2011

Education Elections Census

DRS Data and Research Services plc

Annual Report & Accounts

for the year ended 31 December 2011

DRS

"2011 was a year in which, despite the challenging economic climate and the scarcity of large census and election projects, we both maintained our strong focus on building the Group's core competencies in its established markets and remained profitable."

Sir David Brown, Chairman

Contents

Summary

DRS is a worldwide data capture specialist operating in the education, elections and census markets. It delivers high accuracy, high volume, and high-speed solutions providing more effective and efficient ways for its customers to capture data electronically.

Financial results

Turnover
£15,980,000
2010: £17,102,000

Profit before tax
£1,090,000
2010: £1,653,000

Gross profit
£5,682,000
2010: £6,539,000

Cash reserves
£4,911,000
2010: £5,080,000

Earnings per share
2.66p
2010: 1.76p

Product development
£1,286,000
2010: £1,868,000

Education revenue
£13,995,000
2010: £13,557,000

Elections revenue
£1,328,000
2010: £1,087,000

Census revenue
£591,000
2010: 2,322,000

Key markets

Education

Education, e-Assessment and examination services

Elections

Multi-channel election solutions, voter registration

Census

National population census

Operational highlights

65,000 exams processed using our multiple choice question examination system by the Addis Ababa Education Bureau in Ethiopia

22% growth in elections business. Continuing to work with the Greater London Authority for delivery of the 2012 election with our partner Electoral Reform Services Limited (ERS)

Manufacturing build time for the award winning PhotoScribe® scanners reduced by 25%

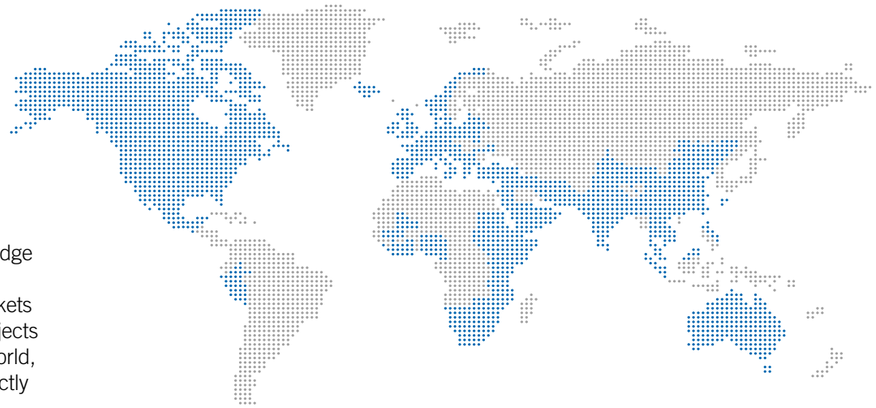
Delivered the Oman election with our partner Bahwan IT, where voting and counting was completed within 24 hours

Delivered successful census pilots in both Zimbabwe and Tanzania

4% growth in e-Marker® sales. UK awarding bodies scanning more than 1.3 million sheets in one day

Achieving a global presence

Operating in more than 50 countries



Using our knowledge and expertise of international markets to implement projects throughout the world, whether sold directly or via partners

Mission: To capture complex data and transform it into powerful intelligence

We do this by providing tailored data capture solutions worldwide, focusing in the areas of education, elections and census.

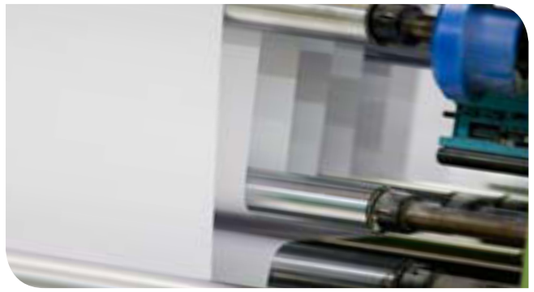
Our core values are of certainty and trust, and we use these to build strong partnerships with our customers and local and international partners. We ensure we deliver reliable and robust solutions, working with our partners and customers to provide accurate results on time, every time.

Our experience and knowledge enable us to give advice to our clients on the best approach for their data capture needs, whether an international census or local national examinations. Our expertise and passion drive our customer relationships and build confidence and trust in all we do.

Core capabilities

Research and Development Our R&D team ensure leading edge technology is used in our hardware and implemented in our software solutions to maximise data capture techniques.

Manufacturing Enhancement of our award winning PhotoScribe® scanners continued using latest design and manufacture techniques. Scanner build numbers increased dramatically in 2011 to meet on-going requirements.



Software Development Expansion of our software development team continued to ensure delivery of the necessary product enhancements for our current and future customers.

Project Management We manage all projects using world-class international management methodology incorporating our knowledge and expertise from 40 years of data capture experience.

Bureau Services Our extensive bureau facility handled over 90 million A4 pages in 2011, peaking at over 1.3 million sheets per day in the examination series and managing over eight thousand markers online.

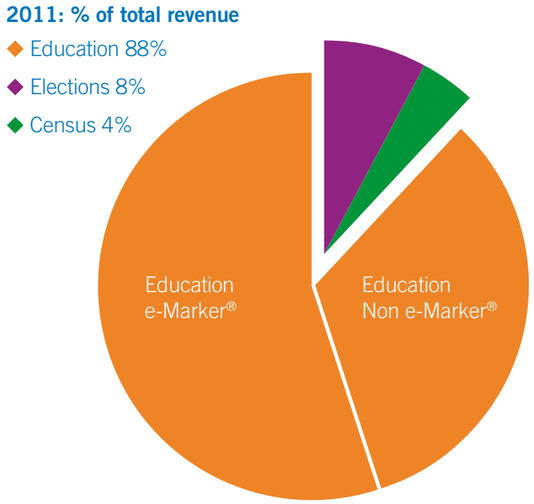
Print Production Our print site specialises in forms production for our key markets and printed 93 million forms in 2011. Our quality processes are critical in ensuring the right quality and quantity is delivered on time, to the correct locations worldwide.

Operational review

93 million forms printed in 2011

1.3 million sheets scanned in one day

3% growth in education sales



Education

Over 90 million A4 examination sheets scanned during 2011

For over 40 years DRS has provided solutions for the examination and assessment market from OMR scanners for admissions to electronic marking of examinations.

Education has always represented the core of our business and 2011 was no exception, accounting for 88% of the total turnover of the Group.

Our electronic marking products e-Marker®, remained the largest part of the education business with sales representing 63% of the education total. e-Marker® contributed 55% towards the total business turnover. Sales grew in 2011 to £8.823 million, 4% up on the previous year.

With our main customer base currently in the UK, DRS has continued to invest in e-Marker® and its total e-Assessment offering to attract further overseas business.

Our extensive bureau services support the education business, providing a centre of excellence for scanning and image capture, and a focus for our operations offering the customer a full end-to-end solution for script or form management scanning and distribution.

"e-Marker® frees the examiner from many of the administrative tasks previously required, such as the handling of worked scripts, allowing them to focus on the marking itself. The real-time moderation provides useful and informative feedback for examiners and helps give quality assurance to teachers and candidates alike."

Alex Teal, ABRSM

Elections

DRS provides solutions for statutory and non-government elections. Our ability to deliver highly secure, and highly robust electronic counting is proven in both the UK and international markets.

"The Oman elections went well, thanks to the excellent support from the DRS team. The entire process of voting and counting was over in less than 24 hours. We would like to place on record our appreciation to the DRS management and to the entire team for having supported Bahwan IT in this crucial project."

M K Janaki Raman, Bahwan IT General Manager

Our bureau operation also provides hand count solutions for the professional body, trade union and other non-government elections in the UK.

With a dedicated and experienced team, we work with electoral bodies throughout the world to ensure the exacting requirements of their count are met.

The elections business accounted for £1.328 million in 2011, an increase of 22% over 2010. This represented 8% of our total Group revenue.

In 2011 the development, testing and training of the solution for the GLA 2012 election continued. In partnership with ERS, DRS has worked with all teams involved to ensure delivery and progress milestones are achieved.

The Oman election was also delivered, building on the previous successful use of DRS technologies to support the 2007 and 2003 elections.

Our expansion into the non-government election market progressed with several new contracts won in the latter part of the year.

Census

DRS provides full end-to-end census solutions, which guarantees efficiency of processes and accuracy of results. The global team has experience built up over numerous population census projects internationally.

We offer a portfolio of innovative hardware and software products that can be tailored to meet exact requirements and provide a total solution with results released quicker than traditional methods.

2011 was a busy year for DRS with work continuing on the delivery of the Zambian and Pakistan censuses won in 2010

The Zimbabwe and Tanzania pilot censuses were also successfully delivered.

As expected, revenue for the census business was significantly below that achieved in 2010 at £591,000.

New contract wins included the full Zimbabwe Census due to take place in 2012.

Chairman's statement

Sir David Brown, Chairman

Principal activities

2011 was a year of consolidation for the Group, reflecting the challenging economic climate. Revenue was down 6.6% on the previous year at £15,980,000 (2010: £17,102,000) with a profit before tax of £1,090,000 (2010: £1,653,000).

The Group's small loss in the first half of the year was reversed in the second half by a solid performance in our education markets and continued firm control of costs. The lower revenue was due mainly to the largely expected reduction in the Group's overseas census work.

The Group's performance in its education markets has remained robust and profitable, accounting for 88% of total year revenue at £13,995,000 (2010: £13,557,000). Sales of e-Marker® continued to grow and contributed the largest part of the education business at £8,823,000 (2010: £8,514,000), accounting for 63% of our education business and 55% of the Group's total business.

The reduction in our non-education business has resulted from there having been no full scale census work in the year whereas 2010 benefited from two major contracts. This unevenness in the market for these one-off large contracts underlay the reduction of 44% in the Group's non-education business revenue at £1,985,000 (2010: £3,545,000).

The closing cash position at the end of 2011 remains strong at £4,911,000 (2010: £5,080,000). This was achieved after the inventory was increased by £1,654,000 to £2,520,000 following the manufacturing of the PhotoScribe® scanners in preparation for the delivery of the 2012 London Mayor and Assembly elections.

The Directors are pleased to recommend the payment of a final dividend of 0.35p (2010: nil).

Education

Our examination and assessment business has grown by 6.3% year-on-year and constitutes the cornerstone of the Group's business. The e-Marker® product range has been developed to become a leader in the assessment market and is making a significant contribution to improving the quality and efficiency of examination and assessment processes in education. A number of prominent awarding bodies use e-Marker® not only to improve the quality of their marking services but also to provide valuable information about the design of examination papers and examination questions. This enables them to advance the design of future papers and ensure that the candidates' knowledge of subjects is evaluated to the highest standards. Assessment and Qualifications Alliance (AQA), the largest awarding body for GCSEs and A-levels in England, uses e-Marker® to assist in the marking of the majority of its examinations and continues to be our largest user of e-Marker®. Our long relationship with AQA, which began in 2003, has informed our development of the range of services that e-Marker® is able to offer to the wider international market for examinations and assessment.

Other users of e-Marker® include Welsh Joint Education Committee (WJEC), Associated Board of the Royal Schools of Music (ABRSM) and Institute of Financial Services (IFS). Our long-standing partnerships with them have demonstrated the flexibility of e-Marker® in a variety of examination processes. A core element of the strategy for e-Marker® is the expansion of its use internationally and a number of successful pilots have been run in various countries and more are in prospect with major international awarding bodies.

The Group offers a full range of examination and assessment products to both UK and international customers that support and complement e-Marker® in education. These products and services also made a strong contribution to the Group's business and included the design and printing of education related forms, the provision of scanners and bureau services. We continue to be a leader in this market, particularly in Africa where we supply to numerous educational bodies.

Sales of the IntelliReg® biometric registration product into colleges of further and higher education continued on a modest scale during the year. However, due to the current lack of funding in some parts of the education market, we have concluded that further sales of IntelliReg® would yield a smaller return on resources than would other parts of the business and have ceased sales of this product range.

Census

Work on the Zambia and Pakistan census contracts, which were won in 2010, continued into 2011. The Zambia census was completed during the year and a number of enhancements to our census product were implemented which have improved the quality of data processing and offered a number of benefits to the customer.

Although all of the forms and equipment for the Pakistan census were delivered in 2010 there have been a number of postponements. The housing list census has now been completed but the main population census has yet to take place. It is hoped that we can complete the project in 2012.

Our census team was successful in winning two census pilot projects in Tanzania and in Zimbabwe. Both pilots took place in the second half of the year and successfully demonstrated the capabilities and efficiency of DRS technology in these countries. We have been informed that we have won the main census project in Zimbabwe and we are hopeful of winning the main contract in Tanzania. Both censuses will take place in 2012.

Elections

Our major contract to count electronically the 2012 London Mayor and Assembly elections has progressed well during the year. The contract was won by IntElect®, a joint arrangement between DRS and ERS and has a value to IntElect® in excess of £3.6m, of which some £2.5m is likely to accrue to the Group. Our customer, the GLA, has an option to extend the contract to cover the 2016 elections which could result in a value to IntElect® of a further £3.2m.

IntElect® has been working with the 'London Elects' team at the GLA to prepare for this large project. This work has resulted in the Group recognising revenue of £534,000 in the year as a result of completing major milestones. We delivered two similar elections for London in 2000 and 2004, but there are some differences in 2012. Although there are 14 constituencies, the counting will take place in three counting centres rather than the 14 and 10 used in 2000 and 2004 respectively. Also, the number of ballot papers has increased from two to three per voter, meaning that with over 5.7 million voters in London, the number of ballot papers to count on the day will require more than 350 of our high performance PhotoScribe® PS960 image scanners. We started production of these scanners early in the year and successfully completed the majority of the production, on schedule, by the end of 2011.

Having won contracts in 2003 and 2007 to supply DRS technology to support elections in Oman, we were delighted to win the contract again in 2011. Approximately 600,000 ballot papers were provided with 83 scanners located in 61 regional counting stations. The ballot papers were produced in different variants for each region and in total there were more than one thousand candidates. The use of our technology meant that the results were produced in less time and with fewer staff than with a manual count. The project and election was reported as a major success with the entire process of voting and counting having been completed in less than 24 hours.

The supply of services for non-governmental elections is a new target market for the business, having qualified to work in this field during 2010. Non-governmental elections are held by Trade Unions and Associations of different types across the country and generally are held more frequently than many statutory elections. This business is expected to result in a smoother revenue profile than has typically been the case in our election business. We won our first contract in the second half of the year.

The elections market in America has been uncertain during the past two years with some changes in the

Chairman's statement continued

Our education business, centred on the examination and assessment market and the e-Marker® product, is continuing to perform steadily and has good growth prospects, particularly internationally. We will continue to invest to secure those opportunities and remain a market leader in examination and assessment, such that education will continue to be the largest of the Group's businesses.

The Board expects to continue to invest in building best-in-class products and services, placing increasing emphasis on customer and partner relationships, so as to sustain the Group's profitability and secure its longer-term growth.

major suppliers of election equipment. Pleasingly, our PhotoScribe® scanner has remained one of the few products which are approved by the Federal Government for the scanning of ballot papers, and the two leading suppliers both offer our product in the marketplace. Sales of the PhotoScribe® scanner were made in the later part of the year for use in the 2012 US primary elections.

Board

Two new non-Executive Directors have been appointed since the end of the year. We are pleased to welcome John Linwood, who is the Chief Technology Officer of the BBC, and Dame Sandra Dawson, who is a Deputy Vice-Chancellor of the University of Cambridge. Lord Kinnock and Ann Limb will retire from the Board at the 2012 Annual General Meeting after having completed more than seven and nine years' distinguished service respectively. Both new appointments followed a formal, rigorous and transparent procedure.

Outlook

Our education business, centred on the examination and assessment market and the e-Marker® product, is continuing to perform steadily and has good growth prospects, particularly internationally. We will continue to invest to secure those opportunities and remain a market leader in examination and assessment, such that education will continue to be the largest of the Group's businesses.

The combination of two projects that have already been won, the 2012 London Mayor and Assembly elections and the Zimbabwe census, augurs well for the 2012 non-education revenue. Our non-education business is likely to continue to make an important contribution to the Group's performance.

In summary, 2011 was a year in which, despite the challenging economic climate and the scarcity of large census and election projects, we both maintained our strong focus on building the Group's core competencies in its established markets and remained profitable. The Board expects to continue to invest in building best-in-class products and services, placing increasing emphasis on customer and partner relationships, so as to sustain the Group's profitability and secure its longer-term growth.

Sir David Brown
Chairman

27 March 2012

Business review

Tony Lee, Chief Executive Officer

The Group revenue in 2011 was down 6.6% on the previous year at £15,980,000 (2010: £17,102,000) resulting from solid performance in education but no significant new projects in the non-education sector.

Continued firm control of sales margins and costs produced a trading profit before tax of £1,090,000 (2010: £1,653,000).

The statement of financial position at 31 December 2011 shows a strong trading position with cash and cash equivalents at £4,911,00 (2010: £5,080,000) after accounting for an increase in inventory of £1,654,000 to £2,520,000 for PhotoScribe® scanners in preparation for the delivery of the 2012 London Mayor and Assembly elections.

Performance and position

A breakdown of the revenue by UK and non-UK sales is:

	2011		2010	
	£000	%	£000	%
UK Sales	11,794	73.8%	11,205	65.5%
Non-UK sales	4,186	26.2%	5,897	35.5%
	15,980		17,102	

The primary market for DRS is UK education where revenue continues to grow, accounting for 70% of 2011 Group revenue at £11,217,000 compared to 64% in 2010. The Group's non-education business dropped by 44% to £1,985,000 (2010: £3,545,000) due to there being no large new projects won in the year.

Dividend policy

The Directors propose a final dividend of 0.35p per share (2010: nil).

The Board proposes a dividend policy which provides a return to shareholders whilst retaining sufficient cash to continue to fund the development of its products so that the Group can pursue its strategy of accelerated growth.

Education

Our education market is now predominantly centred on data capture within the electronic assessment market and divides into two main types: firstly our e-Marker® products and services and secondly our supply of scanning equipment and forms. AQA has become our largest customer for e-Marker®, using our technology to process the majority of their GCSE and A-level examinations. A number of other awarding bodies in the UK, including WJEC and IFS, use e-Marker® and we continue to develop our products and services in the local market. The UK is probably the most mature market for electronic marking outside of the United States where electronic marking was first established in the early nineties. The international market is now the centre of our focus for e-Marker® business development.

Business review continued

Most countries with examination based education are potential markets for our products and services, and we have completed a number of partnership projects with key organisations.

The sale of scanners and forms for educational applications continues to represent a solid base of activity for the Group. Sales in our international markets are a robust stream of revenue and provide a number of growth opportunities. In 2010 we supplied a significant new customer in Africa with a new Multiple Choice Question (MCQ) examination system and during 2011 have identified several other opportunities in Africa for similar solutions.

However, the last two years have seen a gradual decline in the potential for sales of services and equipment into UK schools. In 2010 we commenced the withdrawal in the supply of our IntelliReg® finger print attendance system, which continued in 2011, due to uncertainties in the market brought on in part by a change in government education policy.

Elections

Preparatory work for the London Mayor and Assembly elections in 2012 progressed well during the year with an extensive build programme for the PhotoScribe® PS960 scanners. Over 300 of our top-end scanners were produced to schedule by the end of the year and these will be utilised to count the ballot papers in three centralised count centres in London. During the year we also implemented major projects to develop the e-counting software and produce a comprehensive training programme. This project is to be delivered in collaboration with our election partner, Electoral Reform Services Limited (ERS), under the name of 'IntElect®'.

We were also pleased to have won and delivered a contract to supply scanners and ballot papers for the Oman election. This is the third occasion that we have been involved with the election in Oman and the project proved to be equally as successful as on the previous occasions.

The strategy for our election business encompasses not only the supply of e-counting solutions for large governmental elections but also for smaller non-governmental elections such as for Trade Unions and Housing Associations. We became eligible to provide and scrutinise these types of elections during 2010 and are pursuing a sales and marketing campaign to establish ourselves in this new market for DRS.

Census

Two census pilots were won in 2011 in Zimbabwe and Tanzania. These pilots were successfully completed and demonstrated our market leading expertise in the efficient capture of data in the census market. We have subsequently won the contract for the main census in Zimbabwe which will take place during 2012. We are hopeful of winning the main project for Tanzania which is also planned for 2012.

Most of the work for the Pakistan census has now been completed but a number of in-country delays have meant that the census itself is still to take place.

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 2011, which includes e-Marker® amortisation, was £1,769,000 (2010: £2,520,000). Other than the creation of new functionality in the e-Marker® product, all of this expenditure has been expensed through the income statement. Development costs expensed through the income statement during 2011 are £1,286,000 (2010: £1,868,000).

e-Marker®

The largest development programme during 2011 was for the e-Marker® range of products. The current product range has been developed over the past ten years. To ensure we maintain a market lead we have implemented a number of projects to develop new designs to meet the needs of examinations systems in the future, both in the UK and internationally.

Having established a road map and product definition, development work began to create the next generation of e-Marker® products which will be released in a series of stages over the next two years. The new products will work in parallel with the current version of e-Marker® and existing customers will be able to migrate to the new versions. The new products will have significant benefits and will enable us to provide e-Marker® through channel partners to international markets.

E-counting

Work has continued during the year to develop our e-counting suite of software with particular emphasis on meeting the requirements of the London Mayor and Assembly elections in 2012. A number of new requirements have been catered for, and the user interface has been significantly improved to enhance the efficiency of the system and aid the transparency of the process for officials and observers. Real-time information will also be available as the count progresses and this information will be displayed in the count venues as well as being relayed via the Internet for public view.

We have also been working with partner organisations to provide multi-channel elections into international markets. A number of countries are now wishing to use telephone and Internet voting options as well as paper ballots. Development work has enabled us to combine technologies with our partners to supply 'best in class' total solutions in these situations.

PhotoScribe®

During the year, development was undertaken to improve a number of aspects of both the design and manufacture of the product. The PhotoScribe® range of scanners has evolved over a number of years and is constantly being updated to keep it at the forefront of scanning technology. The current version is capable of 'real-time data capture' from both sides of paper forms at more than 150 times a minute. The use of the latest three dimensional computer-aided design within our Research and Development department has enabled us to improve the performance of the product while reducing its complexity and the time it takes to manufacture.

Liquidity and treasury management

At the end of 2011 the Group held £4,911,000 (2010: £5,080,000) in cash. The Group maintains its cash holding at such levels in order to have the funds available to support its working capital requirements and to be able to fund product development and deliver large election and census contracts.

It is the Group's policy to take a cautious approach to treasury management with a view to minimising its exposure to risk. Only short-term investments that do not put the capital at risk are considered. Given the uncertainty of the banking world and to minimise exposure to possible risk of bank failure, a decision was taken during 2011 to split the cash holdings between three banks.

The Group's principal bank through which normal business activity is transacted continues to be Barclays Bank plc. 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 GLA of City Hall in respect of the 2012 Mayor and London Assembly elections contract was created. The mortgage facility of £2,081,000 held by DRS Data and 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 model and strategy

DRS delivers products and services that capture complex data and convert it into useful information for our customers.

We focus on the education, election and census markets. The data capture solutions, software and hardware we provide are tailored to each market's unique needs. The necessary data handling support services such as printing, hosting, maintenance and logistical support are also provided.

Education

The e-Marker® electronic examination marking service supports electronic examination marking from image by public and private sector awarding bodies. To date it has been sold mainly in the UK though has been successfully trialled in other territories.

Elections

DRS offers an e-counting solution suitable for large scale counting based on a dedicated software application and the Company's PhotoScribe® scanners. It also supplies a service suitable for the counting of smaller ballot events such as those held by trade unions, professional bodies and not-for-profit organisations. This business is conducted in the UK and overseas.

Census

DRS provides data capture solutions and products internationally for use by national census operators. Significant volumes of census forms can be printed and despatched by our print division. Our census customers often make use of our scanners and our software which allows for all census data capture requirements to be dealt with by DRS. Censuses are held in most African countries approximately every ten years.

Business review continued

Challenges and the future

The Company's business can be affected by situations arising from political unrest and by natural disasters in some of the countries in which we operate. Also, changes to governments and their policies both home and abroad can have an effect, particularly on our education business. The adoption of an electronic marking system where none previously existed can take a considerable time from inception to implementation. We create working relationships and provide project management resources in-country at the earliest opportunity which assists with communication and ensures the customer is fully aware of all the features of our systems, and we provide support through the implementation phase.

The key elements of the three year strategy are to:

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

Key performance indicators (KPIs)

	2011	2010
Financial		
Revenue growth pa	(6.6%)	18.5%
Operating return on sales[1]	6.8%	9.7%
Top five customers[2]	73.4%	69.5%
Development expenditure[3]	8.0%	10.9%
Return on capital employed[4]	12.9%	21.4%
Non-financial		
Employees' average length of service[5]	6.25	5.85
Total energy consumed[6]	1.55	1.86

[1] ratio of operating profit as a percentage of total Group sales (before amortisation of intangibles arising on Peladon Software 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 (GWh).

Revenue growth, operating return on sales and top five customers

The first three key performance indicators on the list are very closely linked. Sustainable sales growth is a key objective and it is essential that this growth is achieved from new customers. The Board recognises the need to reduce its dependence on its top five customers in order to increase the resilience of the business. In 2011 the fall in one-off non-education contracts has temporarily prevented DRS from improving this balance.

Development expenditure

DRS competes against much larger competitors by delivering a high level of technical excellence and by forging long term relationships with its customers. Investment in our software products to maintain a competitive advantage is very important. Close monitoring of the amount of development expenditure incurred is required in order to ensure a balance between investment and profitability. The weak economic climate prevailing in the UK resulted in the Directors taking a very cautious approach to committing to discretionary expenditure during the year. Although the operating return on sales fell in the year, the figure of 6.8% was achieved as a result of taking a hard line on cost control that included a full review of the approach to investing in the development of the e-Marker® product.

Return on capital employed

DRS is a relatively complex business for its size which involves a mix of products and services that enable it to provide high-volume, tailored data capture solutions. The Group has a broad selection of assets required to deliver the data capture solutions, such as print presses, bureau scanning equipment and PhotoScribe® scanners for both elections and sale. Significant reductions in sales volume materially impact the return on capital employed. Return on capital employed identifies the impact of scaling up and down for large contracts thereby providing an awareness of which assets are not generating a return.

Employees' average length of service

Retaining staff and ensuring the right mix of skills is maintained is especially important when the economy slows and trading conditions become more challenging. It is also important as the work undertaken by DRS requires highly-trained staff to deliver large complex solutions to plan. 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.

Total energy consumed

The Board is conscious of its social responsibility to use energy more efficiently and is continually seeking ways to reduce unnecessary consumption. Overall energy consumption fell by 0.31 GWh to 1.55 GWh, a reduction of 16.6% on 2010. This follows a 14.0% saving in the previous year. 2011 energy usage showed a 10.8% reduction in electricity consumption and 25.6% reduction in gas. The majority of the savings arise from positive controls within the business and improved insulation of the buildings, although warmer weather at the end of the year is a contributing factor.

Environment and employees

The Group employed an average of 245 employees throughout 2011, of which 244 were based in the UK and 1 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 28.

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. Further details are provided under the heading 'internal controls and risk management' within the Corporate Governance Statement on page 26.

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

Information technology

In common with many companies, the Group relies heavily on information technology and database systems, including Internet-based systems. These are used for communicating large volumes of data in election and census projects and for internal communication, as well as communication with customers and suppliers. Our education business depends upon the efficient handling of large databases to be accessed in their homes by thousands of examination markers. Any significant disruption of these systems, whether due to computer viruses or other outside incursions, could materially and adversely affect the Group's operations.

In December 2011 we finalised the implementation of a business continuity plan for all our information systems which provides for a greater level of information security, resilience and availability, a disaster recovery plan, off-site back up and external support for our critical software and hardware systems.

The Group conducts regular reviews of its technology internally and with the assistance of third party providers of IT services to ensure it has appropriate levels of protection in force to guard against viruses and similar 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. To overcome this revenue volatility, the Group is developing products such as e-Marker® to be better suited to generate recurring business.

Economic Risks

Recessionary conditions have the potential to affect the Group's business in any affected territory in which we trade and can lead to the retiming or to the cancellation of business we are tendering for. Accordingly, the Board reviews the economic conditions in our markets on a regular basis.

Political Conditions and Natural Disasters

Changes in political conditions can be significant whether they are sudden or evolve over time. We await a decision as to when the delayed Pakistan census can be held.

Business review continued

This has been repeatedly delayed due to the conditions prevailing in the country. Natural disasters such as floods and volcanoes, though rare, do have the potential to affect our business when they arise in the locations in which we operate.

When tendering for contracts, the senior management team carefully considers the possible economic, political and geographical conditions which are or which may become be relevant.

Changes to Government policy

With over 50% of our business arising in the education sector, there is always the risk that the Government may change legislation or regulation in a way that may adversely affect us and the work that we do in the field of examination assessment. Since the Coalition Government came into power, education policy has been high on the agenda and examination assessment the subject of review. The Board shall continue to monitor the developments.

Cautionary statement

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

Certain forward-looking statements are contained in this Business Review. These statements are made by the Directors in good faith based on the information available to them up to the time of their preparation 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

2011 was a year of consolidation and has enhanced our products and market focus. Although revenue in elections and census reduced in 2011 compared with the previous year, the sales and marketing work we have completed and the pilot projects delivered have led to good growth prospects for 2012. The decision to withdraw IntelliReg® from all markets was in line with our strategy to focus on key products and growth areas and to optimise the use of our resources. Our focus on e-Marker® was justified by a 3.6% increase in the volume of business in a market that is subject to demanding economic challenges.

The three year strategy agreed in 2011 was reviewed during the year and two significant objectives were added. Firstly, the developing focus on partner and channel relationships to assist with the rapid growth in international sales and, secondly, the adoption of a new risk management approach being implemented to ensure the on-going alignment of strategy and key objectives with functional activity and performance.

The Group has made a solid start to 2012. Our e-Marker® business continues to offer the best opportunity within our education market for both sales and repeat year-on-year business growth.

Tony Lee
Chief Executive Officer

27 March 2012

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 a non-Executive Director of Domino Printing Sciences plc and TTG Global Group Ltd, and Chairman of the British Standards Institution. 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. Prior to that appointment, he served as 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.

Directors and officers continued

Dame Sandra Dawson obe

Non-Executive Director

Dame Sandra was appointed to the Board of DRS as a non-Executive Director in February 2012. She graduated from Keele University and has experience in academia, government and financial services. Dame Sandra is one of the Deputy Vice-Chancellors of the University of Cambridge and KPMG Professor of Management Studies at Judge Business School, Cambridge. She was formerly Director of Judge Business School (1995-2006) and Master of Sidney Sussex College (1999-2009). She currently sits as a non-Executive Director on the boards of the Financial Services Authority and Oxfam, and is a member of the Prime Minister's Council for Science and Technology and the UK India Round Table. Her previous appointments include non-Executive roles at Barclays plc, Barclays Bank plc and JP Morgan Fleming Claverhouse Investment Trust plc. In 2004 she was made a Dame Commander of the British Empire for her contributions to higher education and management research, and in 2006 she was inducted into the International Women's Forum (IWF) Hall of Fame.

Rt. Hon. Lord Kinnock of Bedwellty

Non-Executive Director

Lord Kinnock was appointed as a non-Executive Director of DRS in May 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.

Ann Limb obe

PhD, MA
Non-Executive Director
Chair of Remuneration Committee and Ethics Committee

Ann Limb was appointed to the Board of DRS as a non-Executive Director in May 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 was recently appointed Chair of the SE Midlands Local Enterprise Partnership and holds a number of other non-Executive directorships. 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.

John Linwood

Non-Executive Director

John Linwood was appointed to the Board of DRS as a non-Executive Director in January 2012. He has 30 years of technology experience, including 15 years' delivery of internet-based services to global audiences and has held senior positions at both Microsoft and Yahoo. John is currently Chief Technology Officer for the BBC where he is responsible for technology direction and delivery including all broadcast, distribution and IT-based technology. He currently sits on an advisory board for Brunel University.

Alison Reed

Non-Executive Director
Senior Independent Director (since 25 May 2011)
Chair of Audit Committee

Alison Reed was appointed to the Board of DRS as a non-Executive Director in January 2011. She qualified as a Chartered Accountant 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 then joined Standard Life as Chief Financial Officer where she was responsible for the flotation. She is a non-Executive Director of British Airways plc and of Kesa Electricals 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

An economics graduate, Sally Hopwood retrained as a solicitor, qualifying in 1990. She joined Argos as Company Solicitor in 1992 and after leaving Argos in 1998, 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.

Directors' report

The Directors are responsible for preparing the annual report and accounts of the Company and present this report together with the audited Group and Company financial statements for the year ended 31 December 2011.

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 Group's focus is on education, elections and census, adapting its products and approach to the unique needs of each of these markets.

The registered office of both DRS Data and 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 6 and the Business Review on page 9 provide a review of the business and progress against its key performance indicators during the year. They also provide a review of 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 Statement on page 22 forms part of this Directors' Report.

Financial risk management

Details of the Group's approach to financial risk management are given in the Business Review section Liquidity and Treasury Management (page 11) and in Note 3 to the financial statements (page 49).

Key operational risks and uncertainties

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

Results and dividends

The Group revenue in 2011 was £15,980,000, down 6.6% on the previous year (2010: £17,102,000).

The trading profit before tax was £1,090,000, down 34.0% (2010: £1,653,000).

The Directors recommend a proposed final dividend of 0.35p per share (2010: nil). If approved at the Annual General Meeting, the proposed dividend will be paid on 25 May 2012 to those shareholders on the register at the close of business on 27 April 2012. Further details concerning the dividend policy can be found in the Business Review on page 9.

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

Board nominations are recommended to the Board by the Nomination Committee under its terms of reference.

The current members of the Board, together with biographical details of each Director are set out on pages 15 to 17.

Chris Batterham retired from the Board on 25 May 2011; all other Directors served throughout the year. The Board appointed John Linwood on 2 January 2012 and Dame Sandra Dawson on 1 February 2012. Both John Linwood and Dame Sandra Dawson are offering themselves for election by the members of the Company at the Annual General Meeting.

In accordance with the Company's Articles of Association, Sir David Brown and Tony Lee are retiring by rotation at the forthcoming AGM and, being eligible, will offer themselves for re-election.

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 31.

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 37.

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 share capital:

	Ordinary shares of 5p each	Percentage holding
Mr Malcolm Brighton	7,079,697	20.45%
Mr Gary Brighton	2,000,000	5.78%
Mr Mark Brighton	2,000,000	5.78%
Ms Jennifer Brighton	2,000,000	5.78%
Rock Nominees Ltd	1,969,222	5.69%
DRS Data and Research Services plc – Treasury shares	1,930,000	5.57%
Mr Stephen Stewart	1,600,000	4.62%
Brewin Nominees Ltd	1,151,982	3.33%
HSBC Global Custody Nominee UK Ltd	1,130,000	3.26%

Disclosure and Transparency Rule 7.2

The Company's share capital is as follows:

	Ordinary shares of 5p each At 31 December 2011 and 2010	
	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 2011. 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 Annual General 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. This contract remains in force. By October 2013 the Company will be informed by AQA whether it intends to issue a tender to fulfil its requirements for electronic marking on the expiry of the contract in 2014.

Changepond Technologies – Private Ltd of Chennai, India has been retained to provide the Company with a range of software development, architecture and consultancy services to assist with the imminent development of the next generation of e-Marker® software.

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

Directors' report continued

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 35 days (2010: 29 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.

Renewal of authority to allot shares

The Directors' current authority to allot relevant shares pursuant to Section 551 of the Companies Act 2006 will expire on 25 August 2012 or at the 2012 Annual General Meeting, if earlier. Resolution 11 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 £1,089,720. 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 2013 Annual General Meeting.

Disapplication of pre-emption rights

The current authority for Directors to allot equity securities for cash without first being required to offer such securities to existing shareholders in proportion to their existing holdings expires on the 25 August 2012 or at the 2012 Annual General Meeting, if earlier. Resolution 12 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 2013 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 13 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 2013 Annual General Meeting.

Auditor

The auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office. Resolution 9 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 financial position of the Group, its cashflows, liquidity position and borrowing facilities. The Directors believe that the Group forecasts and projections 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. This opinion is supported by the Group's liquidity position as set out in the Business Review on page 9.

The Group meets its day-to-day working capital requirements through a mortgage facility secured against its Linford Wood property that is due for renewal on 24 March 2014 (see Note 21 on Borrowings). The Group plans to open renewal negotiations with the bank during 2012. No matters have been drawn to the Group's attention to suggest that renewal may not be forthcoming on acceptable terms.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore believe it is appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Political and charitable donations

The Company does not make political donations. From time to time the Company makes charity donations to support the communities in which it operates. It also supports fundraising undertaken by staff members. Its charity contributions in 2011 amounted to £250 (2010: £5,000).

Annual General Meeting

The Annual General Meeting will be held at 1 Danbury Court, Linford Wood, Milton Keynes MK14 6LR on 15 May 2012 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

S Hopwood
Company Secretary

27 March 2012

Corporate governance statement

Disclosure statement

The Board is committed to maintaining a high standard of corporate governance throughout the Group and reviews its procedures regularly to ensure standards of corporate governance are maintained. The Company applies the principles set out in the UK Corporate Governance Code of June 2010 ("the Code") which can be reviewed on the web site of the Financial Reporting Council at www.frc.org.uk.

The Company is required by Listing Rule 9.8.6R and by the Code to make a statement in its annual report setting out how it has applied the principles of the Code during the year and to explain any examples of non-compliance. Having reviewed the main principles of the Code the Board is satisfied, that throughout the accounting period ended 31 December 2011, the Company has complied with the Code's principles in so far as they relate to a smaller company such as DRS. This report explains how the Code has been applied by the Company.

The Disclosure Rules and Transparency Rules sourcebook, DTR 7.2, also requires information relating to the share capital of the Company to be disclosed. This information can be found in the Directors' Report on page 19.

Board of Directors

The Board is responsible to the shareholders for the Group's performance and for the long term success of the Company. It provides effective leadership and prudent control of the Group comprising the Company and DRS Data Services Limited. Discussion is open and supported by relevant written information. All Directors contribute to the debate and the discussion is not dominated by any individual or by a small group of Directors.

The Board has specific duties which it does not delegate including responsibility for the Company's governance and the evaluation and management of continuing and emerging risks. Further information is provided later in this report.

The Board also sets and monitors the Company's strategic objectives, approves capital expenditure and ensures the necessary financial and human objectives are in place to enable the Company's objectives to be met.

The Board is led by the Chairman, Sir David Brown. He ensures its on-going effectiveness in all aspects of its role.

The majority of the Board's members are non-Executive Directors who display objective judgement and possess broad and varied business and commercial experience. As well as assisting the Board with the development of its strategy, they review the integrity of all financial information and ensure that the financial controls and other systems of risk management which are operated are appropriate and are working well. The Business Review on page 9 also contains details of the risks which impact the Group and the on-going controls which have been implemented by the Board and which are in operation in the Group.

At 31 December 2011 the Board comprised:

- Sir David Brown, non-Executive Chairman
- Alison Reed, senior independent non-Executive Director
- Ann Limb, non-Executive Director
- Lord Kinnock of Bedwellty, non-Executive Director
- Tony Lee, Chief Executive Officer
- Mark Tebbutt, Finance Director

In accordance with article 98 of the Articles of Association (retirement by rotation) Sir David Brown and Tony Lee will be seeking re-election at the AGM.

David Brown has presented a consistently high standard of leadership of the Board since his appointment as Chairman in 2009. His focus, support and guidance has ensured all meetings enjoy open dialogue and are constructively challenging and his energy and commitment, skills and experience are highly valued in the Company. Accordingly, the Board endorses his reappointment as a non-Executive Director.

After full and careful consideration, your Board has determined that Tony Lee continues to display the necessary leadership qualities, commitment and energy to lead the executive team to realise the Company's strategic and operational goals and recommends his re-election as a Director of the Company.

In June 2011 the Board commenced the recruitment of two non-Executive Directors in accordance with its succession plan which provides a clear and thorough procedure for new board appointments. The plan noted the imminent retirement of Ann Limb and Lord Kinnock at the AGM in May 2012. Written job descriptions were prepared by the Nomination Committee which instructed an external search to be undertaken by independent consultants. This search was successful and John Linwood and Dame Sandra Dawson were found to have the appropriate background skill and experience to serve on the Board and they expressed their willingness to be appointed. John Linwood joined the Board on 2 January 2012 and Dame Sandra Dawson was appointed on 1 February 2012. Both will be seeking election by the Company's shareholders at the AGM in accordance with the procedure set out in the Company's Articles of Association.

John Linwood has thirty years of experience delivering technologies and services worldwide in the global information and communications industries. The Board believes the Company will benefit greatly from his knowledge and experience.

Dame Sandra Dawson is a deputy Vice-Chancellor of the University of Cambridge and KPMG Professor of Management Studies at the Judge Business School in Cambridge. She has made significant, recognised contributions to higher education and management. The Board believes her experience and insights will be a great benefit as the business develops its opportunities in its chosen markets.

In common with all Directors who join the Company, John Linwood and Dame Sandra Dawson undertook a thorough induction which included meeting individually with the Company Secretary, the Chairman and Chief Executive as well as a number of other senior executives. Appropriate background information was also provided.

All Directors also receive briefings on corporate governance matters and legal issues of relevance to their position as well as appropriate training to ensure their knowledge is refreshed.

Biographical details of all the Directors are given on pages 15 to 17.

All the Company's non-Executive Directors are considered to be independent under the Code with the exception of the Chairman who was considered independent when appointed in 2009.

Alison Reed is appointed the senior independent Director. She is available for the shareholders to contact with matters of concern and is also the contact for its whistle-blowing arrangements by which employees may, in confidence, raise concerns about possible wrongdoing in financial reporting or in other matters. She is also responsible for ensuring that arrangements are in place to allow proportionate and independent investigation of such matters to take place.

Board Meetings

The Board meets as regularly as necessary in order to discharge its duties effectively. In 2011, thirteen board meetings were held with the agenda and supporting papers being circulated one week in advance of each meeting. The attendance record of each Director is set out on page 25 of this report.

During the year, the Chairman maintained regular contact and met with the non-Executive Directors outside regular Board meetings. At the request of any non-Executive Director, the Chairman will arrange meetings of only the non-Executive Directors to enable concerns to be expressed.

The non-Executive Directors, led by the senior independent Director, met once during the year when the Chairman's performance was reviewed.

The Executive Directors of the Company and the Executive Directors of DRS Data Services Limited met formally six times which helped to ensure a regular flow of information. Informal meetings were held on a weekly basis as often as the business required.

The Board governs the Group not only through its executive management but also delegates elements of its authority to its committees. Further details of the work of the committees is provided below.

Evaluation of the Board's performance 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 of the Board's effectiveness by responding to a detailed questionnaire concerning areas including the quality of Board discussion and frequency of meetings, strategy, the setting and meeting of objectives and the skill set and experience of the Board. 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 2011 by the entire Board. In addition, an evaluation of the Chairman's performance led by the Senior Independent Director was undertaken in September during which the views of both Executive and non-Executive 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 2012.

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. The Company's Articles of Association provide the officers of the Company with indemnities from the Company's assets in relation to their duties to the extent determined by the Board for losses and expenses incurred in the exercise or intended exercise of their duties.

Corporate governance statement continued

The roles of the Chairman and the 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 leadership and for the workings of the Board. He ensures it operates effectively and sets the agenda for all Board meetings. He is required to work for the Company approximately 24 full days every year and has confirmed that throughout the year he met the expectations of his role. The Chairman's current commitments are set out in his biography on page 15. During 2011, Sir David Brown was also senior independent director of Ceres Power Holdings plc, a position from which he retired in February 2012. Having served as a non-Executive Director of the British Standards Institution since May 2010, he was appointed Chairman of the Institution in March 2012.

The Chief Executive Officer is responsible for the running of the business and the implementation of the Board strategy and policy.

Board Committees

The Board has established four Committees: the Nomination, Remuneration, Audit and Ethics 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 Committee is chaired by Sir David Brown. Throughout 2011, the other members of the Committee were Ann Limb, Lord Kinnock and Tony Lee. Alison Reed joined on 24 January 2011 and Chris Batterham retired from the Committee in May.

Job descriptions are prepared by the Committee and candidates are assessed and interviewed. A recommendation is made to the Board and the decision to appoint a candidate is made by the Board itself.

The Nomination Committee met five times in 2011. Further details are provided later in this report.

Having been notified of the intended retirement of Chris Batterham in May 2011, the Committee met initially in February 2011 to consider and then recommend to the Board the appointment of Alison Reed as senior independent director designate and to consider the appointment of Ann Limb as chair of the recently formed Ethics Committee.

Being aware also of the expected retirement of Ann Limb and Lord Kinnock in 2012, the Committee agreed to appoint Harvey Nash, an independent recruitment consultant, to assist the Company with the recruitment of two non-Executive Directors.

In October and November the Committee met to consider candidates for these roles and in December it met to resolve the recommendation to the Board that John Linwood and Dame Sandra Dawson be invited to join the Company as non-Executive Directors. The terms and conditions of these appointments will be available for inspection at the AGM.

Remuneration Committee

During 2011 the Remuneration Committee was chaired by Ann Limb. Sir David Brown and Lord Kinnock also served on the Committee. Alison Reed joined on 24 January 2011 and Chris Batterham served until May 2011. Tony Lee, Mark Tebbutt and senior managers are invited to attend meetings of the Committee as required.

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. No individual is present when his or her remuneration is being considered.

The Committee met five times in 2011. Further details are provided later in this report.

The Directors' Remuneration Report set out on page 31 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 was chaired by Chris Batterham until May 2011. Throughout the year Sir David Brown, Ann Limb and Lord Kinnock were also Committee members. Chris Batterham retired from the Committee in May 2011. On 24 January 2011 Alison Reed was also appointed to the Committee and she was appointed as its chair on Chris Batterham's retirement. The Board is satisfied that both Chris Batterham and Alison Reed brought recent and relevant financial experience to the Company. Alison Reed is a chartered accountant who has served as Chief Financial Officer for both Marks and Spencer Plc and Standard Life Plc.

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

The Committee's duties include reviewing the performance and effectiveness of the Group's external auditor and the nature and extent of all services the auditor supplies to the Group to ensure independence is not impaired. It makes recommendations to the Board on the external auditor's remuneration and terms of engagement. 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. Grant Thornton UK LLP has reported to the Audit Committee confirming its independence and the scope of its non-audit services which was scrutinised by the Committee.

The Committee has recommended the re-appointment of Grant Thornton UK LLP as the Group's external auditor in 2012. Further details are provided in the Notice of Annual General Meeting which accompanies this report.

The Committee also scrutinises half yearly and annual financial statements before they are presented to the Board, focusing on financial reporting, accounting policies and compliance. It considers areas of management judgement and estimates, and the effectiveness of internal control procedures which are reviewed annually. It also reviews the Company's whistle-blowing arrangements by which its employees may raise concerns about financial reporting and other matters. In 2011, the Committee also reviewed the Company anti-fraud policy and recommended its implementation to the Board.

The Committee met four times in 2011. The auditor is invited to attend meetings of the Committee and attended two such meetings in 2011. The Audit Committee again considered whether the Company should implement an internal audit function. It was agreed not to introduce a full internal audit function at this time and the Committee will continue to receive regular reports confirming that customer, supplier and other key processes continue to be fully implemented and followed. The matter will be kept under regular review. The Audit Committee has placed significant emphasis on the continued development of the risk function.

Ethics Committee

The Ethics Committee was established in June 2011 under the chairmanship of Ann Limb to review ethical matters of concern to the Company and to implement the Company's Code of Business Ethics. It has also overseen the implementation of the Company's measures to comply with anti-corruption and bribery legislation. Lord Kinnock and Tony Lee are members of the Committee. Sir David Brown and Alison Reed attend the Committee's meetings when invited. Two meetings of the Ethics Committee were held in 2011.

Attendance at meetings

The following table details the number of Board and Committee Meetings held during the year ended 31 December 2011 and the attendance record of each Director.

	Board	Audit	Remuneration	Nomination	Ethics
Number of meetings held in year	13	4	5	5	2
C Batterham[1]	4	2	2	–	–
Sir D Brown[2]	13	4	5	5	–
Lord N G Kinnock[2]	11	4	4	4	2
A G Limb[2]	11	3	5	4	2
A C Reed[2]	13	4	5	5	–
A C Lee	13	–	–	5	2
A M Tebbutt	13	–	–	–	–

[1] non-Executive Director – retired May 2011
[2] non-Executive Director

Corporate governance statement continued

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 (AGM) which takes place at the Company's registered office. A separate circular has been provided with this Report which contains the Notice of Annual General Meeting and details of the business to be considered at the meeting. A copy of the Notice is also published on the Company's website. The 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 controls 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. The controls that have been implemented are designed to the requirements of the Company's business model and the strategies the Board has approved for delivering the business objectives. Further details concerning the business model are set out in the Business Review section of this report on page 9.

Work on risk management continued throughout 2011 and culminated in the implementation of a new formal risk management framework which was recognised as an effective framework under the certification awarded to the Company under BS25999 in February 2012.

In designing the improved internal controls system, the Directors have considered the principal risks and exposures further referred to in the Business Review on page 9 which has been reviewed by the Audit Committee and which has also taken into account developments occurring since the end of the year.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting, including over the Group's consolidation process.

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 main 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 management

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. A comprehensive strategic planning, budgeting and forecasting system is in place. Monthly financial information, including trading results and cash flow statements, are reported to the Board and management. 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 Board meets monthly to review performance against budget and forecast and Mark Tebbutt, the Finance Director, regularly carries out Group consolidation reviews and analysis of material variances. The Audit Committee reviews the application of financial reporting standards and any significant accounting judgements made by management. 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.

By order of the Board

S Hopwood
Company Secretary

27 March 2012

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 12 and the recent re-structuring of the business approach to risk management and implementation of a revised risk management framework. This framework focuses on risks and opportunities connected to delivering the Company strategy and objectives. Based upon the OGC Management of Risk principles, it will develop good risk management practice and will be informed by corporate governance principles and ISO31000:2009, the international standard for risk management.

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 operate to these standards and they continue to 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.

Throughout 2011 the Company focused its efforts on achieving certification to BS 25999-2, the standard for Business Continuity Management Systems. This management system provides a set of business-driven processes aimed at proactively improving our resilience to any disruption that could affect our ability to achieve our key objectives. Significant focus was placed upon preparation for certification assessment due in February 2012 which was achieved.

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

We continue to have a very positive relationship with our suppliers and have consistently adhered to payment terms we agree with them. 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.

Customers

Careful management of the relationship with customers has resulted in no debt write-offs during 2011 and the average number of debtor days for 2011 of 28. Though a rise from 22 days in the previous year, this is judged to be within the Company's standard trading terms.

Bribery Act 2010

During the year the Company's Bribery Act 2010 programme was fully implemented. All employees are required to complete and pass online training and assessment, and to implement anti-corruption measures in their work both here and abroad.

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

Our employees

We employed 245 people as at 31 December 2011. The annual resignation rate for the year is estimated to be 10%, which compares with 8% in 2010.

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 Group's Intranet site.

Following the focus in 2010 on employee engagement activities, the work to continue to improve employee communications across the business has led to the successful implementation of a staff committee. Volunteers were sought from across the business and following their appointment to staff committee representative posts, the first meeting was held in April 2011. The staff committee is scheduled to meet on a quarterly basis to raise and discuss topics submitted by employees to their respective representatives. The minutes for each meeting are published on the Company's Intranet site.

Improving communication with our employees further, informal question and answer sessions with Executive Directors have also been implemented for employees to attend during the course of the year. These sessions are attended each time by different Executive Directors and are scheduled to occur on a quarterly basis.

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 each individual's personal development.

Regular training 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 accredited in 2010 and will be reviewed for re-accreditation of the IiP standard in November 2012. DRS has received this accreditation continually since 1999.

We aim to maintain regular high quality communication opportunities to all our stakeholders. Our AGM 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.

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 on all issues reported continues to be carefully monitored.

During 2011 there were 18 accidents compared with eight in 2010. The increase was investigated and found to be an increase in the number of cut finger injuries sustained in the scanner manufacture process. A requirement to wear protective gloves was then made mandatory for particular processes.

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 employees are entitled and encouraged to join the DRS Group Personal 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.

Corporate social responsibility report continued

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.

Several different waste types are recycled including paper reel ends, compactor waste polythene, shredded materials and cardboard. In 2011 we recycled 118.5 metric tonnes (2010: 137.5 metric tonnes); the reduction being due to lower production in the business.

The environmental 'Green Team' which was formed in 2007 remains active. The team assists in raising environmental awareness across the business and assists in risk assessments which are conducted on key processes. The findings of these assessments are made available together with any mitigation recommendations 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 in 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.

The energy awareness initiative first implemented in 2010 continues to have a positive impact on our energy consumption which reduced by 16.6% in 2011. For further details on energy usage see KPI information on page 12 in the Business Review.

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. 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 2011/65/EU (RoHS Directive) ensuring its products comply, where required, with the restrictions on the use of certain hazardous substances This revised directive includes additional categories of Electrical and Electronic Equipment (EEE) and European Conformity (CE) marking obligations.

Our community

During the year the Company has supported the initiative of its employees who raise funds for good causes. In July, DRS entered a sponsored team for the London to Cambridge Bike Ride in aid of Breakthrough Breast Cancer. In total the Group made charitable donations in the year amounting to £250 (2011: £5,000).

By order of the Board

S Hopwood
Company Secretary

27 March 2012

Directors' remuneration report

This report has been prepared by the Remuneration Committee and has been prepared for and 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 Companies Act 2006, the provisions of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules and the UK Corporate Governance Code (June 2010) ('the Code'). An Ordinary Resolution will be put to the shareholders at the Annual General Meeting on 15 May 2012 inviting them to consider and approve this report.

UNAUDITED INFORMATION

Remuneration Committee

The Committee is a Board Committee and comprises the independent non-Executive Directors and the Board Chairman who was considered independent when appointed as Chairman in 2009.

The following Directors were members of the Committee during the year ended 31 December 2011:

- A G Limb *(Committee chairman)*
- D M Brown *(Board chairman)*
- C M Batterham*
- N G Kinnock
- A C Reed†

* Chris Batterham retired from the Committee on 25 May 2011.
† 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 25.

None of the Committee's members has 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. Company managers, including the Human Resources Manager, are invited to attend meetings from time to time when appropriate.

The Secretary of the Committee is the Company Secretary.

The Terms of Reference of the Committee are available on the Group's website and are subject to annual review.

Advisers

During the year, BDO LLP was retained as adviser to the Committee on remuneration matters and good practice and a representative of the firm attended meetings of the Committee when appropriate.

The responsibilities of the Remuneration Committee

The Committee is responsible for determining the policy on remuneration for Executive Directors and other senior executives and, based on the remuneration policy, it determines the individual remuneration and benefits package for each of the Executive Directors, the Company Secretary and the Chairman. None of these individuals is present when their own remuneration is being discussed. The Committee is also responsible for approving all awards and options granted under the Group's discretionary share incentive plans.

Remuneration Policy Statement

Our policy is to offer executive remuneration packages that are competitive and are designed to attract, motivate, incentivise and retain the skilled and high calibre Directors required to lead the Company.

Our policy seeks to ensure that remuneration arrangements are fair when looked at as a whole and that an appropriate balance is maintained between remuneration that is fixed (that is, base salaries, benefits and pensions) and performance-related elements (that is, annual bonus and long-term incentive schemes). When considering the fairness of the remuneration package for Executive Directors, the Remuneration Committee is sensitive to the pay and conditions of employment elsewhere in the Group.

Our policy is to offer competitive packages of total remuneration commensurate with comparable packages available in similar companies as benchmarked by independent remuneration advisers and agreed annually by the Remuneration Committee.

Our policy on fixed pay is to offer base salaries at conservative levels and to move progressively toward the median of comparable companies. Our current policy on pensions is to offer a contribution of 20% of base salary towards a personal pension scheme combined with a defined range of health and car benefits.

Directors' remuneration report continued

Our policy on performance-related pay is to offer an annual discretional bonus payable on achievement of defined and agreed targets combined with incentive schemes that ensure that a significant proportion of the potential total reward available is conditional upon longer-term performance.

Implementation of our Policy

Our policy is reviewed annually by the Remuneration Committee to take account of overall Group performance and remuneration arrangements prevailing elsewhere in the Group, as well as external factors including the prevailing financial and economic climate.

The Committee also gives consideration to, although is not bound by, data available on remuneration arrangements offered by comparator companies as compiled by the Company's independent remuneration advisers. Comparators are treated cautiously to avoid unjustifiable remuneration escalation. The Committee reviews the basis of the selection of comparator companies every three years.

The work of the Remuneration Committee in 2011

Basic salary, fees and benefits

The Committee undertook its annual review of the base salary of Executive Directors. In each case it considered:

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

It determined that the current policy should be continued so base salaries were kept at conservative levels for the year.

The Group provides certain benefits to the Executive Directors 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 were also reviewed and were found to be comparable to those provided by companies of a similar size to the Group.

Performance-related annual bonus scheme

The Committee reviewed the annual bonus scheme which had operated since May 2009. The scheme provides a maximum potential value equal to 75% of individual salary payable in cash. Of that bonus value, 80% is linked to revenue and profit targets which promotes the Group's 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. Both the Group and the individual performance targets are challenging and are set by the Committee.

In January, the Committee reviewed personal achievements against the targets set for the previous year and sets new targets for the Executive Directors for the forthcoming year.

In awarding an annual bonus, the Committee considered the Group's financial performance during the year in respect of revenue and profitability, and reviewed the individual's performance against the set targets. Details of the payments made in respect of the performance-related annual bonus are given on page 35.

Long term equity based incentive plans

The Committee's policy is to align the interests of Directors with those of shareholders by delivering long term value through the Company's share plans.

A Long Term Incentive Plan (LTIP) for Executive Directors and key senior executives was introduced in 2005. Awards under that scheme were based on the Company's Earnings Per Share (EPS) and Total Shareholder Return (TSR) performance being at least at the median when compared to the companies constituting the FTSE techMARK All-Share Index. Where possible, LTIP options were granted under the DRS Enterprise Management Incentive Scheme (EMI) in order to benefit from tax advantages approved by HM Revenue & Customs. All of the options granted to participants under the LTIP scheme had lapsed by 12 March 2011. Details of the lapsed options are set out in the Directors' share options table on page 36.

The Value Creation Plan (VCP) was introduced in May 2009. This was intended to be the primary equity incentive vehicle to retain and incentivise key executives in the Company and to align their interests with those of shareholders.

Under the Plan, key executives were granted a one-off award of units ('VCP Units') from an agreed number. These VCP Units had no value on grant but gave the executive 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 payout 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 November 2011 the Committee began a review of the operation of the Company's long term equity based incentive plans prior to the VCP measurement date of 20 May 2012. It concluded that incentivising key executives remained a priority for the Company. It was proposed that the 2005 scheme be wound up and that a further scheme should be put to the shareholders for consideration at the forthcoming Annual General Meeting. Details of the new scheme are provided in the separate shareholders' circular.

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 continues to be operated in accordance with HM Revenue & Customs rules. Employees are encouraged to align their interests with shareholders and to acquire and hold the Company's shares through participation in the scheme. At 31 December 2011, 48 employees were members of the DRS SIP scheme (2010: 47). This represented 26% of the eligible workforce.

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 life assurance cover comprising 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 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.

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' notice at any time except for Sir David Brown's appointment during which either party may terminate the appointment on six months' 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 AGM.

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 Board agreed a new fee structure in January 2011, the details of which are provided on page 35.

The Chairman's fees are determined by the Remuneration Committee also in January of each year, having regard to his individual responsibilities, performance and comparative information. Details of the fees paid to the Chairman in 2011, also appear on page 35.

At the AGM on 15 May, Tony Lee and Sir David Brown will be proposed for re-appointment to the Board and Ann Limb and Lord Neil Kinnock will be retiring.

John Linwood joined the Board on 2 January 2012 and Dame Sandra Dawson joined the Board on 1 February 2012. In accordance with the Articles of Association, the shareholders will be asked to approve their appointments at the AGM on 15 May 2012.

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:

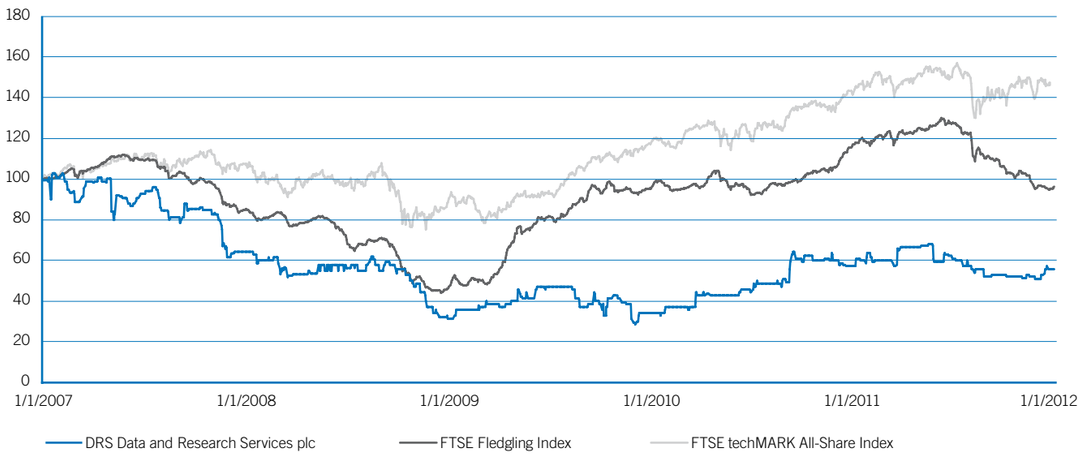
		Ordinary shares of 5p		
	Date of Appointment to the Board	As at 26 March 2012	As at 31 December 2011	As at 1 January 2011
Sir D M Brown	01.08.2008	–	–	–
Dame S J N Dawson	01.02.2012	–	–	–
Lord N G Kinnock	16.05.2005	29,408	29,408	29,408
A C Lee (Executive Director)	15.09.1997	160,678	158,787	151,547
A G Limb	20.05.2003	50,205	50,205	50,205
J F Linwood	02.01.2012	–	–	–
A C Reed	01.01.2011	–	–	–
A M Tebbutt (Executive Director)	25.03.2002	539,231	537,340	530,100

Performance graph

The graph below compares the Company's total shareholder return performance against both the FTSE techMARK All-Share Index and the FTSE Fledgling Index. The FTSE techMARK All-Share Index was considered during the previous five year period as the most appropriate for comparison purposes. Increasingly however, larger companies are now represented on this Index. The Board now believes that the FTSE Fledgling Index contains companies of a more similar size to DRS which undertake work in comparable markets to those in which DRS operates and is considered a more appropriate comparator.

The graph shows a comparison of the total return on investment for the Company's ordinary shares for the last five financial years against the total return on investment for the companies in the FTSE Fledgling Index and the FTSE techMARK All-Share Index.

DRS Data and Research Services plc – Total Return on Investment



AUDITED INFORMATION

Directors' remuneration

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

	Salary and Fees £000 £000	Annual Performance: Related Bonus £000	Related Bonus %	Benefits £000	Total 2011 £000	Total 2010 £000	Money Purchase Pension Contributions 2011 £000	Money Purchase Pension Contributions 2010 £000
Executive								
A C Lee (CEO)	113	9	8	13	135	202	23	22
A M Tebbutt	101	12	12	12	125	158	20	20
	214	21		25	260	360	43	42
Non-Executive								
Sir D M Brown	60	–	–	–	60	50	–	–
C M Batterham[1]	14	–	–	–	14	25	–	–
Lord N G Kinnock	25	–	–	–	25	25	–	–
A G Limb	34	–	–	–	34	25	–	–
A Reed[2]	31	–	–	–	31	–	–	–
	164	–		–	164	125	–	–
Total	378	21		25	424	485	43	42

[1] Retired 25.05.11
[2] Appointed 01.01.11

The annual performance-related bonus is expressed as a percentage of annual salary. The maximum bonus achievable for the Executive Directors is 75% of base salary.

No Director was entitled to a deferred bonus.

The fee structure for non-Executive Directors was reviewed in April. While the basic annual fee was retained at £25,000, non-Executive Directors were awarded an additional £5,000 per annum for the chairmanship of one of the Board's Committees. Alison Reed receives a further £5,000 in recognition of her services as the senior independent Director.

Equity incentives

Following shareholder approval of the VCP at the AGM 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 and Research Services plc Enterprise Management Incentive (EMI) Scheme.

The performance criteria for options granted both under the LTIP and the EMI Scheme are 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 techMARK All-Share 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 01.01.11	Granted in year	Lapsed	Exercised during year	Options held at 31.12.11	Exercise price	Exercisable date	Expiry date
A C Lee	LTIP-EMI	144,578	–	144,578	–	–	Nil	12.03.11	12.03.18
A C Lee	LTIP	248,386	–	248,386	–	–	Nil	12.03.11	12.03.18
A M Tebbutt	LTIP-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

Following the introduction of the VCP in May 2009, the following units were granted to Executives under the Plan and continue to reflect their holdings at 31 December 2011:

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 2011 was 19.5p (2010: 20.0p) and the high and low values during the year were 23.75p and 17.75p respectively.

By order of the Board

A Limb
Chairman of Remuneration Committee

27 March 2012

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors 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; and
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements.

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

27 March 2012

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 2011 which comprise 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 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 37, 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 2011 and of the Group's profit for the year then ended;
- the Group 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; or
- 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' statement, set out on page 20, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

M Gomersall
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Chartered Accountants
Central Milton Keynes

27 March 2012

Consolidated income statement

	Notes	2011 £000	2010 £000
Revenue	5	15,980	17,102
Cost of sales		(10,298)	(10,563)
Gross profit		5,682	6,539
Other operating income	7	37	106
Selling and marketing costs		(1,169)	(1,305)
Administrative expenses		(3,352)	(3,584)
Finance costs	10	(108)	(103)
Profit before income tax		1,090	1,653
Tax charge	11	(247)	(270)
Profit for the period from continuing operations		843	1,383
Loss for the period from discontinued operations	8	–	(827)
Profit for the period attributable to owners of the parent		843	556
Earnings per share			
Basic earnings per share			
– Profit for continuing operations	23	2.66p	4.37p
– Loss from discontinued operations	23	–	(2.61p)
Total		2.66p	1.76p
Diluted earnings per share			
– Profit for continuing operations	23	2.65p	4.33p
– Loss from discontinued operations	23	–	(2.59p)
Total		2.65p	1.74p

Consolidated statement of comprehensive income

Profit/(loss) for the period	843	556
Other comprehensive income		
– Exchange difference on translation of foreign operations to presentational currency	–	(57)
– Reclassification adjustment of cumulative exchange differences on disposal of foreign operations	–	188
Total comprehensive profit for the period attributable to owners of the parent	843	687

Consolidated statement of financial position

	Notes	2011 £000	2010 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	3,174	3,154
Intangible assets	13	208	681
Deferred income tax assets	19	166	168
		3,548	4,003
Current assets			
Inventories	14	2,520	866
Trade and other receivables	15	2,311	2,380
Cash and cash equivalents	16	4,911	5,080
		9,742	8,326
Assets and disposal group classified as held for sale	8	–	–
Total assets		13,290	12,329
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)	(313)
Translation reserve relating to disposal group	18	–	–
Retained earnings		730	(120)
Total equity		6,474	5,624
LIABILITIES			
Non-current liabilities			
Borrowings	21	1,855	2,081
Deferred income tax liabilities	19	154	171
		2,009	2,252
Current liabilities			
Trade and other payables	20	4,625	3,870
Current income tax liabilities		182	583
		4,807	4,453
Liabilities included in disposal group held for sale	8	–	–
Total liabilities		6,816	6,705
Total equity and liabilities		13,290	12,329

The financial statements were approved by the Board of Directors on 27 March 2012 and signed on its behalf by:

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

DRS Data and Research Services plc
Registered Company Number: 959401

Consolidated statement of changes in equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury shares £000	Own shares reserve £000	Retained earnings £000	Translation reserve £000	Total £000
At 1 January 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

	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 2011	1,731	5,377	115	(1,166)	(313)	(120)	–	5,624
Employee share based compensation	–	–	–	–	–	7	–	7
Own shares vesting	–	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	7	–	7
Profit for the period	–	–	–	–	–	843	–	843
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	843	–	843
At 31 December 2011	1,731	5,377	115	(1,166)	(313)	730	–	6,474

Consolidated statement of cash flows

	Notes	2011 £000	2010 £000
Cash flow from operating activities			
Profit after taxation		843	1,383
Adjustments for:			
Tax charge		247	270
Depreciation of property, plant and equipment		318	380
Amortisation of intangible assets		483	737
IFRS 2 charge/(credit) in respect of LTIP shares		7	(19)
Profit/(loss) on sale of property, plant & equipment and intangibles		(21)	103
Exchange losses/(gains) put through income statement		18	(48)
Investment income		(37)	(48)
Interest expense		90	103
(Increase)/decrease in inventories		(1,654)	148
Decrease/(increase) in trade and other receivables		69	(666)
Increase in trade and other payables		698	684
Cash generated from operations		1,061	3,027
Interest paid		(90)	(103)
Income tax (paid)/received		(663)	495
Net cash (used)/generated from operating activities		(753)	3,419
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(338)	(443)
Proceeds from sale of PPE		21	44
Purchase of intangible assets		(10)	(237)
Interest received		37	48
Net cash used in investing activities		(290)	(588)
Cash flows from financing activities			
Repayment of loan		(169)	–
Net cash used in financing activities		(169)	–
Net (decrease)/increase in cash and cash equivalents from continuing operations		(151)	2,831
Net cash flows from discontinued operations	8	–	(619)
Net (decrease)/increase in cash and cash equivalents		(151)	2,212
Cash and cash equivalents at beginning of period		5,080	2,882
Exchange decrease on cash		(18)	(14)
		4,911	5,080
Included in disposal group		–	–
Cash and cash equivalents at end of period	25	4,911	5,080

Notes to the financial statements

1 General information

1.1 Nature of operations

DRS Data and 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 International Financial Reporting Standards (IFRSs) 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 2011** are:

- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)

The current treatment of joint arrangements and employee benefits are in line with the new standards.

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 2011 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. DRS provides tailored solutions involving a range of the Group's products and services relating to scanning machines, software, printed forms and professional services. Each sales contract is different and it is necessary to consider the nature of the contract with the end user, the combination of deliverables and how transfer of responsibility of supply is deemed to take place. The judgement is when performance conditions are satisfied for the respective elements of the solution to become recognised revenue.
- 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.
- 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.

The 2011 consolidated financial statements incorporate the financial statements of the Company, DRS Data and Research Services plc, and its fully owned subsidiary, DRS Data Services Limited. DRS Data and Research Services plc is the holding company and ultimate controlling entity.

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.

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.

The Group often enters into sales transactions involving a range of the Group's products and services relating to scanning machines, software, printed forms and professional services. The Group provides tailored solutions to meet specific customer requirements. It is necessary to consider the nature of the contract with the end user, the combination of deliverables and how transfer of responsibility of supply is deemed to take place. Each element of supply follows the revenue recognition criteria set out below for each separately identifiable component of the sales transaction.

Sales of goods are recognised when the Group has delivered products to the customer and it is probable that economic benefits associated with the transaction will flow to the Group.

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.

Large print contracts are recognised on a completion basis.

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.

Deferred income arises in two circumstances:

- where stage payments are provided to fund the cash flow impact of the work in progress and are not made in accordance with the delivery schedule resulting in timing differences; and
- up-front payments on service contracts.

2.4 Operating 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 IFRSs proposed dividends do not meet the definition of a liability until such time as they have been approved by shareholders at the AGM. 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.

Notes to the financial statements continued

2.7 Joint arrangements

Joint arrangements, whereby the Company engages in joint activities that do not create an entity or joint control, are accounted for by recognising assets, liabilities, revenues and expenses according to the entity's shares in the assets, liabilities, revenues and expenses of the joint operation as determined and specified in the contractual arrangement.

2.8 Foreign currency translation

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

Foreign currency transactions are translated into the functional currency, 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.

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.

2.9 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 2.10) 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.

2.10 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'.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

Notes to the financial statements continued

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

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

2.18 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.

2.19 Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instruments and are initially measured at fair value adjusted by transactions cost, except for those carried at fair value through profit and loss which are measured initially at fair value.

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available for sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. All income and expenses relating to financial assets are recognised in profit or loss.

Financial assets are derecognised when the contractual rights to the cashflows from the financial assets expire, or when the financial assets and all substantial risks and rewards are transferred.

The Group's financial assets fall within the loans and receivables category. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instrument.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

2.20 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.

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 direct to equity.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk
(i) Currency risk
The Group operates internationally and is subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. The Group does not hedge any transactions, and foreign exchange differences on retranslation of foreign assets and liabilities are recognised in 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 2011 and 2010 were not material.

(ii) Interest rate risk
The Group finances its operations through a mixture of shareholders' funds and bank loans. The Group reviews its exposure to interest rate fluctuations on its mortgage on a regular basis. During 2011, the Board decided not to purchase any form of interest rate cap to limit the impact of potential increases in interest payable as the cost of mitigation was perceived to be greater than the risk.

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 £20,000. On the Group's year-end cash holding, a 1% increase in interest rates would increase interest receivable by £49,000.

(iii) Investment risk
During 2011 the Board decided security of the principal investment was a greater priority than the rate of return on investment as interest rates are so low compared to the general economic uncertainty of the financial sector. With this in mind, three banks are used to deposit the Group's cash holding, thereby spreading the risk of loss as a consequence of a bank failure. Further details are provided in the Business Review on page 9.

(b) Credit risk
The Group has a small number of customers that account for a significant proportion of the revenue. Close working relationships with these customers established over a long term manage the risk exposure. 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 finance safely the successful completion of large scale contracts, thereby minimising liquidity risk issues.

All £4,807,000 (2010: £4,453,000) of the current liabilities are payable within one year.

For non-current liabilities, the mortgage of £2,081,000 (2010: £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 repayments were paid during 2011. The next four instalments payable during 2012 are included in the current liabilities, leaving the balance of £1,855,000 to be reported as a non-current liability.

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 2.15) 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 2011 £000	31 December 2010 £000
Total equity	6,474	5,624
Cash and cash equivalents	4,911	5,080
Capital	11,385	10,704
Total equity	6,474	5,624
Borrowings	1,855	2,081
Overall financing	8,329	7,705
Capital to overall financing ratio	1.37	1.39

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. 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 and is reflected by a single set of management accounts that are used throughout the Group. 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 2011 is as follows:

	Education revenue		Non-education revenue		
Region	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	Total £000
UK	10,006	1,211	37	540	11,794
Africa	2,707	8	–	655	3,370
Rest of world	27	36	29	724	816
Total	12,740	1,255	66	1,919	15,980
Revenue arising from specific products and related services thereon:					
e-Marker®	8,823				
e-counting				1,328	
IntelliReg®		313			

All of the Group's revenue from continuing operations of £15,980,000 was generated from UK operations.

DRS' largest customer generated revenue of £8,307,000 in 2011 (2010: £8,135,000) 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.

On 10 September 2010 a contract to count the 2012 London Mayor and Assembly elections electronically was won by IntElect®, a joint arrangement between DRS and Electoral Reform Services Limited (ERS). The contract has a value to IntElect® in excess of £3.6m, of which some £2.5m is likely to accrue to the Group. IntElect® has been working with the 'London Elects' team at the GLA to prepare for this large project. This work has resulted in the Group recognising revenue of £534,000 in the year as a result of completing major milestones. This revenue has been recognised within the non-education segment of revenue within the UK.

In addition over 300 of our PhotoScribe® scanners were produced to schedule by the end of the year and these will be utilised on the day after the 2012 London Mayor and Assembly elections to count the ballot papers in three centralised count centres in London. These scanners have been included within Inventory at the year end.

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

	Education revenue		Non-education revenue		
Region	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	Total £000
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.

Notes to the financial statements continued

5 Revenue and profit before tax

The significant categories of revenue recognised during the period are:

	2011 £000	2010 £000
Sale of goods	3,984	5,774
Rendering of services	11,604	11,096
Operating lease income (Note 6)	392	232
	15,980	17,102

Profit on ordinary activities before taxation is stated after:

	2011 £000	2010 £000
Auditor's remuneration:		
Audit services	4	4
Non-audit services	50	55
Depreciation	318	380
Amortisation	483	737
Hire of plant and machinery	19	19
R&D expense	1,286	1,868
Share-based payment charge/(credit)	7	(19)

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

	2011 £000	2010 £000
Non-audit services:		
– audit of subsidiary companies accounts pursuant to legislation	26	25
– advice on IFRSs	2	4
– employment tax advice	3	–
– other non-audit services	19	26
	50	55

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 amount of future minimum lease payments receivable at 31 December 2011 is £6,000 and this is all recoverable within one year. Of this amount, £2,000 is invoiced and included in the trade receivables balance as at 31 December 2011.

7 Other operating income

	2011 £000	2010 £000
Interest income		
– bank interest	37	34
– HM Revenue & Customs' interest	–	14
– fair value measurement of collar arrangement	–	10
Profit on foreign exchange (realised and unrealised)	–	48
	37	106

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:

	2011 £000	2010 £000
Revenue	–	500
Costs of sales	–	(372)
Other operating income	–	13
Selling and marketing costs	–	(172)
Administrative expenses	–	(297)
Operating loss	–	(328)
Finance costs	–	–
Loss from discontinued operations before tax	–	(328)
Tax (charge)/credit	–	(8)
Loss for period	–	(336)
Loss on disposal	–	(491)
Loss for the year from discontinued operations	–	(827)

Notes to the financial statements continued

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

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Operating activities	–	–
Investing activities	–	(619)
Financing activities	–	–
Cash flows from discontinued operations	–	(619)

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.

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.

After the first year of owning Peladon Software Inc, The Software Construction Company Inc paid DRS £1,700 additional consideration through the earn out arrangement. This money has been offset against the £4,000 estimate of deferred consideration made at the time of the disposal. Management does not believe there is any reason to adjust its original assumption in respect of deferred consideration receivable as the future earnings are still uncertain. The balance of deferred income is included in trade and other receivables.

9 Directors and employee benefit expense

Staff costs during the year were:

	2011 £000	2010 £000
Wages and salaries	7,042	7,337
Social security costs	772	715
Share options granted to Directors and employees	7	(19)
Pension costs – defined contribution plans	566	462
	8,387	8,495

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

	2011	2010
Print and bureau services	101	93
Hardware and software services	88	83
Sales and marketing	18	18
Administration	38	34
	245	228

Remuneration in respect of Directors was as follows:

	2011 £000	2010 £000
Emoluments	475	541
Pension contributions to money purchase pension schemes	43	42
	518	583

Key management remuneration:

	2011 £000	2010 £000
Short-term employee benefits	475	541
Post-employment benefits	43	42
Share-based payments	7	(12)
	525	571

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.

Notes to the financial statements continued

10 Finance costs

	2011 £000	2010 £000
Interest expense:		
– bank borrowings	(88)	(103)
– HM Revenue & Customs' interest	(2)	–
– loss on foreign exchange (realised and unrealised)	(18)	–
	(108)	(103)

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

11 Income tax expense

	2011 £000	2010 £000
Current tax – domestic	306	576
Adjustment in respect of previous period	(44)	(339)
Total current tax	262	237
Deferred tax current year (Note 19)	(23)	(110)
Deferred tax prior year (Note 19)	8	143
	247	270

Domestic income tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit for the year.

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

	2011 £000	2010 £000
Profit before tax	1,090	1,653
Tax at domestic income tax rate of 26.5% (2010: 28%)	289	463
Tax effect of expenses that are not deductible in determining taxable profit	13	9
Income not taxable for tax purposes	(4)	–
Additional deduction for R&D expenditure	(9)	–
Deferred tax on industrial building allowances	(2)	(3)
Chargeable gains	2	2
Effect of marginal rate	(6)	(5)
Adjustment in respect of previous periods	(36)	(196)
Tax expense	247	270

12 Property, plant and equipment

	Total £000	Freehold land & buildings £000	Computer equipment £000	Fixtures & fittings £000	Plant & machinery £000	Rental machines £000	Motor vehicles £000
At 1 January 2010							
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	–	–
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	–
For the year ended 31 December 2011							
Opening net amount at 1 January 2011	3,154	2,620	123	176	231	4	–
Additions	338	–	216	108	14	–	–
Depreciation charge	(318)	(40)	(100)	(81)	(93)	(4)	–
Closing net book amount at 31 December 2011	3,174	2,580	239	203	152	–	–
At 31 December 2011							
Cost	11,235	2,900	2,158	2,546	3,024	601	6
Accumulated depreciation	(8,061)	(320)	(1,919)	(2,343)	(2,872)	(601)	(6)
Net book amount	3,174	2,580	239	203	152	–	–

During February 2010, in accordance with extending the mortgage on Linford Wood, Barclays Bank plc conducted a commercial valuation of the property based on tenanted occupancy which calculated the current market value at £2,100,000. The acquisition of the property was justified on the savings gained against the rental cost of leasing. The use and justification remain the same and the perceived value in use of this property remains unchanged. Therefore, it is considered inappropriate to reduce its carrying value.

Bank borrowings are secured on the Linford Wood land and buildings to the value of £2,081,000 (2010: £2,250,000). See Note 21.

Notes to the financial statements continued

13 Intangible assets

	Total £000	Computer software £000	Development expenditure £000
At 1 January 2010			
Cost	4,312	920	3,392
Accumulated amortisation	(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
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
For the year ended 31 December 2011			
Opening net amount at 1 January 2011	681	94	587
Additions	10	10	–
Amortisation charge	(483)	(60)	(423)
Closing net book amount at 31 December 2011	208	44	164
At 31 December 2011			
Cost	4,401	990	3,411
Accumulated amortisation and impairment	(4,193)	(946)	(3,247)
Net book amount	208	44	164

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.

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			
– 2012	192	28	164
– 2013	14	14	–
– 2014	2	2	–
Net book amount at 31 December 2011	208	44	164

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

14 Inventories

	31 December 2011 £000	31 December 2010 £000
Raw materials	823	670
Work in progress	138	24
Finished goods	1,559	172
	2,520	866

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

	31 December 2011 £000	Movement during year £000	31 December 2010 £000	Movement during year £000	31 December 2009 £000
Inventory provision					
PS900 scanners	35	33	2	(399)	401
IntelliReg®	176	28	148	(51)	199
Other scanners	160	(17)	177	(16)	193
Print	16	–	16	(10)	26
Total	387	44	343	(476)	819
Related carrying value					
PS900 scanners	2,204		563		628
IntelliReg®	–		–		–
Other scanners	118		103		206
Manufacturing inventory	2,322		666		834
Print inventory	198		200		180
Total	2,520		866		1,014

Notes to the financial statements continued

The provision created on PS900 scanning machines reflects the potential risk of holding these scanners in light of future technical obsolescence. See Note 14 with regard to the increase in inventory holding of PS900 scanning machines.

A decision was taken in 2010 to discontinue selling the IntelliReg® product and as a result the inventory holding of the product has been fully provided for.

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,481,000 (2010: £1,600,000).

15 Trade and other receivables

	31 December 2011 £000	31 December 2010 £000
Loans and receivables		
– Trade receivables	892	1,752
– Less provision for impairment of receivables	(20)	(12)
– Trade receivables – net	872	1,740
Amounts recoverable on contracts	–	83
Prepayments and accrued income	1,439	557
	2,311	2,380

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. Further details of how the Group manages credit risk is set out in Note 3.1.

Standard payment terms on credit sales are 30 days net.

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 2011	872	473	231	50	42	4	72
31 December 2010	1,740	911	623	117	47	40	2

The Group recognised an increase in its impairment of its trade receivables during the year of £8,000 (2010: £3,000). The trade receivables provision movement is included in 'administrative expenses' in the income statement and a breakdown is as follows:

	2011 £000	2010 £000
Opening amount at 1 January	12	9
Increase in provision to income statement	8	3
Closing amount at 31 December	20	12

16 Cash and cash equivalents

	31 December 2011 £000	31 December 2010 £000
Cash at bank and in hand	2,586	703
Short-term bank deposits	2,325	4,377
	4,911	5,080

The effective interest rate on short-term bank deposits was 1.00% (2010: 0.90%). These deposits have an average maturity of one day (2010: two days).

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.

	2011 US dollars £000	2011 Euro £000	2010 US dollars £000	2010 Euro £000
Sterling equivalent	504	50	820	11

17 Share capital

	Number of shares	Ordinary shares	Treasury shares	Total
At 1 January 2010	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
Balance at 31 December 2011	34,621,600	34,621,600	(1,930,000)	32,691,600

	Ordinary shares of 5p each At 31 December 2011 and 2010 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 59p and 60p. 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.

Notes to the financial statements continued

18 Other reserves

	Share premium £000	Capital redemption £000	Own share reserve £000	Translation reserve £000	Total Group £000
As at 1 January 2010	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
Exchange rate differences	–	–	–	–	–
Reclassification to other comprehensive income	–	–	–	–	–
Own shares vesting	–	–	–	–	–
Balance at 31 December 2011	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 2011, 990,529 (2010: 990,529) shares with a market value of £193,153 (2010: £198,106) were held. Of these 100,000 (2010: 120,000) 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 2011 £000	31 December 2010 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	154	171
Deferred tax assets	(166)	(168)
	(12)	3

At the balance sheet date legislation had been substantively enacted which reduced the main corporation tax rate from 27% to 26%. This reduction has been reflected in the calculation of the Group's deferred tax assets and liabilities.

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

	31 December 2011 £000	31 December 2010 £000
At 1 January	3	(30)
Credit to income for the current year	(23)	(110)
Charge to income for the prior year	8	143
At 31 December	(12)	3

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

	Capital allowances £000
At 1 January 2011	3
Charge to income for the year	(15)
Charge to equity for the year	–
At 31 December 2011	(12)

20 Trade and other payables

	31 December 2011 £000	31 December 2010 £000
Financial liabilities measured at amortised cost		
– Trade payables	1,105	452
Deferred income	2,133	1,920
Social security and other taxes	407	324
Accrued expenses	754	1,005
	4,399	3,701
Repayment of secured loan (see Note 21)	226	169
	4,625	3,870

Trade payables are contractually due within 30 days and are financial liabilities at amortised cost.

21 Borrowings

	31 December 2011 £000	31 December 2010 £000
Non-current		
Bank borrowings – secured loan	1,855	2,081
Total borrowings	1,855	2,081

In January 2010 the Parent Company extended its mortgage of £2,250,000, secured by a fixed charge against the freehold land and buildings to 24 March 2014. The interest rate on the three year extension is 3.5% over base rate. Repayment of the principal shall be in 12 instalments of £56,400 payable quarterly commencing 30 June 2011 followed by a final bullet payment of the remaining balance on 24 March 2014. At 31 December 2011 £2,081,000 remains outstanding of which £226,000 is payable during 2012.

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:

	Notes	31 December 2011 £000	31 December 2010 £000
Financial assets			
Loans and other receivables			
– Trade and other receivables	15	2,311	2,380
– Cash and cash equivalents	16	4,911	5,080
		7,222	7,460
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	21	(1,855)	(2,081)
Current			
– Trade and other payables	20	(1,859)	(1,457)
– Repayment of secured loan	20	(226)	(169)
		(2,085)	(1,626)

Fair value of the Financial Instruments equates to their carrying value.

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 2011 £000	31 December 2010 £000
Profit from continuing operations	843,000	1,383,000
Loss from discontinued operations	–	(827,000)
Earnings attributable to ordinary shareholders being profit for the period	843,000	556,000
Weighted average number of shares	31,701,071	31,688,660
Basic profit per Ordinary share		
Profit from continuing operations	2.66p	4.37p
Loss from discontinued operations	–	(2.61p)
Total	2.66p	1.76p

Diluted earnings per share	31 December 2011 £000	31 December 2010 £000
Profit from continuing operations	843,000	1,383,000
Loss from discontinued operations	–	(827,000)
Earnings attributable to ordinary shareholders being profit for the period	843,000	556,000
Weighted average number of shares		
Basic	31,701,071	31,688,660
Dilutive effect of:		
– shares in restricted share scheme	–	70,000
– options under the Enterprise Management Incentive Scheme	100,000	125,074
– options under LTIP option scheme	–	45,849
Diluted	31,801,071	31,929,583
Diluted profit per Ordinary share		
Profit from continuing operations	2.65p	4.33p
Loss from discontinued operations	–	(2.59p)
Total	2.65p	1.74p

24 Dividends per share

The Company did not pay any dividends during 2010 or 2011. The proposed dividend has not been included as a liability as at 31 December 2011. If approved by the shareholders at the 2012 Annual General Meeting, it will be paid on 25 May 2012 to shareholders on the register at close of business on 27 April 2012.

25 Reconciliation of movements in cash and cash equivalents

	1 January 2011 £000	Cash flow £000	31 December 2011 £000
Cash at bank and in hand	703	1,883	2,586
Term deposits	4,377	(2,052)	2,325
	5,080	(169)	4,911

Notes to the financial statements continued

26 Commitments

(a) Capital commitments
There were no capital commitments at 31 December 2011 or 31 December 2010.

(b) Operating lease commitments
The Company has the following future minimum lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2011 £000	31 December 2010 £000	31 December 2011 £000	31 December 2010 £000
Within one year	192	144	30	22
Within two to five years	561	754	54	21
	753	898	84	43

The Group holds five property leases relating to seven 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, plus three photocopiers and a franking machine which are 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 office equipment leases are payable quarterly in advance.

27 Pension commitments

During 2010 and 2011 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.

28 Share-based payments

Details of options granted:

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

* 1996 DRS Restricted Share Scheme

Movements in the year:

Year end 31 December 2010

Date of Grant	1 January 2010 Outstanding options	1 January 2010 Exercisable options	Granted	Lapsed	Exercised	31 December 2010 Outstanding options	31 December 2010 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	–

Notes to the financial statements continued

Year end 31 December 2011	1 January 2011					31 December 2011	
Date of Grant	Outstanding options	Exercisable options	Granted	Lapsed	Exercised	Outstanding options	Exercisable options
Year end 31 December 2004							
7 April 2004	–	50,000	–	(10,000)	–	–	40,000
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 12 March 2008, 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 the exercisable options is 826 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 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 year	2.07%	1.98%	N/A

Performance criteria

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

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.

Further details of the units granted are provided in the section on Directors' Share Options in the Directors' Remuneration Report.

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 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 2011 is 56.76p (2010: 16.79p).

29 Related party transactions

29.1 Inter-company transactions

Balances and transactions between the Company, DRS Data and Research Services plc, and its subsidiary, DRS Data Services Limited, which are related parties, have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Company and its subsidiary are disclosed in Note 42.

29.2 Transactions with joint arrangements

Electoral Reform Services Limited (ERS) works with DRS Data Services Limited in a joint arrangement as IntElect® to deliver the 2012 London Mayor and Assembly elections making ERS a related party. At 31 December 2011, DRS owed ERS £326,000 which is included in trade payables and ERS owed DRS £10,000 which is included in trade receivables. Further details about IntElect® are included in Note 4.

29.3 Transactions with key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out in the audited part of the Directors' Remuneration Report on pages 35 and 36.

Parent Company – Statement of financial position

	Notes	2011 £000	2010 £000
ASSETS			
Non-current assets			
Property, plant and equipment	32	2,583	2,624
Investment in subsidiaries	33	3,814	3,814
		6,397	6,438
Current assets			
Trade and other receivables	34	78	65
Cash and cash equivalents	35	3,849	4,377
		3,927	4,442
Total assets		10,324	10,880
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		340	(626)
Total equity		6,084	5,118
LIABILITIES			
Non-current liabilities			
Borrowings	38	1,855	2,081
Deferred income tax liabilities	39	154	171
		2,009	2,252
Current liabilities			
Trade and other payables	40	2,174	3,452
Current income tax liabilities		57	58
		2,231	3,510
Total liabilities		4,240	5,762
Total equity and liabilities		10,324	10,880

The financial statements were approved by the Board of Directors on 27 March 2012 and signed on its behalf by:

A C Lee
Chief Executive Officer

A M Tebbutt
Finance Director

DRS Data and Research Services plc
Registered Company Number: 959401

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 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
At 1 January 2011	1,731	5,377	115	(1,166)	(313)	(626)	5,118
Employee share based compensation	–	–	–	–	–	7	7
Own shares vesting	–	–	–	–	–	–	–
Transactions with owners	–	–	–	–	–	7	7
Profit for the period	–	–	–	–	–	959	959
Total comprehensive income for the period	–	–	–	–	–	959	959
At 31 December 2011	1,731	5,377	115	(1,166)	(313)	340	6,084

Parent Company – Statement of cash flows

	Notes	2011 £000	2010 £000
Cash flows from operating activities			
Profit for the period		959	506
Adjustments for:			
– income tax		47	23
– depreciation of property, plant and equipment	32	41	40
– exchange gain on cash holdings		(4)	(15)
– interest income		(37)	(33)
– interest expense		88	93
– increase/(decrease) in trade and other receivables		(13)	22
– (decrease)/increase in trade and other payables		(1,328)	1,787
Cash (used in)/generated from operations		(247)	2,423
Interest paid		(88)	(93)
Income tax paid		(65)	–
Net cash (used in)/generated from operating activities		(153)	2,330
Cash flows from investing activities			
Interest received		37	33
Net cash generated from investing activities		37	33
Cash flows from financing activities			
Repayment of loan		(169)	–
Net cash used in financing activities		(169)	–
Net (decrease)/increase in cash and cash equivalents		(532)	2,363
Exchange increase/(decrease) on cash		4	(11)
Cash and cash equivalents at beginning of period		4,377	2,025
Cash and cash equivalents at end of period		3,849	4,377

Parent Company – Notes to the financial statements

for the year ended 31 December 2011

30 Accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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:

30.1 Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

30.2 Financial risk factors

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

(a) Market risk

(i) Currency risk
The Company manages the cash requirements for subsidiaries that operate internationally and are subject to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. The Company does not hedge any transactions, and foreign exchange differences on 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
During 2011, the Board decided security of the principal investment was a greater priority than the rate of return on investment as interest rates are so low compared to the general economic uncertainty of the financial sector. With this in mind, three banks are used to deposit the Group's cash holding, thereby spreading the risk of loss as a consequence of a bank failure.

(b) Credit risk
The Company's only debtor is its subsidiary company.

(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 finance safely the successful completion of large scale contracts within the Group, thereby minimising liquidity risk issues.

30.3 Share based payments

DRS Data and 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.

30.4 Capital management

It is the policy of the Group that subsidiary companies are expected to pass up distributable retained earnings to the holding company, DRS Data and Research Services plc, as dividends as soon as practical.

31 Profit for the year

DRS Data and 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 £959,000 (2010: £506,000).

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

Parent Company – Notes to the financial statements continued

for the year ended 31 December 2011

32 Property, plant and equipment

	Total £000	Freehold land & buildings £000	Fixtures & fittings £000
At 1 January 2010			
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
For the year ended 31 December 2011			
Opening net amount at 1 January 2011	2,624	2,620	4
Additions	–	–	–
Depreciation charge	(41)	(40)	(1)
Closing net book amount at 31 December 2011	2,583	2,580	3
At 31 December 2011			
Cost	3,132	2,900	232
Accumulated depreciation	(549)	(320)	(229)
Net book amount	2,583	2,580	3

Bank borrowings are secured on the Linford Wood land and buildings for the value of £2,081,000 (2010: £2,250,000). See Note 21.

33 Investment in subsidiaries

At 31 December 2011 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 2011 and 31 December 2010 is £3,814,000.

34 Trade and other receivables

	31 December 2011 £000	31 December 2010 £000
Current loans and receivables		
Prepayments and accrued income	78	65
	78	65

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

There are no trade receivables.

Parent Company – Notes to the financial statements continued

for the year ended 31 December 2011

35 Cash and cash equivalents

	31 December 2011 £000	31 December 2010 £000
Cash at bank and in hand	3,849	4,377

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 has monetary assets in currencies other than Sterling.

	2011 US dollars £000	2011 Euro £000	2010 US dollars £000	2010 Euro £000
Sterling equivalent	11	–	669	–

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 £2,081,000 held by the Company, of which £226,000 is repayable during 2012 and the balance of £1,855,000 is a non-current liability.

39 Deferred income tax

	31 December 2011 £000	31 December 2010 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	154	171
	154	171

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

	31 December 2011 £000	31 December 2010 £000
At 1 January	171	181
Charge to income for the year	(17)	(10)
At 31 December	154	171

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 2011	155	16	171
Charge to income for the year	(15)	(2)	(17)
At 31 December 2011	140	14	154

40 Trade and other payables

	31 December 2011 £000	31 December 2010 £000
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	1,825	3,178
Accrued expenses	123	105
	1,948	3,283
Repayment of secured loan (see Note 21)	226	169
	2,174	3,452

Parent Company – Notes to the financial statements continued

for the year ended 31 December 2011

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 2011 £000	31 December 2010 £000
Financial assets			
Loans and other receivables			
– Trade and other receivables	34	78	65
– Cash and cash equivalents	35	3,849	4,377
		3,927	4,442
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	38	(1,855)	(2,081)
Current			
– Trade and other payables	40	(1,948)	(3,283)
– Repayment of secured loan		(226)	(169)
		(2,174)	(3,452)

Fair value of the Financial Instruments equates to their carrying value.

42 Intra-Group transactions

DRS Data and Research Services plc provided £815,000 (2010: £820,000) of services to its subsidiaries during 2011. It did not make any purchases from them.

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

	DRS Data Services Limited £000
At 31 December 2010	
Amounts owed to subsidiary	(3,178)
At 31 December 2011	
Amounts owed to subsidiary	(1,825)

Directors and advisers

Directors	Sir David Brown, *Chairman**
	Anthony Lee
	Arthur Mark Tebbutt
	Dame Sandra Dawson*
	Lord Kinnock of Bedwellty *
	Ann Limb*
	John Linwood*
	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	Equiniti Ltd Aspect House Spencer Road Lancing West Sussex BN99 6DA

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