DRS

Annual Report & Accounts

2010

DRS Data & Research Services plc

Education Elections Census

DRS is a world-class supplier of data capture solutions, with over 40 years' global experience in the delivery of time-critical, large volume data capture projects for Education, Elections and Census.

Business overview

Group report and accounts

Parent company report

At a glance

"2010 was a good year for the Group with turnover up 18% on the previous year at £17,602,000 and profit before tax of £834,000.

On continuing operations turnover is up 18.5% on the previous year at £17,102,000 and a profit before tax of £1,653,000.

The Group's encouraging and profitable achievements in the first half of the year were improved upon during the second half by a solid performance in our education markets and substantial growth in our non-education markets."

Sir David Brown
Chairman

Business values

Expertise
We have many years of specialist experience in the field of data capture. Our knowledge and expertise is unrivalled in the marketplace and we apply the knowledge gained in different markets and countries to create solutions to meet the challenges that arise as the world and technology evolve.

Trust
Our customers trust us to deliver accurate results on time, every time. We know that every piece of data counts, whether it is a vote in an election, a census return or a candidate's exam results.

Partnerships
We work in partnership with our customers to make sure that the service we provide meets their exacting needs both in the short- and long-term. We get to know our customers intimately so that we understand what they are trying to achieve and deliver solutions to support their requirements.

Business focus

Education
Education and examination services
Student registration

Elections
Multi-channel election solutions
Voter registration

Census
National population census

Financial highlights*

Turnover
£17.10 million
2010: £17.10 million
2009: £14.43 million

Profit before tax
£1.65 million
2010: £1.65 million
2009: (£0.14) million (loss before tax)

Gross profit
£6.54 million
2010: £6.54 million
2009: £4.97 million

Cash reserves
£5.08 million
2010: £5.08 million
2009: £2.88 million

Product development investment
£1.87 million
2010: £1.87 million
2009: £2.18 million

Earnings per share
1.76 pence
2010: 1.76 pence
2009: (2.28) pence

Education revenue
£13.56 million
2010: £13.56 million
2009: £13.32 million

Elections revenue
£1.09 million
2010: £1.09 million
2009: £0.26 million

Census revenue
£2.32 million
2010: £2.32 million
2009: £0.38 million

*figures based on continuing operations

Operational highlights

Continued success providing the scanning service for awarding bodies worldwide using electronic marking

Successfully delivered the Icelandic Constitutional Assembly election

Developed and delivered the system requirements for the 2011 Pakistan census

Increased number of installations of IntelliReg® for student registrations in the tertiary sector

Secured the contract for the Greater London Authority election to be held in 2012

Contract secured to provide forms and data capture service for the Zambian national census

Operational review: Education

Education turnover

£13.6 million

Education turnover 2009: £13.3 million

e-Marker® turnover

£8.5 million

e-Marker® turnover 2009: £8.2 million

With over 40 years' experience in the education market the focus in 2010 remained the growth of assessment and qualifications, administration and student registration.

Performance

Education continued to be the largest part of DRS' business accounting for nearly 80% of the overall 2010 turnover.

Revenue rose to £13.6 million, up 2% on 2009 figures. Growth came not only from the examination sector but also from student registration.

e-Marker®, our electronic marking solution, continued to be our flagship product, representing 63% of the total Education business. Revenue from e-Marker® reached over £8.5 million, growing 4% from 2009.

e-Marker®, our electronic marking solution, continued to be our flagship product, representing 63% of the total Education business

The number of examination scripts marked reached over eight million and there was a growth in the marking of unconstrained scripts.

Our strong relationship with the Assessment and Qualifications Alliance (AQA), the largest awarding body in the UK, continued and the success of other partnerships in 2010, including the Welsh awarding body WJEC, augmented our market-leading position.

We also continued to work with a number of other professional bodies including Associated Board of the Royal Schools of Music (ABRSM) and Council for the Curriculum, Examinations and Assessment (CCEA).

Internationally our success continued with e-Marker® pilots completed in Nigeria and Malaysia.

Other revenue in the Education sector accounted for over £5 million.

Schools admissions and related products continued to generate income, although showing decline due to the move to online registration methods.

Growth in student registration came primarily from the tertiary sector where further IntelliReg® systems were installed, including expansion of the solution at Barnet College. Although funding cuts in the education sector are expected to impact colleges and universities, the need to track paying students will continue. The suitability of IntelliReg® has been established in 2010. Its flexibility provides essential electronic registration solutions for students and administrators, both today and in the future.

Opportunities

Electronic marking is now gaining acceptance in many regions of the world. This is due to its proven benefits in marking quality, more effective use of markers, the removal of bias and the improved administration and reporting of the marking process.

This will increase the opportunities for DRS to promote e-Marker® internationally and we are keen to undertake pilot projects, such as those completed in Malaysia and Nigeria.

The education sector will continue to represent a key area of growth and investment for DRS

Investment in the product reached over £1 million and resulted in the enhancement of the product and its features, not only providing valued functionality for our existing customers, but helping to win prospective business.

2010 also saw the start of activities focused on expanding our examination services, and identifying partners to work with in order to increase our electronic assessment presence. This work will continue in 2011, leading to an enhanced offering and greater opportunities for growth.

Within the overall education market place we continue to supply solutions to the schools and tertiary sector, as well as exploring opportunities for new products to add to the portfolio for increased sales potential.

We enter 2011 with a clearly defined roadmap for future development of e-Marker® that will allow us to continue enhancing the product and to match the growing market interest in, and need for, electronic marking solutions worldwide.

Electronic marking is now gaining acceptance in many regions of the world

We will continue our drive to be the electronic supplier of choice for high stakes examinations and professional and national examinations. We will strive to further increase our specialist knowledge of awarding bodies and their needs and continue to build a team focused on delivering secure, high-quality, commercially justifiable, marking solutions.

Our presence in the schools and tertiary markets remains an important area for DRS and we will continue to explore and build a product offering that will enable us to benefit from the strong relationships we have in this market at Local Authority, school and college level.

Operational review: Elections

Elections turnover

£1.1 million

Elections turnover 2009: £0.3 million

DRS has supplied election solutions for the last twenty years, often providing unique customised solutions to meet a specialist need. Our strategy is to provide a range of products and services, directly and through trusted partners, to meet the statutory elections, non-statutory elections and voter registration requirements of a global customer base.

Performance

2010 saw a year of consolidation and growth for the Elections business with focus on the building of electoral partnerships and the development and delivery of contracts already awarded.

Revenue grew to £1.1 million, representing 6% of the 2010 revenue. This was a significant growth resulting from the valuable successes made in the UK and internationally, and contributing to a marked improvement in our overall presence in the market.

The 2012 Greater London Authority election contract was secured, under the IntElect® brand, a joint venture with Electoral Reform Services Limited (ERS). IntElect® provides a delivery vehicle for large, complex electronic election projects.

We successfully delivered the Icelandic Constitutional Assembly election, enhancing our strong foundations for further international work.

Various voter registration projects were also undertaken in 2010 including in Burkina Faso, where we scanned over five million forms, adding to our presence and expertise in the African market.

Opportunities

The establishment of IntElect® continues the relationship which started in 2007 with the delivery of the Scottish elections. IntElect® brings together a unique range of election expertise and services. The successful London bid has not been the only project to benefit from this relationship, with both organisations being involved in the delivery of the Icelandic election.

Our ability to provide end-to-end solutions is key in this time-critical market

In addition a partnership was established with Mi-Voice, a supplier of electronic online voting solutions, for the supply of two products for the statutory and non-statutory markets. This co-operation has added another key aspect to our existing offering and allowed us to better support the provision of multi-channel elections.

Our ability to provide end-to-end solutions is key in this time-critical market, and the development of the product range, internally or through the use of partners, enables us to offer solutions for both statutory and non-statutory elections.

By building strong partnerships and further improving our product range we will continue to target the elections market both in the UK and internationally.

Operational review: Census

Census turnover

£2.3 million

Census turnover 2009: £0.4 million

Our focus within this market continued to be the provision of cost-effective solutions to National Statistics Offices worldwide considering paper-based census operations.

Performance

2010 proved a successful year for Census with growth of over 500% on 2009 figures. Three main Census projects accounted for the bulk of the £2.3 million revenue, providing 14% of the continuing business revenue.

The year focused on the development and delivery of the requirements to process and capture data for the 2011 Pakistan Census. This included the printing and delivery of over 42m census questionnaires designed to enable the swift and accurate capture of hand-written data.

Additional wins in 2010 came from the successful census pilot project in Zambia and the subsequent contract to supply over five million forms and data capture solution for the Zambian national housing and population census.

Opportunities

Optical Mark Recognition (OMR) technology is popular in many sub-Saharan African countries as a result of years of use in the education sector and gives DRS great opportunity for future business. The Company's reputation and presence in sub-Saharan Africa grew with a number of agents appointed to both help promote our services and provide in-country support in coming years.

DRS has a strong reputation in the market and is highly respected in the regions it operates

We continue to promote our fully combined census service offering which covers form design, printing, supply of scanners, supply of scanning systems and IT infrastructure. We focus on supplying consultancy and project management expertise that has a proven track record and covers not just the implementation of systems but also workflow and forms handling.

We have a strong reputation in the market and are highly respected in the regions we operate in. We will continue to grow our expertise and presence in the Census market and review carefully the future trends and potential within the sector.

BUSINESS OVERVIEW

Worldwide operations

We pride ourselves on delivering solutions throughout the world.

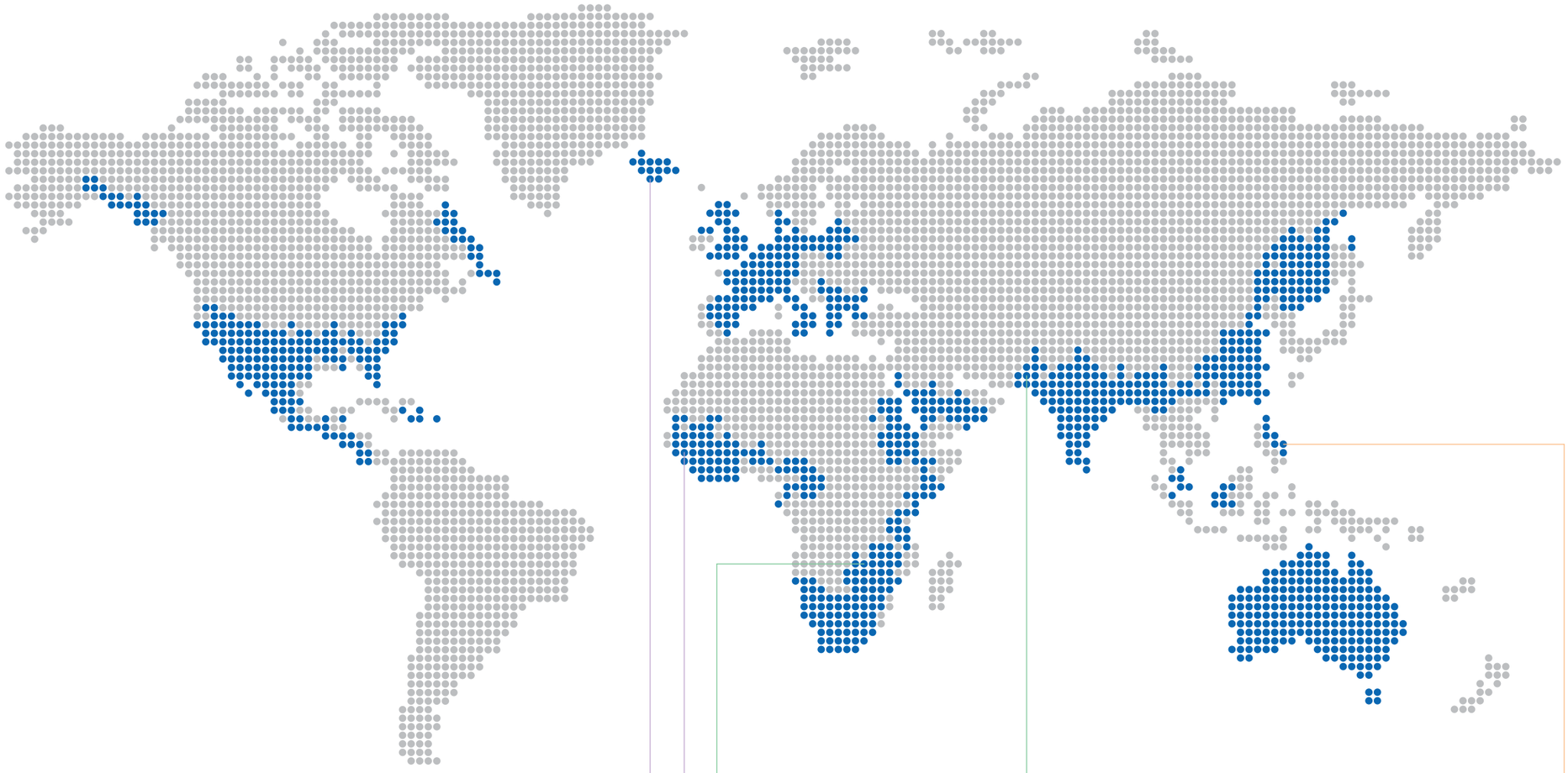
Whether in Census, Elections or Education our aim is to create products and services that can be implemented internationally.

We work with selected partners to ensure we have an international presence and a local support facility where necessary, to meet the exacting demands of our customers.

We strive to have representation at all relevant international events to establish DRS as a leader in the field of data capture.

Our successes have continued throughout 2010.

DRS has deployed its products and solutions in over 50 countries worldwide.



Location: Iceland

Activity: Successful delivery of the Icelandic Constitutional Assembly election

Location: Zambia

Activity: Supplying over five million forms for the national housing and population census

Location: Burkina Faso

Activity: Electronic scanning of five million voter registration forms

Location: Malaysia

Activity: Pilot tests completed for the utilisation of e-Marker®

Location: Pakistan

Activity: 42.5 million census questionnaires designed, printed and delivered

GROUP REPORT & ACCOUNTS

Chairman's statement

Sir David Brown
Chairman

Turnover

£17.1 million

Turnover 2009: £14.4 million

Results

2010 was a good year for the Group with turnover up 18% on the previous year at £17,602,000 (2009: £14,901,000) and a profit before tax of £834,000 (2009: £915,000 loss).

On continuing operations turnover is up 18.5% on the previous year at £17,102,000 (2009: £14,431,000) and a profit before tax of £1,653,000 (2009: £135,000 loss).

The Group's encouraging and profitable achievements in the first half of the year were improved upon during the second half by a solid performance in our education markets and substantial growth in our non-education markets.

The Group's performance in its education markets has remained robust and profitable, accounting for 79% of total year revenue from continuing operations at £13,557,000 (2009: £13,315,000). Sales of e-Marker® continue to contribute the largest part of the education business at £8,514,000 (2009: £8,155,000), accounting for 63% of our education business and 48% of the Group's total business.

The decline of our non-education business in 2009 was reversed in 2010 by our winning and delivering significant census and election contracts. This accounted for a more than three-fold year-on-year revenue growth in the Group's non-education business at £3,545,000 (2009: £1,116,000). This achievement represents 8% growth over the comparable revenue for 2008, being the year before the decline occurred (2008: £3,293,000).

The decisive cost-cutting in 2009 and the continuing firm control of costs in 2010 have contributed substantially to both the much better profitability and cash position. The year-end cash holdings increased by £2,198,000 to £5,080,000 (2009: £2,882,000).

The Group's performance in its education markets has remained robust and profitable

Our examinations and assessment business, with e-Marker® at its centre, continues to be a core component of our strategy for sustained growth and profitability

Having regard to the need to continue to build the Group's distributable reserves, the Directors do not recommend the payment of a dividend (2009: Nil).

Education

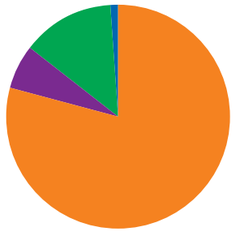
Our examinations and assessment business, with e-Marker® at its centre, continues to be a core component of our strategy for sustained growth and profitability. As we reported at the beginning of the year, we were delighted to sign a five-year contract with our major UK customer for e-Marker®, Assessment and Qualifications Alliance (AQA). The contract is expected to be worth more than £40,000,000 in revenue over the five years and reinforces the strong partnership which has been established over many years. AQA was one of our first customers for e-Marker® and its use of the technology to improve the quality and efficiency of examination marking has grown to cover most of its subjects. AQA is the largest awarding body in the UK and its use of e-Marker® positions the product at the forefront of electronic examination marking in the UK.

An increasing number of other awarding bodies in the UK are using e-Marker® to assist the marking of their examinations. These include national examinations for the Welsh awarding body WJEC, the Council in Wales and England, the Council for the Curriculum, Examinations & Assessment (CCEA) in Northern Ireland and other awarding bodies for professional qualifications. Towards the end of the year we were pleased to be awarded a three-year contract by WJEC for the use of e-Marker®. In total we processed approximately 10 million examination scripts during 2010, which was our largest annual volume to date.

A major element of our e-Marker® strategy is entry into the international markets for electronic marking. Prior to 2010, we had already completed pilot projects in several countries, including France, Poland and Malaysia. Africa is an important and successful market for the Group, where we have established strong relationships over the years. Some of the strongest of these are in Nigeria, and we were especially pleased to have been able to extend our long history of working in that country by completing an e-Marker® pilot at the beginning of 2010. Interest in electronic marking is being seen in several other countries in Africa and in parts of Eastern Europe, Asia and Australasia.

Revenue by sector

Total 2010 revenue £17.1 million



Our major market for census work has traditionally been in Africa so our success in winning the contract to supply census software to Pakistan is a significant step forward

Census and Elections

Our major market for census work has traditionally been in Africa so our success in winning the contract to supply census software to Pakistan is a significant step forward. Although the Pakistan census will not take place until later in 2011, we were informed in August 2010 that we had also won the contract to print the census forms. This contract had a value of approximately £1,000,000 and all of the printing was completed before the end of the year.

In August 2010 we won a contract for a pilot census in Zambia. This is the second time we have been selected for census work in Zambia and we were also delighted to be awarded the contract for the main census during the second half of the year. The contract included the supply of five million census forms which we printed in 2010 and the scanning and processing of those forms in Zambia which is scheduled to take place in 2011.

We won international election projects in the first half of 2010 in both familiar and new territories. Voter registration projects in Africa are particularly suited to paper-based data collection and DRS has been involved in a number of these projects over the years. The Electoral Commission in Ghana replaced a number of its scanners with our latest Photoscribe® PS900 scanners in 2010 and we won an order to supply the forms for Ghana's next project. We also won a substantial order for scanners and forms in Burkina Faso. This is our first sale to Burkina Faso and we are very pleased to be able to add it to the long list of countries in Africa with whom we regularly do business. In the second half of the year we won an e-counting contract for a Single Transferable Vote election in Iceland. This complex election with more than one hundred candidates was completed very successfully and the results were announced significantly ahead of time.

We were very pleased in September to announce that IntElect®, a joint venture between DRS and Electoral Reform Services Limited (ERS), had been awarded the electronic counting contract for the 2012 London Mayor and Assembly elections. This contract also includes an option for the customer to extend the term of the service through to the following elections in 2016. The combined value of the e-counting service for both the 2012 and 2016 elections is approximately £6.8m. Both companies have a track record of success in electronic counting and DRS has provided similar services for GLA elections in 2000 and 2004.

Chairman's statement continued

The strong growth in revenue and return to profitability in 2010 represents a marked improvement in performance and demonstrates that our uncompromising focus on exploiting the Group's core competencies in its established markets, together with robust cost-control measures, are proving to be effective

Commercial

The discontinued operations comprising Peladon Software Inc and the UK DocXP™ business made a trading loss before tax of £328k in the nine months up to its disposal on 30 September 2010. During 2009 the trading loss before tax was £780k. In 2010, this business required £619k of cash funding from DRS (2009: £599k).

Because of the high running costs of Peladon Software Inc and the uncertain prospects for DocXP™, we concluded that it was no longer in the best interests of shareholders for the Group to continue to support the business. Subsequently we announced that we had entered into an agreement, subject to shareholder approval, to sell Peladon Software Inc to The Software Construction Company Inc. Having gained that shareholder approval on 20 September we completed the disposal of Peladon Software Inc and the UK DocXP™ business on 30 September 2010.

Outlook

The disposal of Peladon Software Inc in 2010 reflects the Group's renewed strategic emphasis on its core markets and products in education, census and elections.

The Group's education business, with e-Marker® at its centre, has good growth prospects. The Group will continue to invest to secure those opportunities, such that education is likely to continue to be the largest of the company's businesses.

The Group's non-education business has performed particularly well during the year and significantly better than in 2009. Both main elements of that business, census and elections, are expected to perform unevenly because of the long intervals between projects but are likely to continue to make important contributions to the Group's performance. Although the 2011 census business is unlikely to match the exceptionally high level achieved in 2010, securing the contract for the London elections in 2012, with potential through to 2016, has given important impetus to our non-education business.

In summary, the strong growth in revenue and return to profitability in 2010 represents a marked improvement in performance and demonstrates that our uncompromising focus on exploiting the Group's core competencies in its established markets, together with robust cost-control measures, are proving to be effective. The Board is determined to build on this progress and, although revenue and profit growth are less certain in the coming year, expects to continue to invest in building best-in-class customer and partner relationships.

Sir David Brown
Chairman
21 March 2011

Business review

Tony Lee
Chief Executive Officer

The Group achieved a strong performance in 2010 with revenue from continuing operations of £17,102,000 up 18.5% on the previous year (2009: £14,431,000).

Improved trading performance on continuing operations turned a £135,000 trading loss before tax in 2009 into a £1,653,000 trading profit before tax in 2010.

The statement of financial position at 31 December 2010 reflects this improved trading position with cash and cash equivalents increasing to £5,080,000 from £2,882,000 last year.

Performance and position

The overall revenue figure for the Group in 2010 was £17,602,000 (2009: £14,901,000), of which £500,000 was generated by the discontinued operations which were disposed of on 30 September 2010.

A breakdown of the revenue from continuing operations is:

	2010		2009	
	£000	%	£000	%
UK Sales	11,205	65.5%	11,177	77.5%
Non – UK Sales	5,897	35.5%	3,254	22.5%
	17,102		14,431	

The primary market for DRS is UK education where revenue continues to grow, although it now accounts for 64.2% of 2010 Group revenue compared to 75.3% in 2009 as the overseas non-education business grew by 310%. Newly won census and election contracts generated £3,409,000 in sales (2009: £632,000).

Highlights of the year

Our e-Marker® business continued to be the single largest contributor to our revenue and helped our overall education business achieve more than 75% of total revenue. Volumes of work with our major customer Assessment and Qualifications Alliance (AQA) increased slightly and we now process the majority of their examination papers. With such a significant and prestigious customer as AQA we were very pleased to sign a new five year contract at the beginning of the year to continue to be their technology partner for the electronic marking of examinations.

Business with other awarding bodies also increased during the year and we signed a three year contract with the Welsh awarding body WJEC and started working with the Council for the Curriculum Examinations and Assessment (CCEA) in Northern Ireland. This has added to the very promising pilots that have taken place in Africa and Asia.

DRS has been selling into the UK schools market for many years and our Optical Mark Reader (OMR) products are used in primary and secondary schools across the UK for attendance monitoring. These legacy products and the associated paper forms we supply are gradually being replaced by other technology such as our own IntelliReg® product. However with the change of UK Government in the middle of 2010 the funding for building new schools via the Building Schools for the Future (BSF) project was severely cut. This made the market for new products into schools much less stable and we took the decision to withdraw from that market. The market for similar products into the tertiary education sector has remained stable and we continued to sell into this area with a number of successful contracts being won during the year.

Our non-education business performed particularly well during the year with significant growth compared to both 2008 and 2009. Census and election contracts both provided contributions to this growth and the elections market won a major contract for 2012 and beyond. Our commercial business in America with Peladon Software Inc was much more uncertain and we decided, with shareholder approval, to sell Peladon Software Inc and the UK DocXP™ business to The Software Construction Company Inc and this was completed on 30 September 2010.

The major census contracts were for Pakistan and Zambia. We were pleased to extend a pilot project in Zambia, completed early in the year, through to the award of the main census contract. DRS was also awarded the previous Zambian census so we were particularly pleased to be invited back for the implementation of this important

Business review continued

project. Winning the Pakistan census was strategically very important to us because it is the first census DRS has won outside of Africa. We had been awarded the software and scanning contract for Pakistan in 2009 but beat strong competition to also be awarded the printing contract in 2010.

Election business in the year included sales of scanners and forms to Ghana where we have worked and established good relationships and customers over a number of years. We also gained new customers with sales to Burkina Faso and Liberia. Towards the end of the year we won and successfully completed the electronic counting of a complex election in Iceland. The election has subsequently been challenged on a number of issues unconnected to the work completed by DRS and we are waiting to see if a second election will be called for which we can bid.

The major election success of 2010 was to win the contract for the London Mayor and Assembly elections in 2012, working with joint venture partner Electoral Reform Services Limited (ERS). DRS won the very first GLA election in 2000 and again in 2004. To win the contract back again for 2012 with an option that it could be extended to the 2016 elections is particularly rewarding and was achieved in spite of strong competition. The total value of the contract will depend on a number of factors including whether it is extended to 2016 but may exceed £6.8m.

Research and development

We have continued to invest in our future with a focused programme of research and development which both supports and extends the DRS business. Total expenditure on all product development during 2010, was £1,868,000 (2009: £2,182,000). Other than the creation of new functionality in the e-Marker® product, all of this expenditure has been expensed through the income statement. Development costs expensed including amortisation through the income statement during 2010 are £2,520,000 (2009: £1,972,000).

e-Marker®

Continued development of e-Marker® took place during 2010 and this major product range forms the cornerstone of our current education business. The products and services offered extend across many parts of the Group and provide varied solutions for assisting in the marking of examinations which are equally applicable to awarding bodies in the UK and in most countries around the world.

As the products have been developed and deployed we have gained a wide experience of differing examination types and the complex nature of the rules and requirements to aid examiners and correctly assess candidates' work. Many of the features added to the products over the year have enhanced the ease of use by markers and enabled efficient use of their time while ensuring that quality and consistency of marking has been improved compared to manual marking.

Investment has also been made in the development of the internal systems which enable DRS to offer a complete marking service to awarding bodies. Our Bureau scanning facility is the largest single user of our high speed PhotoScribe® scanners and is capable of processing the many millions of scripts and other forms that we now process each year for multiple awarding bodies and other organisations. Our information technology systems have also been enhanced to meet the increasing volume of examination scripts that we handle and subsequently distribute securely via the Internet.

Elections

To meet the needs of future election projects and the 2012 London Mayor and Assembly elections in particular, we have continued to develop our e-counting suite of software. This software has been adapted since our first major e-counting project for the London elections in 2000. Our specialist range of real-time data processing scanners has also evolved over that time period to move from traditional OMR machines to full image processing devices. This has enabled the e-counting software to move from counting simple 'first past the post' elections to the much more complex STV (Single Transferable Vote) elections where multiple preferences are ranked in order. The DRS system is capable of counting these elections as the ballot papers move through the scanners as well as checking for any other marks that the voter may have written on either side of the ballot paper which would need to be adjudicated by election officials.

Our election systems have also evolved to meet the needs of openness and security in the many different environments that we work. Our scanning technology ensures that ballot papers are always counted in full view of officials and observers while the system maintains full audit trails and accountability of the process. Our updated system for the 2012 election will also allow the progress of all the 14 counts to be viewed via media centres live across London.

Census

Development of our latest census products was completed during 2010 to meet the needs of the projects in Pakistan and Zambia. We have a long history of using OMR in such projects and the latest products build on this very reliable and efficient data capture technology but bring the added advantages of newer technology to provide better solutions to the problem of very high volume data capture. One key aspect of this is ICR (Intelligent Character Recognition) which allows hand written text to be interpreted. This technology does require considerably more intervention and correction to validate the information after it has been collected but facilitates much higher density and complexity of data.

A key aspect to all of the high volume data capture work that we undertake is the correct and efficient processing of exceptions. When collecting data from millions of people, there is always a requirement to correctly process the mistakes introduced by human error. The detection and correction of these exceptions combined with the logistics of handling data stored on millions of forms establishes DRS as leaders in this field of data capture.

IntelliReg®

During the year we decided to stop internal development of our IntelliReg® biometric registration system in favour of sourcing external third party products. The uncertain nature of funding into schools in the UK led to this decision to minimise the spending on both hardware and software development. Our systems were particularly targeted at the requirements of schools and the need for close integration of the registration process to the school information management systems that are used in most schools. Our tertiary education market has different requirements which can be fulfilled by the third party products we were already sourcing and selling.

Discontinued operations

DRS acquired Peladon Software Inc in January 2006. At the time of its acquisition, the Directors considered that Peladon Software Inc's DocXP™ range of software would complement DRS' existing product range and extend its capabilities into new business markets such as financial services and banking.

Following a hesitant beginning, the 2007 slowdown in financial services in the United States began to impact DocXP™ sales and the market for Peladon Software Inc's products became increasingly difficult. Sales of Peladon Software Inc's DocXP™ range fell below the Board's expectations in each of the last three years, resulting in substantial operating losses and cash outflows. In the opinion of the Board, the prospects for the US market remain highly uncertain, and the Board concluded that it was no longer in the best interests of shareholders, for the Company to continue to support the DocXP™ business.

Consequently, Peladon Software Inc and the UK DocXP™ business were sold to The Software Construction Company Inc, a Texas-based company, on 30 September 2010. Further details of the disposal are set out in the notes to the financial statements (see Note 8).

Liquidity and investments

At the end of 2010 the Group held £5,080,000 (2009: £2,882,000) in cash. It is the Group's policy to take a cautious approach to cash management. In terms of treasury management only short-term investments that do not put the capital at risk are considered. The Group aims to maintain a high level of liquidity in order to have the funds to support the working capital requirements to be able to deliver large election and census contracts. DRS Data Services Limited has a £250,000 overdraft facility and a £150,000 credit line to cover operational performance bonds required in the general line of business. In addition to the basic level of credit, in February 2011 a performance bond for £563,129 in favour of The Greater London Authority of City Hall in respect of the 2012 Mayor and London Assembly elections contract was created. The mortgage facility of £2,250,000 held by DRS Data & Research Services plc was extended in January 2010 to March 2014 and in view of these arrangements the Directors believe the access to cash resources is adequate to meet the foreseeable needs of the business over the next 12 months.

Business review continued

Strategy and objectives

The Group's objectives are to achieve accelerated revenue growth and create increased shareholder value.

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

- increase the percentage of revenue generated from recurring business and expand the number of key customers;
- reduce indirect cost as a percentage of sales;
- expand e-Marker® services into Africa and other overseas territories;
- develop e-Marker® products to allow local service provision by overseas customers; and
- market our census and election products to win a significant number of projects during 2011 and 2012.

Key performance indicators (KPIs) on continuing operations

	2010	2009
Financial		
Sales growth pa	18.5%	(17.2%)
Operating return on sales[#1]	9.7%	(0.9%)
Top five customers[#2]	69.5%	72.5%
Development expenditure[#3]	10.9%	15.1%
Return on capital employed[#4]	21.4%	(1.8%)
Non-financial		
Employees' average length of service[#5]	5.85	5.93
Total energy consumed[#6]	1.90	2.20

[#1] ratio of operating profit as a percentage of total Group sales (before amortisation of intangibles arising on Peladon Software Inc acquisition and exceptional costs)

[#2] ratio of revenue generated from five biggest customers as a percentage of total Group sales

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

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

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

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

In 2010 the increase in census and elections revenue had a positive effect on the financial KPIs. In addition, the cost base reductions instigated in 2009 contributed to improving the operating return on sales.

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

Society rightly maintains a focus on energy usage and the actions taken in quarter two of 2009 to monitor energy usage more closely throughout the business continued to provide benefits, resulting in a 14% reduction in electricity and gas consumption in 2010.

It is the Group's goal to achieve accelerated revenue growth and to increase the operating return on sales. New product development expenditure and return on capital employed are being monitored to enable a balanced approach to be taken. Some dilution of the sales concentration of the top five customers has taken place during the year and it is the Board's intention to further improve this position.

Environment and employees

The Group employed an average of 228 employees throughout 2010, of which 227 were based in the UK and one in Kenya. Further information concerning environmental matters, our employees and social and community issues can be found in the Corporate Social Responsibility Report on page 30.

Risks and uncertainties

The Group is subject to risks and uncertainties relating to its future business which might affect the financial performance of the Group. The Board has implemented systems to identify risks, to assess them and to ensure that reasonable mitigation plans are in place. The Board is paying particular attention to the operational risks and uncertainties of current recessionary conditions in any of the Group's markets and further details are provided under the heading 'internal controls and risk management' within the Corporate Governance Report on page 25.

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

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. One of the ways to overcome this revenue volatility is to develop products such as e-Marker® which generate recurring business (see below).

Cautionary statement

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

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

Current trading and outlook

Our strategic objectives in 2010 were to keep a firm control of the Group costs, which were reduced in 2009, and to consolidate the focus of our business on key products and markets. During the year we fully achieved these objectives.

Costs were maintained across the Group while we made significant changes to the business. The sale of Peladon Software Inc has removed a level of complexity from the business and reduced costs. The schools product offering has also been simplified and uncertainty and risk reduced.

The main focus of the business is now concentrated on education, elections and census. All of these markets were grown during the year and contributed to our move from a loss in 2009 to a profit in 2010. Our e-Marker® business which has grown each year since we created it continues to make a major contribution to revenue and has also increased our percentage of recurring business and decreased our dependence on single one-off projects.

The prospects for the Group's e-Marker® examination marking continue to be good because the economic downturn does not appear to be having a negative effect on this market sector. However, the education examination market place is coming under increasing pressure to demonstrate improved efficiencies in the marking process and our electronic assessment product assists in providing our customers with the means to achieve these improvements.

The UK election market continues to have opportunities for non-statutory elections and our prospects in this area have been enhanced by our inclusion on the list of approved suppliers to trade unions.

Following the successful growth in revenue and profit during 2010, DRS is looking to consolidate its position in 2011. Although prospects for our non-education business are less certain than during 2010, the Group has made a solid start to the year during the first quarter.

Our strategy in 2011 remains one of focus on developing competitive products and services to build our UK and international business in our focussed data capture markets.

Tony Lee
Chief Executive Officer
21 March 2011

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Directors and officers

Sir David Brown
Non-Executive Chairman
Chair of Nomination Committee

Sir David Brown was appointed to the Board of DRS as a non-Executive Director and Deputy Chairman in August 2008 and became Chairman in May 2009. He graduated in electrical engineering in 1972 and worked for Motorola from 1991 to 2008 first as Director of UK Operations and later as Chairman of Motorola Limited. He is currently senior independent Director of Ceres Power Holdings plc and a non-Executive Director of Domino Printing Sciences plc, The British Standards Institution and Siatel Holdings Ltd. Sir David is a Fellow of the Royal Academy of Engineering, an Honorary Fellow of the Institution of Engineering and Technology, an Honorary Fellow of the Chartered Quality Institute and a Companion of the Chartered Management Institute. He was President of the Institution of Electrical Engineers, President of the Chartered Quality Institute, President of the Federation of the Electronics Industry and President of the Association for Science Education. He was knighted in 2001 for services to British industry.

Tony Lee
BSc, MPhil
Chief Executive Officer

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

Mark Tebbutt
ACMA
Finance Director

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

Ann Limb
PhD, MA, DL
Non-Executive Director
Chair of Remuneration Committee

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

The Rt. Hon. Lord Kinnock of Bedwellty
Non-Executive Director

Lord Kinnock was appointed as a non-Executive Director of DRS in March 2005. An Industrial Relations and History Graduate, he taught industrial and trade union studies before being elected Member of Parliament for Bedwellty and Islwyn in 1970. In 1979 he was appointed Labour's Chief Opposition Spokesperson on Education and was elected Leader of the Labour Party in 1983, a position he held until 1992. He was appointed to the European Commission in 1995, with the Transport portfolio to 1999 and then as Vice President 1999-2004. He was appointed to the Peerage in January 2005 and was Chairman of the British Council 2004-2009. Neil was appointed to the Board of Trustees of RAND Europe in 2010.

Chris Batterham
FCA, MA
Senior Independent Non-Executive Director
Chair of Audit Committee

Chris Batterham was appointed as a non-Executive Director in September 2005. Chris qualified as a Chartered Accountant with Arthur Andersen. He was Finance Director of Unipalm plc, the first internet company to IPO and stayed with the company for five years following its takeover by UUnet. More recently, he was CFO of Searchspace Group until 2005 and is currently a non-Executive Director of SDL plc, The Risk Advisory Group Limited, Iomart plc, and Office2Office plc and is Chairman of Eckoh plc. He has also served on the Boards of Staffware plc, DBS Management plc, The Invesco Techmark Enterprise Trust plc and Betfair Ltd. Chris brings a wealth of experience in the strategic development of companies within the IT sector.

Alison Reed
Non-Executive Director

Alison was appointed to the Board of DRS as a non-Executive Director in January 2011. She qualified as a Chartered Accountant with Touche Ross & Co in London after graduating from Exeter University. Alison worked for Marks and Spencer plc for 21 years gaining experience in a broad range of financial and commercial roles, ultimately as Chief Financial Officer. Alison was then Chief Financial Officer of Standard Life plc where she was responsible for the flotation. She is a non-Executive Director of British Airways plc and was previously a non-Executive Director of HSBC Bank plc. She is also a Trustee for Whizz-Kidz.

Sally Hopwood
BSc
Company Secretary

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

GROUP REPORT & ACCOUNTS

Directors' report

The Directors present their report together with the audited Group and Company financial statements for the year ended 31 December 2010.

Principal activities

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

The registered office of both DRS Data & Research Services plc and DRS Data Services Limited is 1 Danbury Court, Linford Wood, Milton Keynes, MK14 6LR.

Business Review

The Chairman's Statement on page 12 and the Business Review on page 15 provide a review of the business and progress against its key performance indicators during the year, together with possible future developments and principal risks and uncertainties, and form part of this Directors' Report. Environmental considerations are reviewed within the Corporate Social Responsibility Report on page 30 and form part of this Directors' Report.

Corporate Governance

The Corporate Governance Report on page 25 forms part of this Directors' Report.

Financial risk management

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

Key operational risks and uncertainties

Key operational risks and uncertainties have been covered in the Business Review.

Results and dividends

The Group revenue in 2010 from continuing operations was £17,102,000, up 18.5% on the previous year (2009: £14,431,000).

The trading profit before tax on continuing operations was £1,653,000 compared to a trading loss before tax of £135,000 in 2009.

The Directors do not recommend a final dividend for 2010.

Monitoring of Group performance

The delivery of the Group's strategic objectives is monitored by the Board through Key Performance Indicators (KPIs) details of which have been covered in the Business Review.

Directors

A person who is willing to act as a director may be appointed by the Board. The Nomination Committee will first nominate the individual and the appointment may be either to fill a vacancy or as an additional appointment to the Board. The appointment shall continue until the next annual general meeting when the individual may be put forward for election by ordinary resolution of the members. In accordance with article 98 of the Articles of Association each Director retires from office at the next annual general meeting unless he or she was appointed or reappointed at the last annual general meeting before that meeting.

The current members of the Board, together with biographical details of each Director, are set out on pages 20 and 21.

All the Directors served throughout the year except for Alison Reed who was appointed on 1 January 2011.

In accordance with the Company's Articles of Association, Lord N G Kinnock is retiring by rotation at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

Alison Reed was appointed to the Board as a non-Executive Director on 1 January 2011. In accordance with the Article 102 of the Articles of Association, she is offering herself for election by the members of the Company at the Annual General Meeting.

Directors' interests

Details of Directors' service contracts and a statement of the interests of the Directors and their connected persons in the ordinary shares of the Company is given in the Directors' Remuneration Report on page 33.

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

Directors' Responsibilities

The statement of Directors' Responsibilities in preparing the Financial Statements and the Annual Report can be found on page 39.

Major shareholders

At the date of this report the Company's share register of substantial shareholdings showed the following interests of 3% or more of the Company's issued ordinary capital:

	Ordinary shares of 5p each	Percentage holding
Malcolm Brighton	7,079,697	20.45%
S D Stewart	2,000,000	5.78%
G Brighton	2,000,000	5.78%
J A Brighton	2,000,000	5.78%
Mark Brighton	2,000,000	5.78%
DRS Data & Research Services plc – Treasury shares	1,930,000	5.57%
J S Rockliff	1,455,000	4.20%

Takeover directive disclosures

The Company's share capital is as follows:

	Ordinary shares of 5p each At 31 December 2010 and 2009	
	Number	£000
Authorised	46,000,000	2,300
Allotted, issued, called up and fully paid	34,621,600	1,731

Further details are provided on the Company's share capital in Note 17.

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

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

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

The Directors were granted specific authority to issue the Company's shares in certain circumstances, at the Annual General Meeting in 2010. That authority will expire at the forthcoming Annual General Meeting at which the Directors will be seeking a similar authority. Further details are provided in the Notice of Meeting which accompanies this report.

The Directors will seek a renewal of their authority to issue and to allot the Company's shares at the Annual General Meeting. Further details are set out in the Notice of Annual General Meeting which accompanies this report.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders.

Key contractual arrangements

In January 2010 a contract with AQA was agreed for the provision of e-Marker® services. The document is an overarching agreement providing a framework within which specified defined service requirements and service levels are agreed and delivered for each examination series. Details of e-Marker® development are provided in the Business Review.

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

Payment of suppliers

The Group's normal practice is to agree terms and conditions with all suppliers before business takes place. Payment is then made on these terms subject to satisfactory performance by the supplier. Trade creditors at the year end represented 29 days (2009: 34 days) of average supplies for the year.

Treasury shares

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

Directors' report continued

Renewal of authority to allot

The Directors' current authority to allot relevant shares pursuant to Section 551 of the Companies Act 2006 will expire on 25 August 2011 or at the 2011 Annual General Meeting, if earlier. Resolution 7 as set out in the Notice of the Annual General Meeting will be proposed as an Ordinary Resolution to authorise the Directors to allot ordinary shares in the capital of the Company up to an aggregate nominal amount of £1,154,052. The authority (unless previously varied, revoked or renewed) will expire 15 months after the date of passing of the resolution or, if earlier, at the 2012 Annual General Meeting.

Disapplication of pre-emption rights

The current authority for Directors to allot equity securities for cash without first being required to offer such securities to existing shareholders in proportion to their existing holdings expires on 25 August 2011 or at the 2011 Annual General Meeting, if earlier. Resolution 8 as set out in the Notice of Annual General Meeting will be proposed as a Special Resolution to renew the authority of the Directors under Section 570 of the Companies Act 2006 to allot shares for cash otherwise than on a pre-emptive basis. The number of shares which may be allotted will be limited to an aggregate nominal value of £86,554 (representing 5% of the issued share capital of the Company). The authority (unless previously varied, revoked or re-worked) will expire 15 months after the date of passing of the resolution or, if earlier, at the 2012 Annual General Meeting.

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

Purchase of own shares

Currently shareholder approval is needed for the Company to purchase its own shares. Resolution 9 as set out in the Notice of the Annual General Meeting will propose as a Special Resolution to authorise the Company to make purchases of its ordinary shares up to a maximum of 10% of the current issued share capital of the Company. The authority (unless previously varied, revoked or renewed) will expire 15 months after the date of passing of the resolution or, if earlier, at the 2012 Annual General Meeting.

Auditor

The auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office. A resolution proposing the re-appointment of Grant Thornton UK LLP is contained in the Notice of the Annual General Meeting and will be put to the shareholders at the meeting.

Going concern

In considering going concern the Directors have reviewed the Group's future cash requirements and earning projections. The Directors believe these forecasts have been prepared on a prudent basis and have also considered the impact of a range of potential changes to trading performance. The Directors have concluded that the Group should be able to operate within its current facilities and comply with its banking covenants for the foreseeable future and therefore believe it is appropriate to prepare the financial statements of the Group on a going concern basis. This is supported by the Group's liquidity position as set out in the Business Review on page 15.

Annual General Meeting

The Annual General Meeting will be held at 1 Danbury Court, Linford Wood, Milton Keynes MK14 6LR on 25 May 2011 at 3.00pm. The Notice of the Annual General Meeting and explanation of the business to be put to the meeting have been sent to shareholders with this Report.

By order of the Board

Sally Hopwood
Company Secretary

21 March 2011

Corporate governance report

Disclosure statement

The Company is required by LR9.8.6R of the Listing Rules and the Combined Code on Corporate Governance dated June 2008 ('the Code') to make a statement in its annual report setting out how the Company has applied the Main Principles in Section 1 of the Code. The Code may be reviewed on the web site of the Financial Reporting Council at www.frc.org.uk.

Having reviewed the Company's compliance with the Main Principles, the Board is satisfied that throughout the accounting period ended 31 December 2010, the Company has complied with the Main Principles set out in the Code. Further details are provided in this report.

The Board is committed to high standards of corporate governance, is accountable to the Company's shareholders for good governance and has regularly reviewed its procedures to take account of the principles of the Code. Since 1 January 2011 the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council have been applied by the Company in all corporate governance matters.

Board of Directors

The Board of Directors provides leadership to the Company and is responsible for directing its employees in accordance with good corporate governance practices in order to promote the success of the Company. The majority of the Board members are non-Executive Directors. The role of Chairman carries no executive responsibilities.

At 31 December 2010 the Board comprised:

- Sir David Brown, non-Executive Chairman
- Tony Lee, Chief Executive Officer
- Mark Tebbutt, Finance Director
- Chris Batterham, non-Executive Director
- Ann Limb, non-Executive Director
- Lord Kinnock of Bedwellty, non-Executive Director

In July the Board commenced the recruitment of a non-Executive Director and a job description was prepared by the Nomination Committee, which instructed an external search consultancy. The search was successful and on 1 January 2011 Alison Reed was appointed to the Board as a non-Executive Director and will be seeking the election of the Company's shareholders at the Annual General Meeting on 25 May. All non-Executive Directors (except the Chairman) are considered to be independent under the Code and the Chairman was considered to be independent at the date of his appointment. The names and biographical details of all the Directors are given on pages 20 and 21.

The Board provides effective leadership and prudent control of the DRS Group comprising the Company and DRS Data Services Limited, ensuring that the decision making process cannot be dominated by any individual or by a small group of individuals.

The Board has a schedule of matters reserved for its decision. In accordance with the Financial Reporting Council's Guidance on Internal Control ('the Turnbull Guidelines') the Board retains responsibility for the internal control of the Group. A major focus is the on-going review, evaluation and management of continuing and emerging risks which may affect the Group achieving its strategic and business objectives. It is also responsible for determining overall Group strategy, establishing and reviewing policies included in the business' processes and setting objectives, ensuring that necessary financial and human resources are in place to enable the objectives to be met and management performance to be achieved. All Directors take decisions objectively and in the interests of the Company as a whole.

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

The non-Executive Directors possess broad business and commercial experience with the independent and objective judgement in markets within which DRS operates and, as part of their role as members of the Board, they constructively challenge and help deliver the Board's strategy. They satisfy themselves on the integrity of financial information and that financial controls and other systems of risk management are appropriate. The Business Review on page 15 contains both the details of the risks which have an impact on the Group and the on-going risk controls which have been implemented by the Board and which are in operation in the Company.

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

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Corporate governance report continued

and independent investigation of such matters and for appropriate follow up action. Chris Batterham is not seeking re-election from shareholders at the Annual General Meeting on 25 May and will retire from the Company at the conclusion of that meeting. Alison Reed has accepted the Board's nomination to be appointed senior independent Director and she will be appointed to the position at the Annual General Meeting if she receives the election of the members of the Company at the meeting.

The Board meets as regularly as necessary in order to discharge its duties effectively. During 2010 the Board met 12 times to discuss normal business with further meetings being held pursuant to the sale of the Peladon Software business. Further details of this are provided in the Business Review on page 15. The Directors' attendance record is set out on page 27 of this report. In addition, the non-Executive Directors (led by Chris Batterham) met with the Chairman six times without Executive Directors being present.

Evaluation of the Board's performance commenced in January and was completed in March following completion of evaluation of the effectiveness of the Board's Remuneration and Audit Committees. All Board members participated in the written evaluation by responding to 25 questions concerning input to Board discussions, the setting and meeting of objectives and the quality of debate. Respondents were also encouraged to add their own written comments. The responses were reviewed in detail and areas of improvement were identified and actioned during 2010 by the entire Board. An evaluation of the Chairman's performance was undertaken in June under the direction of Chris Batterham during which the views of all Directors were taken into account.

In October the Board met to discuss the Group's strategy and performance. The strategic plan then agreed set the context for the annual operational planning, performance monitoring and budgetary plans for 2011.

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

Board Committees

The Board has established three main Committees; the Nomination, Remuneration and Audit Committees. The terms of reference of each Committee are reviewed annually by the Board and are available upon request from the Company Secretary and from the Group's website. The Committee chairmen will attend the Annual General Meeting and shall respond to shareholders' questions on their Committee's activities. The Secretary of the Board Committees is the Company Secretary, Sally Hopwood.

Nomination Committee

This Committee meets as required to propose to the Board in the first instance the appointment of new Executive and non-Executive Directors. The Committee is delegated authority by the Board to thoroughly review the skills, knowledge and experience requirements and the job descriptions for specific appointments. The members of the Nomination Committee in 2010 were Tony Lee, Chris Batterham, Ann Limb, Lord Kinnock and Sir David Brown, who chaired the Committee. On 24 January 2011 Alison Reed was also appointed to the Committee.

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

The Nomination Committee met three times in 2010. Further details are provided later in this report.

The Committee met initially in March to consider and then recommend to the Board the re-election of Mark Tebbutt as Finance Director.

It then met in July during which its principal business was the appointment of Harvey Nash, an independent recruitment consultant to assist the Company with the recruitment of a non-Executive Director.

In November the Committee met to resolve the recommendation to the Board that Alison Reed be invited to join the Company as a non-Executive Director. During her various induction meetings on joining the Company, Alison Reed met with the Company Secretary and all Directors individually. She was provided with relevant information concerning the Company, its performance and markets and documentation to support her in her role. The terms and conditions of her appointment will be available for inspection at the Annual General Meeting.

Remuneration Committee

The Committee is chaired by Ann Limb. Throughout 2010 the other members of the Committee were Chris Batterham, Lord Kinnock and Sir David Brown. On 24 January 2011 Alison Reed was also appointed to the Committee.

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

The Committee met five times in 2010. Further details are provided later in this report.

The Directors' Remuneration Report set out on page 33 provides more information on the Remuneration Committee and the Company's remuneration policy for Executive and non-Executive Directors.

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

Audit Committee

The Committee is chaired by Chris Batterham. Throughout the year the members of the Committee were Sir David Brown, Ann Limb and Lord Kinnock. On 24 January 2011 Alison Reed was also appointed to the Committee. The Board is satisfied that both Chris Batterham and Alison Reed have recent financial experience relevant to the Company.

Tony Lee and Mark Tebbutt attend Audit Committee meetings when invited.

The Committee's duties include reviewing the effectiveness of the Group's external auditor, reviewing half yearly and annual financial statements before they are presented to the Board, focusing on financial reporting, accounting policies and compliance. The Committee considers areas of management judgement and estimates, and the effectiveness of internal control procedures which are reviewed annually. The Audit Committee also reviews the Company's whistle-blowing arrangements by which its employees may raise concerns about financial reporting and other matters. In 2010, the Committee also reviewed the Company anti-fraud policy and recommended its implementation to the Board.

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

The Committee met four times in 2010. The Company's external auditor, Grant Thornton UK LLP, is invited to attend meetings of the Committee and attended three such meetings in 2010. The external auditor continues to operate procedures to safeguard against the possibility that its objectivity and independence could be compromised and those procedures are examined by the Committee annually prior to appointment. Grant Thornton UK LLP provides a report annually to the Audit Committee confirming its independence and the scope of its non-audit services.

The Audit Committee considered the need for internal audit in August and concluded that a report should be presented to the Audit Committee focusing on the key supplier process. The work was undertaken and the report was presented to the Committee in November. It was agreed that an internal audit function would not be introduced in 2010 and the matter would be reviewed again in 2011.

Attendance at meetings

The following table details the number of Board and Committee Meetings held during the year ended 31 December 2010 and the attendance record of each Director.

	Board	Audit	Remuneration	Nomination
Number of meetings held in a year	**12**	**4**	**5**	**3**
C M Batterham*	11	4	4	3
Sir David M Brown*	12	4	5	3
Lord N G Kinnock*	10	4	4	3
A C Lee	12	4†	5†	3
A G Limb*	10	4	5	3
A M Tebbutt	12	4†	4†	–

* non-Executive Director † Attendance by invitation (for all or part of meeting)

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Relations with shareholders

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

The Chairman, Chief Executive Officer and Finance Director meet regularly with the Company's institutional shareholders. Major shareholders, fund managers and analysts are given an opportunity to meet with the Chairman or with the Senior Independent Director, if they so require.

Additionally, all non-Executive Directors are available to meet with institutional shareholders to discuss any concerns they may have. From time to time, the Board receives independent feedback from analysts and institutional shareholders.

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

Internal control and risk management

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

In designing the system, the Directors have considered the principal risks and exposures further referred to in the Business Review on page 15 and has been reviewed by the Audit Committee and has also taken into account developments occurring since the end of the year.

The system manages the risk of failure to achieve strategic objectives but does not eliminate such risk. The Directors believe it provides reasonable but not absolute assurance of:

- no material misstatement or losses;
- no unauthorised use of the Company's assets; and
- the maintenance of proper accounting records.

The key features of the internal control, financial reporting system and risk management system are:

- a clearly defined management system with defined levels of responsibility and delegation of authority;
- authorisation limits set at appropriate levels;
- a comprehensive forecasting and budgeting system;
- monthly financial management reports comparing actual results against monthly forecasts;
- individual tender and project review procedures to support the bidding process prior to contract award;
- implementation of an anti-fraud policy to provide a confidential method of reporting relevant suspected activities; and
- regular review and reporting of health and safety and environment matters.

Financial risk

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

The Board considers that there is an effective on-going process in place within the Company for identifying, understanding, evaluating and managing significant risks facing the Group. The process remained in place at the date of approval of this report. It manages the risk of failure to achieve strategic objectives, and provides reasonable (though not absolute) assurances against material misstatement or loss.

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

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

Risk management was reviewed regularly throughout the year by the Board. A review of other material controls including those relating to finance, governance and operations, was undertaken in September 2010.

Risk of conflicts

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

By order of the Board

Sally Hopwood
Company Secretary
21 March 2011

Corporate social responsibility report

Introduction

The Board continues to believe that sound management of environmental, governance and social issues should be a cornerstone of the Company's development and makes an important contribution to the delivery of the Company's business strategy.

Corporate social responsibility in the Company focuses on the areas which are of particular relevance for the DRS business. The most significant areas continue to be:

- Relationships with customers, suppliers and our stakeholders;
- Relationships with our staff; and
- How the Group's activities impact on our environment and contribute to our community.

These responsibilities continue to be supported by the KPIs referred to on page 18 and the Business Development Capability Maturity Model (BD-CMM), part of an internationally recognised business development performance framework. This was introduced to support the development of the Group's processes in 2007 and continues to have an important role. Progress in the programme has been impacted by the changes to the Group during the year. However, BD-CMM remains an appropriate vehicle to incorporate process change across the business.

Policies and practices which are the responsibility of the Board and are aligned to the Group's business strategy have been implemented and are followed by our staff.

Our suppliers and customers

The Company has continued to retain its certification to the three ISO standards it achieved in 2007 and 2008. Our staff are now familiar with the aims and objectives of these standards and they contribute significantly to the way in which business is undertaken:

- ISO 27001 (in which re-certification was secured in 2010) upholding the confidentiality, integrity and availability of information;
- ISO 14001 through which policies and objectives have been implemented to meet our legal requirements and to assess any significant environmental impacts of the business; and
- ISO 9001 which is helping the business to focus upon meeting our customers' stated requirements

Additionally, over the past 12 months the Company has also focused its efforts on developing a Business Continuity Management System (BCMS) to address potential risks in fulfilling customer requirements should a crisis or a disaster occur. The planned implementation should result in certification to BS 25999 in the first half of 2011. A new Company policy supporting BCMS has been published.

In 2010 the order acceptance and capacity processes were improved to overcome known bottlenecks and allow the sales team to respond to customers more quickly.

Our working relationships with suppliers and customers remain a high priority.

We continue to have a very positive relationship with our suppliers and have consistently worked hard to meet our suppliers' agreed payment terms. During the year we made significant improvements to our procedure for the evaluation of key suppliers so as to better understand the supply arrangement. Our procurement process guidelines are given to our suppliers and any concerns raised are discussed openly with the aim of speedy resolution.

Careful management of the relationship with customers has resulted in no debt write-off during 2010 and the average number of debtor days for 2010 of 22 remains consistent with the average of 21 for the previous year.

We aim to maintain regular high quality communication opportunities with all our stakeholders. Our Annual General Meeting is held in May each year at which all our investors are welcomed. The Annual Report and Accounts, trading updates and items of significant news affecting the Company or its trading are disseminated as announcements using the regulatory news service and are accessible from the Company's web site. Meetings are arranged with investors upon receipt of a request and institutional investors are also invited to attend a presentation on the annual results.

Customers

Following the enactment of the Bribery Act 2010 the Company's terms and conditions of trading and relevant trading policies were reviewed to emphasise the Company's continuing intolerance of all forms of bribery, corruption and facilitation payments.

We have been working with all our customers and suppliers throughout the world to introduce the relevant changes to all DRS' business practices and those of its associates. This work will be continued in 2011.

Our employees

We employed 248 people as at 31 December 2010. The annual resignation rate for the year is estimated to be 8% which compares with 11.5% in 2009. The sale of the Peladon Software Inc in September 2010 included the transfer of two employees pursuant to the Transfer of Undertakings (Protection of Employment Regulations) 2006.

The Board is committed to ensuring that communication with all DRS colleagues is always improving and that staff are kept informed of the development of the Group's operations. Meetings are held with all staff on a quarterly basis and senior managers meet monthly with the Company's Directors. News items and various information bulletins are broadcast on the Company's intranet site.

In 2010 considerable focus was given to updating and improving employee communications. In April the staff attitude survey was launched and was well received with 56% of staff contributing to the survey which covered communication, training and development, team-work, the Company and reward and recognition. The results were communicated to staff during May and June and indicated more staff involvement would be appropriate. Focus groups have been established which met in the year to consider how on-going issues could be resolved. This work will continue during 2011.

The Group is committed to the training and development of all new and existing employees to ensure that the skills and abilities of staff are developed to meet current business objectives and individuals' personal development.

Regular reviews are implemented to ensure that the current and future learning needs of individuals are accounted for. The effectiveness of all training received is evaluated to ensure that it has the required impact and meets personal goals as agreed between the individual and their manager as well as the business' objectives and cost effectiveness priorities.

Investors in People (IiP) provides a nationally recognised standard which sets out a level of good practice for training and development of people to achieve business goals. DRS was again accredited in 2010 and has achieved this accreditation continually since 1999.

Staff are encouraged to develop their careers and pay and benefits are reviewed annually to retain competitiveness and to reward good performance.

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

The Group's health and safety policies are reviewed by the Board annually and the Board received reports regarding health and safety issues six times in the year. Progress of reported matters was carefully monitored.

During 2010 there were eight accidents compared with 13 in 2009.

Staff are introduced to the Group's Health and Safety at Work policy when employment commences and undertake regular reminder training paying particular attention to the priority and maintenance of safe plant and equipment and the safe handling, transportation and storage of substances and equipment.

The Health and Safety Committee includes representatives from throughout the business and has meetings scheduled twice a year. All safety issues relevant to DRS are discussed. The minutes of the meetings are made available to all our staff via the Company's intranet site.

An on-going training programme of fire safety and evacuation and first aid is provided.

All permanent employees are entitled and encouraged to join the DRS Group Personal Permanent Pension plan which is a non-contributory scheme.

Employees can participate in the Company's various sports and social clubs including golf, badminton, netball and music. A golf tournament is held annually and is open to all staff. The Company has a netball team, the 'DRS Dragons', which competes in a local business league.

Environmental policy

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

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

Corporate social responsibility continued

The environmental 'Green Team' which was formed in 2007 remains active. The team assists in environmental assessments which are conducted on key projects, the findings of which are made available for the Board's consideration as part of the annual management review process.

A company-wide 'Ideas Site' launched in 2009 continues to operate and provides DRS staff with an opportunity to submit ideas for business improvement to the Executive Management Team. Many of the ideas submitted have been implemented and have resulted in a reduction on the consumption of energy. KPIs have also been extended to track utility usage and show reduction in consumption as a direct result of these staff suggestions. Periodically, we encourage staff to submit their ideas for consideration.

An energy awareness initiative was undertaken during 2010 which succeeded in reducing energy use throughout the organisation by 14% compared to 2009.

Recycling of paper, plastics, cardboard, polythene, chemical waste and office paper waste is always undertaken. Recycling of waste pallets was introduced in 2009 and is continued. Our staff volunteer for 'Paper Planet', a local initiative whereby trees are planted by us at a local beauty spot to offset the environmental impact of the business. In 2010, 1,200 trees were planted by the DRS volunteers.

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

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

Our community

The Linford Wood Forum is a meeting of representatives from businesses with premises in the neighbourhood of the Company's head office. DRS is represented at these meetings where issues discussed include traffic management, local security and power saving initiatives. DRS benefits from the sharing of good practices and information regarding common service providers. The Forum is recognised by Milton Keynes Council.

DRS continued its support of the Milton Keynes Community Foundation, a local charitable enterprise supporting local good causes, with a donation of £5,000.

By order of the Board

Sally Hopwood
Company Secretary
21 March 2011

Directors' remuneration report

This report has been prepared by the Remuneration Committee and has been approved and adopted by the Board. It is intended to inform shareholders of the Company's policy on Directors' remuneration, as recommended by the Remuneration Committee. It has been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules and the Combined Code on Corporate Governance (June 2008) ('the Code'). An ordinary resolution will be put to the shareholders at the Annual General Meeting on 25 May 2011 inviting them to consider and approve this report.

UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee is a Board Committee and is comprised of three of the independent non-Executive Directors and the Board Chairman who was considered independent when appointed as Chairman.

The following Directors were members of the Committee throughout the year ended 31 December 2010:

- A G Limb (Committee chairman)
- D M Brown
- C M Batterham
- N G Kinnock

Alison Reed was appointed to the Committee on 24 January 2011.

The Committee held five meetings during the year. Further details are shown on page 27.

None of the Remuneration Committee members have any personal financial interests (other than as shareholders), no potential conflicts of interest arising from cross-directorships, or any day-to-day involvement in running the business. The Chief Executive Officer and Finance Director attend meetings at the invitation of the Committee, but are not present when their own remuneration is discussed. Company managers are invited to attend meetings from time to time when appropriate.

The Secretary of the Committee is Sally Hopwood, the Company Secretary.

The Terms of Reference of the Committee are available on the Company's website.

Advisers

During the year, the Committee appointed BDO LLP to provide advice on remuneration matters. An unrelated department in BDO LLP was appointed by the Board to advise the Company on financial matters relating to the sale of Peladon Software Inc. Further details are shown in Note 8 on page 55.

Remuneration policy

The Remuneration Committee is responsible for determining the policy on remuneration for Executive Directors and other senior executives and, based on this policy, it determines the individual remuneration and benefits package for each of the Executive Directors, the Company Secretary and the Chairman (none of whom are present when their own remuneration is discussed). The Committee is also responsible for approving all awards and option grants under the Group's discretionary share incentive plans.

The Remuneration Committee's policy on Executive Directors' remuneration is that packages are competitive and designed to attract, motivate and retain high calibre executives. Its aim is also to maintain an appropriate balance between the elements of remuneration that are fixed (such as basic salary, benefits in kind and pensions) and the performance-related elements such as bonuses and incentives. The Directors' remuneration and share interests are set out in full on pages 37 and 36 respectively.

When setting remuneration, the Committee considers the conditions in the Group as a whole, the position of DRS relative to other companies and what such companies are paying, though comparisons are treated cautiously to avoid unjustified remuneration escalation. When it set the Executive Directors' pay in January 2010 the Committee noted the challenging economic conditions and agreed that pay levels for all employees in the Group, including the Directors, would not be increased during the year.

The key features of the remuneration policy are as follows:

- base salaries are kept at conservative levels in order to minimise fixed costs and the attendant impact on the Company's earnings;
- the annual bonus is structured with the specific aim of targeting annual revenue and profit growth over the forthcoming three years;
- the Company's Value Creation Plan (VCP) targets exceptional growth in shareholder value as measured by the increase in the share price from 20 May 2009;

Directors' remuneration report continued

- executives are offered a competitive package of total compensation commensurate with comparable packages available in similar companies;
- the interests of the Executive Directors and senior executives are closely aligned with those of the Company's shareholders through the provision of share incentives;
- a significant proportion of potential total reward is conditional on short- and long-term performance; and
- executive reward is linked to the satisfaction of clear and targeted objectives which are the main drivers of shareholder value; and
- in 2010, risk relating to the possible failure to recruit and retain suitably qualified senior employees through maintenance of remuneration levels in the lower quartile ranges were considered alongside the need for the Company to steward finances prudently. These risks have been in part mitigated through the annual bonus scheme which has been implemented in line with the Company's overall improved performance in the year.

Basic salary, fees and benefits

The Remuneration Committee determines the basic salary of each Executive Director in January each year having regard to:

- market comparable data;
- individual responsibilities;
- individual and corporate performance particularly with regard to the Company's risk profile; and
- pay and conditions throughout the Company.

In keeping with the remuneration policy, during the year the Remuneration Committee has continued to keep basic salaries at conservative levels. This is also commensurate with the current stage of development of the Company and the prevailing economic environment. Currently it does not anticipate a change to this policy in 2011.

In addition the Company provides benefits comprising a company car fully funded for business mileage, or a cash allowance in lieu of company car, settlement by the Company of professional fees in respect of personal tax affairs, private healthcare arrangements, life assurance cover and permanent health insurance. These benefits are in line with those provided by companies of a similar size to the Company.

Performance related cash bonus

The Remuneration Committee, in awarding annual bonuses, considers the Group's financial performance during the year in respect of turnover, profitability, Earnings per Share (EPS) and an assessment of the individual Executive Director's performance targets.

The annual bonus scheme adopted in May 2009 was also implemented in 2010. The scheme provides a maximum potential value equal to 75% of individual salary. Of that bonus, 80% is linked to stretching revenue and profit targets which promote the Group's new business strategy and long-term success. The remaining 20% is linked to individual performance measures which are designed to focus performance on achievement of the Group's strategic objectives whilst managing operational risk.

In January each year the Remuneration Committee reviews personal achievements against the targets set for the previous year and sets new targets for the coming year.

Long term equity based incentive plans

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

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

The Value Creation Plan (VCP), introduced in May 2009, is the primary equity incentive vehicle to retain and incentivise key executives in the Company and aligns their interests with those of shareholders.

Under the VCP key executives are granted a one-off award of units ('VCP Units') from an agreed number. These VCP Units have no value on grant but give a participant an opportunity to acquire Company shares with a value equivalent to 10% of the total value created for shareholders over a three year measurement period beginning on 20 May 2009.

These VCP Units only pay out if the closing price of the Company's shares at the measurement date (being an average share price over a 30 day period) is greater than £0.35.

If this threshold price is achieved, the VCP Units convert into VCP Awards (nil-cost options) equivalent and limited to 10% of the increase in share value since the Units were granted. 50% of the VCP Awards will then be exercisable immediately and 50% will be exercisable after one year – all VCP Awards lapse seven years after grant (if not exercised before then).

In February 2005 HM Revenue & Customs approved a Share Incentive Plan (SIP) for all employees of the Company including the Executive Directors. The SIP allows participants to invest up to £125 per month by way of salary deduction in the Company's shares. The scheme is operated in accordance with HM Revenue & Customs rules.

Pensions

Each of the Executive Directors is a member of one of the Company's money purchase pension schemes. Pension arrangements for each Executive Director provide for a pension on retirement at the age of 65 based on a contribution by the Company of a sum equivalent to 20% of basic salary.

Base salary is the only component of remuneration which is pensionable. There is no requirement for an individual Director to contribute to his pension scheme. Each of the Executive Directors is entitled to the payment of a lump sum equivalent to four times basic salary in the event of death in service.

Directors' contracts

The Executive Directors have rolling contracts with an entitlement to not less than six months' notice. The contracts date from the date of appointment to the Board as set out in Directors' Interests below. There is no defined provision for compensation payable upon early termination of the contract. Neither of the Executive Directors has been appointed as a non-Executive Director or chairman of any FTSE 100 company.

Non-Executive Directors' fees are determined by the Board within the limits set down in the Articles of Association and reflect the time commitment and responsibilities of the role. The non-Executive Directors each have letters of appointment, which refer to the re-election requirements under the Articles of Association. Each appointment is for three years and either party may terminate the appointment on three months' written notice at any time except for Sir David Brown's appointment during which either party may terminate the appointment on six months' written notice at any time.

If a non-Executive Director's appointment is terminated early there is no provision for compensation. The Company may, at its discretion, terminate Sir David Brown's appointment with immediate effect by paying him a sum equal to six months' fees. Copies of the letters of appointment will be available for inspection at the Annual General Meeting.

Non-Executive Directors' fees are determined by the Board and the Chairman's fees are determined by the Remuneration Committee in January of each year, having regard to individual responsibilities, performance and comparative information.

Lord N G Kinnock will be proposed for re-appointment to the Board at the Annual General Meeting.

Alison Reed joined the Board on 1 January 2011 and, in accordance with the Articles of Association, will offer herself for election at the Annual General Meeting.

Directors' remuneration report continued

Directors' interests

The beneficial interests of Directors (including their spouses' holdings) in the Ordinary shares of the Company as recorded in the register maintained by the Company were as follows:

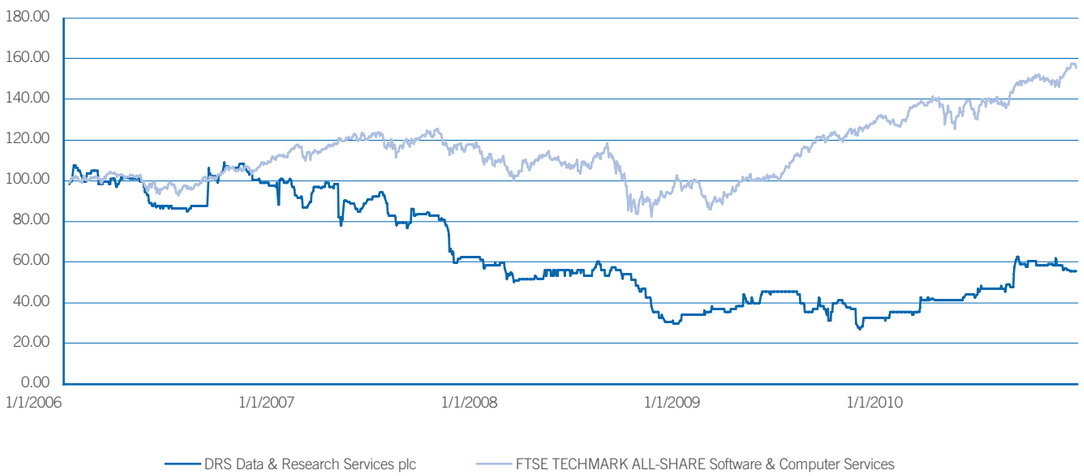
		Ordinary Shares of 5p		
	Date of Appointment to Board	As at 21 March 2011	As at 31 December 2010	As at 1 January 2010
C M Batterham	01.09.2005	40,000	40,000	40,000
Sir D M Brown	01.08.2008	–	–	–
Lord N G Kinnock	16.05.2005	29,408	29,408	29,408
A C Lee (Executive Director)	15.09.1997	153,272	151,547	142,627
A G Limb	20.05.2003	50,205	50,205	50,205
A C Reed	01.01.2011	–	–	–
A M Tebbutt (Executive Director)	25.03.2002	531,825	530,100	521,180

Performance graphs

The graph below compares the Company's total shareholder return performance against the FTSE All Share Software & Computer Services Index. The FTSE All Share Software & Computer Services Index is considered the most appropriate for comparison purposes. It is believed by the Board that this index contains some companies undertaking similar work in similar markets in which DRS operates.

The graph shows the change in hypothetical value of £100 invested in the Company's Ordinary shares on the 1 January 2006 compared with the change in hypothetical value of £100 invested in the FTSE All Share Software & Computer Services index.

Total Return Index – DRS Data & Research Services plc



AUDITED INFORMATION

Directors' remuneration

The salary, fees, annual bonus and other benefits of individual Directors are as follows:

	Salary and Fees	Annual Performance – Related Bonus		Benefits	Total 2010	Total 2009	Money Purchase Pension Contributions 2010	Money Purchase Pension Contributions 2009
	£000	£000	%	£000	£000	£000	£000	£000
Executive								
A C Lee	110	79	72	13	202	123	22	22
A M Tebbutt	99	47	47	12	158	111	20	20
	209	126		25	360	234	42	42
Non-Executive								
Sir D M Brown[1]	50	–	–	–	50	42	–	–
C M Batterham	25	–	–	–	25	25	–	–
M Brighton[2]	–	–	–	–	–	14	–	–
Lord N G Kinnock	25	–	–	–	25	25	–	–
A G Limb	25	–	–	–	25	25	–	–
	125	–	–	–	125	131	–	–
Total	334	126		25	485	365	42	42

[1]Chairman appointed 11/05/09
[2]Chairman retired 11/05/09

The annual performance related bonus is expressed as a percentage of annual salary. The maximum bonus achievable is, for the Chief Executive Officer, 75% of salary and for the Finance Director 50%.

No Director was entitled to a deferred bonus.

Equity incentives

Following shareholder approval of the VCP at the Annual General Meeting on 11 May 2009, the Remuneration Committee granted units under the VCP to the Executive Directors. Details of the VCP are set out earlier in this report.

For previous financial years the Remuneration Committee approved a grant of options to the Executive Directors under the terms of the DRS 2005 Long Term Incentive Plan (LTIP) and the DRS Data & Research Services plc Enterprise Management Incentive (EMI) Scheme.

The performance criteria for options granted both under the LTIP and the EMI Scheme is based on:

- EPS in the last reported financial year on the third anniversary of grant; and
- TSR over these three years being at least at the median compared to the companies constituting the FTSE All Share Software & Computer Services Index.

The extent to which the option will be exercisable is based on a sliding scale dependent upon the EPS reported in the 2010 audited annual accounts being greater than 3.0p per share. 25% will be exercisable if the EPS equals 3.0p and 100% will be exercisable if the EPS is 6.0p per share, with pro-rata award between these levels.

In any financial year a participant may not be awarded options over Ordinary shares with an aggregate value of more than their basic salary calculated by reference to the market value of the Ordinary shares at the time of the grant.

Directors' remuneration report continued

Directors' share options

Details of Directors' share options are given below:

	Scheme	Options granted to 1 January 2009	Granted in year	Lapsed	Exercised during year	Options held at 31 December 2010	Exercise price	Exercisable date	Expiry date
A C Lee	RSS	100,000	–	100,000	–	–	18.0p	10.09.03	10.09.10
A C Lee	EMI	80,000	–	80,000	–	–	NIL	13.04.10	13.04.17
A C Lee	LTIP	133,180	–	133,180	–	–	NIL	13.04.10	13.04.17
A C Lee	EMI	144,578	–	–	–	144,578	NIL	12.03.11	12.03.18
A C Lee	LTIP	248,386	–	–	–	248,386	NIL	12.03.11	12.03.18
A M Tebbutt	EMI	80,000	–	80,000	–	–	NIL	13.04.10	13.04.17
A M Tebbutt	LTIP	73,600	–	73,600	–	–	NIL	13.04.10	13.04.17
A M Tebbutt	EMI	144,578	–	–	–	144,578	NIL	12.03.11	12.03.18
A M Tebbutt	LTIP	138,564	–	–	–	138,564	NIL	12.03.11	12.03.18

The following units were granted to Executives under the VCP approved by shareholders in May 2009 and continue to reflect their holdings at 31 December 2010:

A C Lee	300
A M Tebbutt	200

The total number of units allocated to Executives Directors and other senior executives under the VCP is 1,000. Further details of the operation of the VCP are contained in the unaudited section of this report.

The market price of the Company's shares at 31 December 2010 was 20.0p (2009: 12.0p) and the high and low values during the year were 22.5p and 11.5p respectively.

By order of the Board

Ann Limb
Chairman of Remuneration Committee
21 March 2011

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' 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 have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.

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.

To the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

21 March 2011

GROUP REPORT & ACCOUNTS

Independent auditor's report to the members of DRS Data and Research Services plc

We have audited the financial statements of DRS Data and Research Services plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the Parent Company statement of financial position, the Parent Company statement of changes in equity, the Parent Company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at: www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1.2 to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns;
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' Report, set out on page 22 in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Malcolm Gomersall

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants
Central Milton Keynes

21 March 2011

Consolidated income statement

	Notes	2010 £000	2009 £000
Revenue	5	17,102	14,431
Cost of sales		(10,563)	(9,457)
Gross profit		6,539	4,974
Other operating income	7	106	72
Selling and marketing costs		(1,305)	(1,523)
Administrative expenses		(3,584)	(3,258)
Finance costs	10	(103)	(400)
Profit/(loss) before income tax		1,653	(135)
Tax (charge)/credit	11	(270)	116
Profit/(loss) for the period from continuing operations		1,383	(19)
Loss for the period from discontinued operations	8	(827)	(702)
Profit/(loss) for the period attributable to owners of the parent		556	(721)
Earnings per share			
Basic earnings per share			
– Profit/(loss) for continuing operations	23	4.37p	(0.06p)
– Loss from discontinued operations	23	(2.61p)	(2.22p)
Total		1.76p	(2.28p)
Diluted earnings per share			
– Profit/(loss) for continuing operations	23	4.33p	(0.06p)
– Loss from discontinued operations	23	(2.59p)	(2.22p)
Total		1.74p	(2.28p)
Consolidated statement of comprehensive income			
Profit/(loss) for the period		556	(721)
Other comprehensive income			
– exchange difference on translation of foreign operations to presentational currency		(57)	248
– reclassification adjustment of cumulative exchange differences on disposal of foreign operations		188	–
Total comprehensive profit/(loss) for the period attributable to owners of the parent		687	(473)

Consolidated statement of financial position

	Notes	2010 £000	2009 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	3,154	3,091
Intangible assets	13	681	1,304
Deferred income tax assets	19	168	211
		4,003	4,606
Current assets			
Inventories	14	866	1,014
Trade and other receivables	15	2,380	1,714
Current income tax receivable		–	159
Cash and cash equivalents	16	5,080	2,882
		8,326	5,769
Assets and disposal group classified as held for sale	8	–	259
Total assets		12,329	10,634
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	1,731	1,731
Share premium account	18	5,377	5,377
Capital redemption reserve	18	115	115
Treasury shares	17	(1,166)	(1,166)
Own shares reserve	18	(313)	(319)
Translation reserve relating to disposal group	18	–	(131)
Retained earnings		(120)	(651)
Total equity		5,624	4,956
LIABILITIES			
Non-current liabilities			
Borrowings	21	2,081	2,250
Deferred income tax liabilities	19	171	181
		2,252	2,431
Current liabilities			
Trade and other payables	20	3,870	3,017
Current income tax liabilities		583	–
		4,453	3,017
Liabilities included in disposal group held for sale	8	–	230
Total liabilities		6,705	5,678
Total equity and liabilities		12,329	10,634

The financial statements were approved by the Board of Directors on 21 March 2011 and signed on its behalf by:

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

Consolidated statement of changes in equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury shares £000	Own shares reserve £000	Retained earnings £000	Translation reserve £000	Total £000
At 1 January 2009	1,731	5,377	115	(1,166)	(319)	68	(379)	5,427
Employee share based compensation	–	–	–	–	–	2	–	2
Own shares vesting	–	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	2	–	2
Loss for the period	–	–	–	–	–	(721)	–	(721)
Other comprehensive income:								
Exchange difference on translation of foreign operations to presentational company	–	–	–	–	–	–	248	248
Total comprehensive income for the period	–	–	–	–	–	(721)	248	(473)
At 31 December 2009	1,731	5,377	115	(1,166)	(319)	(651)	(131)	4,956
At 1 January 2010	1,731	5,377	115	(1,166)	(319)	(651)	(131)	4,956
Employee share based compensation	–	–	–	–	–	(19)	–	(19)
Own shares vesting	–	–	–	–	6	(6)	–	–
Transactions with owners	–	–	–	–	6	(25)	–	(19)
Profit for the period	–	–	–	–	–	556	–	556
Other comprehensive income:								
Exchange difference on translation of foreign operations to presentational company	–	–	–	–	–	–	(57)	(57)
Reclassification adjustment of cumulative exchange differences on disposal of foreign operations	–	–	–	–	–	–	188	188
Total comprehensive income for the period	–	–	–	–	–	556	131	687
At 31 December 2010	1,731	5,377	115	(1,166)	(313)	(120)	–	5,624

Consolidated statement of cash flows

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Profit/(loss) after taxation		1,383	(19)
Adjustments for:			
Tax charge/(credit)		270	(116)
Depreciation of property, plant and equipment		380	508
Amortisation of intangible assets		737	782
IFRS 2 (credit)/charge in respect of LTIP shares		(19)	2
Loss/(profit) on sale of property, plant & equipment and intangibles		103	(23)
Exchange (gains)/losses put through income statement		(48)	201
Investment income		(48)	(23)
Interest expense		103	133
Decrease in inventories		148	402
(Increase)/decrease in trade and other receivables		(666)	686
Increase/(decrease) in trade and other payables		684	(419)
Cash generated from operations		3,027	2,114
Interest paid		(103)	(133)
Income tax received /(paid)		495	(198)
Net cash generated from operating activities		3,419	1,783
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(443)	(110)
Proceeds from sale of PPE		44	23
Purchase of intangible assets		(237)	(938)
Interest received		48	23
Net cash used in investing activities		(588)	(1,002)
Cash flows from financing activities			
Net cash used in financing activities		–	–
Net increase in cash and cash equivalents from continuing operations		2,831	781
Net cash flows from discontinued operations	8	(619)	(599)
Net increase in cash and cash equivalents		2,212	182
Cash and cash equivalents at beginning of period		2,882	2,766
Exchange decrease on cash		(14)	(10)
		5,080	2,938
Included in disposal group		–	(56)
Cash and cash equivalents at end of period	25	5,080	2,882

GROUP REPORT & ACCOUNTS

Notes to the financial statements for the year ended 31 December 2010

1 General information

1.1 Nature of operations

DRS Data & Research Services plc is a public limited company with a premium 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 2010** are:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012)

The other Standards and Interpretations are not expected to have any significant impact on the Group's financial statements in their periods of initial application.

2 Summary of significant accounting policies

2.1 Basis of preparation

These financial statements are for the year ended 31 December 2010 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. The judgement is whether performance conditions are satisfied.
- 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. The judgement is whether incremental revenue and margin justifies the capitalisation. See Note 13.
- 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. The judgement is whether this is the case.

(b) the following area was considered to involve significant estimates:

- inventory provisions reflect future sales estimates over the useful life of the product. See Note 14.

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 fair value of consideration receivable by the Group for goods supplied and services provided net of VAT and trade discounts.

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

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

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

In the case of long-term service contracts, revenue is recognised on a time apportionment basis in accordance with the contract, and all costs are released to the income statement at the time they are incurred. The calculated profit on a contract is recognised in proportion to the recognised revenue.

2.4 Leases

(a) The Group is the lessee

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

(b) The Group is the lessor

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

2.5 Dividends

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

2.6 Segment reporting

Segmental information is provided for each operating segment whose results are regularly reviewed by the Chief Executive Officer to make decisions concerning the assessment of performance or allocation of resources and where there is discrete financial information available.

2.7 Foreign currency translation

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

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

Notes to the financial statements continued

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

On consolidation, assets and liabilities have been translated into sterling at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss when the gain or loss on disposal is recognised. 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 Profit or loss from discontinued operations

A discontinued operation is a component of the entity that either has been disposed of, or classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Profit or loss from discontinued operations, including prior year components of profit or loss, are presented in a single amount in the income statement. This amount, which comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale (see Note 2.9) is further analysed in Note 8.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date for the latest period presented.

2.9 Non-current assets and liabilities classified as held for sale and discontinued operations

When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if sale within 12-months is highly probable and available for immediate sale in its present condition, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position.

Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group.

Where there is a disposal group, the group is measured at lower of carrying amount and fair value less costs to sell for the group and then any loss is allocated to the assets within that group. However, assets held by the subsidiary that will be disposed of such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. No assets classified as 'held for sale' are subject to depreciation or amortisation subsequent to their classification as 'held for sale'.

2.10 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.

2.11 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.

2.12 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.

2.13 Trade and other receivables

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

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Changes in deferred tax assets or liabilities are recognised as a component

Notes to the financial statements continued

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

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

2.17 Employee benefits

(a) Pension obligations

The Parent Company operates defined contribution pension schemes in 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 profit or loss 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 7 November 2002 and not vested by 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 profit or loss. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss 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 or 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 directly 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 re-translation of foreign assets and liabilities are recognised in profit or loss.

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 2010 and 2009 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 was managed by the use of capped floating facilities up to the 2010 year end at which time the interest rate collar referred to below expired. The borrowing requirements have been negotiated separately from the interest rate collar. The Group mixes the duration of its deposits to reduce the impact of interest rate fluctuations.

An increase or decrease of 1% in the rate of interest charged on the mortgage will increase or decrease respectively, the amount of annualised interest payable by £22,500. On the Group's year end cash holding, a 1% increase in interest rates would increase interest receivable by £50,000.

(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 £4,453,000 (2009: £3,017,000) of the current liabilities are payable within one year.

For non-current liabilities, the mortgage of £2,081,000 (2009: £2,250,000), which is due to expire on 24 March 2014, repayment of principal shall be in 12 instalments of £56,400 payable quarterly commencing 30 June 2011 followed by a final bullet payment of the remaining balance on 24 March 2014. The first three capital instalments payable during 2011 are included in the current liabilities figure above.

Notes to the financial statements continued

3.2 Capital management

The Group's capital management objectives are:

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

DRS retains a high level of cash and cash equivalents (See Note 2.14) 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 16).

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

	31 December 2010 £000	31 December 2009 £000
Total equity	5,624	4,956
Cash and cash equivalents	5,080	2,882
Capital	10,704	7,838
Total equity	5,624	4,956
Borrowings	2,081	2,250
Overall financing	7,705	7,206
Capital to overall financing ratio	1.39	1.09

4 Segment information

The principal activities of the Group continue to be the provision of data capture services, the manufacture, sale and support of optical and image scanning equipment, design and printing of documentation used for data capture and associated software and bureau services. Approximately half the Group's revenue relates to products and services and the other half relates to providing tailored data capture solutions. The companies in the Group are organised functionally, with each function of the business specialising in its own area of expertise. Project managers look to the functional areas to provide the appropriate tailored mix of products and services to fulfil each specific contract. In turn the functional areas are supported by indirect cost centre departments such as Research and Development and Information Systems.

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

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

The revenue analysis generated from external customers for the year ended 31 December 2010 is as follows:

	Education revenue		Non-education revenue		Total
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	£000
Region					
UK	9,552	1,435	4	214	11,205
Africa	2,324	95	45	1,719	4,183
Rest of world	111	40	87	1,476	1,714
Total	11,987	1,570	136	3,409	17,102
Revenue arising from specific products and related services thereon:					
e-Marker®	8,514				
e-Counting				1,087	
IntelliReg®		208			

All of the Group's revenue from continuing operations of £17,102,000 was generated from UK operations.

DRS' largest customer generated revenue of £8,135,000 in 2010 (2009: £7,987,000) and is shown under e-Marker® within UK examinations and assessment. There are no other customers that account for more than 10% of external revenue.

The revenue analysis generated from external customers for the year ended 31 December 2009 is as follows:

	Education revenue		Non-education revenue		Total
	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	£000
Region					
UK	9,169	1,703	261	44	11,177
Africa	2,272	(3)	26	399	2,694
Rest of world	137	37	197	189	560
Total	11,578	1,737	484	632	14,431
Revenue arising from specific products and related services thereon:					
e-Marker®	8,155				
e-Counting				255	
IntelliReg®		59			

All of the Group's revenue from continuing operations of £14,431,000 was generated from UK operations.

Notes to the financial statements continued

5 Revenue and profit/(loss) before tax

The significant categories of revenue recognised during the period are:

	2010 £000	2009 £000
Sale of goods	5,774	3,691
Rendering of services	11,096	10,409
Operating lease income (Note 6)	232	331
Total equity	17,102	14,431

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

	2010 £000	2009 £000
Auditor's remuneration:		
Audit services	4	4
Non-audit services	55	67
Depreciation	380	508
Amortisation	737	782
Hire of plant and machinery	19	254
R&D expense	1,868	1,306
Share-based payment (credit)/charge	(19)	2

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

	2010 £000	2009 £000
Non-audit services:		
– audit of subsidiary companies accounts pursuant to legislation	25	35
– other compliance and reporting services	26	30
– advice on implementation of IFRS	4	2
	55	67

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 future minimum lease payments receivable at 31 December 2010 is £26,000 and is all recoverable within one year. Of this amount, £3,000 is invoiced and included in the trade receivables balance as at 31 December 2010.

7 Other operating income

	2010 £000	2009 £000
Interest income		
– bank interest	34	23
– HMRC interest	14	–
– fair value measurement of collar arrangement	10	40
Profit on foreign exchange (realised and unrealised)	48	9
	106	72

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

8 Discontinued operations

The decision to sell Peladon Software Inc and the UK DocXP™ business was taken at the Board meeting held on 20 April 2010. The Software Construction Company Inc agreed to purchase the Peladon Software Group and the DocXP™ software on 18 August 2010 subject to the approval of shareholders. Shareholder approval was obtained on 20 September 2010 and the deal was completed on 30 September 2010. Consequently, assets and liabilities allocable to the Peladon Software Group and the DocXP™ software were classified as a disposal group. Revenue, expenses, gains and losses relating to the discontinuance of this sub-group have been eliminated from profit or loss of the Group's continuing operations and are shown as a single line item on the face of the consolidated income statement (see 'loss for the period from discontinued operations'). The Peladon Software Group's operating profit and loss and the loss from re-measurement and disposal of assets and liabilities can be summarised as follows:

	2010 £000	2009 £000
Revenue	500	470
Costs of sales	(372)	(569)
Other operating income	13	–
Selling and marketing costs	(172)	(243)
Administrative expenses	(297)	(438)
Operating loss	(328)	(780)
Finance costs	–	–
Loss from discontinued operations before tax	(328)	(780)
Tax (charge)/credit	(8)	78
Loss for period	(336)	(702)
Loss on disposal	(491)	–
Loss for the year from discontinued operations	(827)	(702)

Notes to the financial statements continued

The breakdown on the loss on disposal is as follows:

	Year ended 31 December 2010 £000	Forecast in Shareholder Circular £000
Loss on disposal		
Profit before tax on disposal	4	–
Cost to sell	(307)	(280)
Translation reserve relating to discontinued operations	(188)	–
Total loss	(491)	(280)

Approval for the disposal was sought from the shareholders in August 2010. The Circular that was distributed did not take into account the balance on the translation reserve in the balance sheet that related to the discontinued operations.

The carrying amounts of assets and liabilities in the disposal group at time of completion may be summarised as follows:

	At 30 September 2010 £000
Non-current assets	
Property, plant and equipment	3
Intangibles	12
Deferred tax	–
Current assets	
Inventories	7
Trade and other receivables	86
Cash and cash equivalents	57
Assets classified as 'held for sale'	165
Non-current liabilities	
Deferred tax	–
Current liabilities	
Provisions	–
Trade and other payables	165
Current tax liabilities	–
Liabilities classified as 'held for sale'	165

The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

Cash flows generated by the disposal group for the reporting periods under review until the change of control can be summarised as follows:

	2010 £000	2009 £000
Operating activities	–	–
Investing activities	(619)	(599)
Financing activities	–	–
Cash flows from discontinued operations	(619)	(599)

Cash flow for discontinued operations was funded from Group resources.

The deal with The Software Construction Company Inc was completed on 30 September 2010. The initial consideration for the disposal was equal to $1 plus the consolidated net asset value of the Peladon Software Group and the DocXP™ software at the completion date. The Software Construction Company Inc paid the initial consideration of $153 in cash, on completion.

The purchaser will pay additional consideration to DRS over the course of the five year period following completion, based on the future gross revenues of Peladon Software Inc and its subsidiaries that are generated by the sales of licences for all DocXP™ software. The percentage of such gross revenues that DRS will be entitled to ranges from 5% to 10% in each of the five years following completion. Such additional consideration is capped at a maximum amount of US $500,000.

DRS was unable to continue the investment in the Peladon Software Group that was required to sustain and develop the business during a recession in its principal markets. The initial consideration of $1 reflects the risks and the additional investment that will be required to make the Peladon Software Group profitable. Management's best estimate of deferred consideration under the earn-out agreement is £4,000. This amount reflects the amount of support the business is believed to require and the continuing economic uncertainty.

Intercompany balances owed by Peladon Software Inc to DRS Data & Research Services plc and DRS Data Services Limited were waived at the time of completion. The balance owed at 30 September 2010 was $4,552,000 (£2,881,000) and had already been fully provided for in the individual company accounts.

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Notes to the financial statements continued

9 Directors and employee benefit expense

Staff costs during the year were:

	2010 £000	2009 £000
Wages and salaries	7,337	6,525
Social security costs	715	688
Share options granted to Directors and employees	(19)	2
Pension costs – defined contribution plans	462	374
	8,495	7,589

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

	2010	2009
Print and bureau services	93	61
Hardware and software services	83	84
Sales and marketing	18	22
Administration	34	37
	228	204

Remuneration in respect of Directors was as follows:

	2010 £000	2009 £000
Emoluments	485	365
Pension contributions to money purchase pension schemes	42	42
	527	407

Key management remuneration:

	2010 £000	2009 £000
Short-term employee benefits	485	365
Post-employment benefits pension	42	42
Share-based payments	(12)	–
	515	407

All of the main Board 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.

10 Finance costs

	2010 £000	2009 £000
Interest expense:		
– bank borrowings	(103)	(133)
– loss on foreign exchange (realised and unrealised)	–	(267)
	(103)	(400)

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

11 Income tax expense

	2010 £000	2009 £000
Current tax – domestic	576	106
Adjustment in respect of previous period	(339)	(164)
Total current tax	237	(58)
Deferred tax current year (Note 19)	(110)	(133)
Deferred tax prior year (Note 19)	143	75
	270	(116)

Domestic income tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year.

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

	2010 £000	2009 £000
Profit/(loss) before tax	1,653	(135)
Tax at domestic income tax rate of 28%	463	(37)
Tax effect of expenses that are not deductible in determining taxable profit	9	17
Deferred tax on industrial building allowances	(3)	(5)
Chargeable gains	2	3
Effect of marginal rate	(5)	(5)
Adjustment in respect of previous periods	(196)	(89)
Tax expense/(credit)	270	(116)

Notes to the financial statements continued

12 Property, plant and equipment

	Total	Freehold land & buildings	Computer equipment	Fixtures & fittings	Plant & machinery	Rental machines	Motor vehicles
	£000	£000	£000	£000	£000	£000	£000
At 1 January 2009							
Cost	10,461	2,900	1,839	2,290	2,791	635	6
Accumulated depreciation	(6,972)	(200)	(1,542)	(2,065)	(2,535)	(626)	(4)
Net book amount	3,489	2,700	297	225	256	9	2
For the year ended 31 December 2009							
Opening net amount at 1 January 2009	3,489	2,700	297	225	256	9	2
Additions	110	–	44	6	54	6	–
Disposals	–	–	–	–	–	–	–
Depreciation charge	(508)	(40)	(168)	(129)	(162)	(7)	(2)
Closing net book amount at 31 December 2009	3,091	2,660	173	102	148	8	–
At 31 December 2009							
Cost	10,560	2,900	1,883	2,296	2,845	630	6
Accumulated depreciation	(7,469)	(240)	(1,710)	(2,194)	(2,697)	(622)	(6)
Net book amount	3,091	2,660	173	102	148	8	–
For the year ended 31 December 2010							
Opening net amount at 1 January 2010	3,091	2,660	173	102	148	8	–
Additions	443	–	96	171	176	–	–
Disposals	–	–	–	–	–	–	–
Depreciation charge	(380)	(40)	(146)	(97)	(93)	(4)	–
Closing net book amount at 31 December 2010	3,154	2,620	123	176	231	4	–
At 31 December 2010							
Cost	10,984	2,900	1,975	2,461	3,021	621	6
Accumulated depreciation	(7,830)	(280)	(1,852)	(2,285)	(2,790)	(617)	(6)
Net book amount	3,154	2,620	123	176	231	4	–

During February 2010, in accordance with extending the mortgage on Linford Wood, a commercial valuation of the property based on tenanted occupancy calculated the current market value at £2,100,000. It is considered inappropriate to reflect the £520,000 shortfall to the carrying value in the accounts as it is regarded as a short-term temporary difference caused by exceptional market conditions that is unlikely to be realised as the Group has no intention of moving out of its head office in the foreseeable future.

Bank borrowings are secured on the Linford Wood land and buildings to the value of £2,250,000 (2009: £2,250,000). See Note 21.

13 Intangible assets

	Total	Computer software	Development expenditure
	£000	£000	£000
At 1 January 2009			
Cost	3,374	859	2,515
Accumulated amortisation	(2,226)	(685)	(1,541)
Net book amount	1,148	174	974
For the year ended 31 December 2009			
Opening net amount at 1 January 2009	1,148	174	974
Additions	938	61	877
Amortisation charge	(782)	(116)	(666)
Closing net book amount at 31 December 2009	1,304	119	1,185
At 31 December 2009			
Cost	4,312	920	3,392
Accumulated amortisation and impairment	(3,008)	(801)	(2,207)
Net book amount	1,304	119	1,185
For the year ended 31 December 2010			
Opening net amount at 1 January 2010	1,304	119	1,185
Exchange adjustments	–	–	–
Additions	237	60	177
Disposals	(123)	–	(123)
Amortisation charge	(737)	(85)	(652)
Closing net book amount at 31 December 2010	681	94	587
At 31 December 2010			
Cost	4,391	980	3,411
Accumulated amortisation and impairment	(3,710)	(886)	(2,824)
Net book amount	681	94	587

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

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

Notes to the financial statements continued

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

	Total £000	Computer software £000	Development expenditure £000
Future amortisation of assets by year			
– 2011	481	58	423
– 2012	189	25	164
– 2013	11	11	–
Net book amount at 31 December 2010	681	94	587

All intangible amortisation is charged to cost of sales within the income statement.

14 Inventories

	31 December 2010 £000	31 December 2009 £000
Raw materials	670	755
Work in progress	24	46
Finished goods	172	213
	866	1,014

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 Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) legislation that came into force from July 2006.

	31 December 2010 £000	Movement during year £000	31 December 2009 £000	Movement during year £000	31 December 2008 £000
Inventory provision					
PS900 scanners	2	(399)	401	(298)	699
IntelliReg®	148	(51)	199	199	–
Other scanners	177	(16)	193	11	182
Print	16	(10)	26	(4)	30
Total	343	(476)	819	(92)	911
Related carrying value					
PS900 scanners	563		628		665
IntelliReg®	–		–		107
Other scanners	103		206		467
Manufacturing inventory	666		834		1,239
Print inventory	200		180		182
Total	866		1,014		1,421

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

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

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,600,000 (2009: £1,223,000).

15 Trade and other receivables

	31 December 2010 £000	31 December 2009 £000
Loans and receivables		
Trade receivables	1,752	743
Less provision for impairment of receivables	(12)	(9)
Trade receivables – net	1,740	734
Amounts recoverable on contracts	83	386
Prepayments and accrued income	557	594
	2,380	1,714

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

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

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

The trade receivables ageing analysis is as follows:

			Past due				
	Total trade receivables £000	Current £000	0 – 30 days £000	30 – 60 days £000	60 – 90 days £000	90 – 120 days £000	120+ days £000
31 December 2010	1,740	911	623	117	47	40	2
31 December 2009	734	417	126	90	8	33	60

The Group recognised an increase in its impairment of its trade receivables during the year of £3,000 (2009: reduction of £17,000). The trade receivables provision movement is included in 'administrative expenses' in the income statement and a breakdown is as follows:

	2010 £000	2009 £000
Opening amount at 1 January	9	26
Increase/(decrease) in provision to income statement	3	(17)
Closing amount at 31 December	12	9

Notes to the financial statements continued

16 Cash and cash equivalents

	31 December 2010 £000	31 December 2009 £000
Cash at bank and in hand	703	111
Short-term bank deposits	4,377	2,771
	5,080	2,882

The effective interest rate on short-term bank deposits was 0.90% (2009: 0.76%). These deposits have an average maturity of two days (2009: two days).

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

	31 December 2010 £000	31 December 2009 £000
Cash and cash equivalents	5,080	2,882

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

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

	US dollars 2010 £000	Euro 2010 £000	US dollars 2009 £000	Euro 2009 £000
Sterling equivalent	820	11	8	39

17 Share capital

	Number of shares	Ordinary shares	Treasury shares	Total
At 1 January 2009	34,621,600	34,621,600	(1,930,000)	32,691,600
Balance at 31 December 2009	34,621,600	34,621,600	(1,930,000)	32,691,600
Balance at 31 December 2010	34,621,600	34,621,600	(1,930,000)	32,691,600

	Ordinary shares of 5p each At 31 December 2010 and 2009	
	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.

18 Other reserves

	Share premium £000	Capital redemption £000	Own share reserve £000	Translation reserve £000	Total Group £000
As at 1 January 2009	5,377	115	(319)	(379)	4,794
Exchange rate differences	–	–	–	248	248
Balance at 31 December 2009	5,377	115	(319)	(131)	5,042
Exchange rate differences	–	–	–	(57)	(57)
Reclassification to other comprehensive income	–	–	–	188	188
Own shares vesting	–	–	6	–	6
Balance at 31 December 2010	5,377	115	(313)	–	5,179

The own share reserve represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2010, 990,529 (2009: 1,020,529) shares with a market value of £198,106 (2009: £122,463) were held. Of these 120,000 (2009: 150,000) had been conditionally gifted to employees. 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 represented the foreign exchange differences arising from the re-translation of the opening net investment in the US subsidiary and the re-translation of the goodwill and fair value adjustments arising on its acquisition, which were treated on consolidation as though they were assets and liabilities of the subsidiary.

19 Deferred income tax

	31 December 2010 £000	31 December 2009 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	171	181
Deferred tax assets	(168)	(211)
	3	(30)

At the balance sheet date legislation had been substantively enacted which reduced the main corporation tax rate from 28% to 27%. This reduction has been reflected in the calculation of the Group's deferred tax assets and liabilities.

Notes to the financial statements continued

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

	31 December 2010 £000	31 December 2009 £000
At 1 January	(30)	28
Credit to income for the current year	(110)	(133)
Charge to income for the prior year	143	75
At 31 December	3	(30)

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

	Accelerated tax depreciation £000	General provision £000	Total £000
At 1 January 2010	(28)	(2)	(30)
Charge to income for the year	31	2	33
Charge to equity for the year	–	–	–
At 31 December 2010	3	–	3

20 Trade and other payables

	31 December 2010 £000	31 December 2009 £000
Financial liabilities measured at amortised cost		
– Trade payables	452	827
Deferred income	1,920	579
Social security and other taxes	324	276
Accrued expenses	1,005	1,243
	3,701	2,925
Repayment of secured loan (see Note 21)	169	–
Derivative financial instrument Fair value of interest rate collar (see Note 21)	–	92
	3,870	3,017

Fair value of interest rate collar equates to carrying value.

Trade payables are contractually due within 30 days and are financial liabilities at amortised cost. The interest collar liability is at fair value through profit and loss.

21 Borrowings

	31 December 2010 £000	31 December 2009 £000
Non-current		
Bank borrowings – secured loan	2,081	2,250
Total borrowings	2,081	2,250

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

In September 2006, a collar arrangement in respect of the £2,250,000 was entered into for the period up to 31 December 2010. Interest was 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 was capped at 6.50% with a floor of 4.92%. The fair market value of the collar at 31 December 2010 was Nil as it has expired (2009: £92,000) and it has not been replaced. The reduction in value during 2010 and 2009 is shown as a credit to interest income in Note 7.

The overdraft facility for DRS Data Services Limited is £250,000. It remains secured against inventory and debtors. Interest is charged at a variable rate of 5.0% over base rate.

Notes to the financial statements continued

22 Financial assets and liabilities

Categories of financial assets and liabilities.

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

	Note	31 December 2010 £000	31 December 2009 £000
Financial assets			
Loans and other receivables			
– Trade and other receivables	15	2,380	1,714
– Cash and cash equivalents	16	5,080	2,882
		7,460	4,596
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	21	(2,081)	(2,250)
Current			
– Trade and other payables	20	(1,457)	(2,070)
– Repayment of secured loan	20	(169)	–
		(1,626)	(2,070)
Derivatives designated as cash flow hedging instruments (carried at fair value)			
– Derivative financial instruments	20	–	(92)

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

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

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

The level within which the financial asset or liability is classified is determined by the lowest level of significant input to the fair value measurement. The only financial liability affected is the derivative in respect of the interest rate collar described in Note 21 which is classified as Level 2.

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

	31 December 2010 £000	31 December 2009 £000
Profit/loss from continuing operations	1,383,000	(19,000)
Loss from discontinued operations	(827,000)	(702,000)
Earnings attributable to ordinary shareholders being profit/(loss) for the period	556,000	(721,000)
Weighted average number of shares	31,688,660	31,671,071
Basic profit/loss per ordinary share		
Profit/(loss) from continuing operations	4.37p	(0.06p)
Loss from discontinued operations	(2.61p)	(2.22p)
Total	1.76p	(2.28p)

Notes to the financial statements continued

Diluted earnings per share

	31 December 2010 £000	31 December 2009 £000
Profit/(loss) from continuing operations	1,383,000	(19,000)
Loss from discontinued operations	(827,000)	(702,000)
Earnings attributable to ordinary shareholders being profit/(loss) for the period	556,000	(721,000)
Weighted average number of shares		
Basic	31,688,660	31,671,071
Dilutive effect of:		
– shares in restricted share scheme	70,000	–
– options under the Enterprise Management Incentive Scheme	125,074	–
– options under LTIP option scheme	45,849	–
Diluted	31,929,583	31,671,071
Diluted loss per ordinary share		
Profit/(loss) from continuing operations	4.33p	(0.06p)
Loss from discontinued operations	(2.59p)	(2.22p)
Total	1.74p	(2.28p)

24 Dividends per share

The Company did not pay any dividends during 2009 and 2010. The Directors do not recommend a final dividend.

25 Reconciliation of movements in cash and cash equivalents

	1 January 2010 £000	Cash flow £000	31 December 2010 £000
Cash at bank and in hand	111	592	703
Term deposits	2,771	1,606	4,377
	2,882	2,198	5,080

26 Commitments

(a) Capital commitments

In respect of contracted-out software development expenditure, a development commitment existed at 31 December 2009 with the contractors equating to approximately £34,000. There were no other capital commitments at 31 December 2010 or 31 December 2009.

(b) Operating lease commitments

The Company has the following future minimum lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2010 £000	31 December 2009 £000	31 December 2010 £000	31 December 2009 £000
Within one year	144	163	22	35
Within two to five years	754	–	21	22
	898	163	43	57

The Group holds five property leases relating to six business units occupied by operations in Milton Keynes. All five leases expire on 30 November 2015. Rent is payable quarterly in advance.

The classification of other leases relates to Company vehicles that are held under three or four year contracts, and a photocopier and a franking machine which are both held under five year contracts. The Company vehicle leases have an up front payment of three months in advance followed by a monthly payment and the remaining two are payable quarterly in advance.

27 Pension commitments

During 2009 and 2010 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 9.

Notes to the financial statements continued

28 Share-based payments

Details of options granted:

Date of Grant	Type	Original number of shares granted	Vesting period	Term	Exercise price	Method of statement
Year end 31 December 2004						
7 April 2004	Employees	170,000	3 years	10 years	Nil	Equity
Year end 31 December 2006						
29 March 2006	Directors & employees	602,973	3 years	3 years	Nil	Equity
Year end 31 December 2007						
13 April 2007	Directors & employees	449,333	3 years	10 years	Nil	Equity
13 April 2007	Directors & employees	271,400	3 years	10 years	Nil	Equity
Year end 31 December 2008						
12 March 2008	Directors & employees	736,627	3 years	10 years	Nil	Equity
12 March 2008	Directors & employees	449,872	3 years	10 years	Nil	Equity

Movements in the year:

Year end 31 December 2009

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

Year end 31 December 2010

	1 January 2010					31 December 2010	
Date of Grant	Outstanding options	Exercisable options	Granted	Lapsed	Exercised	Outstanding options	Exercisable options
Year end 31 December 2004							
7 April 2004	–	50,000	–	–	–	–	50,000
Year end 31 December 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	–

In the case of the options granted 13 April 2007, the options have lapsed at the end of the vesting period because the performance conditions were not met.

The weighted average remaining contractual life of outstanding options is 72 days and of the exercisable options, 463 days.

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
Options								
Year end 31 December 2004								
7 April 2004	Binomial	60.5p	0p	45.13%	3 years	3.67%	4.92%	56.76p
Year end 31 December 2006								
29 March 2006	Monte Carlo	37.0p	0p	43.43%	3 years	–	5.12%	31.40p
Year end 31 December 2007								
13 April 2007	Monte Carlo	37.5p	0p	36.64%	4.5 years	–	5.44%	22.48p
13 April 2007	Monte Carlo	37.5p	0p	36.64%	4.5 years	–	5.44%	22.48p
Year end 31 December 2008								
12 March 2008	Monte Carlo	20.75p	0p	31.68%	4.5 years	–	4.16%	15.11p
12 March 2008	Monte Carlo	20.75p	0p	31.68%	4.5 years	–	4.16%	15.11p
VCP								
Year end 31 December 2009								
20 May 2009	Monte Carlo	14.50p	0p	34.00%	3 years	2.07%	1.98%	N/A

Notes to the financial statements continued

Performance criteria

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

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

- the level of EPS in the last reported financial year on the third anniversary of grant; and
- the TSR over these three years being at least at the median compared to the companies constituting the FTSE All Share Software & Computer Services Index.

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

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

Valuation methodologies

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

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

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

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

Volatility assumptions

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

Options outstanding

The weighted average exercise price of the options outstanding at 31 December 2010 is 16.79p (2009: 18.67p).

Parent company statement of financial position

	Notes	2010 £000	2009 £000
ASSETS			
Non-current assets			
Property, plant and equipment	32	2,624	2,660
Investment in subsidiaries	33	3,814	3,814
		6,438	6,474
Current assets			
Trade and other receivables	34	65	87
Cash and cash equivalents	35	4,377	2,025
		4,442	2,112
Total assets		10,880	8,586
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	36	1,731	1,731
Share premium account	37	5,377	5,377
Capital redemption reserve	37	115	115
Treasury shares		(1,166)	(1,166)
Own shares reserve	37	(313)	(319)
Retained earnings	29	(626)	(1,107)
Total equity		5,118	4,631
LIABILITIES			
Non-current liabilities			
Borrowings	38	2,081	2,250
Deferred income tax liabilities	39	171	181
		2,252	2,431
Current liabilities			
Trade and other payables	40	3,452	1,496
Current income tax liabilities		58	28
		3,510	1,524
Total liabilities		5,762	3,955
Total equity and liabilities		10,880	8,586

The financial statements were approved by the Board of Directors on 21 March 2011 and signed on its behalf by:

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

Parent company statement of changes in equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury shares £000	Own shares reserve £000	Retained earnings £000	Total £000
At 1 January 2009	1,731	5,377	115	(1,166)	(319)	(1,244)	4,494
Employee share based compensation	–	–	–	–	–	–	–
Own shares vesting	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	–	137	137
Total comprehensive income for the period	–	–	–	–	–	137	137
At 31 December 2009	1,731	5,377	115	(1,166)	(319)	(1,107)	4,631
At 1 January 2010	1,731	5,377	115	(1,166)	(319)	(1,107)	4,631
Employee share based compensation	–	–	–	–	–	(19)	(19)
Own shares vesting	–	–	–	–	6	(6)	-
Transactions with owners	–	–	–	–	6	(25)	(19)
Profit for the period	–	–	–	–	–	506	506
Total comprehensive income for the period	–	–	–	–	–	506	506
At 31 December 2010	1,731	5,377	115	(1,166)	(313)	(626)	5,118

Parent company statement of cash flows

	Note	2010 £000	2009 £000
Cash flows from operating activities			
Profit for the period		506	137
Adjustments for:			
– income tax		23	17
– depreciation of property, plant and equipment (Note 32)		40	40
– exchange loss on cash holdings		(15)	–
– interest income		(33)	(23)
– interest expense		93	133
– decrease in trade and other receivables		22	3
– increase/(decrease) in trade and other payables		1,787	(659)
Cash generated from/(used in) operations		2,423	(352)
Interest paid		(93)	(133)
Income tax paid		–	–
Net cash generated from/(used in) operating activities		2,330	(485)
Cash flows from investing activities			
Interest received		33	23
Net cash generated from investing activities		33	23
Cash flows from financing activities			
Dividends paid to Company's shareholders		–	–
Net cash used in financial activities		–	–
Net increase / (decrease) in cash and cash equivalents		2,363	(462)
Exchange decrease on cash		(11)	–
Cash and cash equivalents at beginning of period		2,025	2,487
Cash and cash equivalents at end of period		4,377	2,025

PARENT COMPANY ACCOUNTS

Notes to the Parent company financial statements

for the year ended 31 December 2010

29 Accounting policies

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

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

29.1 Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

29.2 Financial risk factors

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

a) Market risk

i) *Currency risk*

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

Wherever possible the Company looks to transact its affairs in sterling.

ii) *Interest rate risk*

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

b) Credit risk

The Company's only creditors are its subsidiary companies.

c) Liquidity risk

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

29.3 Share based payments

DRS Data & Research Services plc manages all share-based arrangements for the Group. The basis of calculation for the cost of these share-based payments is set out in Note 28. The calculated cost is then charged out as a service to the relevant subsidiary.

29.4 Capital management

Negative retained earnings

It is the policy of the Group that subsidiary companies are expected to pass up distributable retained earnings to the holding company, DRS Data & Research Services plc as dividends as soon as practical. The shortfall in retained earnings at 31 December 2010 is not expected to prevent the holding company from fulfilling its operational obligations.

30 Profit for the year

DRS Data & Research Services plc has not presented its own income statement and related notes as permitted by Section 408 of the Companies Act 2006. The profit for the financial year dealt with in the financial statements of the Parent Company is £506,000 (2009: £137,000).

The costs of Directors' remuneration and share payments are borne by DRS Data Services Limited, the details of which are disclosed in Note 9.

31 Auditor's remuneration

	2010 £000	2009 £000
Auditor's remuneration:		
– audit services	4	4

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

PARENT COMPANY ACCOUNTS

Notes to the Parent company financial statements continued

for the year ended 31 December 2010

32 Property, plant and equipment

	Total £000	Freehold land & building £000	Fixtures & fittings £000
At 1 January 2009			
Cost	3,128	2,900	228
Accumulated depreciation	(428)	(200)	(228)
Net book amount	2,700	2,700	–
For the year ended 31 December 2009			
Opening net amount at 1 January 2009	2,700	2,700	–
Depreciation charge	(40)	(40)	–
Closing net book amount at 31 December 2009	2,660	2,660	–
At 31 December 2009			
Cost	3,128	2,900	228
Accumulated depreciation	(468)	(240)	(228)
Net book amount	2,660	2,660	–
For the year ended 31 December 2010			
Opening net amount at 1 January 2010	2,660	2,660	–
Additions	4	–	4
Depreciation charge	(40)	(40)	–
Closing net book amount at 31 December 2010	2,624	2,620	4
At 31 December 2010			
Cost	3,132	2,900	232
Accumulated depreciation	(508)	(280)	(228)
Net book amount	2,624	2,620	4

Bank borrowings are secured on the Linford Wood land and buildings for the value of £2,250,000 (2009: £2,250,000). See Note 21.

33 Investment in subsidiaries

At 31 December 2010 the principal subsidiary undertaking of the Company was as follows:

Name of company	Country of incorporation and operation	Shareholding	Main activity
DRS Data Services Limited	UK	100%	Provision of data capture services, manufacture and sale of optical and image scanning equipment

The net book amount of the investment in DRS Data Services Limited at 31 December 2010 and 31 December 2009 was £3,814,000.

The Company's investment in Peladon Software Inc which had been previously impaired to a nil net book value, was sold in the year, see Note 8 for further details.

34 Trade and other receivables

	31 December 2010 £000	31 December 2009 £000
Current loans and receivables		
– Amounts owed by subsidiaries	–	–
– Prepayments and accrued income	65	87
	65	87

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

There are no trade receivables.

Notes to the Parent company financial statements continued

for the year ended 31 December 2010

35 Cash and cash equivalents

	31 December 2010 £000	31 December 2009 £000
Cash at bank and in hand	4,377	2,025

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

The table below shows the extent to which the Company held monetary assets in currencies other than Sterling.

	US dollars 2010 £000	Euro 2010 £000	US dollars 2009 £000	Euro 2009 £000
Sterling equivalent	669	–	–	23

36 Share capital

See Note 17 for details of the share capital of the Company.

37 Other reserves

See Note 18 for details of the other reserves of the Company.

38 Borrowings

See Note 21 for details of the secured loan for £2,250,000 held by the Company.

39 Deferred income tax

	31 December 2010 £000	31 December 2009 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	171	181
	171	181

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

	31 December 2010 £000	31 December 2009 £000
At 1 January	181	186
Charge to income for the year	(10)	(5)
At 31 December	171	181

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

	Accelerated tax depreciation £000	Revaluation of property £000	Total £000
At 1 January 2010	164	17	181
Charge to income for the year	(9)	(1)	(10)
At 31 December 2010	155	16	171

40 Trade and other payables

	31 December 2010 £000	31 December 2009 £000
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	3,178	1,286
Accrued expenses	105	118
	3,283	1,404
Repayment of secured loan (see Note 21)	169	–
Derivative financial instrument		
Fair value of interest rate collar (see Note 21)	–	92
	3,452	1,496

Fair value of interest rate collar equates to carrying value.

Notes to the Parent company financial statements continued

for the year ended 31 December 2010

41 Financial assets and liabilities

Categories of financial assets and liabilities.

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

	Notes	31 December 2010 £000	31 December 2009 £000
Financial assets			
Loans and other receivables			
– Trade and other receivables	34	65	87
– Cash and cash equivalents	35	4,377	2,025
		4,442	2,112
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	38	(2,081)	(2,250)
Current			
– Trade and other payables	40	(3,283)	(1,404)
– Repayment of secured loan		(169)	–
		(3,452)	(1,404)
Derivatives designated as cash flow hedging instruments (carried at fair value)			
– Derivative financial instruments	40	–	92

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

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

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

The level within which the financial asset or liability is classified is determined by the the lowest level of significant input to the fair value measurement. The only financial liability affected is the derivative in respect of the interest rate collar described in Note 21 which is classified as Level 2.

42 Intra-Group transactions

DRS Data & Research Services plc provided £820,000 (2009: £810,000) of services to its subsidiaries during 2010. It did not make any purchases from them.

DRS Data & Research Services plc is owed £3,814,000 relating to the value of assets hived down to DRS Data Services Limited on 1 January 2006. DRS Data & Research Services plc does not plan to request payment of this debt in the foreseeable future. This amount equates to the investment value.

The Company has provided cross Company guarantees for the borrowing facilities of its subsidiary DRS Data Services Limited.

	DRS Data Services Limited £000	Peladon Software Inc £000	Peladon Software Limited £000	Total £000
At 31 December 2009				
Amounts owed by subsidiaries	3,814	711	278	4,803
Less impairment provisions	–	(711)	(278)	(989)
	3,814	–	–	3,814
Amounts owed to subsidiaries	(1,284)	–	–	(1,284)
Net amount owed by subsidiaries	2,530	–	–	2,530
At 31 December 2010				
Amounts owed by subsidiaries	3,814	–	–	3,814
	3,814	–	–	3,814
Amounts owed to subsidiaries	(3,178)	–	–	(3,178)
Net amount owed by subsidiaries	636	–	–	636

Peladon Software Inc was financed through the intercompany trading accounts with DRS Data & Research Services plc and DRS Data Services Limited. In view of Peladon Software Inc's trading performances, these balances had already been provided for prior to being written off on 30 September 2010, at the time of disposal. See Note 8 for further details of the disposal of Peladon Software Inc and the DocXP™ product.

Directors, officers and advisers

Directors	Sir David Brown, Chairman * Anthony Lee Arthur Mark Tebbutt Chris Batterham *# Ann Limb * Lord Kinnock of Bedwellty * Alison Reed * ** Non-Executive Director* *# Senior Independent Director*
Company Secretary	Sally Hopwood
Registered Head Office	1 Danbury Court Linford Wood Milton Keynes Buckinghamshire MK14 6LR
Stockbrokers	Arden Partners plc 125 Old Broad Street London EC2N 1AR
Auditor	Grant Thornton UK LLP Registered Auditors and Chartered Accountants Grant Thornton House 202 Silbury Boulevard Central Milton Keynes Buckinghamshire MK9 1LW
Principal Bankers	Barclays Bank plc Barclays Corporate Ashton House 497 Silbury Boulevard Milton Keynes MK9 2LD
Registrars	Capita Registrars The Registry 35 Beckenham Road Beckenham Kent BR3 4TU

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