



DRS Data & Research Services plc ('the Group')

Annual Results Announcement

Chairman's statement

Results

2009 was a difficult year for the Group, with turnover down 15% on the previous year at £14,901,000 (2008: £17,429,000) and a loss before tax of £915,000 (2008: £2,547,000).

The Group's performance in its education markets has remained strong and profitable, although the full year revenue was 0.4% below 2008 at £13,315,000 (2008: £13,369,000). In particular e-Marker[®] sales were the highest ever at £8,155,000 (2008: £7,734,000) and alone accounted for 55% of DRS' total revenue. Revenue from the Group's more traditional education business, which includes UK student registration and the printing of forms for overseas education bodies, decreased by 8.4% to £5,160,000 (2008: £5,635,000). Overall, revenue from the education markets was 89% of total revenue.

However, the Group's performance in its non-education markets declined quickly and significantly. Census and election revenue fell by 78% to £632,000 (2008: £2,871,000), partly because of the uneven nature of election and census business. The economic downturn affected our commercial markets, particularly in the United States where Peladon Software Inc did not make the progress which was expected.

Part of the Group's response has been to reflect the rapidly changing balance in its market emphasis in an extensive programme of changes to its cost base. Major cost reductions have been implemented in the year, including the postponement of the intended move of the Group's operational divisions to larger premises. The annualised value of these reductions to the Group's cost base is more than £1,500,000.

The stringent cost-reduction programme, which had full effect in the second half year, taken together with the seasonality in the e-Marker[®] business, resulted in a profitable second half year and a reduction of £770,000 in the loss before tax reported at the half year.

Diligent control of expenditure and a determined approach to asset management has resulted in an increase in year-end cash holdings of £172,000 to £2,938,000, despite the trading loss.

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

Education

The Group's examinations and assessment business continues to grow with e-Marker[®] as our leading product and service offering. Our major UK customer, AQA (Assessment and Qualifications Alliance), continues to expand its use of e-Marker[®] for processing GCSE and 'A' level examinations. More than

9 million AQA answer scripts were processed this year using e-Marker[®] compared to approximately 7.5 million in 2008.

Shortly after the close of the year to which this report relates, in January 2010, we were delighted to sign a further agreement with AQA which extends to October 2014. The potential turnover for the Group over this five-year contract is expected to exceed £40,000,000.

During the year we installed into several schools a new version of our IntelliReg[®] product. IntelliReg[®] offers a wall-mounted fingertip biometric method of registering pupil's attendance at school. An entry-level solution for primary and small secondary schools has also been developed and supplied. This version reduces the price and complexity of installation by interfacing to a teacher's laptop computer. Both versions integrate fully with schools' information management systems and provide immediate on-line access to the data.

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

Census and Elections

The Group continues to be a supplier of census projects. Two major census projects in Malawi and Sudan, which were started in 2008, were completed successfully in the first half-year. We designed and printed the millions of specialised forms required for these projects in addition to capturing the census data using our PhotoScribe[®] scanners. The Group's ability to deliver comprehensive services dedicated to census-taking again proved to be reliable and efficient even in challenging geographical locations. In the second half of the year we won the contract to supply scanners and software for the Pakistan census for implementation during 2010 and 2011.

Our established range of census services was complemented in the year with the launch of a new product which uses GPS to capture positional information simply and cheaply as part of the census process. The product, called Cense[®], is a hand-held device which can be used by enumerators, with minimal training, to capture the longitude and latitude of their location. The location, once transferred to census forms, can be processed with the other data and provide valuable extra information.

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

Commercial

The current economic pressures in the market for the Group's commercial products and services contributed to a 20% decrease in commercial revenue to £954,000 (2008: £1,189,000). The proportion of commercial revenue attributable to DocXP[™] fell to 57.4% (2008: 64.5%).

40 Years of Innovation

2009 marked the 40th anniversary of the founding of the Group by my predecessor as Chairman of the Board, Malcolm Brighton OBE. When I was appointed Chairman in May, I said at the AGM that for all of those 40 years, DRS has been a leader in innovative technologies, including particularly intelligent scanning and related systems and software. It has been a leader in innovative service delivery in the UK and in several other parts of the world. Indeed its educational, governmental and commercial customers regard service as DRS's defining ethos. It has been a leader in innovative quality practices too. I said that DRS's customers need the Company to have total dependability running through its veins, and it has.

The new AQA contract, signed in the opening weeks of 2010, is proof-positive of this long-standing innovative prowess and the Group's ability to leverage that strength to win important business.

As the Group embarks on its 41st year, its resolve to strengthen yet further its innovative stance and its customer propositions is greater than ever.

Outlook

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

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

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

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

2010 and 2011 are expected to be major years for census activity internationally. DRS has already won the Pakistan census project and is shortlisted for other projects. Although competition is increasing significantly, we have an excellent reputation for delivery and are developing new features to enhance our solution. The GPS (Global Positioning System) Cense[®] device, which can improve the value of census data, will also increase the competitiveness of our census solutions.

The US market for DocXP[™] remains difficult and, therefore, the prospects for Peladon Software Inc are uncertain.

In summary, the pattern of strong performance in the education markets and relatively weak performance in the non-education markets, which characterised 2009, is likely to continue into 2010. The strategic and operational management of the Group will take this pattern fully into account.

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

Sir David Brown
Chairman
22 March 2010

Business Review

For 2009 there is a trading loss before tax of £915,000 (2008: £2,547,000). Loss per share was 2.28p (2008: 9.46p).

The balance sheet at 31 December 2009 remains strong with cash and cash equivalents of £2,938,000 (2008: £2,766,000).

2009 has been a demanding year, particularly for the Group's non-education business. Consequently a broad cost-reduction programme was implemented during the year to reflect the downturn in revenue. However, DRS has continued to invest in its products and markets to ensure it is well placed to grow the business for the future. £2,389,000 was invested during the year (2008:£2,680,000) in development of the Group's products.

Performance and position

The overall sales for 2009 of £14,901,000 were down on the previous year (2008: £17,429,000).

	2009	%	2008	%
	£'000		£'000	
UK Sales	11,426	76.7%	11,833	67.9%
Non – UK Sales	3,475	23.3%	5,596	32.1%
	14,901		17,429	

The primary market for DRS is UK education where 73.0% of its sales were generated in 2009 and where e-Marker[®] is becoming increasingly important. Sales in non-UK education have remained good but non-education sales, particularly census and elections, dropped by 78%. DocXP[™] sales in the US have continued to be disappointing partly due to their heavy dependence on the American financial market.

A major cost-reduction programme was implemented during the year in response to the fall in revenue. The programme contributed to reducing the loss reported at the half year by £588,000 and has reduced the Group's costs by an annualised value of more than £1,500,000. As part of the cost-reductions the intended move of the Group's operational divisions to larger premises was postponed.

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

Highlights of the year

Our e-Marker[®] business has continued to grow throughout the year and now contributes to more than 50% of our revenue. Volumes of work with AQA (Assessment and Qualifications Alliance) increased to a new high of more than 9 million scripts being processed during the year by more than 20,000 markers. We also introduced a number of new customers to the benefits that using e-Marker[®] brings for processing examination scripts.

AQA has remained our major customer for e-Marker[®] and they have continued to increase both the percentage of their examinations that use our services for script marking as well as the number of subjects which are being processed by our CMI+ product. CMI+ enables paper scripts to be fully imaged and segmented into answer categories before being marked. This allows different answer types to be processed and marked by the most appropriate method thereby improving quality and

efficiency. The process has also enabled us to start marking essays, known as LFAs (Long Form Answers), using e-Marker[®]. This was introduced very successfully during the year with two subjects.

New customers for e-Marker[®] were won during the year in UK and Internationally. In the UK we were delighted that the Associated Board of the Royal Schools of Music signed a four year contract for e-Marker[®]. Internationally pilot work was carried out in the Caribbean, Asia and Africa.

We have been building on our very long heritage in the UK education market with sales of our IntelliReg[®] products. These products, for attendance monitoring of students, have been installed in both schools and colleges. In the tertiary sector more requirements are being placed on colleges to ensure that students remain on courses and regularly attend lectures and our systems provide a convenient method to establish this without increasing the administrative burden on teaching staff. In schools the emphasis has been away from morning and afternoon registration towards lesson level monitoring. The Building Schools for the Future programme introduced by the government has given schools an opportunity to include IntelliReg[®] terminals into their new or refurbished buildings.

Sales of our DocXP[™] range of products into financial applications has continued to be adversely affected by the poor economic climate both here and in the United States. However applications for DocXP[™] in the healthcare market are more promising. At the end of the year Peladon Software Inc signed two licence agreements in this marketplace and interest in the use of our product to extract data from EOB (Explanation of Benefits) forms is still high. Many millions of EOB forms are processed manually in the United States and these forms have a highly complex structure of data. DocXP[™] has been demonstrated to be able to extract this data automatically and increase the quality and performance of processing these forms.

Following our many years of completing census projects in Africa we were particularly pleased to win the contract to supply scanning technology and software for the Pakistan census. In 2007 and 2008 we had won three major census projects in Ethiopia, Sudan and Malawi and that reinforced DRS' position as a major supplier to National Statistical Offices. The Pakistan contract has extended this position into a new territory and will widen our experience of the differing requirements for such projects around the world.

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. Total expenditure on all product development during 2009 was £2,389,000 (2008 £2,680,000). Other than the creation of new functionality in the e-Marker[®] product, all of this expenditure has been expensed through the income statement. Development costs expensed through the Income Statement during 2009, which include e-Marker[®] amortisation, are £2,179,000 (2008: £2,710,000).

e-Marker[®]

Continued development was undertaken in 2009 to enhance the user interface of e-Marker[®]. The user interface, known as the Marker Client, is fundamental to making our product easy to use and efficient. A number of sophisticated features have already been incorporated in the Marker Client, such as on-screen measurement of angles and distances in drawings and graphs, but the introduction of Long Form Answers (LFA) required the introduction of many new features to facilitate the manipulation and annotation of multiple page essays. The development process was combined with field testing of the product with markers to ensure that usability was at the forefront of the design. A key feature of the new design was on-screen annotation to allow marks and comments to be associated with the candidate answer text and enhance the quality of marking compared with paper based marking.

Further development work was associated with the paper answer scripts used by candidates. For LFA questions these scripts allow free form answers to be written in any order. To maximise the benefits of e-Marker[®] the scripts need to be automatically segmented into individual answers so that they can be categorised and forwarded to the correct markers. To enable this, the answer scripts have been specially designed to allow the question numbers to be read electronically and the beginning and end

of answers detected by recognition software. This unique design and processing technology is the subject of a patent application.

e-Marker[®] development costs were first capitalised in 2005. In total £3,392,000 has been capitalised during the last five years. At 31 December 2009, the carrying value of the capitalised investment of £1,185,000 is justified by a revenue stream of £8,155,000 in 2009. e-Marker[®] revenue is expected to continue to increase throughout 2010 and 2011 with the introduction of the new LFA functionality.

Census

Much of our census work over the years has been achieved by the use of OMR (Optical Mark Reader) scanning of paper forms. This technology has been the cornerstone of DRS' products and is particularly efficient, accurate and cost effective when capturing very large volumes of data in diverse locations. OMR is still a major part of our business and recommended for many applications. In addition to OMR we have also been developing ICR (Intelligent Character Recognition) technologies which enable hand written text to be captured and extracted from paper forms. Although ICR can enable more complex data to be captured from smaller forms it does require considerably more intervention and correction by operators after data capture to ensure quality.

During 2009 we have been developing products specifically designed for the census marketplace which combine the relative merits of OMR and ICR technologies to ensure these very large volume projects are able to capture and process the required data as efficiently and cost effectively as possible. A key aspect to processing this type of data accurately is the handling of errors and exceptions. The detection and correction of errors and exceptions is vital to producing valid and reliable data and this is an area where DRS excels. Our census products have been built on the years of experience that we have and ensure successful projects.

We have also been developing our Cense[®] device for this market to enable exact geographical information to be collected at the same time as the household census data. When national census data is collected by many thousands of enumerators across a country it is very easy for mistakes to be made regarding the individual locations. The Cense[®] product is a very simple device to allow the enumerator to transcribe their GPS coordinates onto the census form. Once recorded it is scanned and captured with the rest of the census data and can be quickly and cheaply used to ensure the data has come from the correct location.

IntelliReg[®]

Development of our attendance monitoring products for schools has led to significant work in both biometric technology and school information management systems. The product builds on our many years of experience in this market where we have supplied paper-based registration systems to many secondary schools in the UK. Fingertip biometric detection is becoming accepted as one of the best methods for monitoring attendance in schools because it is absolute proof the student is present and does not require a card or other identification device which can be forgotten or lost. It addresses the growing need of schools to have immediate access to attendance information and to monitor attendance at every lesson. When combined with other requirements in the school such as cashless catering, door entry and library systems it provides one very powerful mechanism for a modern school to manage students and facilities efficiently. Our development work has integrated accurate and fast fingertip detection with the school's existing management systems to provide real time access to student data.

Liquidity and investments

At the end of 2009 the Group held £2,938,000 (2008: £2,766,000) 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 £250,000 overdraft

facility and a £250,000 credit line to cover operational performance bonds and guarantees that are not due to be reviewed until 2011. The mortgage facility of £2,250,000 held by DRS Data & Research Services plc was extended in January 2010 to March 2014 and in view of these arrangements the Directors believe the access to cash resources is adequate to meet the foreseeable needs of the business over the next 12 months.

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 percentage of revenue generated from recurring business and expand the number of key customers.
- reduce indirect cost as a percentage of sales.
- expand e-Marker[®] services into Africa and other overseas territories.
- develop e-Marker[®] product to allow local service provision by overseas customers.
- market our census and election products to win a significant number of projects from 2010 to 2012.

During the year in review no political donations were made by the Company.

Key performance indicators (KPIs)

	2009	2008	2007
Financial			
Sales growth pa	(14.5%)	(22.4%)	34.6%
Operating return on sales ^{#1}	(6.1%)	0.6%	7.6%
Top five customers ^{#2}	69.8%	66.5%	67.2%
Development expenditure ^{#3}	16.0%	15.4%	7.7%
Return on capital employed ^{#4}	(12.4%)	(1.5%)	13.2%
Non financial			
Employees average length of service ^{#5}	5.93	5.25	5.16
Total energy consumed ^{#6}	2.20	2.40	-

#1 ratio of operating profit as a percentage 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 percentage of total Group sales

#3 ratio of development expenditure as a percentage of total Group sales

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

#5 average length of service in years of permanent employees in the Group.

#6 reflects the total usage of electricity and gas consumed by the Group in gigawatt hours.

In 2009 the fall in non-education revenue had a significant adverse effect on the financial KPIs. Most of the Group's operating costs are people related and the fall in revenue in the first half of the year led to DRS Data Services Limited reducing its cost base. These cost savings along with the benefits of the examination marking work recognised in the third quarter made the second half year profitable. However the savings have not offset fully the first half year losses shown in these adverse KPI movements.

DRS recognises the importance of retaining and incentivising its employees. Retaining staff and ensuring the right mix of skills is maintained is especially important when the economy slows and trading conditions become more challenging, The purpose of monitoring the average length of service of our employees is to check we are retaining the experience required to sustain our competitive edge.

In general, increased focus is being placed on energy usage by society. During 2009, as part of a concerted effort to reduce costs, particular focus was placed on energy usage. By studying our energy usage during 2008, we were able to take a number of actions in quarter two 2009, that resulted in a 17% reduction in electricity and gas usage in the second half of the year and an annual saving of 8%.

It is the Group's goal to achieve accelerated revenue growth and to 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 to be taken.

Environmental and employees

The Group employed an average of 217 employees throughout 2009 in the UK and a further eight individuals based in Peladon Software Inc in the US.

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.

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.

Cautionary statement

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

Current trading and outlook

We were very pleased in January 2010 to sign a new agreement with AQA to supply e-Marker[®] services. The contract has a potential value over its five-year term of more than £40,000,000. DRS has worked with AQA over the past five years to establish e-Marker[®] as the primary means of processing and aiding the marking of their GCSE and A-level examinations. AQA is the largest awarding body for these examinations in the UK.

The expansion of our production facilities that was planned for 2009 was postponed as part of our cost reduction programme. Several alternative plans are being considered for 2010 to meet our future production needs while minimising the cost to the business.

An uncertain market for our election products has been created in the United States by the acquisition of Premier Elections by ES&S who now have a majority of the US election market. We gained Federal approval for our scanners to be used in US elections during 2009 and were hopeful that Premier Elections would sell a number of our PhotoScribe[®] products. We are currently unsure of the impact the acquisition will have on this market.

Sales of our DocXP[™] products in the United States are still below expectations due to the economic situation and our dependence on the financial and banking markets. The healthcare market is more optimistic but we do not expect there to be a significant upturn in near future.

Interest in our IntelliReg[®] products has been high at the start of 2010 in both the school and college markets. The BETT education show was particularly encouraging in January with much interest in our 'Best of Breed' partnership with three other leading suppliers of schools systems. However we are mindful of the difficult financial situation that most academic institutions are coping with and also the uncertain nature of future funding with a General Election in 2010. Although a number of Building Schools for the Future projects are already running a potential change in government could affect new projects.

The prospects for census projects this year and next are good as many countries endeavour to collect statistical data around the end of a decade. The Pakistan census is now expected to be run in October 2010 and combined with our experience from previous census projects is proving a good reference for winning other projects. A number of voter registration projects in Africa are also looking promising and we are now focusing on extending our services to electronic counting and voting in these same areas.

Our long term strategic objective to increase recurring revenue, and lessen our dependence on single projects, has been a strong focus for 2009 and remains so for 2010. The expansion and diversity of our e-Marker[®] business is pivotal to this strategy and with current revenues from e-Marker[®] contributing more than 50% of our total we believe we have made significant progress with this plan. 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.

International interest for e-Marker[®] has been particularly strong during 2009 and we are working with a number of new customers and new prospects. We believe our very long term working relationship in Africa will provide an ideal position to supply e-Marker[®] services to countries in west, east and southern Africa.

Action taken during 2009 has improved the efficiency of the Group and we have continued to develop world leading products and services. When this is considered with the resilience of our education business and our strong customer relationships we expect to be able to increase revenue and return to profitability.

Tony Lee
Chief Executive Officer
22 March 2010

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 as adopted by the European Union (IFRSs). 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 judgments and estimates that are reasonable and prudent
- state whether applicable IFRSs 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 adequate 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 2006. 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 Directors' 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 principal 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.

BY ORDER OF THE BOARD

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

Consolidated income statement

	Notes	Total 2009 £000	Total 2008 £000
Revenue	5	14,901	17,429
Cost of sales		(10,026)	(11,560)
Gross profit		4,875	5,869
Other operating income	7	72	763
Selling and marketing costs		(1,766)	(1,903)
Administrative expenses		(3,696)	(7,004)
Finance costs	9	(400)	(272)
Loss before income tax	5	(915)	(2,547)
Tax (credit)/charge	11	194	(445)
Loss for the period	10	(721)	(2,992)

Consolidated statement of comprehensive income

Loss for the period	(721)	(2,992)
Other comprehensive income		
- exchange difference on translation of foreign operations	248	(70)
Total comprehensive loss for the period	(473)	(3,062)

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

- basic	24	(2.28p)	(9.46p)
- diluted	24	(2.28p)	(9.46p)

Consolidated statement of financial position

	Notes	2009 £000	2008 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	3,098	3,511
Intangible assets	13	1,321	1,174
Goodwill	14	-	-
Deferred income tax assets	20	211	6
		<u>4,630</u>	<u>4,691</u>
Current assets			
Inventories	15	1,020	1,421
Trade and other receivables	16	1,887	2,557
Current income tax receivable		159	-
Cash and cash equivalents	17	2,938	2,766
		<u>6,004</u>	<u>6,744</u>
Total assets		<u>10,634</u>	<u>11,435</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
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)	(319)
Translation reserve	19	(131)	(379)
Retained earnings		(651)	68
Total equity		<u>4,956</u>	<u>5,427</u>
LIABILITIES			
Non-current liabilities			
Borrowings	22	2,250	2,250
Deferred income tax liabilities	20	181	34
		<u>2,431</u>	<u>2,284</u>
Current liabilities			
Trade and other payables	21	3,247	3,549
Current income tax liabilities		-	175
		<u>3,247</u>	<u>3,724</u>
Total liabilities		<u>5,678</u>	<u>6,008</u>
Total equity and liabilities		<u>10,634</u>	<u>11,435</u>

The financial statements were approved by the Board of Directors on 22 March 2010 and signed on its behalf by:

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

DRS Data & Research Services plc
Registered Company Number: 959401

Consolidated statement of changes in equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury shares £000	Own shares reserve £000	Retained earnings £000	Translation reserve £000	Total £000
At 1 January 2008	1,731	5,377	115	(1,166)	(335)	3,387	(269)	8,840
Dividend	-	-	-	-	-	(285)	-	(285)
Employee share based compensation	-	-	-	-	-	(26)	-	(26)
Own shares vesting	-	-	-	-	16	(16)	-	-
Transactions with owners	-	-	-	-	16	(327)	-	(311)
Loss for the period	-	-	-	-	-	(2,992)	-	(2,992)
Other comprehensive income:								
Currency translation adjustment	-	-	-	-	-	-	(70)	(70)
Deferred tax on items relating to equity	-	-	-	-	-	-	(40)	(40)
Total comprehensive income for the period	-	-	-	-	-	(2,992)	(110)	(3,102)
At 31 December 2008	1,731	5,377	115	(1,166)	(319)	68	(379)	5,427
At 1 January 2009	1,731	5,377	115	(1,166)	(319)	68	(379)	5,427
Employee share based compensation	-	-	-	-	-	2	-	2
Own shares vesting	-	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	2	-	2
Loss for the period	-	-	-	-	-	(721)	-	(721)
Other comprehensive income:								
Currency translation adjustment	-	-	-	-	-	-	248	248
Deferred tax on items relating to equity	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(721)	248	(473)
At 31 December 2009	1,731	5,377	115	(1,166)	(319)	(651)	(131)	4,956

Consolidated statement of cash flows

	Note	2009	2008
		£000	£000
Cash flows from operating activities			
Cash generated from operations	26	1,515	887
Interest paid		(133)	(138)
Income tax paid		(198)	(538)
Net cash generated in operating activities		<u>1,184</u>	<u>211</u>
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)		(110)	(221)
Proceeds from sale of PPE		23	47
Purchase of intangible assets		(938)	(747)
Interest received		23	156
Net cash used in investing activities		<u>(1,002)</u>	<u>(765)</u>
Cash flows from financing activities			
Dividends paid to Group's shareholders		-	(285)
Net cash used in financial activities		<u>-</u>	<u>(285)</u>
Net increase/(decrease) in cash and cash equivalents			
		182	(839)
Cash and cash equivalents at beginning of period		2,766	3,558
Exchange (losses)/gains on cash		(10)	47
Cash and cash equivalents at end of period	27	<u>2,938</u>	<u>2,766</u>

Notes to the financial statements for the year ended 31 December 2009

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 2009** are:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)
- Group Cash-settled Share-based Payment Transactions - Amendment to IFRS 2 (effective 1 January 2010)
- Improvements to IFRSs 2009 (various effective dates, earliest of which is 1 July 2009, but mostly 2010)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- 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)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters (effective 1 January 2010)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)

The Group has adopted the following new interpretations, revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2009:

- IFRS 8 - Operating Segments
- IAS 1 - Presentation of Financial Statements (revised 2007)
- Amendments to IFRS 7 Financial Instruments: Disclosures – improving disclosures about financial instruments

Significant effects on current, prior or future periods arising from the first time application of these new requirements in respect of presentation, recognition and measurement are described in Note 2.6. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is given in note 1.2.

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.

2 Summary of significant accounting policies

2.1 Basis of preparation

These financial statements are for the year ended 31 December 2009 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 principal accounting policies of the Group are set out below and have been consistently applied to all years presented in these financial statements.

The principal 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.

IAS 1 Presentation of Financial Statements (Revised 2007) requires presentation of a comparative balance sheet as at the beginning of the first comparative period, in some circumstances. Management considers that this is not necessary this year because the 2007 balance sheet is the same as previously published.

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:
- inventory provisions reflect future sales estimates over the useful life of the product. See Note 15.
 - the three Kiln Farm leases referred to in Note 28 expire on 30 November 2010 and a dilapidations provision has been created to meet the lease obligations.

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 service 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. The calculated profit on a contract is recognised in proportion to the recognised revenue.

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 is included in property, plant and equipment in the balance sheet. It is depreciated over its expected useful life. 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 does 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 information is provided for each operating segment whose results are regularly reviewed by the Chief Executive Officer to make decisions concerning the assessment of performance or allocation of resources and where there is discrete financial information available.

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 charged/credited to other comprehensive income and 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.

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 and other 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 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other 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.

2.14 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.

2.15 Accounting for income taxes

The tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or equity.

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. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

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.

R&D tax credit claims are recognised following formal confirmation of acceptance by HMRC or where previous precedence is established.

2.16 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 of its 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.

2.17 **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.

2.18 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 2009 and 2008 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 borrowing requirements have been negotiated separately from the interest rate collar. 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 £28,000.

For 2008, an increase of 1% in the base rate above 4.92% there would have been an increase on interest payable by £22,500. Where the base rate remained below 4.92%, the amount of interest payable would have remained constant. On the year end cash holding a 1% increase in interest rates would have increased interest receivable by £25,000.

(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 £3,247,000 (2008: £3,724,000) of the liabilities are payable within one year except for the mortgage of £2,250,000, which is due to expire on 24 March 2014. Repayment of principal shall be in 12 instalments of £56,400 payable quarterly commencing 30 June 2011 followed by a final bullet payment of the remaining balance on 24 March 2014.

3.2 Capital management

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and
- to maintain adequate liquidity to finance working capital requirements.

DRS retains a high level of cash and cash equivalents (See Note 2.13) 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).

Capital for the reporting period under review is summarised as follows:

	31 December 2009 £000	31 December 2008 £000
Total equity	4,956	5,427
Cash and cash equivalents	2,938	2,766
Capital	7,894	8,193
Total equity	4,956	5,427
Borrowings	2,250	2,250
Overall financing	7,206	7,677
Capital to overall financing ratio	1.10	1.07

4 Segment information

The principal activities of the Group continue to be the provision of data capture services, the manufacture, sale and support of optical and image scanning equipment, design and printing of documentation used for data capture and associated software and bureau services. Approximately half the Group's revenue relates to products and services, and the other half relates to providing tailored data capture solutions. The 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.

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

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

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

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

The revenue analysis for the year ended 31 December 2009 is as follows:

Region	Education revenue		Non-education revenue		Total £000
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	
UK	9,169	1,703	510	44	11,426
Africa	2,272	(3)	26	399	2,694
Rest of world	137	37	418	189	781
Total	11,578	1,737	954	632	14,901
Revenue arising from specific products and related services thereon:					
e-Marker [®]	8,155				
Doc-XP [™]			548		
e-Counting				255	
IntelliReg [®]		59			

Revenue of £14,678,000 was generated from UK operations and the remaining £223,000 was generated in the US.

DRS' largest customer generated revenue of £7,987,000 in 2009 (2008: £7,476,000) and is shown under e-Marker[®] within UK examinations and assessment.

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

Region	Education revenue		Non-education revenue		Total £000
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	
UK	8,904	2,346	513	70	11,833
Africa	1,901	55	62	2,439	4,457
Rest of world	130	33	614	362	1,139
Total	10,935	2,434	1,189	2,871	17,429
Revenue arising from specific products and related services thereon:					
e-Marker®	7,734				
Doc-XP™			767		
e-Counting				741	
IntelliReg®		153			

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

5 Revenue and loss before tax

The significant categories of revenue recognised during the period are:

	2009 £000	2008 £000
Sale of goods	4,008	5,890
Rendering of services including operating lease income (Note 6)	10,893	11,539
	14,901	17,429

Loss on ordinary activities before taxation is stated after:

	2009 £000	2008 £000
Auditor's remuneration:		
Audit services	4	4
Non-audit services	67	65
Depreciation	521	630
Amortisation	791	988
Impairment charge on goodwill and intangibles	-	2,429
Hire of plant and machinery and operating expenses	254	342
R&D expense	2,179	2,710
Share-based payment charge	2	(26)

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

	2009 £000	2008 £000
Non-audit services:		
- audit of subsidiary companies accounts pursuant to legislation	35	34
- other compliance and reporting services	30	30
- advice on implementation of IFRS	2	1
	67	65

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 2009 is £72,000 and is all recoverable within one year. Of this amount, £9,000 is invoiced and included in the trade receivables balance as at 31 December 2009.

7 Other operating income

	2009	2008
	£000	£000
Interest income		
- bank interest	23	156
- fair value measurement of collar arrangement	40	-
Profit on foreign exchange (realised and unrealised)	9	607
	<u>72</u>	<u>763</u>

The profit on foreign exchange gains relates to exchange rate differences on US dollar and Euro transactions.

8 Directors and employee benefit expense

Staff costs during the year were:

	2009	2008
	£000	£000
Wages and salaries	7,303	6,785
Social security costs	763	761
Share options granted to Directors and employees	2	(26)
Pension costs – defined contribution plans	392	340
	<u>8,460</u>	<u>7,860</u>

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

	2009	2008
Scanning equipment	45	51
Print	26	31
Software and services	144	119
	<u>215</u>	<u>201</u>

Remuneration in respect of Directors was as follows:

	2009	2008
	£000	£000
Emoluments	365	351
Pension contributions to money purchase pension schemes	42	42
	<u>407</u>	<u>393</u>

Key management remuneration:

	2009	2008
	£000	£000
Short-term employee benefits	234	232
Post-employment benefits	42	42
Share-based payments	-	(16)
	<u>276</u>	<u>258</u>

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 December	31 December
	2009	2008
	£000	£000
Interest expense:		
- bank borrowings	(133)	(138)
- fair value measurement of collar arrangement	-	(134)
- loss on foreign exchange (realised and unrealised)	(267)	-
	<u>(400)</u>	<u>(272)</u>

The loss on foreign exchange relates to exchange rate differences on US dollar and euro transactions.

10 Exceptional Items

	Year ended	Year ended
	31 December	31 December
	2009	2008
	£000	£000
Loss before exceptional items and tax	(915)	(118)
Exceptional items – impairment charge	-	(2,429)
Loss before tax	<u>(915)</u>	<u>(2,547)</u>
Tax credit/(charge) before exceptional items	194	(274)
Exceptional items - deferred tax charge	-	(171)
Tax credit/(charge)	<u>194</u>	<u>(445)</u>
Loss for the period	<u>(721)</u>	<u>(2,992)</u>

The Peladon Software Inc business has continued to underperform during 2009 and the discounted cashflow calculation applied to the carrying value of the investment in the 2008 accounts is still considered appropriate.

The exceptional items in the income statements represented:

- impairment charge of £2,429,000 as above which was 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.

11 Income tax expense

	31 December 2009 £000	31 December 2008 £000
Current tax - domestic	28	262
Adjustment in respect of previous period	(164)	2
Total current tax	(136)	264
Deferred tax (Note 20)	(58)	181
	<u>(194)</u>	<u>445</u>

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

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

	2009 £000	2008 £000
Loss before tax	(915)	(2,547)
Tax at domestic income tax rate of 28% (2008: 28.5%)	(256)	(726)
Tax effect of expenses that are not deductible in determining taxable loss	17	39
Goodwill impairment	-	544
Tax losses not recognised	205	531
Deferred tax on industrial building allowances	(5)	144
Chargeable gains	3	-
Effect of marginal rate	(5)	-
Effect of overseas tax rates	(64)	(62)
Effect of change in tax rates	-	(8)
Adjustment in respect of previous periods	(89)	(17)
Tax (credit)/expense	<u>(194)</u>	<u>445</u>

In December 2009, R&D tax claims were submitted for 2007 and 2008 in respect of development work on e-Marker[®] software. These claims have not been included in the 2009 tax charge pending formal confirmation of acceptance by HMRC.

12 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
At 1 January 2008							
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
For the year ended 31 December 2008							
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
At 31 December 2008							
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
For the year ended 31 December 2009							
Opening net amount at 1 January 2009	3,511	2,700	316	228	256	9	2
Additions	110	-	44	6	54	6	-
Depreciation charge	(521)	(40)	(179)	(131)	(162)	(7)	(2)
Exchange adjustment	(2)	-	(1)	(1)	-	-	-
Closing net book amount at 31 December 2009	3,098	2,660	180	102	148	8	-
At 31 December 2009							
Cost	10,612	2,900	1,926	2,305	2,845	630	6
Accumulated depreciation	(7,514)	(240)	(1,746)	(2,203)	(2,697)	(622)	(6)
Net book amount	3,098	2,660	180	102	148	8	-

During February 2010, in accordance with extending the mortgage on Linford Wood, a commercial valuation of the property based on tenanted occupancy calculated the current market value at £2,100,000. It is considered inappropriate to reflect the £560,000 shortfall to the carrying value in the accounts as it is regarded as a short term temporal difference caused by exceptional market conditions that is unlikely to be realised as the Group has no intention to move out of its head office in the foreseeable future.

Bank borrowings are secured on Linford Wood land and buildings to the value of £2,250,000 (2008: £2,250,000). See Note 22.

13 Intangible assets

	Total £000	Computer software £000	Development expenditure £000	Unpatented technology £000	Know- how £000
At 1 January 2008					
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
For the year ended 31 December 2008					
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 (see Note 10)	(524)	-	-	(11)	(513)
Closing net book amount at 31 December 2008	1,174	200	974	-	-
At 31 December 2008					
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	-	-
For the year ended 31 December 2009					
Opening net amount at 1 January 2009	1,174	200	974	-	-
Exchange adjustments	-	-	-	-	-
Additions	938	61	877	-	-
Amortisation charge	(791)	(125)	(666)	-	-
Closing net book amount at 31 December 2008	1,321	136	1,185	-	-
At 31 December 2009					
Cost	5,739	950	3,392	398	999
Accumulated amortisation and impairment	(4,418)	(814)	(2,207)	(398)	(999)
Net book amount	1,321	136	1,185	-	-

Computer software relates to the third party software licences purchased by the Group to be used in the normal course of its business and is amortised over three years from the time of purchase. A check is carried out at the end of each year to ensure that all the software is still in use within the business.

The capitalised development expenditure covers the cost of designing and writing the core e-Marker[®] software used to mark examination scripts electronically within the education marketplace. This expenditure is amortised over the thirty six months following the month in which it is incurred. The software is in use twenty four hours a day and its functional performance is continually monitored to ensure there is no impairment.

The assets making up the closing net book value will be amortised as follows:

	Total £000	Computer software £000	Development expenditure £000
Future amortisation of assets by year			
- 2010	695	85	610
- 2011	464	46	418
- 2012	162	5	157
Net book amount at 31 December 2009	<u>1,321</u>	<u>136</u>	<u>1,185</u>

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.

14 Goodwill

	2009 £000	2008 £000
At 1 January		
Cost	1,905	1,560
Accumulated amortisation and impairment	<u>(1,905)</u>	-
Net book amount	<u>-</u>	<u>1,560</u>
Opening net amount at 1 January	-	1,560
Exchange adjustments	-	345
Impairment charge	-	(1,905)
Closing net book amount at 31 December	<u>-</u>	<u>-</u>
At 31 December		
Cost	1,905	1,905
Accumulated amortisation and impairment	<u>(1,905)</u>	<u>(1,905)</u>
Net book amount	<u>-</u>	<u>-</u>

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 10.

15 Inventories

	31 December 2009 £000	31 December 2008 £000
Raw materials	755	918
Work in progress	52	64
Finished goods	<u>213</u>	<u>439</u>
	<u>1,020</u>	<u>1,421</u>

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 2009 £000	Movement during year £000	31 December 2008 £000	Movement during year £000	31 December 2007 £000
<i>Inventory provision</i>					
PS900 scanners	401	(298)	699	(242)	941
IntelliReg®	199	199	-	-	-
Other scanners	193	11	182	(136)	318
Print	26	(4)	30	21	9
Total	819	(92)	911	(357)	1,268
<i>Related carrying value</i>					
PS900 scanners	628		665		881
IntelliReg®	-		107		2
Other scanners	208		467		347
Manufacturing inventory	836		1,239		1,230
Print inventory	180		182		216
Third Party Software licenses	4		-		-
Total	1,020		1,421		1,446

The provision created on PS900 scanning machines reflects the potential risk of holding these scanners in light of future technical obsolescence.

A decision has been taken to move to a second generation of the IntelliReg® product and as a result the inventory holding of the original version of the product has been fully provided for.

The cost of inventories recognised as an expense and included in 'Cost of sales' amounted to £1,223,000 (2008: £1,301,000).

16 Trade and other receivables

	31 December 2009 £000	31 December 2008 £000
Loans and receivables		
Trade receivables	901	1,374
Less provision for impairment of receivables	(9)	(42)
Trade receivables – net	892	1,332
Amounts recoverable on contracts	386	645
Prepayments and accrued income	609	580
	1,887	2,557

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.

Standard payment terms on credit sales are 30 days nett. 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:

	Total trade receivables £000	Current £000	Past due				120+ days £000
			0 – 30 days £000	30 – 60 days £000	60 – 90 days £000	90 – 120 days £000	
31 December 2009	892	497	176	90	8	33	88
31 December 2008	1,332	919	268	97	40	8	-

The Group recognised a recovery against the impairment of its trade receivables during the year of £17,000 (2008: £209,000). The trade receivables provision movement is included in “Administrative expenses” in the income statement and a breakdown is as follows:

	2009 £000	2008 £000
Opening amount at 1 January	42	357
Exchange adjustments	-	41
Provision utilised	(16)	(147)
Decrease in provision to income statement	(17)	(209)
Closing amount at 31 December	9	42

17 Cash and cash equivalents

	31 December 2009 £000	31 December 2008 £000
Cash at bank and in hand	167	279
Short-term bank deposits	2,771	2,487
	<u>2,938</u>	<u>2,766</u>

The effective interest rate on short term bank deposits was 0.76% (2008: 1.74%). These deposits have an average maturity of 2 days (2008: 19 days).

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

	31 December 2009 £000	31 December 2008 £000
Cash and cash equivalents	2,938	2,766
Bank overdrafts	-	-
	<u>2,938</u>	<u>2,766</u>

The Group’s approach to managing liquidity and currency risks is set out in Note 3.1.

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

	2009 US Dollars £000	2009 Euro £000	2008 US Dollars £000	2008 Euro £000
Sterling equivalent	64	39	67	126

18 Share capital

	Number of shares	Ordinary shares	Treasury shares	Total
At 1 January 2008	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
Balance at 31 December 2009	34,621,600	34,621,600	(1,930,000)	32,691,600

	Ordinary shares of 5p each At 31 December 2009 and 2008	
	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 2008	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
Exchange rate differences	-	-	-	248	248
Balance at 31 December 2009	5,377	115	(319)	(131)	5,042

The Own Share Reserve represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2009, 1,020,529 (2008: 1,020,529) shares with a market value of £122,463 (2008: £112,258) were held. Of these 150,000 (2008: 150,000) had been conditionally gifted to employees and a further 100,000 (2008: 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.

20 Deferred income tax

	31 December 2009 £000	31 December 2008 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	181	34
Deferred tax assets	(211)	(6)
	<u>(30)</u>	<u>28</u>

The deferred tax asset is calculated assuming unused tax losses will be utilised over the next four years. This has resulted in £863,000 of unused tax losses for Peladon Software Inc for which no deferred tax asset is recognised in the balance sheet.

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

	31 December 2009 £000	31 December 2008 £000
At 1 January	28	(193)
(Credit)/charge to income for the year	(58)	181
Charge to equity for the year	-	40
At 31 December	<u>(30)</u>	<u>28</u>

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

	Revaluation of property £000	Accelerated tax depreciation £000	General provision £000	Total £000
At 1 January 2009	18	16	(6)	28
Charge to income for the year	(1)	(61)	4	(58)
Charge to equity for the year	-	-	-	-
At 31 December 2009	<u>17</u>	<u>(45)</u>	<u>(2)</u>	<u>(30)</u>

21 Trade and other payables

	31 December 2009 £000	31 December 2008 £000
Financial liabilities measured at amortised cost		
Trade payables	829	676
Deferred income	691	917
Social security and other taxes	289	284
Accrued expenses	1,346	1,538
	<hr/> 3,155	<hr/> 3,415
Derivative financial instrument		
Fair value of interest rate collar (see Note 22)	92	134
	<hr/> 3,247	<hr/> 3,549

Fair value of interest rate collar 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 2009 £000	31 December 2008 £000
Non-current		
Bank borrowings – secured loan	2,250	2,250
Total borrowings	<hr/> 2,250	<hr/> 2,250

In March 2006 the Parent Company borrowed £2,250,000 secured by a fixed charge against the freehold land and buildings at a variable rate of 0.85% over base rate, which was due to be repaid on 28 March 2011. During January 2010, a three year extension to 24 March 2014 was agreed and the interest rate thereon was immediately increased to 3.5% over base rate. Repayment of the principal shall be in 12 instalments of £56,400 payable quarterly commencing 30 June 2011 followed by a final bullet payment of the remaining balance on 24 March 2014.

In September 2006, a collar arrangement in respect of the £2,250,000 was entered into for the period up to 28 March 2011. 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 2009 was £92,000 (2008: £134,000). In 2008 the full value of the collar has been treated as a charge to interest paid and is shown in Note 9. The reduction in value during 2009 is shown as a credit to interest income in Note 7.

In June 2009 the overdraft facility for DRS Data Services Limited was reduced from £1,000,000 to £250,000. It remains secured against inventory and debtors. Interest is charged at a variable rate of 5.0% over base rate.

23 Financial assets and liabilities

Categories of financial assets and liabilities.

The carrying amounts presented in the statement of financial position to the following categories of assets and liabilities are:

	Note	31 December 2009 £000	31 December 2008 £000
Financial assets			
Loans and other receivables			
- Trade and other receivables	16	1,887	2,557
- Cash and cash equivalents	17	2,938	2,766
		<u>4,825</u>	<u>5,323</u>
Financial liabilities			
Financial liabilities designated at fair value through profit or loss:			
- Non-current borrowings	22	<u>(2,250)</u>	<u>(2,250)</u>
Financial liabilities measured at amortised cost:			
Current			
- Trade and other payables	21	<u>3,155</u>	<u>3,415</u>
Derivatives designated as cash flow hedging instruments (carried at fair value)			
- Derivative financial instruments	21	<u>92</u>	<u>134</u>

The Group adopted the amendments to IFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position.

Financial assets and liabilities are measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The only financial liability affected is the derivative in respect of the interest rate collar described in Note 22 which is classified as Level 2."

24 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

	31 December 2009	31 December 2008
Earnings attributable to ordinary shareholders being loss for the period	(721,000)	(2,992,000)
Weighted average number of shares	31,671,071	31,618,858
Basic loss per ordinary share	(2.28p)	(9.46p)

Diluted earnings per share

	31 December 2009	31 December 2008
Basic earnings per share		
Earnings attributable to ordinary shareholders being loss for the period	(721,000)	(2,992,000)
Weighted average number of shares		
Basic	31,671,071	31,618,858
Dilutive effect of:		
- shares in restricted share scheme	-	-
- options under unapproved share option scheme	-	-
- options under the Enterprise Management Incentive Scheme	-	-
- options under LTIP option scheme	-	-
Diluted	<u>31,671,071</u>	<u>31,618,868</u>
Diluted loss per ordinary share	<u>(2.28p)</u>	<u>(9.46p)</u>

25 Dividends per share

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

The Directors do not recommend a final dividend.

26 Cash generated from operations

	31 December 2009 £000	31 December 2008 £000
Loss for the period	(721)	(2,992)
Adjustments for:		
- income tax (Note 11)	(194)	445
- depreciation of property, plant and equipment (Note 12)	521	630
- amortisation of intangible assets (Note 13)	791	988
- impairment charge (Note 10)	-	2,429
- share-based payment credit in respect of EBT	-	(32)
- share-based payment charge in respect of LTIP shares	2	6
- profit on sale of property, plant & equipment and intangibles	(23)	(5)
- exchange losses/(gains) put through income statement	260	(607)
- interest income (Note 7)	(23)	(156)
- interest expense (Note 9)	133	138
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
- inventories	401	25
- trade and other receivables	670	240
- trade and other payables	(302)	(222)
Cash generated from operations	<u>1,515</u>	<u>887</u>

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

	31 December 2009 £000	31 December 2008 £000
Net book amount	-	42
Profit on sale of property, plant and equipment and intangibles	23	5
Proceeds from sale of property, plant & equipment and intangibles	<u>23</u>	<u>47</u>

27 Reconciliation of movements in cash and cash equivalents

	1 January 2009 £000	Cash flow £000	31 December 2009 £000
Cash at bank and in hand	279	(112)	167
Term deposits	2,487	284	2,771
	<u>2,766</u>	<u>172</u>	<u>2,938</u>

28 Commitments

(a) Capital commitments

In respect of contracted out software development expenditure a development commitment existed at 31 December 2009 with the contractors equating to approximately £34,000 (2008: £125,000). There were no other capital commitments at 31 December 2009 or 31 December 2008.

- (b) *Operating lease commitments*
The Company has the following lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2009 £000	31 December 2008 £000	31 December 2009 £000	31 December 2008 £000
Within one year	163	207	35	48
Within two to five years	-	136	22	29
	<u>163</u>	<u>343</u>	<u>57</u>	<u>77</u>

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

The classification of other leases relates to Company vehicles, photocopiers and a telephone system. All are three year contracts. The Company vehicle leases have an up front payment of three months in advance followed by a monthly payment and the rest are payable quarterly in advance.

29 Pension commitments

During 2008 and 2009 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.

30 Share-based payments

Details of options granted:

Date of Grant	Type	Original Number of shares granted	Vesting Period	Term	Exercise price	Method of settlement
Year end 31 December 2004						
7 April 2004	Employees	170,000	3 years	10 years	Nil	Equity
Year end 31 December 2006						
29 March 2006	Directors and employees	602,973	3 years	3 years	Nil	Equity
Year end 31 December 2007						
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
Year end 31 December 2008						
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:

Year end 31 December 2008	1 January 2008					31 December 2008		
	Date of Grant	Outstanding Options	Exercisable Options	Granted	Lapsed	Exercised	Outstanding Options	Exercisable Options
Year end 31 December 2004								
	7 April 2004	-	50,000	-	-	-	-	50,000
Year end 31 December 2005								
	2 November 2005	511,000	-	-	(511,000)	-	-	-
Year end 31 December 2006								
	29 March 2006	497,514	-	-	-	-	497,514	-
Year end 31 December 2007								
	13 April 2007	369,333	-	-	-	-	369,333	-
	13 April 2007	339,347	-	-	-	-	339,347	-
Year end 31 December 2008								
	12 March 2008	-	-	736,627	-	-	736,627	-
	12 March 2008	-	-	449,872	-	-	449,872	-

Year end 31 December 2009	1 January 2009					31 December 2009		
	Date of Grant	Outstanding Options	Exercisable Options	Granted	Lapsed	Exercised	Outstanding Options	Exercisable Options
Year end 31 December 2004								
	7 April 2004	-	50,000	-	-	-	-	50,000
Year end 31 December 2006								
	29 March 2006	497,514	-	-	(497,514)	-	-	-
Year end 31 December 2007								
	13 April 2007	369,333	-	-	-	-	369,333	-
	13 April 2007	339,347	-	-	-	-	339,347	-
Year end 31 December 2008								
	12 March 2008	736,627	-	-	-	-	736,627	-
	12 March 2008	449,872	-	-	-	-	449,872	-

Calculation of the fair value:

	Valuation model	Share price at grant	Exercise price	Expected volatility	Expected life	Expected dividends	Risk-free interest rate	Fair Value of 1 unit	
Year end 31 December 2004									
	7 April 2004	Binomial	60.5p	0p	45.13%	3 years	3.67%	4.92%	56.76p
Year end 31 December 2006									
	29 March 2006	Monte Carlo	37.0p	0p	43.43%	3 years	-	5.12%	31.40p
Year end 31 December 2007									
	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
Year end 31 December 2008									
	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
Year end 31 December 2009									
	20 May 2009	Monte Carlo	14.50p	0p	34.00%	3 year	2.07%	1.98%	N/A

Performance Criteria

EMI share options granted to employees in 2004 are subject to the employees remaining in the employment of the Group over a three year vesting period, after which time the options are exercisable.

The LTIP and EMI share options granted from 2005 onwards are based on:

- the level of EPS in the last reported financial year on the third anniversary 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 extent to which the option will be exercisable is based on a sliding scale dependent upon the EPS reported in the audited annual accounts being greater than 3.0p per share. 25% of the option will be exercisable if the EPS equals 3.0p and 100% will be exercisable if the EPS is 6.0p per share, with exercise being on a pro-rata basis between these levels.

Under the Rules of the VCP, units will convert to nil-cost options at the end of the three year performance provided that the hurdle price of 35p has been achieved. The number of nil-cost options granted to all participants in the VCP will be calculated by reference to the value created for shareholders from the date of grant and the prevailing share price at the end of the three year performance period.

Valuation Methodologies

In order to calculate fair values of the options under consideration the Group has taken into account factors those 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.

The units granted under the VCP in 2009, where the potential number of nil-cost options granted to Executive Directors will be dependent upon the absolute return to shareholders over the performance period was also calculated using a Monte Carlo Simulation model. The total fair value of all units granted to participants in the VCP was £32,461.

Volatility Assumptions

Annualised expected volatility of all the options and units granted under the VCP 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 2009 is 18.67p (2008: 21.37p).

Financial Information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008 but is derived from the 2009 accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered in due course. The auditor has reported on those accounts; its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

The full Annual Financial Report will be found on the Group website (www.drs.co.uk) from 19 April 2010.

- End -

22 March 2010

Enquiries to:

Sally Hopwood
Company Secretary
Tel: 01908 666088