



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

Annual Results Announcement 2008

Chairman's statement

Financial results for 2008

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

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

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

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

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

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

Key events

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

Census and elections

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

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

Our election work in Scotland has continued during the year with printing and electronic counting of ballot papers in five by-elections. We have a world leading e-Counting product which is capable of counting complex single transferable vote contests and we were delighted to see its continued use by the Scottish Local Authorities.

DocXP[®]

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

IntelliReg[®]

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

Staff

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

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

Summary

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

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

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

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

Malcolm Brighton

Chairman

11 March 2009

Financial and operating review

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

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

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

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

Dynamics of the business

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

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

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

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

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

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

Impairment charge on Peladon Software investment

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

The volume of DocXP® sales since acquisition have been materially below expectation. In April 2007 Peladon Software Inc faced a sudden downturn in sales when the US banks

stopped discretionary investment to take account of their problems. At the end of 2007 this was viewed as a short term issue which would correct during 2008. The UK then faced a downturn in the revenue from sales of DocXP[®] products and it became obvious during 2008 that the problem was more widespread. The revenue forecasts were reduced in line with sales expectations. In the interim accounts an impairment provision of £600,000 against goodwill and £318,000 of unrecoverable deferred tax losses in Peladon Software Inc were charged to the income statement.

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

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

	£'000
Intangible assets	
- Unpatented technology	11
- Know-how	513
Goodwill	1,905
	<u>2,429</u>

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

Highlights of the year

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

International interest in e-Marker[®] is growing and we have completed pilot work with the Polish central examination body, Centralna Komisja Egzaminacyjna. This involved four different marking centres and was successfully delivered utilising 330 markers using the system. This project is now ready to start live processing of examinations and new pilots in other countries are planned including one in the Caribbean.

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

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

DRS for the printing and e-counting of their ballot papers, and these included Glasgow and Edinburgh.

Research and development

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

e-Marker[®]

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

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

IntelliReg[®]

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

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

DocXP[®]

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

previous time leading to significant cost savings. In independent tests it has successfully extracted data from documents that rival products have failed to process.

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

Census

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

Liquidity and investments

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

Future strategy and objectives

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

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

- increase the 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 the professional examinations market.
- complete the development of the core e-Marker[®] product to allow it to be licensed to overseas service providers.
- support the DocXP[®] product to achieve the original expectations of the product.
- market our census products to win a significant number of the projects from 2010 to 2012.

Key performance indicators (KPIs)

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

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

#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)*

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

Environmental and employees

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

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

Risks and uncertainties

The Group is subject to risks and uncertainties relating to its future business which might affect the financial performance of the Group. The Board has implemented systems to identify risks, to assess them and to ensure that reasonable mitigation plans are in place. The Board is paying particular attention to the operational risks and uncertainties of current recessionary conditions in any of the Group's markets and further details are provided under the heading 'Internal controls and risk management' within the Corporate Governance Report.

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

Information technology

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

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

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

Trading volumes

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

Spread of customers

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

Cautionary statement

This Financial and Operating Review has been prepared solely to provide additional information to shareholders to access the Group's strategies and the potential for those strategies to succeed. It should not be relied upon by any other party for any other purpose.

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

Current trading and outlook

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

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

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

Tony Lee
Managing director
11 March 2009

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

In so far as each of the directors is aware:

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

To the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the 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.

A C Lee
Chief Executive

A M Tebbutt
Finance Director

**Consolidated income statement
for the year ended 31 December 2008**

	Notes	2008 Before exceptional items £000	2008 Exceptional items (Note 14) £000	Total 2008 £000	Total 2007 £000
Revenue	5	17,429	-	17,429	22,460
Cost of sales		(11,560)	-	(11,560)	(14,751)
Gross profit		5,869	-	5,869	7,709
Other operating income	7	763	-	763	125
Selling and marketing costs		(1,903)	-	(1,903)	(1,762)
Administrative expenses		(4,575)	(2,429)	(7,004)	(4,370)
Finance costs	9	(272)	-	(272)	(215)
(Loss)/profit before income tax		(118)	(2,429)	(2,547)	1,487
Tax charge	10	(274)	(171)	(445)	(464)
(Loss)/profit for the period		(392)	(2,600)	(2,992)	1,023

There were no exceptional items for the year ended 31 December 2007.

**(Loss)/earnings per share for profit
attributable to the equity holders of the
company during the year (expressed in pence
per share)**

- basic	23	1.24p	8.22p	(9.46p)	3.21p
- diluted	23	1.24p	8.22p	(9.46p)	3.17p

Dividends	24		2008	2007
- interim paid			£000	£000
- final proposed/paid			95	95
			-	190
			95	285

**Consolidated balance sheet
at 31 December 2008**

	Notes	2008 £000	2007 £000
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,511	3,921
Intangible assets	12	1,174	1,837
Goodwill	13	-	1,560
Deferred income tax assets	20	6	381
		<u>4,691</u>	<u>7,699</u>
Current assets			
Inventories	15	1,421	1,446
Trade and other receivables	16	2,557	2,797
Cash and cash equivalents	17	2,766	3,779
		<u>6,744</u>	<u>8,022</u>
Total assets		<u>11,435</u>	<u>15,721</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)	(335)
Translation reserve	19	(379)	(269)
Retained earnings		68	3,387
Total equity		<u>5,427</u>	<u>8,840</u>
LIABILITIES			
Non-current liabilities			
Borrowings	22	2,250	2,250
Deferred income tax liabilities	20	34	188
		<u>2,284</u>	<u>2,438</u>
Current liabilities			
Trade and other payables	21	3,549	3,771
Current income tax liabilities		175	451
Borrowings	22	-	221
		<u>3,724</u>	<u>4,443</u>
Total liabilities		<u>6,008</u>	<u>6,881</u>
Total equity and liabilities		<u>11,435</u>	<u>15,721</u>

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

A C Lee
Chief Executive

A M Tebbutt
Finance Director

Consolidated statement of changes in shareholders' equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury shares £000	Own shares reserve £000	Retained earnings £000	Translation reserve £000	Total £000
At 1 January 2007	1,731	5,377	115	(1,166)	(113)	2,536	(248)	8,232
Currency translation adjustment	-	-	-	-	-	-	(36)	(36)
Deferred tax on items relating to equity	-	-	-	-	-	-	15	15
Net expense recognised directly to equity	-	-	-	-	-	-	(21)	(21)
Profit for the period	-	-	-	-	-	1,023	-	1,023
Total recognised income/(expense) for the period	-	-	-	-	-	1,023	(21)	1,002
Shares purchased by Employee Restricted Share Scheme Trust	-	-	-	-	(253)	-	-	(253)
Employee share based compensation	-	-	-	-	-	34	-	34
Dividend	-	-	-	-	-	(175)	-	(175)
Own shares vesting	-	-	-	-	31	(31)	-	-
At 31 December 2007	1,731	5,377	115	(1,166)	(335)	3,387	(269)	8,840
At 1 January 2008	1,731	5,377	115	(1,166)	(335)	3,387	(269)	8,840
Currency translation adjustment	-	-	-	-	-	-	(70)	(70)
Deferred tax on items relating to equity	-	-	-	-	-	-	(40)	(40)
Net expense recognised directly to equity	-	-	-	-	-	-	(110)	(110)
Loss for the period	-	-	-	-	-	(2,992)	-	(2,992)
Total recognised expense for the period	-	-	-	-	-	(2,992)	(110)	(3,102)
Employee share based compensation	-	-	-	-	-	(26)	-	(26)
Dividend	-	-	-	-	-	(285)	-	(285)
Own shares vesting	-	-	-	-	16	(16)	-	-
At 31 December 2008	1,731	5,377	115	(1,166)	(319)	68	(379)	5,427

**Consolidated cash flow statement
for the year ended 31 December 2008**

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

Notes to the financial statements for the year ended 31 December 2008

1 General information

1.1 Nature of operations

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

1.2 Accounting convention

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

Standards and interpretations not yet effective

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

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

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

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

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

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

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

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The 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.

In preparing these accounts:

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

- (b) the following areas were considered to involve significant estimates:
- impairment of the assets relating to the investment in Peladon Software is based on the carrying value of the assets justified on a discounted cash flow (DCF) calculation that applied a 15% discount to future expected earnings generated by the DocXP[®] product over a period of four years. See Note 3014.
 - stock provisions reflect future sales estimates over the useful life of the product. See Note 15.
 - receivable provisions reflect future trade receivable amounts collectable. See Note 16.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

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

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

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

2.3 Revenue recognition

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

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

Sales of services are recognised in the accounting period in which the work on the services is performed and the obligations have been satisfied in accordance with the customers' agreed requirements.

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

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

2.4 Leases

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

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

2.5 Dividends

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

2.6 Segment reporting

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

2.7 Foreign currency translation

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

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

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

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

2.8 Property, plant and equipment

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

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

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

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

2.9 Intangible assets

(a) *Computer software*

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

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

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

(b) *Research and development*

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

(c) *Intangible assets acquired in business combination*

(i) Unpatented technology – relates to unpatented software and software products developed which are protected, so far as is practicable, by trade secret law and confidentiality agreements

(ii) Know-how – relates to technical and market orientated knowledge and experience within the management whose support is secured by service agreements

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

2.10 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

2.11 Inventories

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

2.12 Trade and other receivables

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

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

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

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

2.16 Accounting for income taxes

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences

and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

2.17 Employee benefits

(a) *Pension obligations*

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

(b) *Bonus plans and profit sharing*

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

(c) *Share-based employee remuneration*

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

2.18 Financial liabilities and equity

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

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

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

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

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

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

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

2.19 Exceptional items

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

3 Financial risk management

3.1 Financial risk factors

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

(a) *Market risk*

(i) *Currency risk*

The Group operates internationally and is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. The Group does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are recognised in the income statement.

Wherever possible the Group looks to negotiate its sales contracts in the respective functional currencies. Occasionally DRS Data Services Limited

uses either US dollars or Euros, but the amounts involved during 2008 and 2007 were not material.

(ii) *Interest rate risk*

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

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

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

(b) *Credit risk*

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

(c) *Liquidity risk*

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

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

3.2 Capital management

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

4 Segment information

The 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.

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

Business segments for the year ended 31 December 2008

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

Geographical segments for the year ended 31 December 2008

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

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

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

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

Geographical segments for the year ended 31 December 2007

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

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

5 Revenue and profit before tax

The significant categories of revenue recognised during the period are:

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

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

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

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

	2008	2007
	£000	£000
Non-audit services:		
-audit of subsidiaries	34	29
-advice on implementation of IFRS	1	2
-other compliance and reporting services	26	25
-other non-audit services	4	1
	<u>65</u>	<u>57</u>

6 Operating lease income

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

7 Other operating income

	2008	2007
	£000	£000
Bank interest	156	125
Fair value gains (realised and unrealised)	607	-
	<u>763</u>	<u>125</u>

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

8 Directors and employee benefit expense

Staff costs during the year were:

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

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

	2008	2007
Scanning equipment	51	55
Print	31	29
Software and services	119	119
	<u>201</u>	<u>203</u>

Remuneration in respect of directors was as follows:

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

Key management remuneration:

	2008	2007
	£000	£000
Short-term employee benefits	232	274
Post-employment benefits	42	40
Share-based payments	(16)	16
	<u>258</u>	<u>330</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
	2008	2007
	£000	£000
Interest expense:		
- bank borrowings	(138)	(158)
- other	(134)	-
- fair value losses (realised and unrealised)	-	(57)
	<u>(272)</u>	<u>(215)</u>

The fair value losses relate to exchange rate differences on US dollar and euro transactions.

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

10 Income tax expense

	31 December	31 December
	2008	2007
	£000	£000
Current tax - domestic	262	755
Adjustment in respect of previous period	2	(23)
Total current tax	<u>264</u>	<u>732</u>
Deferred tax (Note 20)	181	(268)
	<u>445</u>	<u>464</u>

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

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

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

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

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

11 Property, plant and equipment

	Total £000	Freehold land & buildings £000	Computer equipment £000	Fixtures & fittings £000	Plant & machinery £000	Rental machines £000	Motor vehicles £000
At 1 January 2007							
Cost	9,987	2,900	1,680	2,062	2,684	655	6
Accumulated depreciation	(5,942)	(120)	(1,503)	(1,643)	(2,054)	(620)	(2)
Net book amount	4,045	2,780	177	419	630	35	4
For the year ended 31 December 2007							
Opening net amount at 1 January 2007	4,045	2,780	177	419	630	35	4
Additions	603	-	303	252	48	-	-
Disposals	(3)	-	(1)	-	(2)	-	-
Depreciation charge	(724)	(40)	(108)	(279)	(275)	(22)	-
Exchange adjustment	-	-	-	-	-	-	-
Closing net book amount at 31 December 2007	3,921	2,740	371	392	401	13	4
At 31 December 2007							
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

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

12 Intangible assets

	Total £000	Computer software £000	Development expenditure £000	Unpatented technology £000	Know- how £000
At 1 January 2007					
Cost	3,032	677	1,291	308	756
Accumulated amortisation	(1,011)	(363)	(413)	(104)	(131)
Net book amount	2,021	314	878	204	625
For the year ended 31 December 2007					
Opening net amount at 1 January 2007	2,021	314	878	204	625
Exchange adjustments	(4)	-	-	(1)	(3)
Additions	752	102	650	-	-
Disposals	-	-	-	-	-
Amortisation charge	(932)	(190)	(521)	(98)	(123)
Closing net book amount at 31 December 2007	1,837	226	1,007	105	499
At 31 December 2007					
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 14)	(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	-	-

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

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

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

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

13 Goodwill

	Total £000
At 1 January 2007	
Cost and net book amount	<u>1,894</u>
For the year ended 31 December 2007	
Opening net amount at 1 January 2007	1,894
Exchange adjustments	25
Fair value adjustment	(359)
Closing net book amount at 31 December 2007	<u>1,560</u>
At 31 December 2007	
Cost and net book amount	<u>1,560</u>
For the year ended 31 December 2008	
Opening net amount at 1 January 2008	1,560
Exchange adjustments	345
Impairment charge	(1,905)
Closing net book amount at 31 December 2008	<u>-</u>
At 31 December 2008	
Cost	1,905
Accumulated amortisation and impairment	(1,905)
Net book amount	<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 14

14 Impairment of Peladon Software Group investment

The Peladon Software Group was purchased to acquire the DocXP[®] document management product and to provide the DRS Group with a channel to distribute the product throughout North America. At the time of the investment the carrying value of the assets was justified on a discounted cash flow (DCF) calculation that applied a 15% discount rate to future expected earnings generated by the DocXP[®] product over a period of four years.

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

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

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

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

The exceptional items in the income statement represent:

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

15 Inventories

	31 December 2008 £000	31 December 2007 £000
Raw materials	918	709
Work in progress	64	109
Finished goods	439	628
	<u>1,421</u>	<u>1,446</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 2008 £000	Movement during year £000	31 December 2007 £000	Movement during year £000	31 December 2006 £000
<i>Inventory provision</i>					
PS900 scanners	699	(242)	941	941	-
Other scanners	182	(136)	318	119	199
Print	30	21	9	3	6
Total	911	(357)	1,268	1,063	205

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

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

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

16 Trade and other receivables

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

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

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

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

Standard payment terms on credit sales are 30 days 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 2008	1,374	928	271	98	41	17	19
31 December 2007	1,612	576	255	204	55	176	346

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

	Total £000
For the year ended 31 December 2007	
Opening amount at 1 January 2007	187
Increase in provision to income statement	170
Closing amount at 31 December 2007	<u>357</u>

For the year ended 31 December 2008	
Opening amount at 1 January 2008	357
Exchange adjustments	41
Provision utilised	(147)
Decrease in provision to income statement	(209)
Closing amount at 31 December 2008	<u>42</u>

17 Cash and cash equivalents

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

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

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

	31 December 2008 £000	31 December 2007 £000
Cash and cash equivalents	2,766	3,779
Bank overdrafts	-	(221)
	<u>2,766</u>	<u>3,558</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.

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

18 Share capital

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

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

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

19 Other reserves

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

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

The translation reserve represents the foreign exchange differences arising from the retranslation of the opening net investment in the US subsidiary and the retranslation of the

goodwill and fair value adjustments arising on its acquisition, which are treated on consolidation as though they were assets and liabilities of the subsidiary.

20 Deferred income tax

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

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

	31 December 2008 £000	31 December 2007 £000
At 1 January	(193)	83
Credit/(charge) to income for the year	181	(268)
Credit/(charge) to equity for the year	40	(15)
Effect of rate change on closing balance	-	7
At 31 December	<u>28</u>	<u>(193)</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	Fair value adjustments £000	Accelerated tax depreciation £000	Losses £000	EBT obligations £000	General provision £000	Total £000
At 1 January 2008	18	170	(48)	(317)	(13)	(3)	(193)
Charge to income for the year	-	(210)	64	317	13	(3)	181
Charge to equity for the year	-	40		-	-	-	40
At 31 December 2008	<u>18</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>28</u>

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

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

21 Trade and other payables

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

Fair value equates to carrying value.

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

22 Borrowings

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

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

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

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

23 Earnings per share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Shares held in employee share trusts are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

Basic earnings per share

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

Diluted earnings per share

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

24 Dividends per share

	2008 Pence /share	2007 Pence /share	2008 £000	2007 £000
Amounts recognised as distributions to equity holders in the year:				
Final dividend for the year ended 31 December 2006		0.25		80
Interim dividend for the year ended 31 December 2007		0.30		95
Final dividend for the year ended 31 December 2007	0.60		190	
Interim dividend for the year ended 31 December 2008	0.30		95	

The directors do not recommend a final dividend.

25 Cash generated from operations

	31 December 2008 £000	31 December 2007 £000
(Loss)/profit for the period	(2,992)	1,023
Adjustments for:		
- income tax (Note 10)	445	464
- depreciation of property, plant and equipment (Note 11)	630	724
- amortisation of intangible assets (Note 12)	988	932
- impairment charge (Note 14)	2,429	-
- IFRS 2 (credit)/charge in respect of EBT	(32)	34
- IFRS 2 charge in respect of LTIP shares	6	-
- profit on sale of property, plant & equipment and intangibles	(5)	(16)
- exchange gains put through income statement	(607)	-
- interest income (Notes 7)	(156)	(125)
- interest expense (Note 9)	138	158
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
- inventories	25	254
- trade and other receivables	240	1,015
- trade and other payables	(222)	20
Cash generated from operations	<u>887</u>	<u>4,483</u>

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

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

26 Reconciliation of movements in cash and cash equivalents

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

27 Commitments

(a) Capital commitments

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

(b) *Operating lease commitments*

The company has the following lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2008 £000	31 December 2007 £000	31 December 2008 £000	31 December 2007 £000
Within one year	207	195	48	60
Within two to five years	136	77	29	48
	<u>343</u>	<u>272</u>	<u>77</u>	<u>108</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. Three leases expire on 30 November 2010 and the fourth lease expires on 20 October 2009. Rent is payable quarterly in advance. The fifth lease relates to the Peladon Software Inc offices in San Diego which expired on 28 February 2009.

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

28 Pension commitments

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

29 Share-based payments

Details of options granted:

	Type	Original Number of 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 2005						
2 November 2005	Directors and employees	616,000	3 years	3 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:

	Outstanding Options 1 January 2008	Granted	Lapsed	Exercised	Outstanding Options 31 December 2008
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

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 2005								
2 November 2005	Monte Carlo	34.0p	0p	45.52%	3 years	-	4.50%	26.00p
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

Performance Criteria

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

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

Valuation Methodologies

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

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

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

Volatility Assumptions

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

Options outstanding

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

Financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007 but is derived from the 2008 accounts. Statutory accounts for 2007 have been delivered to the registrar of companies and those for 2008 will be delivered in due course. The auditor has reported on those accounts; its reports were (i) unqualified, (ii) did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying its reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The full Annual Financial Report will be found on the Group website www.drs.co.uk from 1 April 2009.

**End:
11 March 2009**

Enquiries to:

Sally Hopwood
Company Secretary
Tel: 01908 666088