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

Annual Results Announcement

Highlights of business

- Recommended final dividend of 0.35p
- Turnover at £15,980,000
- Profit before tax of £1,090,000
- Examination and Assessment revenue up by 6.3%
- e-Marker® revenue up to £8,823,000, 55% of the group's business
- Closing cash remains strong at £4,911,000

Sir David Brown, Chairman, commented: "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."

Chairman's Statement

Results

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. AQA (Assessment and Qualifications Alliance), 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 WJEC (Welsh Joint Education Committee), ABRSM (Associated Board of the Royal Schools of Music) and IFS (Institute of Financial Services). 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 were 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 (Electoral Reform Services Limited) 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 (Greater London Authority), 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 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

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 £000	**%**	**2010 £000**	**%**
UK Sales	11,794	73.8%	11,205	65.5%
Non – UK sales	4,186	26.2%	5,897	34.5%
	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. 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® PS900 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 Greater London Authority 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 & 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 requirement to be dealt with by DRS. Censuses are held in most African countries approximately every ten years.

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, 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.

Risks and uncertainties

The Group is subject to risks and uncertainties relating to its future business which might affect the financial performance of the Group.

The 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. 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

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 as adopted by the European Union (IFRSs). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;

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	**A M Tebbutt**
Chief Executive Officer	Finance Director

Consolidated income statement

	Notes	Total 2011 £000	Total 2010 £000
Revenue	2	15,980	17,102
Cost of sales		(10,298)	(10,563)
Gross profit		5,682	6,539
Other operating income	3	37	106
Selling and marketing costs		(1,169)	(1,305)
Administrative expenses		(3,352)	(3,584)
Finance costs	6	(108)	(103)
Profit before income tax		1,090	1,653
Tax charge	7	(247)	(270)
Profit for the period from continuing operations		843	1,383
Loss for the period from discontinued operations	4	-	(827)
Profit for the period attributable to owners of the parent		843	556
Earnings per share			
Basic earnings per share			
- Profit for continuing operations	18	2.66p	4.37p
- Loss from discontinued operations	18	-	(2.61p)
Total		2.66p	1.76p
Diluted earnings per share			
- Profit for continuing operations	18	2.65p	4.33p
- Loss from discontinued operations	18	-	(2.59p)
Total		2.65p	1.74p

Consolidated statement of comprehensive income

Profit 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	8	3,174	3,154
Intangible assets	9	208	681
Deferred income tax assets	15	166	168
		3,548	4,003
Current assets			
Inventories	10	2,520	866
Trade and other receivables	11	2,311	2,380
Cash and cash equivalents	12	4,911	5,080
		9,742	8,326
Assets and disposal group classified as held for sale	4	-	-
Total assets		13,290	12,329
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	1,731	1,731
Share premium account	14	5,377	5,377
Capital redemption reserve	14	115	115
Treasury shares	13	(1,166)	(1,166)
Own shares reserve	14	(313)	(313)
Translation reserve relating to disposal group	14	-	-
Retained earnings		730	(120)
Total equity		6,474	5,624
LIABILITIES			
Non-current liabilities			
Borrowings	17	1,855	2,081
Deferred income tax liabilities	15	154	171
		2,009	2,252
Current liabilities			
Trade and other payables	16	4,625	3,870
Current income tax liabilities		182	583
		4,807	4,453
Liabilities included in disposal group held for sale	4	-	-
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 & 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
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

	Note	2011 £000	2010 £000
Cashflow 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	4	-	(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	20	4,911	5,080

1 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**		
	Examination & assessment £000	**Other £000**	**Commercial £000**	**Census & elections £000**	**Total £000**
Region					
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.

During the year the contract to count the 2012 London Mayor and Assembly elections electronically was won by IntElect®, a joint arrangement between DRS and ERS (Electoral Reform Services

Limited). 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 2010is as follows:

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

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

2 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	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
- audit of subsidiaries pursuant to legislation	26	25
- advice on IFRS	2	4
- employment tax advice	3	-
- other non-audit services	19	26
	50	55

3 Other operating income

	2011 £000	2010 £000
Interest income		
- bank interest	37	34
- HMRC 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.

4 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 subgroup 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:

	Year ended 31 December 2011 £000	Year ended 31 December 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)

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 earnout 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.

5 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.

6 Finance costs

	31 December 2011 £000	31 December 2010 £000
Interest expense:		
- bank borrowings	(88)	(103)
- HMRC 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.

7 Income tax expense

	31 December 2011 £000	31 December 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 15)	(23)	(110)
Deferred tax prior year (Note 15)	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

8 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 17.

9 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.

10 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

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

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).

11 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.

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

12 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 tables below show 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

13 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.

14 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.

15 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)

16 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 17)	226	169
	4,625	3,870

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

17 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.

18 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

19 Dividends per share

The company did not pay any dividends during 2010or 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.

20 Reconciliation of movements in cash and cash equivalents

	1 January 2011 £000	Cashflow £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

21 Commitments

(a) Capital commitments

There were no other 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.

Financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2011 or 2010 but is derived from the 2011 accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 will be delivered in due course. The auditor has reported on those accounts; its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

The accounting policies set out in the most recently published full Annual Financial Report have been followed.

The full Annual Financial Report will be found on the Group website from 12 April 2012.

- End -

28 March 2011

Enquiries to:

Sally Hopwood
Company Secretary
Tel: 01908 666088