussions were facilitated by external consultants. The Chairman's performance was also evaluated in April 2008.

The Board is supplied with appropriate, timely and clear information to enable it to discharge its duties. In addition, all directors have access to advice from the Company Secretary and independent professionals at the company's expense. Appropriate insurance cover is maintained in respect of legal action against any of the company's directors.

#### Board Committees

The Board has established three main Committees; the Nominations, Remuneration and Audit Committees. The terms of reference of each Committee are reviewed annually by the Board and are available upon request from the Company Secretary, or from the Group's website at [www.drs.co.uk](http://www.drs.co.uk).

#### Nominations Committee

This Committee meets as required to initiate the selection process and the appointment of members to the Board. The Committee is delegated authority by the Board to review the skills, knowledge and experience requirements and the job descriptions for specific appointments. The members of the Nominations Committee are Malcolm Brighton, Tony Lee, Chris Batterham, Ann Limb, Lord Kinnock and Sir David Brown, who was appointed to the Committee in October 2008. The Committee is chaired by Malcolm Brighton.

Candidates are assessed and interviewed by the Nominations Committee and a recommendation is made to the Board. The decision to appoint a candidate is made by the Board itself.

The Nominations Committee met once during 2008 in order to consider the selection process appropriate for the appointment of Sir David Brown as Deputy Chairman. The role was not openly advertised and though an external consultancy advised the company regarding the appointment, the final selection was not made from their list of candidates. Before invoking a more formal recruitment process the Board agreed to consider our various networks to see whether an outstanding candidate might already directly or indirectly be available. In the event Sir David Brown did emerge as a candidate from that informal process and after the Chairman and CEO and all the non-Executive directors had met him the Nominations Committee's view was that he was indeed an outstanding candidate, a view that has been reinforced by his contribution since joining the Board. Before his appointment Sir David was not known either to the Chairman or the Chief Executive Officer.

#### Remuneration Committee

The Committee is chaired by Ann Limb. The other members of the Committee are Chris Batterham, Lord Kinnock and Sir David Brown (appointed October 2008).

The Remuneration Committee is responsible for determining the remuneration of the Chairman and the Executive directors and for recommending and monitoring the level and structure of remuneration for senior management.

The Directors' Remuneration Report set out on pages 39 to 43 provides more information on the Remuneration Committee and the company's remuneration policy for Executive and non-Executive directors.

The Board determines the remuneration of the non-Executive directors within the limits set out in the Articles of Association.

#### Audit Committee

This Committee consists solely of independent non-Executive directors. Chris Batterham is the Committee's Chairman and has recent and relevant financial experience as required by the Code. Sir David Brown was appointed to the Committee in October 2008.

The Audit Committee's duties include reviewing the effectiveness of the Group's external auditor, reviewing half yearly and annual financial statements before they are presented to the Board, focusing on accounting policies and compliance. The Committee considers areas of management judgement and estimates, and the effectiveness of internal control procedures. The Audit Committee also reviews the company's whistle-blowing arrangements by which its employees may raise concerns about financial reporting and other matters.

The Audit Committee reviews the nature and extent of all services supplied by the external auditor to ensure independence is not impaired and makes recommendations to the Board on the external auditor's remuneration and terms of engagement. The Audit Committee is responsible for overseeing the appointment and removal of the external auditor.

The Audit Committee met four times in 2008. The company's external auditor, Grant Thornton UK LLP, is invited to attend meetings of the Committee at least twice a year. The external auditor continues to operate procedures to safeguard against the possibility that its objectivity and independence could be compromised. Grant Thornton UK LLP provides a report annually to the Audit Committee confirming their independence and the scope of their non-audit services.

The Audit Committee has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

### Attendance at meetings

The following table details the number of Board and Committee Meetings held during the year ended 31 December 2008 and the attendance record of each director.

	Board	Audit	Remuneration	Nomination
Number of meetings held in year	7	4	3	1
C M Batterham*	7	4	3	0
M Brighton*	6	4†	2†	1
Sir David M Brown*‡	3	1	2	–
Rt Hon Lord N G Kinnock*	7	4	2	1
A C Lee	7	4†	3†	1
A G Limb*	7	4	3	1
A M Tebbutt	6	4†	–	–

\* non-Executive director

† attendance by invitation (for all or part of meeting)

‡ appointed to Board August 2008, appointed to Committees October 2008

### Relations with shareholders

The Board is committed to ensuring that there is effective communications with all interest groups and that an active dialogue with shareholders is always maintained. The Group's website provides our stakeholders with regulatory news announcements, press releases and the Annual Report and Accounts which are available for download together with information of a more general nature regarding the Group's business activities. The website address is [www.drs.co.uk](http://www.drs.co.uk).

The Chief Executive and Finance director meet every year with the company's major institutional shareholders. Fund managers and analysts are given the opportunity to meet with a member of the Executive Board or with the Senior Independent director, if they so require.

Additionally, all non-Executive directors are willing to meet with institutional shareholders to discuss any concerns they may have.

## GROUP REPORTS & ACCOUNTS

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### Corporate Governance Report

All the company's directors attend the AGM which takes place at the company's registered office. A separate circular has been provided with this Report which contains the Notice of Annual General Meeting and details of the business to be considered at the meeting. A copy of the Notice is also published on the company's website. The AGM is used to communicate with private investors and institutional shareholders alike and all are encouraged to participate. Shareholders are invited to ask questions and are able to meet the directors informally. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to adopt the Annual Report and Accounts. Abstentions as well as votes for and against every resolution are counted. The company reports on the number of proxy votes and will indicate the level of proxies lodged on each resolution before it has been dealt with by a show of hands. This information is supplied to shareholders attending the AGM and is published on the company's website following the meeting.

#### Internal control and risk management

The Board has overall responsibility for implementing, maintaining and reviewing a robust system of internal controls which cover all aspects of the business.

Underlying this process is the Board's aim to safeguard shareholders' investments and the company's assets and to enable the company to achieve its objectives.

However, the internal controls the Board has implemented are not intended to eliminate the risk of failure to achieve the Group's objectives but to manage such risks.

#### Procedural risk

2008 has seen the introduction of improved quality management and business development systems and the implementation of those systems throughout the Group. This resulted from the achievement of external accreditation under ISO 9001 (for quality management systems) and ISO 14001 (for environmental management systems) in 2007. Improved documentation and control processes within the Group's risk management framework during 2008 have resulted in better resource allocations. The Capability Maturity Model, introduced to the business in September 2007, continues to be rolled out throughout the Group. The key risks that might hinder the achievement of the Group's objectives are recorded in a Group risk register that is distributed to directors prior to each Board meeting to ensure that at least one issue of strategic risk is reviewed in detail at each meeting.

#### Financial risk

Internal financial controls are based upon a budgetary process which involves senior managers working with the Executive directors to prepare an annual budget that is in line with corporate objectives set out in the three year plan. Senior managers' performance is then monitored against the agreed financial targets in management accounts that are prepared on a monthly basis. The overall approach is supported by detailed internal financial controls operated on a day-to-day basis on all aspects of the business. Proper accounting records are maintained and the reliability of management information, compliance with appropriate legislation and regulation and the identification and control of business risks are continually assessed.

The Board conducted a review of the Group's system of internal controls during 2008. It considers that there is an on-going process in place within the company for identifying, understanding, evaluating and managing significant risks facing the Group. The process remained in place at the date of approval of this report. It is effective at managing the risk of failure to achieve business objectives, and provides reasonable (though not absolute) assurances against material misstatement or loss.

Furthermore, the Board is satisfied that material action is taken promptly to remedy significant weaknesses which may be identified.

Details of the financial risk management objectives and policies of the Group, and exposures to financial risks are given in Note 3 to the financial statements.

#### Risk of conflicts

Since October 2008 the directors have been made aware of the statutory duty to avoid any situation in which they have or may have a possible conflict with the interests of the company. This duty is not infringed in cases where such a conflict situation has been authorised in advance by other Board members in accordance with the company's constitution. The Articles of Association contain appropriate provisions for the authorisation of conflict situations. All directors have notified the Board of all situations which may give rise to potential conflict with the interests of the company and refresh this information regularly.

#### By order of the Board

**Sally Hopwood**  
Company Secretary

11 March 2009

## Corporate Social Responsibility Report

### Introduction

The Board recognises the importance of effective management of environmental, governance and social issues and regards this as a fundamental cornerstone of the company's overall corporate governance framework.

The following material issues are supported by the KPIs referred to on page 25 and the Capability Maturity Model which were introduced in 2007:

- relationships with our customers and our suppliers;
- relationships with our employees, together with their health, safety and well being;
- DRS and its effect on the environment; and
- DRS and its support of the Community.

### Our suppliers and customers

The three ISO standards DRS has achieved in 2007 and 2008 provide our customers with confidence in what we do. In particular:

- ISO 27001 is designed to provide for the preservation of confidentiality, integrity and availability of information;
- ISO 14001 has enabled us to develop our policies and objectives to meet legal requirements and to assess any significant environmental impacts of the business; and
- ISO 9001 is helping the business to focus upon meeting our customers' stated requirements.

As part of our ISO 9001 accreditation, we have introduced a supplier approval process which includes supplier vetting and evaluation. The process is applied to suppliers who provide items and services relating to products and services which DRS sells to its customers.

In 2008 we have launched the order acceptance and capacity process, providing a well-managed and structured approach to the support we provide to our customers, providing improvements to the quotation, invoicing and sales recording systems we operate. The results have been positive, leading to fewer risks to the business, improved customer services and better accountability. This has been particularly beneficial in our bids office enabling staff to greatly improve the way bids we deliver are managed and executed, ensuring an efficient, high quality customer response is delivered every time.

Improvements in our working relationships with suppliers and customers are supported by the reduction in both debtor and creditor days since 2007.

The Group is set to introduce further business development initiatives in the months to come, focusing in particular upon the development of competencies and skill sets of our employees.

### Our employees

The Board is committed to ensuring that the highest possible health and safety and welfare standards are delivered consistently throughout the business to its employees, its customers and the general public. The Group will take all steps necessary and work within its power to meet this responsibility by regularly reviewing, amending and improving all relevant policies and procedures, meeting its obligations and exceeding best practice standards wherever possible.

Health and safety matters are regularly considered by the Health and Safety Committee whose recommendations and findings are reported quarterly to the Board. The minutes of the Committee's meetings are available to all staff through the company's intranet site.

An on-going programme of fire safety training is provided through which all employees are trained to take reasonable measures to protect their own safety and that of their colleagues and visitors.

A programme of management training and development was introduced in 2008 and will be continued in 2009 emphasising the importance of the development of communication skills throughout the management team.

There is a well established Social Committee which organises regular social events for employees.

Employees are encouraged to participate in the company's various sports and social clubs including golf, badminton netball and music. A golf tournament was held in September 2008. The company has a netball team, the 'DRS DRagonS' which competes in a local business league.

## GROUP REPORTS & ACCOUNTS

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### Corporate Social Responsibility Report

#### Environmental policy

DRS is increasingly aware of its impact on the environment. It is the Group's policy to support and encourage environmentally sound business operations. DRS works hard to minimise its impact by:

- meeting all statutory obligations placed upon us;
- pursuing environmentally responsible working practices to reduce the business environmental load;
- recycling of waste products and the safe disposal of non-recyclable materials;
- using environmentally friendly materials in production where we can; and
- working with responsible organisations. We closely evaluate the environmental credentials of potential suppliers who are now required to complete an environmental questionnaire prior to undertaking any business.

The environmental 'Green Team' was formed in 2007 to assist with ISO 14001 accreditation. It operates, defines and reviews environmental matters across the business looking at initiatives that can be undertaken to protect the environment. Environmental assessments are conducted on key projects the findings of which are made available for the Board's consideration. The Green Team recommended a review of the company's leased vehicle policy in 2008. The recommendations have now been implemented and the vehicles available on the scheme are fuel efficient low CO<sub>2</sub> emission models only.

A review of the high energy use areas of the business has also been conducted.

The implementation of an energy awareness initiative is planned for 2009 with a view to reducing energy use throughout the organisation.

Recycling of paper, cardboard, polythene and chemical waste is always undertaken. In 2008 DRS achieved a 55 per cent improvement since 2007 in the amount of office paper waste recycled. During 2008 we also introduced a plastics recycling initiative for the first time. DRS continues to participate in "Paper Planet", a local initiative whereby trees are planted by us at a local beauty spot to offset the environmental impact of the business.

Component parts are also recycled wherever possible. At the end of life of products supplied, customers are expected to return them to DRS for disposal or recycling in accordance with the Waste and Electronic Equipment Directive.

DRS also operates in accordance with the requirements of the European Directive 2002/95/EC (RoHS Directive) ensuring its products comply, where required, with the restrictions on the use of certain hazardous substances.

An independent audit of the operational performance of DRS was conducted with regard to the ISO 14001 accreditation. The audit was conducted in January 2009 and concluded that DRS had exercised a sufficient level of environmental management throughout 2008 to continue with ISO 14001 accreditation.

#### Our community

The Linford Wood Forum is a meeting of representatives from businesses with premises in the neighbourhood of the company's head office. Our Facilities Manager represents DRS at all meetings where issues discussed include traffic management, local security, the sharing of good practices and information regarding common service providers. The Forum is recognised by Milton Keynes Council.

Every year the 'DRS bike challenge' is organised and in 2008 employees were sponsored to compete in the Oxford to Cambridge cross country cycle race, collecting for the chosen charity the British Heart Foundation.

Cancer Research, Children in Need and the local scout group all received donations from DRS in 2008. In total the company made charitable donations in the year amounting to £9,860 (2007: £13,590).

DRS has been a sponsor of the Milton Keynes City Orchestra for more than 20 years and continues to support their vision and dedication to sharing classical music of the highest professional quality with our community in Milton Keynes and beyond.

#### By order of the Board

**Sally Hopwood**  
Company Secretary

**11 March 2009**

## Directors' Remuneration Report

This report has been prepared by the Remuneration Committee and has been approved by the Board. It was prepared in accordance with the Combined Code, Schedule 7A of the Companies Act 1985 and the Listing Rules.

### Unaudited information

#### Remuneration Committee

The Remuneration Committee comprises all four independent non-Executive directors of the company. Ann Limb is the Remuneration Committee chairman. Sir David Brown was appointed to the Committee on 9 September 2008. None of the Committee members have any personal financial interests (other than as shareholders), potential conflicts of interest arising from cross-directorships, or any day-to-day involvement in running the business. The Chairman and Chief Executive, at the invitation of the Committee, attend the meetings but are not present when their own remuneration is discussed.

The Committee meets formally at least once a year in January, but it is the practice of the Committee to meet on an ad hoc basis throughout the year to address matters that arise. The Committee met on three occasions in 2008. The attendance record of each director at the Committee meetings is provided in the Corporate Governance Report on page 29.

#### Advisers

The Committee appointed Halliwell Consulting Ltd (now known as PriceWaterhouseCoopers LLP) to provide advice on Executive directors' remuneration and benefits packages.

#### Remuneration policy

The Remuneration Committee is responsible for determining the policy on remuneration for Executive directors and other senior executives and, based on this policy, it determines the individual remuneration and benefits package for each of the Executive directors. The Committee is responsible for approving all awards and option grants under the Group's discretionary share incentive plans.

The company's policy on directors' remuneration is that packages are designed to attract, motivate and retain directors of the calibre necessary to maintain the company's position as a market leader and so reward them for enhancing shareholder value. When setting remuneration, the Remuneration Committee considers the conditions in the Group as a whole, the position of DRS relative to other companies and is aware of what companies are paying, although comparisons are treated with caution to avoid remuneration escalation.

#### Remuneration packages

The Executive directors' remuneration package includes fixed and variable elements to provide rewards for both the short and long term. Details of the individual elements of the remuneration package and employment contracts are:

#### Basic salary, fees and benefits

An Executive director's basic salary is determined by the Remuneration Committee in January of each year, having regard to individual responsibilities, performance and comparative information. In addition the company provides benefits comprising a company car fully funded for business mileage, or a cash allowance in lieu of company car, settlement by the company of professional fees in respect of personal tax affairs, private healthcare arrangements, life assurance cover and permanent health insurance.

A non-Executive director's fees are determined by the Executive directors in January of each year, having regard to individual responsibilities, performance and comparative information.

#### Performance related cash bonus

The Remuneration Committee, in awarding annual bonuses, considers the Group's financial performance during the year in respect of turnover, profitability, EPS and an assessment of the individual Executive director's performance against non-financial criteria presupposing that the Group's profit targets have been achieved.

#### Long term equity based incentive plans

The Remuneration Committee's policy has been to approve share options to Executive directors and key senior executives that relate to the Group's growth in EPS, in order to align the interests of directors more closely with those of the shareholders.

In November 2005, at an Extraordinary General Meeting, the shareholders approved a Long Term Incentive Plan (LTIP) for Executive directors and key senior executives. Awards under the scheme are based on the company's EPS and Total Shareholder Return (TSR) performance being at least at the median compared to the companies constituting the FTSE All Share Software & Computer Services Index.

In February 2005 HM Revenue & Customs approved a Share Incentive Plan (SIP) for all employees of the company including the directors. The SIP allows participants to invest up to £1,500 per annum by way of salary deduction in the company's shares. For every two partnership shares purchased by the participant, one additional matching share is gifted by the company. The scheme is operated in accordance with HM Revenue & Customs rules.

## GROUP REPORTS & ACCOUNTS

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### Directors' Remuneration Report

#### Pensions

Each of the Executive directors is a member of one of the company's money purchase pension schemes. Pension arrangements for each Executive director provide for a pension on retirement at the age of 65 based on a contribution by the company of a sum equivalent to 20% of basic salary. Base salary is the only component of remuneration which is pensionable. There is no requirement for an individual director to contribute to his pension scheme. Their dependants are eligible for Dependant's Pension and the payment of a lump sum equivalent to four times basic salary in the event of death in service.

#### Directors' contracts

The Executive directors have rolling contracts with six months' notice which are in line with the recommendations of the Combined Code 2006. The contracts date from the dates of appointment to the Board as set out in directors' interests below. There is no defined provision for compensation payable upon early termination of the contract.

It is the intention of the Committee that any future Executive director appointment will be based on contracts similar to those in effect for the current Executive directors.

The non-Executive directors each have letters of appointment, which refer to the re-election requirements under the Articles of Association. Each appointment is for a period of three years, or when individual directors are required to offer themselves for retirement by rotation, whichever is the earlier. The appointment may, however, be terminated by three months' notice from either party at any time. There is no provision for compensation payable upon early termination. Copies of the letters of appointment will be available for inspection at the AGM.

#### Directors' interests

The interests of directors (including their spouses' holdings) in the ordinary shares of the company as recorded in the register maintained by the company in accordance with the provisions of the Companies Act 1985 were as follows:

	Date of Appointment to Board	Ordinary Shares of 5p		
		As at 11 March 2009	As at 31 December 2008	As at 1 January 2008
C M Batterham	12.09.2005	40,000	40,000	40,000
M Brighton OBE (Chairman)	16.09.1969	9,079,697	9,079,697	9,079,697
Sir David Brown	01.08.2008	–	–	–
Lord N G Kinnock	14.03.2005	–	–	–
A C Lee	15.09.1997	133,872	129,457	116,923
A G Limb	17.03.2003	50,205	50,205	30,000
A M Tebbutt	25.03.2002	512,425	508,010	482,945

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### Performance graphs

The graph below compares the company's total shareholder return performance against the FTSE All Share Software & Computer index. The FTSE All Share Software & Computer index is considered the most appropriate for comparison purposes.

The graph shows the change in hypothetical value of £100 invested in the company's ordinary shares on the 1 January 2004 compared with the change in hypothetical value of £100 invested in the FTSE All Share Software & Computer index.

— DRS Share  
— FTSE Software & Computer Services Index

## GROUP REPORTS & ACCOUNTS

### Directors' Remuneration Report

#### Audited information

#### Directors' remuneration

The remuneration of the individual directors listed is as follows:

	Salary and Fees	Annual Performance-Related Bonus		Benefits	Total	Money Purchase Pension Contributions		
	£000	£000	%	£000	2008 £000	2007 £000	2008 £000	2007 £000
<b>Executive</b>								
A C Lee (CE)	109	–	–	13	122	147	22	21
A M Tebbutt	98	–	–	12	110	127	20	19
	207	–	–	25	232	274	42	40
<b>non-Executive</b>								
C M Batterham	25	–	–	–	25	20	–	–
Sir David Brown	12	–	–	–	12	–	–	–
M Brighton (Chairman)	32	–	–	–	32	28	–	–
Lord N G Kinnock	25	–	–	–	25	20	–	–
A G Limb	25	–	–	–	25	20	–	–
	119	–	–	–	119	88	–	–
<b>Total</b>	326	–	–	25	351	362	42	40

Annual performance-related bonus is expressed as a per centage of annual salary.

Sir David Brown was appointed as a director on 1 August 2008.

#### Share option schemes

During 2008 the Remuneration Committee approved options granted to the Executive directors under the terms of the DRS 2005 Long Term Incentive Plan and the DRS Data & Research Services plc Enterprise Management Incentive Scheme. The performance criteria for both is based on the level of EPS in the most recently reported financial year on the third anniversary of the date of grant and the TSR over these three years being at least at the median compared to the companies constituting the FTSE All Share Software & Computer Services Index. The proportion of the award that shall be released is set out on a sliding scale dependent upon the EPS reported in the 2010 audited annual accounts being greater than 3.0p per share. 25% of the qualifying option will be exercisable if the EPS equals 3.0p and 100% will be exercisable if the EPS is 6.0p per share, with pro-rata award between these levels. In any financial year a participant may not be awarded options over ordinary shares with an aggregate value of more than their basic salary calculated by reference to the market value of the ordinary shares at the time of the grant.

**Directors' share options**

Details of directors' share options are given below.

	Scheme	Options granted to 01.01.08	Granted in year	Lapsed	Exercised during year	Options held at 31.12.08	Exercise price	Exercisable date	Expiry date
A C Lee	RSS	100,000	–	–	–	100,000	18.0p	10.09.03	10.09.10
A C Lee	LTIP	195,000	–	195,000	–	–	NIL	04.11.08	04.11.15
A C Lee	LTIP	196,419	–	–	–	196,419	NIL	28.03.09	28.03.16
A C Lee	EMI	80,000	–	–	–	80,000	NIL	13.04.10	13.04.17
A C Lee	LTIP	133,180	–	–	–	133,180	NIL	13.04.10	13.04.17
A C Lee	EMI	–	144,578	–	–	144,578	NIL	12.03.11	12.03.18
A C Lee	LTIP	–	248,386	–	–	248,386	NIL	12.03.11	12.03.18
A M Tebbutt	LTIP	113,000	–	113,000	–	–	NIL	04.11.08	04.11.15
A M Tebbutt	LTIP	113,716	–	–	–	113,716	NIL	28.03.09	28.03.16
A M Tebbutt	EMI	80,000	–	–	–	80,000	NIL	13.04.10	13.04.17
A M Tebbutt	LTIP	73,600	–	–	–	73,600	NIL	13.04.10	13.04.17
A M Tebbutt	EMI	–	144,578	–	–	144,578	NIL	12.03.11	12.03.18
A M Tebbutt	LTIP	–	138,564	–	–	138,564	NIL	12.03.11	12.03.18

**Directors' other rights to share**

The market price of the company's shares at 31 December 2008 was 11.0p (2007: 23.5p) and the high and low values during the year were 23.5p and 11.0p respectively.

**By order of the Board**

**Ann Limb**  
Chairman of Remuneration Committee

11 March 2009

## GROUP REPORTS & ACCOUNTS

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### Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. The company financial statements are required by law to give true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

To the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give 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
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties that they face.

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

**A C Lee**  
Chief Executive

**A M Tebbutt**  
Finance director

## Report of the Independent Auditor to the Members of DRS Data & Research Services plc

We have audited the Group and parent company financial statements (the 'financial statements') of DRS Data & Research Services plc for the year ended 31 December 2008 which comprise the principle accounting policies, the Group Income Statement, the Group and parent company Balance Sheets, the Group and parent company Cash Flow Statements, the Group and parent company statements of Changes in Members' Equity and notes 1 to 43. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the directors is consistent with the financial statements. The information given in the Report of the directors includes that specific information presented in the Financial and Operating Review and Chairman's statement that is cross-referred from the Business Review section of the Report of the directors.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Disclosure Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Financial and Operating Review, the directors' details, the Corporate Governance Report, the Corporate Social Responsibility Report, the unaudited part of the Directors' Remuneration Report, the Statement of Directors' Responsibilities and the directors and advisers page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report on Directors' Remuneration to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## GROUP REPORTS & ACCOUNTS

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### Report of the Independent Auditor to the Members of DRS Data & Research Services plc

#### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation;
- the information given in the Directors' Report is consistent with the financial statements.

#### Separate opinion in relation to IFRS

As explained in Note 1.2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended.

**Grant Thornton UK LLP**  
**Registered Auditor**  
**Chartered Accountants**  
**Central Milton Keynes**

11 March 2009

## Consolidated Income Statement

for the year ended 31 December 2008

	Notes	2008 Before exceptional items £000	2008 Exceptional Items (Note 14) £000	Total 2008 £000	Total 2007 £000
Revenue	5	17,429	–	17,429	22,460
Cost of sales		(11,560)	–	(11,560)	(14,751)
<b>Gross profit</b>		5,869	–	5,869	7,709
Other operating income	7	763	–	763	125
Selling and marketing costs		(1,903)	–	(1,903)	(1,762)
Administrative expenses		(4,575)	(2,429)	(7,004)	(4,370)
Finance costs	9	(272)	–	(272)	(215)
<b>(Loss)/profit before income tax</b>		(118)	(2,429)	(2,547)	1,487
Tax charge	10	(274)	(171)	(445)	(464)
<b>(Loss)/profit for the period</b>		(392)	(2,600)	(2,992)	1,023
There were no exceptional items for the year ended 31 December 2007					
<b>(Loss)/earnings per share for profit attributable to the equity holders of the company during the year (expressed in pence per share)</b>					
Basic	23	1.24p	8.22p	(9.46p)	3.21p
Diluted	23	1.24p	8.22p	(9.46p)	3.17p
<b>Dividends</b>					
	24			2008 £000	2007 £000
Interim paid				95	95
Final proposed / paid				–	192
				95	287

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### Consolidated Balance Sheet

at 31 December 2008

	Notes	2008 £000	2007 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	3,511	3,921
Intangible assets	12	1,174	1,837
Goodwill	13	–	1,560
Deferred income tax assets	20	6	381
		4,691	7,699
<b>Current assets</b>			
Inventories	15	1,421	1,446
Trade and other receivables	16	2,557	2,797
Cash and cash equivalents	17	2,766	3,779
		6,744	8,022
<b>Total assets</b>		11,435	15,721
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital	18	1,731	1,731
Share premium account	19	5,377	5,377
Capital redemption reserve	19	115	115
Treasury shares	18	(1,166)	(1,166)
Own shares reserve	19	(319)	(335)
Translation reserve	19	(379)	(269)
Retained earnings		68	3,387
<b>Total equity</b>		5,427	8,840
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	22	2,250	2,250
Deferred income tax liabilities	20	34	188
		2,284	2,438
<b>Current liabilities</b>			
Trade and other payables	21	3,549	3,771
Current income tax liabilities		175	451
Borrowings	22	–	221
		3,724	4,443
<b>Total liabilities</b>		6,008	6,881
<b>Total equity and liabilities</b>		11,435	15,721

The financial statements were approved by the Board of Directors on 11 March 2009 and signed on its behalf by:

**A C Lee**  
Chief Executive

**A M Tebbutt**  
Finance director

## Consolidated Statement of Changes in Shareholders' 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 2007	1,731	5,377	115	(1,166)	(113)	2,536	(248)	8,232
Currency translation adjustment	-	-	-	-	-	-	(36)	(36)
Deferred tax on items relating to equity	-	-	-	-	-	-	15	15
Net expense recognised directly to equity	-	-	-	-	-	-	(21)	(21)
Profit for the period	-	-	-	-	-	1,023	-	1,023
Total recognised income/(expense) for the period	-	-	-	-	-	1,023	(21)	1,002
Shares purchased by Employee Restricted Share Scheme Trust	-	-	-	-	(253)	-	-	(253)
Employee share-based compensation	-	-	-	-	-	34	-	34
Dividend	-	-	-	-	-	(175)	-	(175)
Own shares vesting	-	-	-	-	31	(31)	-	-
<b>At 31 December 2007</b>	<b>1,731</b>	<b>5,377</b>	<b>115</b>	<b>(1,166)</b>	<b>(335)</b>	<b>3,387</b>	<b>(269)</b>	<b>8,840</b>
At 1 January 2008	1,731	5,377	115	(1,166)	(335)	3,387	(269)	8,840
Currency translation adjustment	-	-	-	-	-	-	(70)	(70)
Deferred tax on items relating to equity	-	-	-	-	-	-	(40)	(40)
Net expense recognised directly to equity	-	-	-	-	-	-	(110)	(110)
Loss for the period	-	-	-	-	-	(2,992)	-	(2,992)
Total recognised expense for the period	-	-	-	-	-	(2,992)	(110)	(3,102)
Employee share-based compensation	-	-	-	-	-	(26)	-	(26)
Dividend	-	-	-	-	-	(285)	-	(285)
Own shares vesting	-	-	-	-	16	(16)	-	-
<b>At 31 December 2008</b>	<b>1,731</b>	<b>5,377</b>	<b>115</b>	<b>(1,166)</b>	<b>(319)</b>	<b>68</b>	<b>(379)</b>	<b>5,427</b>

## GROUP REPORTS & ACCOUNTS

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### Consolidated Cash Flow statement for the year ended 31 December 2008

	Note	2008 £000	2007 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	887	4,483
Interest paid		(138)	(158)
Income tax paid		(538)	(560)
Net cash generated in operating activities		211	3,765
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)		(221)	(642)
Proceeds from sale of PPE		47	19
Purchase of intangible assets		(747)	(713)
Interest received		156	125
Net cash used in investing activities		(765)	(1,211)
<b>Cash flows from financing activities</b>			
Purchase of EBT shares		–	(253)
Dividends paid to Group's shareholders		(285)	(175)
Net cash used in financial activities		(285)	(428)
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(839)	2,126
Cash and cash equivalents at beginning of period		3,558	1,441
Exchange gains/(losses) on cash		47	(9)
Cash and cash equivalents at end of period	26	2,766	3,558

## Notes to the Financial Statements

for the year ended 31 December 2008

### 1. General information

#### 1.1. 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.

#### 1.2 Accounting convention

The financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and as developed and published by the International Accounting Standards Board (IASB).

#### Standards and interpretations not yet effective

New standards and interpretations currently in issue but not effective for accounting periods commencing on 1 January 2008 are:

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009)
- Improvements to IFRS (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective prospectively for transfers on or after 1 July 2009)

(Note that the amendment to IAS 39 and IFRS 7 issued in October 2008 took immediate effect (and may be applied from 1 July 2008) so this is not a standard in issue but not yet effective in an annual period that had not ended at 1 July 2008.)

IAS 1 Presentation of Financial Statements (Revised 2007) will result in changes to the presentation of the Group's financial statements as the format currently adopted for the Statement of Changes in Equity will no longer be permitted.

IAS 23 Borrowing Costs (Revised 2007) requires that borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. The standard must be applied for accounting periods beginning on or after 1 January 2009. The Group's current accounting policy is to recognise borrowing costs in the income statement as incurred. Where the Group has funded the acquisition or construction of property, plant and equipment or development costs through borrowings, application of the standard is expected to increase the cost of the asset and the depreciation charge and reduce finance costs.

IFRS 3 Business Combinations (Revised 2008) will apply to any future business combinations that the Group may undertake once it is in force. The Group has no plans to adopt the revised standard in advance of its mandatory implementation date and it is not possible to quantify the effect of the standard on future business combinations until those combinations take place.

The other Standards and Interpretations are not expected to have any significant impact on the Group's financial statements, in their periods of initial application, except for the additional disclosures on operating segments when IFRS 8 Operating Segments comes into effect for periods commencing on or after 1 January 2009.

## GROUP REPORTS & ACCOUNTS

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### Notes to the Financial Statements

#### 2. Summary of significant accounting policies

##### 2.1 Basis of preparation

These financial statements are for the year ended 31 December 2008 and are presented in Pounds Sterling rounded to the nearest thousand. They are prepared on a going concern basis. In considering going concern, the directors have reviewed the Group's future cash requirements and earnings projections. The directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The directors have concluded that the Group should be able to operate within its current facilities and comply with its banking covenants for the foreseeable future and therefore believe it is appropriate to prepare the financial statements of the Group on a going concern basis. This is supported by the Group's liquidity position at the year end.

The principle accounting policies of the Group are set out below and have been consistently applied to all years presented in these financial statements.

The principle accounting policies have remained unchanged from the previous year.

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:

- (a) 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.

(b) the following areas were considered to involve significant estimates:

- impairment of the assets relating to the investment in Peladon Software Inc is based on the carrying value of the assets justified on a discounted cash flow (DCF) calculation that applied a 15% discount to future expected earnings generated by the DocXP® product over a period of four years.
- stock provisions reflect future sales estimates over the useful life of the product. See Note 15.
- receivable provisions reflect future trade receivable amounts collectable. See Note 16.

##### 2.2 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.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

##### 2.3 Revenue recognition

Revenue is the total amount receivable by the Group for goods supplied and services provided net of VAT and trade discounts.

Sales of goods are recognised when the Group has delivered products to the customer and collectability of the related receivables is reasonably assured.

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.

Rental income is recognised on a straight-line basis over the period of the lease.

In the case of long-term contracts, revenue is recognised to the extent that the Group has obtained the right to consideration, and is primarily the proportion of total contract value that costs incurred to date bear to total expected contract costs in accordance with appropriate accounting standards.

#### 2.4 Leases

(a) The Group is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(b) The Group is the lessor

Scanning equipment leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives. Rental income is recognised on a straight line basis over the lease term.

#### 2.5 Dividends

Under IFRS proposed dividends do not meet the definition of a liability until such time as they have been approved by shareholders at the Annual General Meeting. Therefore, DRS do not recognise a liability in any period for dividends that have been proposed but will not be approved until after the balance sheet date.

#### 2.6 Segment reporting

Segmental data in this statement is analysed across the core functions of data handling (being scanning equipment, print and software and bureau services). The analysis reflects the work undertaken by the direct cost centres within the Group. The cost of resources managed by indirect cost centres have been apportioned to the core functions by the most appropriate methods that can be consistently applied. Many of these support services are shared.

#### 2.7 Foreign currency translation

The consolidated financial statements are presented in Sterling, which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

In the Group's financial statements all assets, liabilities and transactions for Group entities with a functional currency other than the Sterling (the Group's presentation currency) are translated into Sterling upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Sterling at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Sterling at the closing rate.

#### 2.8 Property, plant and equipment

Land and buildings relate to the Group's Head Office at Linford Wood, Milton Keynes. All property, plant and equipment is shown at cost less depreciation, except for land which is shown at cost. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on a straight-line basis to allocate the cost of each asset less its estimated residual value over its estimated useful life, as follows:

Freehold buildings	50 years
Computer equipment	3 years
Fixtures and fittings	5 years
Plant and machinery	3 – 10 years
Rental machines	3 years
Motor vehicles	5 years

Items of property, plant and equipment are subject to review for impairment where indications of impairment exist. Any impairment is charged to the income statement as it arises.

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### Notes to the Financial Statements

#### 2.9 Intangible assets

##### (a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and to bring into use the specific software. These costs are amortised over three years, being the estimated useful life of the software.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software that has been capitalised is amortised on a straight-line basis over three years from the date it is put to operational use.

##### (b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of their use on a straight-line basis over the period of their expected benefit, not exceeding three years.

##### (c) Intangible assets acquired in business combination

- (i) Unpatented technology – relates to unpatented software and software products developed which are protected, so far as is practicable, by trade secret law and confidentiality agreements.
- (ii) Know-how – relates to technical and market orientated knowledge and experience within the management whose support is secured by service agreements.

Intangible assets are recognised at fair value at the time of acquisition and amortised over their useful life of between 3 and 6 years.

#### 2.10 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 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.

#### 2.11 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and, where appropriate, a proportion of attributable production overheads. Net realisable value is the estimated selling price in the ordinary course of business reduced by the costs to complete and applicable selling expenses.

#### 2.12 Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently carried at amortised cost. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cashflows. Movements in the provision are recognised in the income statement.

#### 2.13 Investments – financial assets at fair value through profit or loss

The Group has used in the past liquidity funds which were fixed in value and carried a variable rate of interest. These assets were recorded at cost.

#### 2.14 Cash and cash equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 2.15 Share capital

Share capital comprises ordinary shares with a nominal value of 5p each.

Where the company purchases treasury shares or where shares are held in a restricted share scheme trust, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled, re-issued or disposed of. Where such shares are subsequently sold or re-issued any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

## 2.16 Accounting for income taxes

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's and subsidiaries' liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

## 2.17 Employee benefits

### (a) Pension obligations

The parent company operates defined contribution pension schemes under which employees of the UK based subsidiaries may participate. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions to the pension schemes are charged to the income statement as they accrue, thereby matching the cost of the Group's pension obligations to the period of employment to which they relate.

### (b) Bonus plans and profit sharing

The Group recognises a liability and expense for bonuses and profit sharing. Managers may be entitled to a bonus based on a formula that takes into consideration revenue, EPS, residual income in relation to the employee's responsibilities and an assessment of the individual's performance which includes non financial criteria. Employees who do not participate in the bonus scheme are entitled to participate in a profit sharing scheme based on the profitability of the subsidiary that employs them. The cost of providing these schemes is accrued against profits in the period in which the bonus is earned.

### (c) Share-based employee remuneration

All share-based payment arrangements granted after the 7 November 2002 and not vested by the 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based remuneration plans for remuneration of certain employees.

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options or shares awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to shareholders' funds. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options or shares expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Upon exercise of share options fulfilled by the issue of new shares, the proceeds received, net of any directly attributable transaction costs up to the nominal value of the shares issued, are allocated to share capital with any excess being recorded as share premium. Options or share grants fulfilled from shares held by employee share trusts are credited to their own share reserve.

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### Notes to the Financial Statements

#### 2.18 Financial liabilities and equity

Financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded initially at fair value, net of direct issue costs.

Financial liabilities are recorded at amortised cost using the effective interest method, with interest related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

All derivative financial instruments that are not designated as effective hedging instruments are accounted for at fair value through profit and loss.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

#### 2.19 Exceptional items

Exceptional items are those items that arise outside the normal course of business, are of significant size or unusual nature and are not expected to recur.

### 3. Financial risk management

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

##### (a) Market risk

###### (i) Currency risk

The Group operates internationally and is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. The Group does not hedge any transactions, and foreign exchange differences

on retranslation of foreign assets and liabilities are recognised in the income statement.

Wherever possible the Group looks to negotiate its sales contracts in the respective functional currencies. Occasionally DRS Data Services Limited uses either US Dollars or Euros, but the amounts involved during 2008 and 2007 were not material.

###### (ii) Interest rate risk

The Group finances its operations through a mixture of shareholders' funds and bank loans. The company's exposure to interest rate fluctuations on its borrowings is managed by the use of capped floating facilities. The Group mixes the duration of its deposits to reduce the impact of interest rate fluctuations.

Whilst the base rate remains below 4.92%, an increase of 1% in the base rate will not affect the cash amount of interest payable by the Group in respect of the mortgage because of the floor on the collar, but interest payable recorded in the income statement will reduce by approximately £20,000 due to the movement in fair value of the collar. For every 1% increase in the base rate above 4.92% interest payable will increase by £22,500 and so will interest payable through the income statement. On the Group's year end cash holding, a 1% increase in interest rates would increase interest receivable by £25,000.

For 2007, an increase of 1% in the base rate would have increased the interest payable by £22,500. On the year end cash holding a 1% increase in interest rates would have increased interest receivable by £33,000.

##### (b) Credit risk

The Group has no significant concentrations of credit risk. Where appropriate, sales to overseas customers are usually underwritten using letters of credit unless the customer makes a significant up front payment. A summary of all customers with indebtedness greater than £100,000 is prepared on a monthly basis for the directors and senior managers to review.

##### (c) Liquidity risk

The Group takes a prudent approach to managing liquidity risk to ensure sufficient cash is available to meet foreseeable needs and to safely finance the successful completion of large scale contracts, thereby minimising liquidity risk issues.

All £3,724,000 (2007: £4,443,000) of the liabilities are payable within one year except for the mortgage of £2,250,000, which is due to expire on 28 March 2011 and if not repaid before will fall due for repayment on this date.

### 3.2 Capital management

DRS retains a high level of cash and cash equivalents to be able to have sufficient funds to finance the working capital requirements of large contracts. It takes a cautious approach to investing this capital to minimise the Group's exposure to capital loss. The policy is consistent with the approach of previous years and explains the relatively large value of cash and cash equivalents held at the year end (see Note 17).

### 4. Segment information

The principle 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 companies in the Group are 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 and Information Systems.

The segments reflect the principle activities of the Group: Scanning equipment; Print; and Software and Bureau services.

#### Business segments for the year ended 31 December 2008

	Scanning equipment £000	Print £000	Software and services £000	Total £000
Revenue	3,742	3,684	10,003	17,429
Apportioned costs	(2,431)	(3,124)	(9,795)	(15,350)
Intangible impairment			(524)	(524)
Goodwill impairment			(1,905)	(1,905)
Segment result	1,311	560	(2,221)	(350)
Unallocated costs				(2,197)
Loss before tax				(2,547)
Segmented assets	3,413	1,658	3,501	8,572
Unallocated assets				2,863
Total assets				11,435
Segmented liabilities	(1,518)	(690)	(3,400)	(5,608)
Unallocated liabilities				(400)
Total liabilities				(6,008)
Capital additions	146	46	776	968
Depreciation and amortisation	168	168	1,282	1,618
Impairment charges	–	–	2,429	2,429

#### Geographical segments for the year ended 31 December 2008

	United Kingdom £000	Africa £000	North America £000	Rest of World £000	Total £000
Revenue	11,833	4,457	844	295	17,429

Revenue of £17,077,000 was generated from UK operations and the remaining £352,000 was generated in the US.

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### Notes to the Financial Statements

#### 4. Segment information continued

Comparative figures for the year ended 31 December 2007 are as follows:

	Scanning equipment £000	Print £000	Software and services £000	Total £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 £000	Africa £000	North America £000	Rest of World £000	Total £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 US.

## 5. Revenue and profit before tax

The significant categories of revenue recognised during the period are:

	2008	2007
	£000	£000
Sale of goods	5,890	6,645
Rendering of services including operating lease income	11,539	15,815
	17,429	22,460

(Loss)/Profit on ordinary activities before taxation is stated after:

	2008	2007
	£000	£000
<b>Auditor's remuneration:</b>		
– Audit-services	4	4
– Non-audit services	65	57
Depreciation	630	724
Amortisation	988	932
Impairment charge on goodwill and intangibles	2,429	–
Hire of plant and machinery	29	340
Operating lease expense	313	315
R&D expense	2,680	1,734
IFRS 2 charge	(26)	34

Auditor's remuneration relating to non-audit services comprises:

	2008	2007
	£000	£000
Non-audit services:		
– audit of subsidiaries	34	29
– advice on implementation of IFRS	1	2
– other non-audit services	26	25
	4	1
	65	57

## 6. Operating lease income

Operating lease income relates to the leasing of CD230 and CD360 scanners into UK schools. All of the machines are on a standard agreement which can be terminated on its anniversary date by the customer provided they give three months notice prior to the anniversary date of their intention to terminate the contract. The minimum future lease income at 31 December 2008 is £84,000 and is all recoverable within one year. Of this amount, £10,000 is invoiced and included in the trade receivables balance as at 31 December 2008.

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### Notes to the Financial Statements

#### 7. Other operating income

	2008	2007
	£000	£000
Bank interest	156	125
Fair value gains (realised and unrealised)	607	–
	763	125

The fair value gains relate to exchange rate differences on US Dollar and Euro transactions.

#### 8. Directors and employee benefit expense

Staff costs during the year were:

	2008	2007
	£000	£000
Wages and salaries	6,785	7,122
Social security costs	761	686
Share options granted to directors and employees	(26)	34
Pension costs – defined contribution plans	340	320
	7,860	8,162

The average number of employees of the Group during the year was:

	2008	2007
Scanning equipment	51	55
Print	31	29
Software and services	119	119
	201	203

Remuneration in respect of directors was as follows:

	2008	2007
	£000	£000
Emoluments	351	362
Pension contributions to money purchase pension schemes	42	40
	393	402

Key management remuneration:

	2008	2007
	£000	£000
Short-term employee benefits	232	274
Post-employment benefits	42	40
Share-based payments	(16)	16
	258	330

The Executive directors are considered to be the key management personnel of the Group. Further details on directors' remuneration and share options are set out in the Directors' Remuneration Report.

**9. Finance costs**

	31 Dec 2008	31 Dec 2007
	£000	£000
Interest expense:		
– bank borrowings	(138)	(158)
– other	(134)	–
– fair value losses (realised and unrealised)	–	(57)
	(272)	(215)

The fair value losses relate to exchange rate differences on US Dollar and Euro transactions.

The £134,000 relates to the fair market value of the collar arrangement. See Note 22.

**10. Income tax expense**

	31 Dec 2008	31 Dec 2007
	£000	£000
Current tax – domestic	262	755
Adjustment in respect of previous period	2	(23)
Total current tax	264	732
Deferred tax (Note 20)	181	(268)
	445	464

Of the deferred tax charge, £171,000 is classed as exceptional. See Note 14.

Domestic income tax is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year.

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

	2008	2007
	£000	£000
(Loss)/profit before tax	(2,547)	1,487
Tax at domestic income tax rate of 28.5% (2007: 30%)	(726)	446
Tax effect of expenses that are not deductible in determining taxable profit/(loss)	39	(21)
Goodwill impairment	544	–
Tax losses not recognised	531	86
Deferred tax on industrial building allowances	144	–
Effect of marginal rate	–	(7)
Effect of overseas tax rates	(62)	(41)
Effect of change in tax rates	(8)	5
Adjustment in respect of previous periods	(17)	(4)
Tax expense	445	464

The deferred tax asset is calculated assuming unused tax losses will be utilised over the next four years. This has resulted in £717,000 of unused tax losses for Peladon Software Inc. for which no deferred tax asset is recognised in the balance sheet.

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### Notes to the Financial Statements

#### 11. Property, plant and equipment

	Total £000	Freehold land & buildings £000	Computer equipment £000	Fixtures & fittings £000	Plant & machinery £000	Rental machines £000	Motor vehicles £000
<b>At 1 January 2007</b>							
Cost	9,987	2,900	1,680	2,062	2,684	655	6
Accumulated depreciation	(5,942)	(120)	(1,503)	(1,643)	(2,054)	(620)	(2)
Net book amount	4,045	2,780	177	419	630	35	4
<b>For the year ended 31 December 2007</b>							
Opening net amount at 1 January 2007	4,045	2,780	177	419	630	35	4
Additions	603	–	303	252	48	–	–
Disposals	(3)	–	(1)	–	(2)	–	–
Depreciation charge	(724)	(40)	(108)	(279)	(275)	(22)	–
Exchange adjustment	–	–	–	–	–	–	–
Closing net book amount at 31 December 2007	3,921	2,740	371	392	401	13	4
<b>At 31 December 2007</b>							
Cost	10,436	2,900	1,852	2,308	2,722	648	6
Accumulated depreciation	(6,515)	(160)	(1,481)	(1,916)	(2,321)	(635)	(2)
Net book amount	3,921	2,740	371	392	401	13	4
<b>For the year ended 31 December 2008</b>							
Opening net amount at 1 January 2008	3,921	2,740	371	392	401	13	4
Additions	221	–	130	10	73	8	–
Disposals	(4)	–	(1)	(2)	(1)	–	–
Depreciation charge	(630)	(40)	(185)	(174)	(217)	(12)	(2)
Exchange adjustment	3	–	1	2	–	–	–
Closing net book amount at 31 December 2008	3,511	2,700	316	228	256	9	2
<b>At 31 December 2008</b>							
Cost	10,520	2,900	1,888	2,300	2,791	635	6
Accumulated depreciation	(7,009)	(200)	(1,572)	(2,072)	(2,535)	(626)	(4)
Net book amount	3,511	2,700	316	228	256	9	2

Bank borrowings are secured on Linford Wood land and buildings to the value of £2,250,000 (2007: £2,250,000). See Note 22.

**12. Intangible assets**

	Total £000	Computer software £000	Development expenditure £000	Unpatented technology £000	Know-how £000
<b>At 1 January 2007</b>					
Cost	3,032	677	1,291	308	756
Accumulated amortisation	(1,011)	(363)	(413)	(104)	(131)
Net book amount	2,021	314	878	204	625
<b>For the year ended 31 December 2007</b>					
Opening net amount at 1 January 2007	2,021	314	878	204	625
Exchange adjustments	(4)	–	–	(1)	(3)
Additions	752	102	650	–	–
Disposals	–	–	–	–	–
Amortisation charge	(932)	(190)	(521)	(98)	(123)
<b>Closing net book amount at 31 December 2007</b>	<b>1,837</b>	<b>226</b>	<b>1,007</b>	<b>105</b>	<b>499</b>
<b>At 31 December 2007</b>					
Cost	3,769	772	1,937	307	753
Accumulated amortisation	(1,932)	(546)	(930)	(202)	(254)
Net book amount	1,837	226	1,007	105	499
<b>For the year ended 31 December 2008</b>					
Opening net amount at 1 January 2008	1,837	226	1,007	105	499
Exchange adjustments	140	–	–	3	137
Additions	747	169	578	–	–
Disposals	(38)	(38)	–	–	–
Amortisation charge	(988)	(157)	(611)	(97)	(123)
Impairment charge (Note 14)	(524)	–	–	(11)	(513)
<b>Closing net book amount at 31 December 2008</b>	<b>1,174</b>	<b>200</b>	<b>974</b>	<b>–</b>	<b>–</b>
<b>At 31 December 2008</b>					
Cost	4,801	889	2,515	398	999
Accumulated amortisation and impairment	(3,627)	(689)	(1,541)	(398)	(999)
Net book amount	1,174	200	974	–	–

Computer software relates to the third party software licences purchased by the Group to be used in the normal course of its business.

The capitalised development expenditure covers the cost of designing and writing the core e-Marker® software used to electronically mark examination scripts within the education marketplace.

All intangible amortisation is charged to cost of sales within the income statement. The impairment provision is charged to exceptional administrative expenses.

Unpatented technology and know-how relate to assets acquired on the acquisition of the Peladon Software Group in 2006.

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### Notes to the Financial Statements

#### 13. Goodwill

	Total £000
<b>At 1 January 2007</b>	
Cost and net book amount	1,894
<b>For the year ended 31 December 2007</b>	
Opening net amount at 1 January 2007	1,894
Exchange adjustments	25
Fair value adjustment	(359)
<b>Closing net book amount at 31 December 2007</b>	<b>1,560</b>
<b>At 31 December 2007</b>	
Cost and net book amount	1,560
<b>For the year ended 31 December 2008</b>	
Opening net amount at 1 January 2008	1,560
Exchange adjustments	345
Impairment charge	(1,905)
<b>Closing net book amount at 31 December 2008</b>	<b>-</b>
<b>At 31 December 2008</b>	
Cost	1,905
Accumulated amortisation and impairment	(1,905)
<b>Net book amount</b>	<b>-</b>

The goodwill relates to the acquisition of the Peladon Software Group in January 2006 and was based on an assumption that the future profitability of the two companies acquired would remain at least similar to the original justification provided to DRS management in the acquisition negotiations. The impairment charge is explained in Note 14.

#### 14. Impairment of Peladon Software Group investment

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. At the time of the investment the carrying value of the assets was justified on a discounted cash flow (DCF) calculation that applied a 15% discount rate to future expected earnings generated by the DocXP® product over a period of four years.

The volume of DocXP® sales since acquisition has been materially below expectation. This is considered attributable to market conditions created by the economic downturn. The adverse market conditions are particularly prevalent in the US markets where the principle DocXP® selling activity is concentrated.

The movement in the carrying value of the assets is as follows:

	Total £000	Unpatented technology £000	Know-how £000	Goodwill £000
<b>For the year ended 31 December 2008</b>				
Opening net amount at 1 January 2008	2,164	105	499	1,560
Exchange adjustments	485	3	137	345
Amortisation charge	(220)	(97)	(123)	–
Impairment charge	(2,429)	(11)	(513)	(1,905)
<b>Closing net book amount at 31 December 2008</b>	–	–	–	–

The revenue from sales of DocXP® product did not cover the cost of supporting and promoting the product in 2008. Current economic forecasts suggest recovery in the economic climate will be slow. As a consequence management have reassessed the value in use based on revised forecasts of future cash flows discounted at 15% per annum. This calculation gives a negligible value in use, resulting in the impairment charge.

The exceptional items in the income statement represent:

- impairment charge of £2,429,000 as above which is charged to administrative expenses
- deferred tax charge of £171,000 represented by:
  - write off of deferred tax asset of £318,000 relating to unused tax losses in Peladon Software Inc as future utilisation is no longer considered probable.
  - release of deferred tax provision of £147,000 related to carrying value of Know-how and unpatented intangibles following their impairment.

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### Notes to the Financial Statements

#### 15. Inventories

	31 December 2008	31 December 2007
	£000	£000
Raw materials	918	709
Work in progress	64	109
Finished goods	439	628
	1,421	1,446

Provisions held against the manufacturing inventory have been created in the past when the Group over orders on raw materials used in the manufacture of its scanning machines. However, from the start of 2004 obsolescence provisions have been increased to cover the risk of holding scanning machines and materials that are obsolete or do not comply with the requirements of the Restrictions of Hazardous Substances (RoHS) legislation that came into force from July 2006.

	31 December 2008	Movement during year	31 December 2007	Movement during year	31 December 2006
	£000	£000	£000	£000	£000
<b>Inventory provision</b>					
PS900 scanners	699	(242)	941	941	–
Other scanners	182	(136)	318	119	199
Print	30	21	9	3	6
<b>Total</b>	911	(357)	1,268	1,063	205

#### Related carrying value

PS900 scanners	665	881	1,203
Other scanners	574	349	263
Manufacturing inventory	1,239	1,230	1,466
Print inventory	182	216	234
<b>Total</b>	1,421	1,446	1,700

During 2007 320 PS900 scanning machines were produced for use in the Scottish Election contract. The provision created reflects the potential risk of holding these scanners in light of future technical obsolescence.

The cost of inventories recognised as an expense and included in "Cost of sales" amounted to £1,301,000 (2007: £2,458,000).

**16. Trade and other receivables**

	31 December 2008	31 December 2007
	£000	£000
Loans and receivables		
Trade receivables	1,374	1,612
Less provision for impairment of receivables	(42)	(357)
Trade receivables – net	1,332	1,255
Amounts recoverable on contracts	645	912
Prepayments and accrued income	580	630
	2,557	2,797

There is no material difference between the fair value and the carrying value of these assets.

The maximum credit risk exposure at the balance sheet date equates to the fair value of trade receivables. There is no concentration of credit risk, further details are set out in Note 3.1.

The Group recognised a recovery against the impairment of its trade receivables during the year of £209,000 (2007: expense of £170,000). The recovery/expense have been included in “Administrative expenses” in the income statement.

Standard payment terms on credit sales are 30 days net. With the exception of the UK education market, DRS is not always in a position to enforce contractual payment terms. This is taken into account when determining the provision for impairment of trade receivables.

The trade receivables ageing analysis is as follows:

	Past due						121+ days
	Total trade receivables	Current	0 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	
	£000	£000	£000	£000	£000	£000	
<b>31 December 2008</b>	1,374	928	271	98	41	17	19
31 December 2007	1,612	576	255	204	55	176	346

The trade receivables provision movement is included in “Administrative expenses” in the income statement and a breakdown is as follows:

	Total
	£000
<b>For the year ended 31 December 2007</b>	
Opening amount at 1 January 2007	187
Increase in provision to income statement	170
Closing amount at 31 December 2007	357
<b>For the year ended 31 December 2008</b>	
Opening amount at 1 January 2008	357
Exchange adjustments	41
Provision utilised	(147)
Decrease in provision to income statement	(209)
Closing amount at 31 December 2008	42

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### Notes to the Financial Statements

#### 17. Cash and cash equivalents

	31 December 2008	31 December 2007
	£000	£000
Cash at bank and in hand	279	195
Short-term bank deposits	2,487	3,584
	2,766	3,779

The effective interest rate on short term bank deposits was 1.74% (2007: 5.31%). These deposits have an average maturity of 19 days (2007: 13 days).

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

	31 December 2008	31 December 2007
	£000	£000
Cash and cash equivalents	2,766	3,779
Bank overdrafts	–	(221)
	2,766	3,558

The Group's approach to managing liquidity and currency risks is set out in Note 3.1(ii).

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

	2008	2008	2007	2007
	US Dollars	Euro	US Dollars	Euro
	£000	£000	£000	£000
Sterling equivalent	67	126	654	77

**18. Share capital**

	Number of shares	Ordinary shares	Treasury shares	Total
At 1 January 2007	34,621,600	34,621,600	(1,930,000)	32,691,600
Balance at 31 December 2007	34,621,600	34,621,600	(1,930,000)	32,691,600
Balance at 31 December 2008	34,621,600	34,621,600	(1,930,000)	32,691,600

	Ordinary shares of 5p each At 31 December 2008 and 2007	
	Number	£000
Authorised	46,000,000	2,300
Allotted, issued, called up and fully paid	34,621,600	1,731

The company acquired 1,930,000 of its own shares through purchase between 3 June and 15 July 2004. The price of these shares ranged between 60p and 59p. The total amount paid to acquire these shares, net of income tax, was £1,166,000 and has been deducted from shareholders' equity. The shares are held as treasury shares. The company has the right to re-issue these shares at a later date. All issued shares are fully paid.

**19. Other reserves**

	Share premium £000	Capital redemption £000	Own share reserve £000	Translation reserve £000	Total Group £000
As at 1 January 2007	5,377	115	(113)	(248)	5,131
Shares purchased by Employee Restricted Share Scheme Trust	-	-	(253)	-	(253)
Exchange rate differences	-	-	-	(21)	(21)
Own shares vesting	-	-	31	-	31
Balance at 31 December 2007	5,377	115	(335)	(269)	4,888
Exchange rate differences	-	-	-	(110)	(110)
Own shares vesting	-	-	16	-	16
Balance at 31 December 2008	5,377	115	(319)	(379)	4,794

The Own Share Reserve represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2008, 1,020,529 (2007: 1,100,529) shares with a market value of £112,258 (2007: £258,624) were held. Of these 150,000 (2007: 230,000) had been conditionally gifted to employees and a further 100,000 (2007: 100,000) are vested to a director at an option price of 18p. The Scheme authorises the Trustees to purchase up to 5% of the issued share capital, funded by loans from the company. Shares so acquired are conditionally gifted to employees and used to fulfil performance related options to directors and senior managers at the discretion of the Board.

The translation reserve represents the foreign exchange differences arising from the retranslation of the opening net investment in the US subsidiary and the retranslation of the goodwill and fair value adjustments arising on its acquisition, which are treated on consolidation as though they were assets and liabilities of the subsidiary.

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#### 20. Deferred income tax

	31 December 2008	31 December 2007
	£000	£000
Analysis for financial reporting purposes		
Deferred tax liabilities	34	188
Deferred tax assets	(6)	(381)
	28	(193)

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

	31 December 2008	31 December 2007
	£000	£000
At 1 January	(193)	83
Credit/(charge) to income for the year	181	(268)
Credit/(charge) to equity for the year	40	(15)
Effect of rate change on closing balance	–	7
At 31 December	28	(193)

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

	Revaluation of property	Fair value adjustments	Accelerated tax depreciation	Losses	EBT obligations	General provision	Total
	£000	£000	£000	£000	£000	£000	£000
At 1 January 2008	18	170	(48)	(317)	(13)	(3)	(193)
Charge to income for the year	–	(210)	64	317	13	(3)	181
Charge to equity for the year	–	40	–	–	–	–	40
At 31 December 2008	18	–	16	–	–	(6)	28

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

The losses in the table above relate to deferred tax losses in Peladon Software Inc. The fair value adjustments arise due to IFRS 3 in which required an equalisation adjustment to be created on intangible assets purchased on the acquisition of the Peladon Software Group. The charge to income relating to these two items 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 Note 14.

## 21. Trade and other payables

	31 December 2008	31 December 2007
	£000	£000
Financial liabilities measured at amortised cost		
Trade payables	676	991
Deferred income	917	822
Social security and other taxes	284	192
Accrued expenses	1,538	1,766
Fair value of interest rate collar (see Note 22)	134	–
	3,549	3,771

Fair value equates to carrying value.

Trade payables are contractually due within 30 days and are financial liabilities at amortised cost. The interest collar liability is at fair value through profit and loss. All other items are outside the scope of IAS 39.

## 22. Borrowings

	31 December 2008	31 December 2007
	£000	£000
<b>Non-current</b>		
Bank borrowings – secured loan	2,250	2,250
<b>Current</b>		
Bank overdraft – secured loan	–	221
Total borrowings	2,250	2,471

In March 2006 the parent company borrowed £2.25m secured by a fixed charge against the freehold land and buildings at a variable rate of 0.85% over base rate. In September 2006, a collar arrangement in respect of the new funding was entered into for the duration of the loan. Interest is payable on the balance at a rate equal to the average base rate for that month payable at the end of each quarterly interest period, and is capped at 6.50% with a floor of 4.92%. The fair market value of the collar at 31 December 2008 was £134,000. The full amount has been treated as a charge to interest paid and is shown in Note 9.

At the same time, DRS Data Services Limited arranged a £1m overdraft facility secured against its inventory and debtors at a variable rate of 1.15% over base rate.

The secured loans can be repaid at any time without penalty at face value and this is considered to be the fair value of the loans. It is contractually repayable on 28 March 2011. The bank overdraft is contractually payable within 60 days.

## GROUP REPORTS & ACCOUNTS

### Notes to the Financial Statements

#### 23. 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:

#### Basic earnings per share

	2008		Total	
	Before exceptional items	Exceptional items	31 December 2008	31 December 2007
Earnings attributable to ordinary shareholders being (loss) profit for the period	(392,000)	(2,600,000)	(2,992,000)	1,487,000
Weighted average number of shares	31,618,858	31,618,858	31,618,858	31,897,619
Basic (loss)/earnings per ordinary share	(1.24p)	(8.22p)	(9.46p)	3.21p

#### Diluted earnings per share

	2008		Total	
	Before exceptional items	Exceptional items	31 December 2008	31 December 2007
Basic earnings per share				
Earnings attributable to ordinary shareholders being (loss) profit for the period	(392,000)	(2,600,000)	(2,992,000)	1,487,000
Weighted average number of shares				
Basic	31,618,858	31,618,858	31,618,858	31,897,619
Dilutive effect of:				
– shares in restricted share scheme	–	–	–	180,000
– options under unapproved share option scheme	–	–	–	44,588
– options under the Enterprise Management Incentive Scheme	–	–	–	50,000
– options under LTIP option scheme	–	–	–	89,574
Diluted	31,618,868	31,618,868	31,618,868	32,261,781
Diluted (loss)/earnings per ordinary share	(1.24p)	(8.22p)	(9.46p)	3.17p

**24. Dividends per share**

	2008	2007	2008	2007
	Pence/share	Pence/share	£000	£000
Amounts recognised as distributions to equity holders in the year:				
Final dividend for the year ended 31 December 2006		0.25		80
Interim dividend for the year ended 31 December 2007		0.30		95
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 a final dividend.

**25. Cash generated from operations**

	31 December 2008	31 December 2007
	£000	£000
(Loss)/profit for the period	(2,992)	1,023
Adjustments for:		
– income tax (Note 10)	445	464
– depreciation of property, plant and equipment (Note 11)	630	724
– amortisation of intangible assets (Note 12)	988	932
– impairment charge (Note 14)	2,429	–
– IFRS (credit)/charge	524	–
– IFRS 2 charge in respect of EBT	6	–
– profit on sale of property, plant & equipment and intangibles	6	–
– exchange gains put through income statement	(5)	–
– interest income (Note 7)	(156)	(125)
– interest expense (Note 9)	138	158
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– inventories	25	254
– trade and other receivables	240	1,015
– trade and other payables	(222)	20
Cash generated from operations	887	4,483

In the cashflow statement, proceeds from sale of property, plant & equipment and intangibles comprise:

	31 December 2008	31 December 2007
	£000	£000
Net book amount	42	3
Profit on sale of property, plant & equipment and intangibles	5	16
Proceeds from sale of property, plant & equipment and intangibles	47	19

## GROUP REPORTS & ACCOUNTS

### Notes to the Financial Statements

#### 26. Reconciliation of movements in cash and cash equivalents

	1 January 2008	Cash flow	31 December 2008
	£000	£000	£000
Cash at bank and in hand	(26)	305	279
Term deposits	3,584	(1,097)	2,487
	3,558	(792)	2,766

#### 27. Commitments

##### (a) Capital commitments

In respect of contracted out software development expenditure a rolling three month development commitment existed at 31 December 2008 with the supplier equating to approximately £125,000 (2007: £125,000). There were no other capital commitments at 31 December 2008 or 31 December 2007.

##### (b) Operating lease commitments

The company has the following lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	£000	£000	£000	£000
Within one year	207	195	48	60
Within two to five years	136	77	29	48
	343	272	77	108

The Group holds five property leases. In the UK there are four leases relating to six business units occupied by operations in Milton Keynes. Three leases expire on 30 November 2010 and the fourth lease expires on 20 October 2009. Rent is payable quarterly in advance. The fifth lease relates to the Peladon Software Inc offices in San Diego which expired on 28 February 2009.

Other leases are all three year contracts. They relate to company vehicles that have an up front payment of three months in advance followed by a monthly payment and a photocopier lease payable quarterly in advance.

#### 28. Pension commitments

During 2007 and 2008 the Group operated various separate defined contribution schemes for the benefit of employees and Executive directors. In all cases the assets of the schemes are administered by trustees in funds independent of the Group. Pension contributions are shown in Note 8.

## 29. Share-based payments

Details of options granted:

	Type	Original number of share granted	Vesting period	Term	Exercise price	Method of settlement
<b>Year end 31 December 2004</b>						
7 April 2004	Employees	170,000	3 years	10 years	Nil	equity
<b>Year end 31 December 2005</b>						
2 November 2005	Directors and employees	616,000	3 years	3 years	Nil	equity
<b>Year end 31 December 2006</b>						
29 March 2006	Directors and employees	602,973	3 years	3 years	Nil	equity
<b>Year end 31 December 2007</b>						
13 April 2007	Directors and employees	449,333	3 years	10 years	Nil	equity
13 April 2007	Directors and employees	271,400	3 years	10 years	Nil	equity
<b>Year end 31 December 2008</b>						
12 March 2008	Directors and employees	736,627	3 years	10 years	Nil	equity
12 March 2008	Directors and employees	449,872	3 years	10 years	Nil	equity

Movements in the year:

	Outstanding options 1 January 2008	Granted	Lapsed	Exercised	Outstanding options 31 December 2008
<b>Year end 31 December 2004</b>					
7 April 2004	50,000	–	–	–	50,000
<b>Year end 31 December 2005</b>					
2 November 2005	511,000	–	(511,000)	–	–
<b>Year end 31 December 2006</b>					
29 March 2006	497,514	–	–	–	497,514
<b>Year end 31 December 2007</b>					
13 April 2007	369,333	–	–	–	369,333
13 April 2007	339,347	–	–	–	339,347
<b>Year end 31 December 2008</b>					
12 March 2008	–	736,627	–	–	736,627
12 March 2008	–	449,872	–	–	449,872

## GROUP REPORTS & ACCOUNTS

### Notes to the Financial Statements

#### 29. Share-based payments continued

Calculation of the fair value:

	Valuation model	Share price at grant	Expected price	Expected volatility	Expected life	Exercise dividends	Risk-free interest rate	Method of settlement
<b>Year end 31 December 2004</b>								
7 April 2004	Binomial	60.5p	0p	45.13%	3 years	3.67%	4.92%	56.76p
<b>Year end 31 December 2005</b>								
2 November 2005	Monte Carlo	34.0p	0p	45.52%	3 years	–	4.50%	26.00p
<b>Year end 31 December 2006</b>								
29 March 2006	Monte Carlo	37.0p	0p	43.43%	3 years	–	5.12%	31.40p
<b>Year end 31 December 2007</b>								
13 April 2007	Monte Carlo	37.5p	0p	36.64%	4.5years	–	5.44%	22.48p
13 April 2007	Monte Carlo	37.5p	0p	36.64%	4.5years	–	5.44%	22.48p
<b>Year end 31 December 2008</b>								
12 March 2008	Monte Carlo	20.75p	0p	31.68%	4.5years	–	4.16%	15.11p
12 March 2008	Monte Carlo	20.75p	0p	31.68%	4.5years	–	4.16%	15.11p

**Performance Criteria**

The EMI share options granted to employees in 2004 are subject to the employees remaining in the employment of the Group throughout the three year vesting period, after which time the shares are gifted to the employee.

The LTIP and EMI share options granted from 2005 onwards are based on the level of EPS in the most recently reported financial year on the third anniversary of the date of grant and the TSR over these three years being at least at the median compared to the companies constituting the FTSE All Share Software & Computer Services Index. The proportion of the award that shall be released is set out on a sliding scale dependent upon the EPS reported in the audited annual accounts being greater than 3.0p per share. 25% of the qualifying option will be exercisable if the EPS equals 3.0p and 100% will be exercisable if the EPS is 6.0p per share, with pro-rata award between these levels.

**Valuation Methodologies**

In order to calculate fair values of the options under consideration the Group has taken into account factors that knowledgeable, willing market participants would consider in valuing the options.

The fair values of the EMI options to employees with no additional market conditions were estimated using a Binomial option pricing model.

The fair value of the LTIP and EMI awards from 2005 onwards, where an element of the release of shares is contingent upon relative performance of the Group's Total Shareholder Return (TSR) against the TSRs of the companies in the comparator group, was calculated using a Monte Carlo Simulation model.

**Volatility Assumptions**

Annualised expected volatility of all the options were determined by calculating the average of standard deviations of daily continuously compounded returns of the Group's share price calculated over one, two and three years back from the date of grant of each instrument.

**Options outstanding**

The weighted average exercise price of the options outstanding at 31 December 2008 is 21.37p (2007: 27.24p).

## **PARENT COMPANY ACCOUNTS 2008**

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## PARENT COMPANY ACCOUNTS

### Parent Company Balance Sheet at 31 December 2008

	Notes	2008 £000	2007 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	34	2,700	2,740
Investment in subsidiaries	35	3,814	6,283
Amounts owed by subsidiaries	36	–	–
Deferred income tax assets	41	–	13
		6,514	9,036
<b>Current assets</b>			
Trade and other receivables	36	90	715
Cash and cash equivalents	37	2,487	3,585
		2,577	4,300
<b>Total assets</b>		9,091	13,336
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital	38	1,731	1,731
Share premium account	39	5,377	5,377
Capital redemption reserve	39	115	115
Treasury shares		(1,166)	(1,166)
Own shares reserve	39	(319)	(335)
Retained earnings		(1,244)	2,669
<b>Total equity</b>		4,494	8,391
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	40	2,250	2,250
Deferred income tax liabilities	41	186	43
		2,436	2,293
<b>Current liabilities</b>			
Trade and other payables	42	2,155	2,626
Current income tax liabilities		6	26
		2,161	2,652
<b>Total liabilities</b>		4,597	4,945
<b>Total equity and liabilities</b>		9,091	13,336

The financial statements were approved by the Board of Directors on 11 March 2009 and signed on its behalf by:

**A C Lee**                      **A M Tebbutt**  
**Chief Executive**      **Finance director**

## Parent Company Statement of Changes in Shareholders' Equity

	Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Treasury Shares £000	Own Shares Reserve £000	Retained Earnings £000	Total £000
At 1 January 2007	1,731	5,377	115	(1,166)	(113)	2,478	8,422
Profit for the period	-	-	-	-	-	363	363
Total recognised income for the period	-	-	-	-	-	363	363
Employee Share Based Compensation	-	-	-	-	-	34	34
Shares purchased by Employee Restricted Share Scheme Trust	-	-	-	-	(253)	-	(253)
Dividend	-	-	-	-	-	(175)	(175)
Own shares vesting	-	-	-	-	31	(31)	-
At 31 December 2007	1,731	5,377	115	(1,166)	(335)	2,669	8,391
At 1 January 2008	1,731	5,377	115	(1,166)	(335)	2,669	8,391
Loss for the period	-	-	-	-	-	(3,586)	(3,586)
Total recognised expense for the period	-	-	-	-	-	(3,586)	(3,586)
Employee Share Based Compensation	-	-	-	-	-	(26)	(26)
Dividend	-	-	-	-	-	(285)	(285)
Own shares vesting	-	-	-	-	16	(16)	-
At 31 December 2008	1,731	5,377	115	(1,166)	(319)	(1,244)	4,494

## PARENT COMPANY ACCOUNTS

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### Parent Company Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 £000	2007 £000
<b>Cash flows from operating activities</b>			
Cash (used)/generated from operations	43	(678)	4,046
Interest paid		(267)	(148)
Income tax paid		(23)	(93)
Net cash (used)/generated in operating activities		(968)	3,805
<b>Cash flows from investing activities</b>			
Interest received		155	91
Net cash generated from investing activities		155	91
<b>Cash flows from financing activities</b>			
Re-mortgage on Linford Wood office		–	(253)
Dividends paid to company's shareholders		(285)	(175)
Net cash used in financial activities		(285)	(428)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,098)</b>	<b>3,468</b>
Cash and cash equivalents at beginning of period		3,585	117
<b>Cash and cash equivalents at end of period</b>		<b>2,487</b>	<b>3,585</b>

## Notes to the Parent Company Financial Statements

for the year ended 31 December 2008

### 30. Accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The principle accounting policies adopted by the company are the same as the Group's accounting policies, see Note 2 for details, subject to the following addition:

#### 30.1 Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

#### 30.2 Financial risk factors

The company's activities expose it to a variety of financial risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

##### (a) Market risk

###### (i) Currency risk

The company manages the cash requirements for subsidiaries that operate internationally and are subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. The company does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are recognised in the income statement.

Wherever possible the company looks to transact its affairs in Sterling. However, its subsidiary Peladon Software Inc is based in California and trades in US Dollars.

###### (ii) Interest rate risk

The company finances its operations through a mixture of shareholders' funds and bank loans. The company's exposure to interest rate fluctuations on its borrowings is managed by the use of capped floating facilities. The company mixes the duration of its deposits to reduce the impact of interest rate fluctuations.

##### (b) Credit risk

The company's only creditors are its subsidiary companies.

##### (c) Liquidity risk

The company takes a prudent approach to managing liquidity risk to ensure sufficient cash is available to meet foreseeable needs and to safely finance the successful completion of large scale contracts within the Group, thereby minimising liquidity risk issues.

### 30.3 Share-based payments

DRS Data & Research Services plc manages all share based arrangements for the Group. The cost of these share based payments are then charged out as a service to the relevant subsidiary.

### 31. Loss for the year

DRS Data & Research Services plc has not presented its own income statement and related notes as permitted by Section 230 of the Companies Act 1985. The loss for the financial year dealt with in the financial statements of the parent company is £3,586,000 (2007: profit £363,000).

Details of directors' remuneration and share payments are borne by DRS Data Services Limited and are disclosed in Notes 8 and 30.

### 32. Auditor's remuneration

	2008	2007
	£000	£000
<b>Auditor's remuneration:</b>		
– audit services	4	4

Details of non-audit services are shown in Note 5.

## PARENT COMPANY ACCOUNTS

### Notes to the Financial Statements

#### 33. Property, plant and equipment

	Total £000	Freehold land & buildings £000	Fixtures & fittings £000
<b>At 1 January 2007</b>			
Cost	3,128	2,900	228
Accumulated depreciation	(314)	(120)	(194)
Net book amount	2,814	2,780	34
<b>For the year ended 31 December 2007</b>			
Opening net amount at 1 January 2007	2,814	2,780	34
Depreciation charge	(74)	(40)	(34)
Closing net book amount at 31 Dec 2007	2,740	2,740	–
<b>At 31 December 2007</b>			
Cost	3,128	2,900	228
Accumulated depreciation	(388)	(160)	(228)
Net book amount	2,740	2,740	–
<b>For the year ended 31 December 2008</b>			
Opening net amount at 1 January 2008	2,740	2,740	–
Depreciation charge	(40)	(40)	–
Closing net book amount at 31 Dec 2008	2,700	2,700	–
<b>At 31 December 2008</b>			
Cost	3,128	2,900	228
Accumulated depreciation	(428)	(200)	(228)
Net book amount	2,700	2,700	–

Bank borrowings are secured on Linford Wood land and buildings for the value of £2,250,000 (2007: £2,250,000). See Note 22.

### 34. Investment in subsidiaries

At 31 December 2008 the principle subsidiary undertakings of the company are as follows:

Name of company	Country of incorporation and operation	Shareholding	Main activity
DRS Data Services Limited	UK	100%	Provision of data capture services, manufacture and sale of optical and image scanning equipment
Peladon Software Inc	California, US	100%	Distribution of document management software within North America
Peladon Software Limited	UK	100%*	Computer software development relating to document management**

\*Shares held by Peladon Software Inc.

\*\*On 31 December 2008, the Peladon Software Limited business was transferred to DRS Data Services Limited and Peladon Software Limited became a dormant company.

	Total £000	DRS Data Services Ltd £000	Peladon Software Inc £000
<b>At 31 December 2006 and 2007</b>			
Cost	6,283	3,814	2,469
Accumulated impairment	–	–	–
Net book amount	6,283	3,814	2,469
<b>For the year ended 31 December 2008</b>			
Opening net amount at 1 January 2008	6,283	3,814	2,469
Impairment provision (Note 14)	(2,469)	–	(2,469)
Closing net book amount at 31 December 2008	3,814	3,814	–
<b>At 31 December 2008</b>			
Cost	6,283	3,814	2,469
Accumulated provision	(2,469)	–	(2,469)
Net book amount	3,814	3,814	–

## PARENT COMPANY ACCOUNTS

### Notes to the Financial Statements

#### 35. Trade and other receivables

	31 December 2008	31 December 2007
	£000	£000
Non-current loans and receivables		
Amounts owed by subsidiaries	1,026	–
Less provision for impairment of receivable	(1,026)	–
	–	–
Current loans and receivables		
Amounts owed by subsidiaries	–	628
Prepayments and accrued income	90	87
	90	715

A 100% impairment provision has been created against the Peladon Software Inc and Peladon Software Limited intercompany balances, see note 43.

There is no material difference between the fair value and carrying value of these assets.

There are no trade receivables.

#### 36. Cash and cash equivalents

	31 December 2008	31 December 2007
	£000	£000
Cash at bank and in hand	2,487	3,585

The company's approach to managing liquidity and currency risks is in accordance with the Group, details of which are set out in Note 3.1.

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

	2008	2008	2007	2007
	US Dollars	Euro	US Dollars	Euros
	£000	£000	£000	£000
Sterling equivalent	–	85	292	–

#### 37. Share capital

See Note 18 for details of the share capital of the company.

#### 38. Other reserves

See Note 19 for details of the other reserves of the company.

#### 39. Borrowings

See Note 22 for details of the secured loan for £2,250,000 of the company.

#### 40. Deferred income tax

	31 December 2008	31 December 2007
	£000	£000
Analysis for financial reporting purposes		
Deferred tax liabilities	186	43
Deferred tax assets	–	(13)
	186	30

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

	31 December 2008	31 December 2007
	£000	£000
At 1 January	30	25
Charge to income for the year	156	5
At 31 December	186	30

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

	Accelerated tax depreciation	Revaluation of property	EBT obligations	General provision	Total
	£000	£000	£000	£000	£000
At 1 January 2008	25	18	(13)	–	30
Charge to income for the year	143	–	13	–	156
At 31 December 2008	168	18	–	–	186

#### 41. Trade and other payables

	31 December 2008	31 December 2007
	£000	£000
Financial liabilities measured at amortised cost		
Amounts owed to group undertakings	1,918	2,487
Accrued expenses	237	139
	2,155	2,626

Fair value equates to carrying value.

#### 42. Cash generated from operations

	31 December 2008	31 December 2007
	£000	£000
(Loss)/profit for the period	(3,586)	363
Adjustments for:		
– income tax	159	37
– depreciation of property, plant and equipment (Note 34)	40	74
– IFRS 2 (credit)/charge in respect of EBT	(32)	34
– IFRS 2 charge in respect of LTIP shares	6	–
– impairment on investment	2,469	–
– exchange loss on cash holdings	–	36
– interest income	(155)	(91)
– interest expense	267	148
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– trade and other receivables	625	942
– trade and other payables	(471)	2,503
Cash (used)/generated from operations	(678)	4,046

There were no sales or disposals of property, plant and equipment.

## PARENT COMPANY ACCOUNTS

### Notes to the Financial Statements

#### 43. Intra-group transactions

DRS Data & Research Services plc provided £720,000 (2007: £1,111,000) of services to its subsidiaries during 2008. It did not make any purchases from them.

DRS Data & Research Services plc is owed a total of £4,840,000 (2007: £4,442,000) from its three subsidiaries, of which £3,814,000 relates to the value of assets hived down to DRS Data Services Limited on 1 January 2006. DRS Data & Research Services plc does not plan to request payment of this debt in the foreseeable future.

On 31 December 2008, the Peladon Software Limited business was transferred to DRS Data Services Limited. A 100% impairment provision has been created against the Peladon Software Limited intercompany balance as it became a dormant company.

A 100% impairment provision has also been created against the Peladon Software Inc intercompany balance in view of it not expected to be cash positive in 2009 and there is uncertainty how quickly it will be able to repay the balance thereafter.

The company has provided cross company guarantees for the borrowing facilities of its subsidiary DRS Data Services Limited. The company accounts for these as insurance contracts in accordance with IAS 37.

	DRS Data Services Limited £'000	Peladon Software Inc £'000	Peladon Software Limited £'000	Total £000
At 31 December 2007				
Amounts owed by subsidiaries	3,814	282	346	4,442
Less impairment provisions	–	–	–	–
	3,814	282	346	4,442
Amounts owed to subsidiaries	(2,487)	–	–	(2,487)
Net amount owed by subsidiaries	1,327	282	346	1,955
At 31 December 2008				
Amounts owed by subsidiaries	3,814	748	278	4,840
Less impairment provisions	–	(748)	(278)	(1,026)
	3,814	–	–	3,814
Amounts owed to subsidiaries	(1,918)	–	–	(1,918)
Net amount owed by subsidiaries	1,896	–	–	1,896

## DIRECTORS AND ADVISERS

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### Directors

Malcolm Brighton OBE\*, Chairman  
Sir David Brown\*  
Anthony Lee  
Arthur Mark Tebbutt  
Ann Limb\*  
Lord Kinnock of Bedwelty\*  
Chris Batterham\*#

### Company Secretary

Sally Hopwood

### Registered Head Office

1 Danbury Court  
Linford Wood  
Milton Keynes  
Buckinghamshire  
MK14 6LR

### Stockbrokers

**KBC Peel Hunt Limited**  
111 Old Broad Street  
London  
EC2N 1PH

### Auditor

**Grant Thornton UK LLP**  
Registered Auditor  
and Chartered Accountants  
Grant Thornton House  
202 Silbury Boulevard  
Central Milton Keynes  
Buckinghamshire  
MK9 1LW

### Principal Bankers

**Barclays Bank plc**  
P O Box 729  
Eagle Point  
1 Capability Green  
Luton  
LU1 3US

### Registrars

**Capita Registrars**  
The Registry  
35 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

\* non-Executive director

# senior Independent director

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