DRS

DRS Data and Research Services plc

ANNUAL REPORT AND ACCOUNTS

2012

EDUCATION ELECTIONS CENSUS

CONTENTS

BUSINESS PROFILE

GROUP REPORT AND ACCOUNTS

PARENT COMPANY REPORT

DRS is a global supplier with over 40 years' experience of delivering time-critical, high volume data capture and work flow solutions for the Education, Elections and Census markets.

AT A GLANCE

"We have seen 12 months of good revenue performance across all three market sectors of the Group's business and demonstrated notable successes throughout the year."

Sir David Brown, Chairman

FINANCIAL SUMMARY

	2012 £000	2011 £000
Turnover	20,071	15,980
Profit before tax	1,302	1,090
Cash reserves	3,990	4,911
Earnings per share	3.50p	2.66p
Research and Development spend	1,738	1,286
Education revenue	14,466	13,995
Elections revenue	3,075	1,328
Census revenue	2,204	591

KEY MARKETS

EDUCATION

Provides solutions for the Examination and Assessment market from the supply of OMR scanners for admissions to the implementation of electronic marking for high stake examinations.

ELECTIONS

Offers a range of products and services to meet the statutory elections, non-statutory elections and voter registration requirements of the global customer base.

CENSUS

Provides a full end-to-end census solution, including software, forms print and scanning, as well as experience, knowledge and expertise gained from international markets.

CHAIRMAN'S STATEMENT

Sir David Brown
Chairman

PRINCIPAL ACTIVITIES

I am pleased to report that as a result of strong sales in 2012 the Group revenue for the year was up 25.6% on the previous year at £20,071,000 (2011: £15,980,000) and profit before tax was up 19.4% at £1,302,000 (2011: £1,090,000).

Basic earnings per share were 3.50p (2011: 2.66p) and the Board recommends a final dividend of 0.4p per share (2011: 0.35p).

We have seen 12 months of good revenue performance across all three market sectors of the Group's business and demonstrated notable successes throughout the year. In December, this included the receipt of the largest order that the Company has ever achieved for its PhotoScribe® scanning machines from the National Examinations Council of Nigeria (NECO).

In 2012 we continued to see good results in the provision of electronic marking services during each of the examination series for our UK and international clients, including AQA. In 2012 DRS processed more than 5.7 million examination scripts, a 10% increase in scripts over the prior year.

The electronic counting for the demanding 2012 London Mayor and Assembly Elections was successfully delivered earlier in the year and accounted for much of the growth in UK revenue over the prior year. However, as has already been reported, the required software development and testing was more extensive than anticipated resulting in this specific contract being only marginally profitable.

Other highlights during the second half of the year included the successful delivery of a number of overseas projects, including the provision of products and services for the recent municipal elections in Oman and solutions for the censuses in both Tanzania and Zimbabwe.

MARKETS

The Group continues to retain a strong position in each of its core markets of Education, Census and Elections. These markets share several common characteristics in that they require the delivery of large-scale, time-critical projects which encompass high standards of customer service. Given their nature and location they are also often logistically challenging. It is one of the strengths of the Group that it retains close relationships with its customers and high levels of trust in its delivery capability, often over many years of service, which can provide opportunities for repeat business in the future.

Our focus on our core markets should enable us to continue to deliver the innovative solutions which extend our geographical reach, not only fuelling the Group's overall longer term growth but also, through increasing its geographical diversity, reducing its exposure to the economic and political risks inherent in these markets.

Last year we said that the examination and electronic assessment market offered good growth prospects for the e-Marker® product, particularly internationally, and that we would continue to invest to secure those opportunities. I am pleased to report that during the year we secured additional pilot projects in our target markets and we are confident that these provide a good foundation for longer term growth in the overseas business.

PEOPLE

The high quality of our staff and their willingness to go to great lengths to satisfy our customers and to set high personal standards of behaviour is very much appreciated by the Board and is a vital source of competitive advantage, ensuring the successful delivery of projects both domestically and internationally, often in challenging locations and under challenging conditions.

In 2012 DRS processed more than 5.7 million examination scripts, an increase of 10% over the prior year.

The Group's previous Chief Executive Officer, Tony Lee, left the Company during 2012. He had served the Company for over fifteen years, first as Technical Director for four years, then as Chief Executive Officer for more than eleven years. He made many significant contributions during that time, for which we thank him. The Board was delighted to secure Steve Gowers as the Group's new CEO. He is a proven business leader whose skills and experience perfectly fit the Group's needs. Steve joined in early November 2012 and immediately and energetically engaged with the task of taking the Group forward.

Two new non-Executive Directors were appointed at the beginning of 2012. We were pleased to welcome John Linwood, who is the Chief Technology Officer of the BBC, and Dame Sandra Dawson, from the University of Cambridge. Lord Kinnock and Ann Limb retired from the Board at the 2012 Annual General Meeting in May, having completed more than seven and nine years' distinguished service respectively. John Linwood succeeded Ann Limb as Chair of the Ethics Committee and Dame Sandra Dawson succeeded Ann Limb as Chair of the Remuneration Committee.

GOVERNANCE AND RISK

As a Company we are responsible for managing risk to ensure that we meet the high standards of trust and reliability expected of us when handling large volumes of sensitive public data. Risk is at the core of our focus as we develop systems to ensure that our people are safe, that our assets are safe, that our reputation is safe and that we are delivering impeccable service to our customers and partners.

In keeping with this approach the Group achieved certification to the Business Continuity Management Standard BS 25999-2:2007 in February 2012, which the Board regards as important evidence of the effectiveness of the Group's focus on the adoption of best practice risk management standards.

OUTLOOK

Looking forward, we continue to see opportunities in a number of areas including Census and Elections that build on our past record of success and we also see evidence of increased interest in the PhotoScribe® scanning machines. However, we remain confident that the primary opportunity for consistent and stable growth is in the international examinations and assessment markets.

We believe that the anticipated structural changes in UK school examinations will lead to some volume reductions in the UK in the short-term but in the medium to long-term, the larger international market opportunities will gradually offset these reductions.

As a consequence, the Group is focused on expanding the business with investment in product and services and enhancement of the sales channel orientated to this goal. The Board is pleased with the progress that has been made in 2012, and while we remain cautious about the short-term impacts from market changes, we believe that the Group is in a good position to benefit from new opportunities going forward.

Sir David Brown
Chairman
27 March 2013

BUSINESS REVIEW

Steve Gowers
CEO

BUSINESS REVIEW

2012 has been a year of improved opportunities for the Group and as a result of the successful completion of a number of projects in the latter part of the year we were able to deliver Group revenue growth of 25.6% in the year (2011: -6.6%).

This resulted in the Group achieving revenue for the year of £20,071,000 (2011: £15,980,000) and profit before tax of £1,302,000 (2011: £1,090,000).

While the primary market for DRS continues to be Education, I am pleased to report that revenue growth was achieved in each of the Group's market sectors, namely Education, Elections and Census.

UK Sales

UK sales saw an overall increase in revenue of 9.7%, primarily as a result of the completion of the 2012 London Mayor and Assembly Elections.

Education experienced a modest decline in revenue which is attributed to a reduction in non-core legacy business. Our core e-Marker® software and services business in the UK saw a small increase in revenue arising from a corresponding increase in the volume of scripts processed for the UK exam boards.

International Sales

Our focus on international expansion is showing good progress and non-UK sales increased significantly to £7.13 million during the year.

This was as a result of growth in all three of our market sectors. In Education, the Group achieved revenue growth of £1.26 million, a significant increase of 45.4% compared to 2011, with strong sales of print and PhotoScribe® scanners.

The second driver for growth was an increase in National Census projects in 2012 compared with the prior year with the delivery of both the Zimbabwe and Tanzania censuses.

In respect of Elections DRS provided ballots and scanning equipment for two elections in Oman relating to the Oman Municipal Elections. As a consequence, international Election and Census revenue increased by 102.6% over 2011, although it should be noted that this work does not represent annually recurring revenue. We were, however, pleased to be selected for a small pilot project which will take place in 2013 which, if successful could lead to further business in 2014.

Financial Performance

	Education		Commercial		Elections & Census		Total	
£000's	2012	2011	2012	2011	2012	2011	2012	2011
UK Sales	10,427	11,217	26	37	2,485	540	12,938	11,794
International Sales	4,039	2,778	300	29	2,794	1,379	7,133	4,186
Total	14,466	13,995	326	66	5,279	1,919	20,071	15,980

Our focus on international expansion is showing good progress and non-UK sales increased significantly to £7.13 million during the year.

REVIEW OF OPERATIONS

The review of operations below provides information for the three principal areas of activity under which the Group operates.

Education

Our education business is focused on providing awarding and assessment bodies, schools, colleges and universities in the UK and overseas with secure data capture and examination processing products and specialist services.

These products and services fall into two main categories:

1. Marking and Examination solutions including:
   - e-Marker® software and services for electronic marking.
   - Sophisticated technologies designed specifically for scanning exam papers in various formats.
   - Specialised Multiple Choice Question ("MCQ") examination marking software.
   - 'Key from Image' solutions.
   - On-site professional services for in-house operations.
   - Full service bureau operations, providing secure receipt and storage of scripts, scanning and imaging of answers and electronic delivery of on-line marking.
2. PhotoScribe® scanning equipment and forms production:
   - DRS award winning PhotoScribe® PS900 series imaging mark readers: robust, high speed, network-ready form scanners able to capture complex data in real-time up to 10,500 A5 forms per hour.
   - Exam entry and registration forms production including photo capture.
   - Bespoke examination scripts production including fully optimised examiner answer and mark sheets for electronic capture.
   - MCQ booklet production and processing.

AQA remains the Group's largest customer overall among a number of awarding bodies and other examining entities in the UK and overseas. In 2012 the Group saw an increase in the number of examination scripts processed for these customers, reaching a total of more than 5.7 million scripts, a growth of over 10% when compared to the prior year.

The overseas market is a key focus for expansion by the Group and in December we were pleased to report that we received the largest order in the history of the Group for PhotoScribe® scanning machines, from the National Examinations Council of Nigeria (NECO). This sale, in combination with others during the year, means that the order intake for scanners in 2012 was more than double the quantity in the previous year.

Progress was also made in securing e-Marker® opportunities internationally with additional projects in Africa. We are also seeing an increasing number of opportunities for MCQ solutions in several locations overseas.

2012 saw a further reduction in the UK legacy business that previously focused on the sales of services and equipment into UK schools offsetting the growth in business from UK awarding bodies. The revenue reduction was driven in part by finalisation of the removal from sale during 2012 of the DRS IntelliReg® attendance system. This is a market that DRS no longer regards as core to its business.

Elections

DRS offers an end-to-end solution for Elections worldwide including form design and printing, hardware, software, project support and training. We cover statutory and non-statutory elections including national parliamentary elections, legislative and local council elections as well as employee and trade union ballots.

BUSINESS REVIEW CONTINUED

Elections CONTINUED

DRS Election Services include the following:

- Electronic Counting ("e-Counting") and with partners, Electronic Voting ("e-Voting") Solutions for political elections at national, regional and local levels.
- e-Counting and e-Voting Solutions for non-statutory elections and ballots including paper and postal ballot options plus with partners internet and telephone ballots.
- Ballot paper design and forms production.
- Real-time scanning and data capture using DRS PhotoScribe® technology for ballot scanning as well as voter identification and voter registration projects.

We have successfully delivered election and voter registration projects over many years and in many countries. The list includes England, Scotland, Bosnia, Burkina Faso, Canada, Hong Kong, Iceland, Kenya, Lesotho, Mali, Norway, Oman and Sierra Leone.

Of particular note in 2012 was the provision of the e-Counting solution for the Greater London Authority (GLA) elections for the Mayor of London and Assembly members. Taking place every four years this is one of the largest and most complex elections in the UK as London has approximately 5.8 million voters and each voter is given three ballot papers. The GLA undertook a public procurement process in 2010 and awarded the contract to IntElect®, a joint arrangement between DRS Data Services Limited and ERS (Electoral Reform Services Limited).

This is the third time DRS has been involved in these elections, having previously provided solutions in 2000 and 2004. It is important to note that the GLA has the option of conducting the 2016 elections under the existing contract if it so chooses.

While the 2012 GLA Election was concluded successfully, as previously reported the required software development and testing was more extensive than anticipated resulting in this specific contract being only marginally profitable.

This year DRS once again provided ballots, scanners and services for elections in Oman, the fourth time we have provided such services, following previous successes in 2003, 2007 and 2011. DRS partnered with Bahwan IT for the Oman Municipal Elections, providing 125 scanners which were deployed to the 61 Wilyats (districts) in Oman and printed and delivered over 600,000 ballot papers, each Wilyat requiring a different design, resulting in 61 different designs.

2012 also saw us successfully deliver an electronic counting solution for the National Democratic Party's (NDP) Leadership Election in Canada in partnership with Scytl.

Census

DRS Census Services provides data capture solutions for large-scale censuses including paper-based national or regional censuses and specialised industrial, commercial and agricultural censuses. The services cover all stages from planning through to project implementation, document scanning of enumeration/census forms using DRS PhotoScribe® PS900 series scanners, data processing and export of the data to the chosen analysis package.

In 2012 we saw the successful delivery of two national censuses in Africa, for Tanzania and Zimbabwe. In both cases this was the second time we were involved having previously delivered them in 2002 and 2007 respectively. We also provided an intercensal survey for Ethiopia during the year.

We have now delivered 12 national censuses in Africa as well as in a number of other locations. As such activities are generally cyclical we are not anticipating large numbers of projects in the near term, however, we are pleased to report that we have been selected for a small pilot project that will take place in 2013 which, if successfully delivered, could lead to an opportunity for a full census that is expected to take place in 2014.

DIVIDEND POLICY

The Directors propose a final dividend of 0.4p per share (2011: 0.35p).

The Board follows a dividend policy which provides a return to shareholders whilst retaining sufficient cash to continue to fund the development of its products.

RESEARCH AND DEVELOPMENT

Research and Development is a fundamental part of DRS' strategy. A structured programme of work to generate new products for our education business and the PhotoScribe® scanners has led to an increase in expenditure. Total expenditure on all product development during 2012, which includes e-Marker® amortisation, was £1,902,000 (2011: £1,769,000). 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 2012 are £1,738,000 (2011: £1,286,000). Research and development tax credits of being claimed on the development expenditure relating to e-Marker® software and the new PhotoScribe® scanner machine. The corporation tax charge for 2012 has been reduced by £138,000 as a consequence of these tax credits.

e-Marker®

DRS' largest development programme continues to be its examination marking solution, e-Marker®. The e-Marker® product roadmap for the current version of the product saw the release of new versions of the software during 2012 which added functionality in support of new and existing business. Further improvements are planned for 2013 relating to several key enhancements to be delivered in time for the Summer 2013 examination cycle.

In respect of the next generation of the e-Marker® product delivery, the analysis, design and delivery of demonstrable software, using entirely new development tools and techniques, was achieved in 2012. This will support the improvements that will be recognised over the next few years to service customers in the UK and internationally. This output will ultimately become the foundation of continued development in DRS' examination product suite, enhancing and ultimately superseding the current e-Marker® product. The first modules to be completed on this new platform are expected towards the end of 2013 and will also support our channel partners in international markets and demonstrate our commitment to continue growing international sales.

PhotoScribe®

In 2012 development work commenced on the next generation of PhotoScribe® scanning machines. A new platform for a new range of machines that can handle larger documents than the current PS900 range has already been produced. The new machines should demonstrate faster scanning throughput with greater paper handling tolerances and produce higher definition images. A prototype proof of concept machine is due to be completed during 2013 and, assuming all goes according to plan, the work will result in the new model being ready at the start of 2015.

> **Our vision is to be recognised as the name to trust for delivering large-scale, time-critical, logistically challenging solutions in the Education, Elections and Census markets.**

LIQUIDITY AND TREASURY MANAGEMENT

The Group held £3,990,000 in cash at the end of 2012 (2011: £4,911,000). The £921,000 decline in cash holding over 2012 is offset by a £1,515,000 increase in trade receivables as a result of a high volume of sales during December and payment received in January 2013. 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.

The Group's policy continues 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 and the Group's cash holding is split between three banks to minimise exposure to potential risk associated with a bank failure.

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 January 2013 the Group's mortgage facility of £1,855,000, which was due for repayment in March 2014, was extended to 2018.

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 FOR GROWTH

Our vision is to be recognised as the name to trust for delivering large-scale, time-critical, logistically challenging solutions in the Education, Elections and Census markets.

Our core business focuses on the successful delivery of solutions for student and examination processing, the electronic marking of examinations, national population censuses, voter registration and ballot counting for statutory and larger non-statutory elections.

Over the years we have built up a deep knowledge of the data capture and processing requirements in these areas and are able to work with our customers to deliver appropriate software and hardware solutions and to ensure that they adopt our recommended techniques and methodologies to achieve the best results.

Through these activities we have built strong relationships with international agencies, national governments and public and private sector specialist organisations, including national and regional awarding, assessment and Educational bodies across the globe.

The strategy for the Group is to continue to leverage the knowledge and reputation that we have built up, together with our software and hardware solutions, to maintain our strong position in the UK and to align ourselves with clearly identified international growth opportunities. Our particular strategic priority is the education market in Africa and India.

We are focusing on the education market because it offers regular and repeatable business opportunities arising from the annual cycle of examinations. Key drivers include the size of the student populations in these markets, the investment being made in education by both governments and individuals and the potential benefits that electronic marking offers in increased efficiency and the reduction of error, fraud and bias.

Our customers require a combination of data capture, examination processing and electronic marking solutions. In addition there are opportunities for the delivery of a range of specialist services which encompass operational training, document printing, scanning and data handling. These services can be combined to extend to the operation of a full service bureau providing an end-to-end service.

It is our intention to offer these services and solutions, including our e-Marker® electronic marking applications, either directly or in conjunction with carefully selected strategic partners in each market. We are currently working with partners in Africa and India to define and develop these services.

At the same time, the Group will continue to pursue large-scale opportunities in the elections and census markets based on dedicated software applications and the Company's PhotoScribe® scanners.

BUSINESS REVIEW CONTINUED

KEY PERFORMANCE INDICATORS (KPIs)

The Group uses a number of performance indicators throughout the business to monitor the Group's performance. The seven KPIs presented below are used to check performance is in line with the Group's strategy.

	2012	2011	2010	2009
Financial				
Revenue growth pa	25.6%	(6.6%)	18.5%	(17.2%)
Top five customers[#1]	72.2%	73.4%	69.5%	72.5%
Operating return on sales[#2]	6.5%	6.8%	9.7%	(0.9%)
Research and Development expenditure[#3]	8.7%	8.0%	10.9%	15.1%
Return on capital employed[#4]	17.0%	12.9%	21.4%	(1.8%)
Non-financial				
Employees average length of service[#5]	7.48	6.25	5.85	5.93
Total energy consumed[#6]	1.79	1.55	1.86	2.20

[#1] ratio of revenue generated from five biggest customers as a percentage of total Group sales
[#2] ratio of operating profit as a percentage of total Group sales
[#3] ratio of research and development expenditure as a percentage of total Group sales
[#4] ratio of operating profit as a percentage of total assets less current liabilities
[#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

Sales performance is a fundamental area of performance for the Group. It is particularly important that the Group generates sustainable sales growth in order to be able to maintain and develop the infrastructure that goes into providing the complex large-scale solutions it supplies. Hence, revenue growth is the first of the five financial KPIs.

Top five customers

One of the Principal Risks refers to the Group's dependence on key customers. As the top five customers represent such a significant proportion of total revenue, the second financial KPI monitors the volume of business associated with the top five customers. The growth in revenue in 2012 was achieved by delivering several large contracts and this KPI demonstrates that even though the Group achieved significant revenue growth, the risk of key customer dependence was not reduced.

Operating return on sales

The revenue profile has been very lumpy over the last few years. The need to scale operations in keeping with the fluctuating volumes indicates the need to look at the operating return on sales. This KPI is used to monitor the efficiency by which the Group scales operational resource requirements. The operating return of 6.5% for 2012 is down on 2011 as a consequence of the lower than expected level of profitability on the 2012 London Mayor and Assembly elections in May.

Research and Development expenditure

The Group bases its business approach on delivering a high level of technical excellence and by forging long-term relationships with its customers. Investment in our software and hardware products to maintain a competitive advantage is very important. Research and Development expenditure expressed as a percentage of sales is used as a KPI to monitor the amount of expenditure incurred in comparison to the level of business activity in order to ensure a balance between investment and profitability. The KPI demonstrates that the level of development expenditure is relatively constant in relation to the business activity over 2011 and 2012 even though expenditure increased by 35% to £1,738,000.

Return on capital employed

The Group 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 invested in a broad selection of assets required to deliver the data capture solutions, such as print presses, bureau scanning equipment and PhotoScribe® scanners. Significant variations in sales volume materially impact the return on capital employed. This KPI considers the impact of scaling operational resources up and down for large contracts by providing an awareness of whether assets are generating a satisfactory 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 for the Group as the work undertaken 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 that we are retaining the experience required to sustain our competitive edge. The Group employed an average of 254 employees throughout 2012, of which 253 were based in the UK and one in Kenya.

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 usage in 2012 increased by 15.5% compared to 2011. The volume of gas used, which is primarily used for heating our facilities, continued to show a small reduction. However, a 67% year on year increase in the volume of print related work led to a 35% increase in electricity usage by the print presses and associated equipment, thus explaining the overall energy usage increase.

Further information concerning environmental matters and our employees can be found in the Corporate Social Responsibility report on page 21.

PRINCIPAL RISKS

The Board has overall responsibility for risks affecting the Group. A risk management framework has been developed and adopted across the organisation. The Board has delegated authority to the Audit Committee for ensuring internal control and risk management framework effectiveness.

The principal risks currently facing the Group are set out below but are not arranged in order of relative impact or probability.

RISK	IMPACT	MITIGATION
Changing political priorities	With regard to the Education market changes to national and political policies could lead to a reduction in the size of the market	DRS seeks to work closely with its educational customers to better understand their changing requirements in order to work through change with them and reflect these needs in product development
New products meeting market requirements	Due to the high expectations of customers with regard to the technological integrity of automated solutions, suppliers are under increasing pressure to deliver more complex solutions whilst remaining cost-effective and providing desired functionality	DRS continues to undertake wide-ranging market research with customers and through selected market studies to ensure the specification of new products meets customer needs
Technological innovation	The speed of technological change and innovation significantly increases the risk of not keeping pace with the rate of change in the markets resulting in a loss of revenue	DRS places a high priority on investment in new products. It has dedicated resources for research, design and development of new products
Over reliance on key customers	National examinations, statutory elections and national censuses lead to a limited number of large contracts making the turnover of the business volatile	DRS looks to develop a good understanding of its customers' needs and thereby create a long-term working relationship that leads to repeat business as well as new business. It is a core strategy to focus on the education market which offers annual revenue opportunities
Data security	Handling large volumes of sensitive data is a fundamental part of the business and there is a possibility that this information could be accessed by unauthorised people and its integrity compromised resulting in loss of revenue and a potential negative impact on reputation	The business is BS ISO/IEC 27001:2005 certified and applies the relevant level of controls required to address risks associated with all aspects of information security including the access, processing and storage of third party data used in the provision of customer solutions. Externally hosted systems are also assured to these controls as a minimum
Infrastructure and process resilience	Any substantial disruption, whatever the cause, could significantly impede our ability to operate as usual. This could be as a consequence of the non-availability or denied access to premises, equipment or data used in our normal operations. Significant outages of this nature could result in missed service level arrangements and reputational damage and direct falls in revenue and profit	Certification of compliance to business continuity management standard BS 25999-2:2007 was achieved in February 2012. The system is now in placed with business continuity and incident management elements which are tested regularly. The system provides a series of mitigating and contingency measures that provide assurance of process and data resilience should the unexpected happen. Due diligence processes are also in place to ensure similar assurance of our key supply chain
Employee recruitment and retention of appropriately skilled staff	The nature of the work undertaken makes the business very dependent on the skills of the workforce. Rapid changes to meet market needs increase the burden of seeking the right skills and retaining these to remain competitive	Recruitment, retention and development of staff is a priority for DRS and a high value is placed on training and professional development with the aim of providing career advancement. DRS has also been an accredited member of Investors in People for 14 years. The Group continually manages and monitors its selection and recruitment procedures to ensure they support the organisation's needs and where appropriate makes use of local, skilled contractors to deal with short-term fluctuations in requirements
Natural disasters	Some markets that the business operates to serve are located in parts of the world where natural disasters and climate conditions could have a significantly higher impact on delivery than those located in the UK	Although natural disasters are impossible to predict, an awareness of the levels of probability within certain regions assists in limiting exposure should an event occur. Continual awareness of significant environmental factors such as humidity and rainfall and the effects these could have on our products are considered to ensure suitability and assurance of delivery

> **DRS delivered a solid performance in 2012 with revenue growth in each of the market sectors that the Company focuses on.**

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

The Group delivered a solid performance in 2012 with revenue growth in each of the market sectors that the Company focuses on.

While we are mindful of proposed structural changes to UK school examinations and we remain cautious of the impact of potential volume changes in this market, at the same time we are continuing to develop our presence in the Education market overseas both through direct sales and via channel partners. As part of the Group's strategy to focus on better refining our products and services, we have also recently implemented some organisational changes at the executive team level and believe these changes will provide us with a sound operational platform on which to build the business going forward.

In the wider market the Company continues to see opportunities to build on its strong position in Elections and Census, including prospects for both print and scanning but we recognise that these projects do not necessarily represent regular and recurring revenue opportunities, hence the focus on Education. Evidence obtained from recent international e-Marker® projects have given us confidence that the e-Marker® examination marking solution will continue to provide a good foundation from which to deliver on our goals in Education in the medium to long-term in the UK and internationally.

Our expectation for revenue for 2013 is for a small decline on the 2012 position due to the lack of a large project similar to the GLA Election contract completed in 2012. However, as the GLA Election contract was only marginally profitable the effect of this fall in revenue on the operating margin is likely to be minimal.

Steve Gowers
Chief Executive Officer
27 March 2013

DIRECTORS AND OFFICERS

Sir David Brown

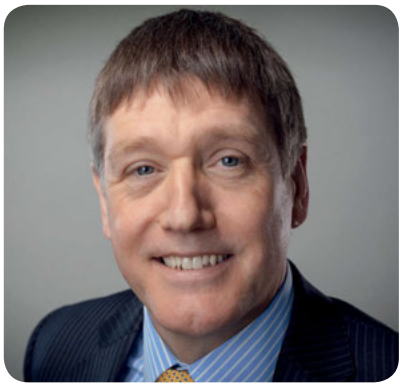
Non-Executive Chairman
Chair of Nomination Committee

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 was re-elected as Chairman of the Board in May 2012. 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 Chairman of the British Standards Institution, a non-Executive Director of Domino Printing Sciences plc and TTG Global Group Ltd and Chairman of the Ofcom Spectrum Clearance Finance Committee. 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.

Steve Gowers

Chief Executive Officer

Steve Gowers was appointed Chief Executive Officer in November 2012. His previous positions have included Corporate and Business Development Director for Misys plc as well as prior roles as Chief Technology Officer and Director of Development at Misys plc and at Oracle Corporation, including a period of time in the USA. He has also held senior positions in professional services roles. He is a Fellow of the Association of Chartered Certified Accountants.



Mark Tebbutt

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 plc 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. He is an Associate of the Chartered Institute of Management Accountants.

DIRECTORS AND OFFICERS

Dame Sandra Dawson DBE

Non-Executive Director
Chair of Remuneration Committee

Dame Sandra Dawson was appointed to the Board of DRS as a non-Executive Director in February 2012 and as Chair of the Remuneration Committee in May 2012. She is KPMG Professor of Management Studies at Judge Business School, Cambridge, a non-Executive Director of the Institute for Government and 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 Oxfam, Barclays plc and the Financial Services Authority. She was also a Deputy Vice Chancellor of the University of Cambridge (2008-2012) and Master of Sidney Sussex College (1999-2009). In 2004 she was made a Dame Commander of the British Empire for her contributions to higher education and management research.

John Linwood

Non-Executive Director
Chair of Ethics Committee

John Linwood was appointed to the Board of DRS as a non-Executive Director in January 2012 and was appointed Chair of the Ethics Committee in May 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. He 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 also currently sits on an advisory board for Brunel University.

Alison Reed

Non-Executive Director
Senior Independent Director
Chair of Audit Committee

Alison Reed was appointed to the Board of DRS as a non-Executive Director in January 2011 and as Senior Independent Director and Chair of the Audit Committee on 25 May 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 and Deputy Chairman of British Airways plc and a non-Executive Director and Audit Committee Chair of Darty plc and of Invicta Card Services Limited. She is also a Trustee for Whizz-Kidz, The Movement for Non-Mobile Children.

Sally Hopwood

Company Secretary

Sally Hopwood is an economics graduate from the London School of Economics and Political Science. Sally retrained as a solicitor, qualifying in 1990. She joined Argos as Company Solicitor in 1992 and 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. She was appointed Company Secretary in December 2007 and is also the Group's Legal Counsel and Compliance Officer.

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 2012.

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 continues to focus on the education, elections and census markets, and its products and professional services are designed to support our customers and other partners in these markets.

The Group remains committed to Research and Development to support its products and services. The Research and Development undertaken during 2012 is set out on page 6 of the Business Review.

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 2 and the Business Review on page 4 contain a review of the business and progress during 2012. The KPIs are used by the Board to monitor the Group's performance and delivery of its strategic objectives. Also set out in the Business Review is a review of possible future developments and significant events affecting the Group which have occurred since the end of the year.

ENVIRONMENTAL AND SOCIAL ISSUES

Environmental and social issues are reviewed within the Corporate Social Responsibility Report. This report also sets out information on the number of persons employed in the group during 2012. The Corporate Social Responsibility Report is incorporated into this Directors' Report.

CORPORATE GOVERNANCE

The Corporate Governance Statement on page 16 also 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 within the section Liquidity and Treasury Management on page 7 and in Note 3 to the financial statements on page 40.

KEY OPERATIONAL RISKS AND UNCERTAINTIES

Key operational risks and uncertainties have been covered in the report of Principal Risks on page 9 which forms part of this Directors' Report.

RESULTS AND DIVIDENDS

The Group revenue in 2012 was £20,071,000 up 25.6% on the previous year (2011: £15,980,000).

The trading profit before tax was £1,302,000 up 19.4% (2011: £1,090,000).

The Directors recommend a proposed final dividend of 0.4p per share (2011: 0.35p). If approved at the Annual General Meeting the proposed dividend will be paid on 24 May 2013 to those shareholders on the register at the close of business on 26 April 2013. Further details concerning the dividend policy can be found in the Business Review on page 6.

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 11 and 12. Ann Limb and Neil Kinnock retired from the Board on 15 May 2012. The Board appointed John Linwood on 2 January 2012 and Sandra Dawson on 1 February 2012 and both were elected by the members of the Company at the Annual General Meeting in 2012.

DIRECTORS' REPORT CONTINUED

Steve Gowers was appointed to the Board on 5 November 2012 following Tony Lee's departure on 26 October. Steve Gowers is offering himself for re-election by the Company's members at the AGM on 13 May.

All other Directors served throughout the year.

In accordance with the Company's Articles of Association, Mark Tebbutt is retiring by rotation at the forthcoming AGM and, being eligible, will offer himself 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 26.

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 30.

MAJOR SHAREHOLDERS

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

	Ordinary shares of 5p each	Percentage holding
Mr Malcolm Brighton	7,079,697	21.66
Mr John Rockcliff	2,155,000	6.59
Mr Gary Brighton	2,000,000	6.12
Mr Mark Brighton	2,000,000	6.12
Ms Jennifer Brighton	2,000,000	6.12
DRS Data and Research Services plc – Treasury shares	1,930,000	5.57
Mr Stephen Stewart	1,500,000	4.59
HSBC Discretionary Unit Fund Managers	1,000,000	3.06

DISCLOSURE AND TRANSPARENCY RULE 7.2

The Company's share capital is as follows:

	Ordinary shares of 5p each At 31 December 2012 and 2011	
	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 16.

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.

The Directors were granted specific authority to issue the Company's shares in certain circumstances, at the Annual General Meeting in 2012. That authority will expire at the forthcoming Annual General Meeting at which the Directors will be seeking a similar authority. Further details are provided in the Notice of Meeting which accompanies this report.

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

ARTICLES OF ASSOCIATION

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

KEY CONTRACTUAL ARRANGEMENTS

In January 2010 a contract with AQA was agreed for the provision of e-Marker® services. The document is an overarching agreement providing a framework within which specified defined service requirements and service levels are agreed and delivered for each examination series. Either party may terminate the agreement if there is a transfer of overall control of the other party. 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 Limited of Chennai, India has been retained to provide the Company with a range of software development, architecture and consultancy services to assist with the 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.

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 38 days (2011: 35 days) of average supplies for the year. This was considered to be reasonable given the timing of invoices and payments and the requirement upon the Company to meet short credit terms on a number of contracts.

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

The Directors' current authority to allot relevant shares pursuant to Section 551 of the Companies Act 2006 will expire on 15 August 2013 or at the 2013 Annual General Meeting, if earlier. Resolution 8 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 2014 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 15 August 2013 or at the 2013 Annual General Meeting, if earlier. Resolution 9 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 2014 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 10 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 2014 Annual General Meeting.

AUDITOR

The auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office. Resolution 6 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 4.

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 7 January 2018 following the extension obtained in January 2013 (see Note 20 on Borrowings).

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.

MARKET VALUE OF PROPERTY

Barclays Bank plc arranged a valuation of the Linford Wood property valuing the property at £1,600,000. The carrying value of the property at the year-end is £2,513,000. Therefore management carried out an impairment review the details of which are provided in Note 11.

POLITICAL AND CHARITABLE DONATIONS

The Company does not make political donations. From time to time the Company makes charitable donations to support the communities in which it operates. It also supports fundraising undertaken by staff members. Its charity contributions in 2012 amounted to £550 (2011: £250).

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 1 Danbury Court, Linford Wood, Milton Keynes, MK14 6LR on 13 May 2013 at 3.00pm. The Notice of the Annual General Meeting and explanation of the business to be put to the meeting has been sent to shareholders with this Report.

By Order of the Board

Sally Hopwood
Company Secretary
27 March 2013

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 has complied with the provisions set out in the UK Corporate Governance Code of June 2010 ("the Code") though is aware of the requirements set out in the version published in September 2012 and is preparing itself and the Company for compliance with these new measures in 2013. The Code can be reviewed on the website 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 Main 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 2012, the Company has complied with these Principles. This report further explains how the Code has been applied by the Company.

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 14.

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 which are set out in the formal schedule of matters reserved to the Board. These include:

- reviewing the performance of the Company against strategic objectives,
- approving the annual budget and business plans, and
- 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 resources are in place to enable the Company's objectives to be met.

The Board is led by the Chairman, David Brown. He ensures its ongoing effectiveness in all aspects of its role and that the appropriate balance of skills, experience, independence and knowledge of the Board is maintained.

The majority of the Board's members are non-Executive Directors who display objective judgement and possess broad and varied business and commercial experience. The non-Exectuive Directors work to support the Board but also challenge its thinking. They assist the Board with the development of its strategy and review the integrity of all financial information and that the financial controls and other systems of risk management which are operated are appropriate and are working well. The report of Principal Risks which is part of the Business Review on page 9 also contains details of the risks which impact the Group and the ongoing controls which have been implemented by the Board and which are in operation in the Group.

At 31 December 2012 the Board comprised:

- David Brown, non-Executive Chairman
- Alison Reed, senior independent non-Executive Director
- John Linwood, independent non-Executive Director
- Sandra Dawson, independent non-Executive Director
- Steve Gowers, Chief Executive Officer
- Mark Tebbutt, Finance Director

John Linwood joined the Board in January 2012 and Sandra Dawson joined the Board in February 2012. Both were re-elected by the shareholders at the AGM in May 2012. Written job descriptions were prepared by the Nomination Committee which instructed an external search agent in respect of both appointments.

In accordance with article 98 of the Articles of Association (retirement by rotation) Mark Tebbutt will be seeking re-election at the AGM.

Mark Tebbutt being eligible, offers himself for re-appointment. His biographical details can be found on page 11. After full and careful consideration your Board has determined that Mark Tebbutt continues to display the necessary knowledge, skills, commitment and energy and recommends his re-election as a Director of the Company.

In June 2012 the Board reviewed the Company's strategic priorities and its succession policy and it was agreed with Tony Lee that he would vacate the post of Chief Executive Officer. Tony Lee agreed to remain in situ for up to six months while a successor was sought. A written job description was prepared by the Nomination Committee which instructed an external search to be undertaken by independent consultants. This search was successful and Steve Gowers joined the Company as Chief Executive Officer in November, following the departure of Tony Lee in late October. He immediately and energetically engaged with his task of taking the Group forward. The Board is pleased to have secured a proven business leader whose skills and experience so perfectly fit the Group's needs. Steve Gowers 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.

In common with all Directors who join the Company, Steve Gowers undertook a thorough induction which included meeting individually with the Company Secretary, the Chairman and the Senior Independent Director as well as a number of senior executives. Appropriate background information was also provided.

All Directors regularly receive briefings on corporate governance matters and legal issues consistent with their duties to act in the best interests of the Company. Through the Company Secretary they also have access to independent professional advice at the Company's expense where it is needed in order to discharge their responsibilities. Biographical details of all the Directors are given on pages 11 and 12.

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 first 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. Alison Reed also undertakes an annual performance evaluation of the Chairman during which all Directors are consulted.

BOARD MEETINGS

The Board meets as regularly as necessary in order to discharge its duties effectively. In 2012 fifteen 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 18 of this report.

The non-Executive Directors led by the senior independent Director met once during the year when the Chairman's performance was reviewed. The Chairman held four meetings during the year with the non-Executive Directors and without the executives being present.

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.

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 11. During 2012, David Brown also served as Chairman of the British Standards Institution, Chairman of the Ofcom Spectrum Clearance Finance Committee and as a non-Executive Director of Domino Printing Sciences plc and TTG Global Group Ltd.

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 David Brown. John Linwood was appointed in January and Sandra Dawson in February 2012. Alison Reed remained a member throughout the year. Ann Limb and Neil Kinnock both retired from the Nomination Committee in May.

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

The Nomination Committee met five times in 2012. Further details are provided later in this report.

The Committee met initially in February 2012 to consider the succession plan of the Company and the positions of both Chairman and Chief Executive Officer. It then recommended to the Board the re-appointment of David Brown as Chairman having received an indication from him of his willingness to act in that role for a further three year term.

The Committee then met and determined that in order to deal effectively with the succession of the Chief Executive Officer, it agreed to appoint Harvey Nash, an independent recruitment consultant, to assist the Company with the recruitment work.

At its meeting in June this appointment was progressed. In July it examined the procedure undertaken by Harvey Nash to select an appropriate shortlist of candidates and found that a formal, rigorous and transparent procedure was in process. All shortlisted candidates were personally interviewed by members of the Committee before it resolved to nominate Steve Gowers for the post of Chief Executive Officer in September.

Steve Gowers joined the Company in November and the terms and conditions of his appointment will be available for inspection at the AGM.

Remuneration Committee

During 2012 the Remuneration Committee was chaired by Ann Limb until her retirement in May when Sandra Dawson was appointed as Chair of the Committee. John Linwood joined the Committee in January. David Brown and Alison Reed remained members throughout the year. Neil Kinnock served until his retirement in May. Executive Directors and senior managers are invited to attend its meetings as required by Committee members.

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.

It also oversees major changes to employee benefit structures implemented within the Group. The Committee is responsible for the appointment of the remuneration consultants who advise it in remuneration policy and best practice.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Committee met nine times in 2012. Further details are provided later in this report.

The Directors' Remuneration Report set out on page 24 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

Throughout the year the Audit Committee was chaired by Alison Reed. John Linwood was appointed in January and Sandra Dawson in February. David Brown remained a member of the Committee throughout the year. Ann Limb and Neil Kinnock retired in May 2012. The Board is satisfied that Alison Reed continues to bring 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.

Executive Directors and the Quality Manager attend Audit Committee meetings when invited. The Quality Manager advises the Committee regarding compliance with the Company's risk management procedures and its certified standards. Further details of our standards certification can be found in the Corporate Social Responsibility Report on page 21.

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 external 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 were scrutinised by the Committee. The non-audit services provided to the Group by Grant Thornton LLP are further explained in Note 5 to the financial statements.

The Committee has recommended the re-appointment of Grant Thornton UK LLP as the Group's external auditor in 2013. 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 2012 the Committee also reviewed the Company anti-fraud policy and recommended its implementation to the Board.

The Committee met four times in 2012. The external auditor is invited to attend meetings of the Committee and attended all such meetings in 2012. The Audit Committee again considered whether the Company should implement an internal audit function and agreed that an internal audit function was not needed at this time. It also regularly reviewed business continuity, risk management and other key processes and determined that these and other necessary processes continue to be fully implemented and followed.

Ethics Committee

The Ethics Committee was established in June 2011. John Linwood was appointed as its Chairman on the retirement of Ann Limb in May 2012. The role of the Committee is 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. Sandra Dawson and Steve Gowers are members of the Committee. David Brown and Alison Reed attend the Committee's meetings when invited. Two meetings of the Ethics Committee were held in 2012.

ATTENDANCE AT MEETINGS

The following table details the number of Board and Committee Meetings held during the year ended 31 December 2012 and the attendance record of each Director.

	Committee Membership	Board	Audit	Remuneration	Nomination	Ethics
Number of meetings held in year		15	4	9	5	2
Non-Executive Directors						
DM Brown	Audit,Nom,Rem	15/15	4/4	9/9	5/5	2/2
SJ Dawson*	Audit,Nom,Rem,Ethics	14/14	4/4	8/8	5/5	2/2
NG Kinnock**	Audit,Nom,Rem,Ethics	4/5	1/2	3/4	1/1	–
AG Limb**	Audit,Nom,Rem,Ethics	5/5	2/2	4/4	1/1	–
JF Linwood***	Audit,Nom,Rem,Ethics	15/15	4/4	9/9	5/5	2/2
AC Reed	Audit,Nom,Rem	15/15	4/4	9/9	5/5	1/1
Executive Directors						
SJ Gowers†	Nom,Ethics	2/2	1/1	2/2	–	1/1
AC Lee∞	Nom,Ethics	10/10	3/3	7/7	1/1	1/1
AM Tebbutt		15/15	4/4	9/9	–	–

* Appointed 1 February 2012
** Retired 15 May 2012
*** Appointed 2 January 2012
† Appointed 5 November 2012
∞ Retired 26 October 2012

RELATIONS WITH SHAREHOLDERS

The Board is committed to ensuring that there is effective communication with all interested groups and that an active dialogue with shareholders is always maintained so shareholders are aware of the Company's objectives. 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 Board is responsible for maintaining a dialogue with the shareholders. On its behalf the Chairman, Chief Executive Officer and Finance Director meet regularly with the Company's major shareholders. 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 major shareholders to discuss any concerns they may have. From time to time, the Board receives independent feedback from analysts and major shareholders.

All the Company's Directors attend the Annual General Meeting which takes place at the Company's registered office. A separate circular has been provided with this Report which contains the Notice of Annual General Meeting and details of the business to be considered at the meeting. A copy of the Notice is also published on the Company's website. The AGM 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 AGM and is published on the Company's website following the meeting.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for implementing, maintaining and reviewing a robust system of internal controls which cover all aspects of the business. 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. The Board conducted a review of the effectiveness of the Company's internal control and risk management systems on three occasions in 2012. Further details concerning the business model are set out in the Business Review on page 7.

Work has continued with implementing the risk management framework, including certification under BS 25999-2:2007 the Business Continuity Management Standard awarded to the Company in February 2012.

In designing the improved internal controls system, the Directors have considered the principal risks and exposures further referred to in the report of Principal Risks on page 9 which forms part of the Business Review, and 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 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;
- as part of the risk management framework, the Company maintains its risk registers including the strategic risk register which is escalated to the Board for review and input;
- 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.

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.

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 reviews the Group

consolidation 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.

RISK OF CONFLICTS

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

By Order of the Board

Sally Hopwood
Company Secretary
27 March 2013

CORPORATE SOCIAL RESPONSIBILITY REPORT

INTRODUCTION

The Board believes that sound management of environmental, governance and social issues is fundamental to the Company's development and makes an important contribution to the delivery of the Company's business model and strategic growth. It is a priority to integrate business values and operations at DRS to meet the expectations of our investors and other stakeholders in relation to customers, employees, suppliers, the environment and the community.

Corporate Social Responsibility in the Company focuses on the areas which are of particular relevance to what we do. The most significant areas continue to be:

- relationships with our staff;
- relationships with our customers, suppliers and partners;
- relationships with our shareholders; and
- how the Group's activities impact on our environment.

These responsibilities continue to be supported by the KPIs referred to on page 8 and are considered in the management of its risks. The Company has introduced its revised risk management framework which focuses on risks and opportunities connected to delivering the company strategy and objectives in order to ensure a high level of business performance while minimising and effectively managing its risks. It continually reviews and develops its risk management practices which are informed by corporate governance principles and ISO 31000:2009, the international standard for risk management. The report on Principal Risks on page 9 and the Corporate Governance Statement on page 16 provide further information on the Company's management of risk.

The Group's Corporate Social Responsibility and environmental policies are the responsibility of the Board and are reviewed annually. These policies are aligned to the Group's business strategy. Both have been implemented throughout the business and are being followed.

OUR BUSINESS STANDARDS

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 conducted with all our suppliers, customers and other partners:

- **BS ISO/IEC 27001:2005** - For the quality of its information security management systems (in which re-certification was secured in 2010) upholding the confidentiality, integrity and availability of information;

- **BS EN ISO 14001:2004** - In respect of its environmental management through which policies and objectives have been implemented to meet our legal requirements and to assess any significant environmental impacts of the business; and

- **BS EN ISO 9001:2008** - For quality management which is helping the Company to focus upon meeting our customers' stated requirements.

In February 2012, certification to BS 25999-2:2007 was also achieved in respect of the Company's Business Continuity Management Systems. As a result, a set of business driven processes have been developed aimed at proactively improving our resilience to any disruption that could affect our ability to achieve our key objectives.

CUSTOMERS, SUPPLIERS AND OTHER PARTNERS

Our working relationships remain a high priority throughout the Company.

Our procurement process guidelines are given to our suppliers and any concerns raised are discussed openly with the aim of speedy resolution. Written terms and conditions of trading are negotiated ahead of work being undertaken and payment terms are strictly adhered to.

Careful management of the relationship with customers has resulted in no debt write offs during 2012. The average number of debtor days for 2012 was 25, a decrease from 28 in 2011. This was due to a well-managed invoicing process and effective credit control procedures.

Average creditor days rose from 35 in 2011 to 38 in 2012 which was still judged to be within reasonable parameters given the timing of invoices and payments and the requirement upon the Company to meet short credit terms on a number of contracts.

In our partner relationships, we aim to operate standards to safeguard against unfair business practices and to encourage our partners to adopt responsible business policies and practices.

BUSINESS ETHICS AND BRIBERY ACT 2010

The Company operates to a Code of Business Ethics with all its customers, suppliers and partners and works only with organisations which recognise responsibility for upholding this Code. Following the enactment of the Bribery Act 2010, the Company's terms and conditions of trading and relevant trading policies were reviewed to emphasise the Company's continuing intolerance to all forms of bribery, corruption and facilitation payments.

All employees and contractors who work for the Group companies are required to complete and pass online training and assessment in the requirements of the Act and to implement anti-corruption measures in their work both here and abroad. These training modules are reviewed and updated regularly. Our employees are also advised of on-going developments in the field of corruption control which may have an impact on the business.

OUR EMPLOYEES

We employed 181 people as at 31 December 2012. The annual resignation rate for the year is estimated to be 15% which compares with 10% in 2011.

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 all staff are encouraged to attend and to raise their questions and concerns with the CEO and Directors. Senior managers also meet monthly with the Company's Directors. News items and various information bulletins are broadcast on the Group's Intranet site.

CORPORATE SOCIAL RESPONSIBILITY REPORT CONTINUED

Employee engagement continues to be a key priority and the staff committee 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.

Staff surveys are conducted at least annually. The last survey in July 2012 sought views on the communication of the Company's strategy, mission and values. It illustrated that better communications would be helpful and since then the Board has focused on ensuring all senior managers are fully informed and work with their teams to improve understanding in this area.

Training and development of all new and existing employees remains a high priority. The skills and abilities of all staff are developed to meet current business objectives and each individual's personal development which is discussed with the individual during the appraisal process. Partners are also trained to comply with a number of the procedures and policies operated by the Group.

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

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. The Company has been an accredited IiP organisation since 1999. The review period was extended through 2012 with the agreement of our assessors, which enabled us to involve Steve Gowers in the process. The Company's training and development of its people was reassessed in February 2013 and was found to meet the standard required for continued IiP accreditation.

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 partners 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.

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 Group's health and safety policies are reviewed by the Board annually and the Board regularly receives reports regarding health and safety issues that have arisen in the year. Attention is given to cause and effect. Follow up actions and progress on all reported issues continues to be carefully monitored.

During 2012 there were 17 accidents compared with 18 in 2011.

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 will remain a non-contributory scheme until the requirements of auto-enrolment introduced by The Pension Act 2008 are fully implemented.

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

ENVIRONMENTAL POLICY

The Company strives to improve its environmental performance through the implementation of sustainable development and the pursuit of appropriate environmental activities.

Environmental impact is reviewed regularly in order to:

- meet all statutory obligations;
- pursue working practices which reduce the business' environmental load; and
- recycle waste products and safely dispose of non-recyclable materials.

We work with environmentally responsible organisations that support our approach. Several different waste types are recycled including paper reel ends, compactor waste polythene, shredded materials and cardboard. In 2012 we recycled 186.2 metric tonnes (2011: 118.5); the increase being due to a higher level of print production in the business. This figure includes 17.2 metric tonnes of paper which was written off due to damage in transit.

The environmental 'Green Team' was formed in 2007 and continues to provide a focus for environmental considerations and assists in raising environmental awareness in the organisation.

Staff are always encouraged to submit their ideas on how consumption of energy and other resources used by the Company may be reduced.

The energy awareness initiative first implemented in 2010 continues to have a positive impact on our energy consumption. Though production increased in 2012 from the levels seen a year earlier, the combined gas and electricity usage for 2012 remained at the level consumed in 2011. For further details on energy usage see KPI information on page 8 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 able 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 STAKEHOLDERS

We provide regular 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 website. Meetings are arranged with investors upon receipt of a request and major investors are also invited to attend a presentation on the annual results.

OUR COMMUNITY

During the year the Company has also supported the initiative of its employees who raise funds for good causes including a number of childrens' cancer charities. A total of £550 was donated.

By Order of the Board

Sally Hopwood
Company Secretary
27 March 2013

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 section 420(1) of 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 before the shareholders at the Annual General Meeting on 13 May 2013.

UNAUDITED INFORMATION

A Letter to the Company's shareholders from the Chair of the Remuneration Committee

On behalf of the Board I am pleased to present the Remuneration Committee's Report for 2012.

Executive pay is rightly increasingly scrutinised by shareholders and the wider public and has been the subject of consultation papers issued in 2012 by the UK's Department for Business, Innovation and Skills. Changes to the reporting regulations which will result from this consultation are expected later in 2013 and we will ensure careful compliance. In preparing our report for 2012 we have sought to be transparent and clear on past pay and future policy and have given consideration to the principles set out in the UK Corporate Governance Code of 2010 and the Listing Rules of the Financial Services Authority.

In developing and implementing DRS Remuneration Policy the Committee seeks to ensure that the Company offers executive remuneration packages that are fair and competitive and are designed to attract, motivate, incentivise and retain the high calibre of Directors required to lead the Company to achieve its strategic goals. In 2012 the Group revenue was up 25.6% on the previous year at £20,071,000 and profit before tax was up 19.4% at £1,302,000. Basic earnings per share were 3.50p compared to 2.66p in 2011. Achieving these results is testimony to the quality and commitment of leadership and the performance of DRS colleagues at every level of the organisation, and the Committee is eager to ensure that our remuneration policy and practice rewards and encourages sustained high levels of individual and team performance.

Decisions taken by the Committee during the year include an award of salary increases to Executive Directors of between 0% and 9.97% compared to an average increase of 3.52% for the workforce as a whole.

An important aspect of our remuneration policy is the challenging company and individual performance conditions underpinning the annual bonus plan. The revenue and profit targets for 2012 were met and the Committee decided upon bonus payments of between 11.04% and 18.75% to members of the Senior Executive team comprising the executive directors in the Group companies and the Company Secretary.

The 2012 DRS Long-Term Incentive Scheme was approved by shareholders at the AGM in 2012. The Committee made awards of options under this scheme during 2012 and subject to the achievement of challenging performance targets over the period 1 January 2012 to 31 December 2014 and continued employment at the third anniversary of the award of the options, the options may be exercised over a seven year period from the date they vest. The Committee believes this scheme aligns the interests of the senior executives and in particular the Executive Directors with those of shareholders by delivering long-term value through the Company's share plan.

The following sections of this report explain in detail the Company's remuneration policy and the payments made to the Directors in 2012. A resolution seeking approval for the Remuneration Report will be presented at the Annual General Meeting and I look forward to meeting our shareholders on that occasion.

Sandra Dawson
Chair of Remuneration Committee

THE 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 2012:

- Ann Limb*
- Sandra Dawson (Committee Chairman)+
- David Brown (Board Chairman)
- Alison Reed
- John Linwood∞

* Ann Limb retired from the Company and ceased to be Committee Chairman on 15 May 2012.
+ Sandra Dawson was appointed to the Committee on 1 February and was appointed Committee Chairman on 15 May 2012.
∞ John Linwood was appointed to the Committee on 23 January 2012.

The Committee held nine meetings during the year. Further details are shown on page 18.

While serving on the Committee none of its members had 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 Company's website and are subject to annual review.

ADVISERS

During 2011 and 2012 the Committee retained BDO LLP as its adviser on remuneration matters and good practice and a representative of the firm attended meetings of the Committee when appropriate. This appointment was competitively reviewed in December 2012 against the Committee's current requirements and the services of another firm of remuneration consultants. The services of BDO LLP were found to be appropriate for the Committee's needs and their appointment as adviser to the Committee was renewed in December for a further 12 months. BDO did not provide any other services to the Company during the year.

THE RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

The Committee is responsible for determining the policy on remuneration for Executive Directors and other senior executives. The remuneration policy is designed to support the delivery of the strategic objectives of the Company to develop its delivery of products and services in the core markets of Education, Elections and Censuses to achieve continued revenue and profit growth and improved returns for our shareholders.

Based on the remuneration policy it determines the individual remuneration and benefits package for each of the Executive Directors and the Company Secretary. The Committee also sets the Chairman's fees. None of these individuals are present when their own remuneration is being discussed. Following guidance issued by the Association of British Insurers, the Company operates one annual bonus scheme and one long-term incentive plan. The Committee is responsible for approving all awards and options granted under these arrangements.

It also monitors the contractual terms of employment of the Company's senior executives including salaries and benefits and where appropriate determines any payments proposed to be made to any Director in connection with the termination of his or her services.

REMUNERATION POLICY STATEMENT

The policy is to offer executive remuneration packages that are fair and competitive and are designed to attract, motivate, incentivise and retain the skilled and high calibre Directors required to lead the Company in achieving its strategic goals.

The policy is to implement and maintain the appropriate balance between fixed elements of executive remuneration such as base salaries, benefits and pensions, and performance related elements of the package which are annual bonus and long-term incentive scheme payments. The Committee also seeks to align the interests of Directors with those of shareholders by delivering long-term value through the Company's share incentive plan.

When considering the fairness of the remuneration package for Executive Directors as a whole, it is the policy of the Remuneration Committee to review the pay and conditions of employment elsewhere in the Group as well as external factors including the prevailing financial and economic climate.

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. Comparators are treated cautiously to avoid unjustifiable remuneration escalation. The Committee reviews the basis of the selection of comparator companies every three years. Fixed pay is set at a level that offers base salaries at conservative levels which is combined with a defined range of reasonable health and car benefits. As the Company's strategic goals are delivered, the aim is to move progressively toward the median base salary payment in comparable companies.

Our current policy on pensions is to offer a contribution of 20% of base salary towards the Director's personal pension scheme.

Our policy on performance related pay is to offer an annual discretionary bonus payable on achievement of defined and agreed individual and team targets combined with the long-term incentive scheme. These arrangements ensure that a significant proportion of the potential total reward available to directors is conditional upon longer-term performance.

DIRECTORS' REMUNERATION REPORT CONTINUED

IMPLEMENTATION OF OUR POLICY - THE WORK OF THE REMUNERATION COMMITTEE IN 2012

The position of Chief Executive Officer

On three occasions the Committee met to consider the succession to the role of CEO dealing with both the ending of Tony Lee's contract with the Company and the appointment of Steve Gowers.

Executive Director's remuneration

In considering the Executive Directors' remuneration, the Committee undertook its annual review of base salaries, fees and benefits and incentive based rewards. It considered:

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

It determined that salaries would be kept at or below the median of the comparator group.

The Executive Directors additionally receive benefits comprising a company car fully funded for business mileage, or a cash allowance in lieu of company car, 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 Company.

Information on all payments made to Directors during the year is set out on page 28.

Performance related annual bonus scheme

The annual bonus scheme which has operated since May 2009 was reviewed. The maximum potential value, expressed as a percentage of annual salary, is determined by the Committee for each participant in the Scheme. The Company's Executive Directors can receive a maximum value of 75% of individual salary payable in cash. Of that bonus value, 80% is linked to revenue and profit targets which promote 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 2012, the Committee reviewed personal achievements against the targets set for the previous year and set 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 28.

Long-term equity based incentive plans

The 2012 DRS Long-Term Incentive Scheme was approved for implementation by our shareholders at the Annual General Meeting in 2012.

The Committee made awards under this scheme on 24 September and 16 November 2012. Full details of these awards can be found on page 28 of this Report.

While Executive Directors' salaries are at or below the median compared with listed companies of a similar size, the intention is that they are adequate in the event that no payments are made under the performance-related parts of the packages. The Company makes available the opportunity to earn significantly more if performance targets are met, but this is on a sliding scale and the totals are not so high as to encourage excessive risk-taking by the Directors.

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 2012, 48 employees were members of the DRS SIP scheme (2011: 48). This represented 28.5% of the eligible workforce.

Pensions

Base salary is the only component of remuneration which is pensionable. There is currently no requirement for an Executive Director to contribute to his or her pension scheme though the Committee will review the requirements on contribution upon the full implementation of the Pension Act 2008. 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.

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 into a suitable pension scheme agreed with the Director.

DIRECTORS' CONTRACTS

The Executive Directors have rolling contracts with an entitlement to six months' notice or, at the discretion of the Company, payment of base salary in lieu of such notice or any unexpired portion thereof. 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 fee structure agreed in January 2012 continues to apply, the details of which are provided on page 28.

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 2012 also appear on page 28.

DIRECTORS' INTERESTS

The beneficial interests of all Directors who served on the Board during the year (including their spouses' holdings) in the Ordinary shares of the Company, as recorded in the register maintained by the Company, were as follows:

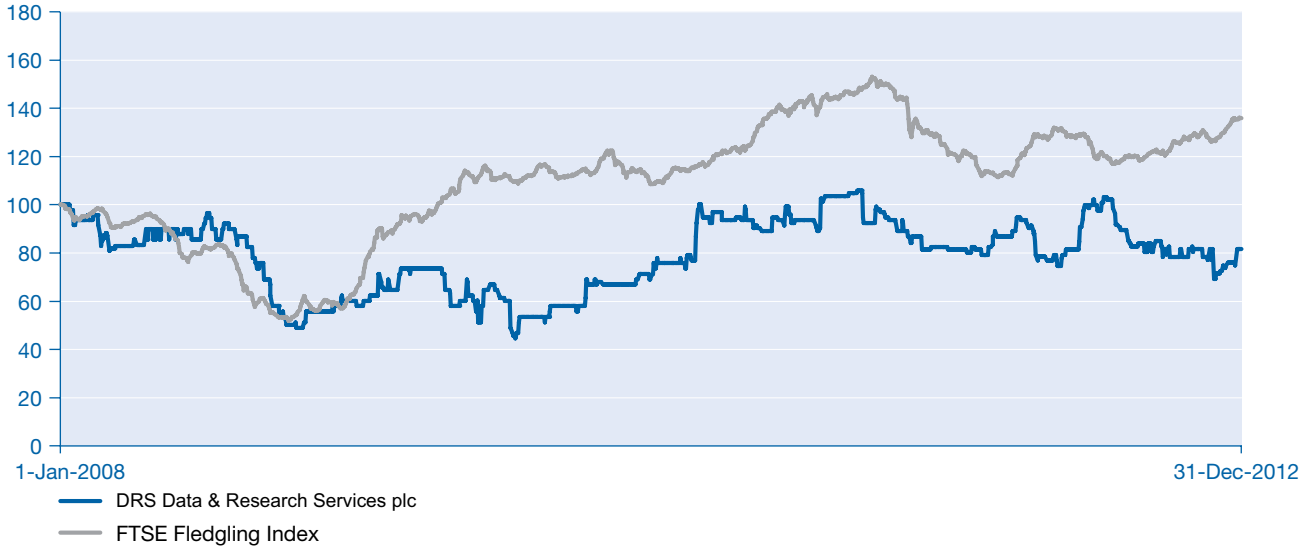
			Ordinary Shares of 5p		
	Date of Appointment to Board	End of Contract Date	As at 27 March 2013	As at 31 December 2012	As at 1 January 2012
David Brown	01.08.2008	May 2015	–	–	–
Sandra Dawson	01.02.2012	January 2015	–	–	–
Steve Gowers (Executive Director)	05.11.2012	–	–	–	–
Neil Kinnock	16.05.2005	May 2012	29,408	29,408	29,408
Tony Lee (Executive Director)	15.09.1997	October 2012	166,821	166,821	158,787
Ann Limb	20.05.2003	May 2012	50,205	50,205	50,205
John Linwood	02.01.2012	December 2014	–	–	–
Alison Reed	01.01.2011	December 2013	–	–	–
Mark Tebbutt (Executive Director)	25.03.2002	–	548,151	546,121	537,340

PERFORMANCE GRAPH

The graph below compares the Company's total shareholder return performance against the FTSE Fledgling Index. The Board believes that the Fledgling Index contains companies of a similar size to DRS which undertake work in comparable markets to those in which DRS operates and is considered the most appropriate comparator.

The graph shows a comparison of the total shareholder return for the Company's Ordinary shares for the last five financial years against the total shareholder return for the companies in the FTSE Fledgling Index.

DRS Data and Research Services plc – Total Return on Investment



DIRECTORS' REMUNERATION REPORT CONTINUED

AUDITED INFORMATION

DIRECTORS' REMUNERATION

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

	Salary and Fees £000	Payment on Termination of Office £000	Performance Related Annual Bonus £000	Performance Related Annual Bonus %	Benefits £000	Total 2012 £000	Total 2011 £000	Money Purchase Pension Contributions 2012 £000	Money Purchase Pension Contributions 2011 £000
Executive									
S J Gowers [#1]	26	–	5	19	2	33	–	6	–
A C Lee [#2]	125	50	19	15	13	207	135	25	23
A M Tebbutt	111	–	20	18	12	143	125	22	20
	262	50	44		27	383	260	53	43
Non–Executive									
D M Brown	60	–	–	–	–	60	60	–	–
S Dawson [#3]	26	–	–	–	–	26	–	–	–
N G Kinnock [#4]	9	–	–	–	–	9	25	–	–
A G Limb [#5]	13	–	–	–	–	13	34	–	–
J Linwood [#6]	28	–	–	–	–	28	–	–	–
A Reed	35	–	–	–	–	35	31	–	–
	171	–	–	–	–	171	150	–	–
TOTAL	433	50	44		27	554	410	53	43

[#1] Appointed 05.11.12
[#2] Retired 26.10.12
[#3] Appointed 01.02.12
[#4] Retired 15.05.12
[#5] Retired 15.05.12
[#6] Appointed 02.01.12

With respect to the termination of his employment as Chief Executive Officer, Tony Lee received the salary and payment set out above. The benefits paid comprised his contractual pension and company car allowance entitlements. A further £7,000 was paid on his behalf to external providers for outplacement counselling services and legal advice.

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.

EQUITY INCENTIVES

DIRECTORS' SHARE OPTIONS

Details of Directors' share options are given below.

Grant Date	LTIP Participant	Position	Granted in year	Outstanding 31.12.2012	Mid-market Price (1 day prior)	Exercise Price	Vesting Date	Maturity date	Settlement Basis
16.11.2012	S J Gowers	CEO	916,666	916,666	18.00p	Nil	Nil	16.11.2015	Equity
24.09.2012	A M Tebbutt	Finance Director	120,000	120,000	17.25p	Nil	Nil	24.09.2015	Equity
Total 2012 LTIP Awards			1,036,000	1,036,000					

LONG-TERM INCENTIVE PLAN

The 2012 DRS Long-Term Incentive Plan (2012 LTIP) was approved for implementation by our shareholders at the AGM in 2012.

The Committee made awards under the 2012 LTIP on 24 September and 16 November 2012. In total the awards comprised options granted over 1,386,666 shares in the Company of which 1,036,666 options related to Directors.

Subject to the achievement of certain performance targets over the period 1 January 2012 to 31 December 2014 and continued employment at the third anniversary of the date of grant, the options may be exercised over a seven year period from the award date as follows:

- September 2012: between 24 September 2015 and 23 September 2022; and
- November 2012: between 16 November 2015 and 15 November 2022.

No payment was made for the grant of the options which have a nil exercise price.

The performance criteria for options granted under the 2012 LTIP are based on achieving:

- An average growth in the Company's EPS from the last reported financial year to the third anniversary of grant of at least 5% per annum in excess of CPI; and
- Total Shareholder Return (TSR) over these three years being at least at the median compared to the companies constituting the FTSE Fledgling Index (the Index). 25% of an option will vest for performance at the median, rising to 100% if the Company's TSR would put it in the upper quartile compared with companies in the Index.

These performance criteria are believed to be challenging and were designed to align the interests of Directors with those of shareholders by delivering long-term value through the Company's share plan.

The units granted to Executives under the Plan Rules of the 2009 Value Creation Plan (VCP), would have converted to nil-cost options at the end of the three year performance provided that the hurdle price of 35p was achieved on 20 May 2012. The VCP arrangement expired in May 2012 because the hurdle price of 35p was not achieved and the VCP units were not entitled to be converted to nil-cost options.

The market price of the Company's shares at 31 December 2012 was 18.0p (2011: 19.5p) and the high and low values during the year were 22.75p and 15.25p respectively.

By Order of the Board

Dame Sandra Dawson
Chairman of Remuneration Committee
27 March 2013

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; 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 and the Remuneration report 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.

The Directors confirm that:

- 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 IFRSs as adopted by the European Union, 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 Annual 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

S J Gowers
Chief Executive Officer
27 March 2013

A M Tebbutt
Finance Director

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 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statements of Financial Position, the Parent Company Statement of Changes in Equity, the Parent Company Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 30, 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 2012 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' Report, set out on page 15, 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.

John Corbishley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Central Milton Keynes
27 March 2013

CONSOLIDATED INCOME STATEMENT

	Notes	Total 2012 £000	Total 2011 £000
Revenue	5	20,071	15,980
Cost of sales		(13,280)	(10,298)
Gross profit		6,791	5,682
Other operating income	7	49	37
Selling and marketing costs		(1,313)	(1,169)
Administrative expenses		(4,080)	(3,352)
Finance costs	9	(145)	(108)
Profit before income tax		1,302	1,090
Tax charge	10	(191)	(247)
Profit for the period attributable to owners of the parent		1,111	843
Earnings per share			
Basic earnings per share	23	3.50p	2.66p
Diluted earnings per share	23	3.49p	2.65p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Total 2012 £000	Total 2011 £000
Profit for the period	1,111	843
Other comprehensive income	–	–
Total comprehensive profit for the period attributable to owners of the parent	1,111	843

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2012 £000	2011 £000
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,055	3,174
Intangible assets	12	746	208
Deferred income tax assets	18	153	166
		3,954	3,548
Current assets			
Inventories	13	1,440	2,520
Trade and other receivables	14	3,039	2,311
Cash and cash equivalents	15	3,990	4,911
		8,469	9,742
Total assets		12,423	13,290
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	1,731	1,731
Share premium account	17	5,377	5,377
Capital redemption reserve	17	115	115
Treasury shares	16	(1,166)	(1,166)
Own shares reserve	17	(306)	(313)
Retained earnings		1,723	730
Total equity		7,474	6,474
LIABILITIES			
Non-current liabilities			
Borrowings	20	1,630	1,855
Deferred income tax liabilities	18	136	154
Long-term provisions	21	60	–
		1,826	2,009
Current liabilities			
Trade and other payables	19	3,024	4,625
Current income tax liabilities		99	182
		3,123	4,807
Total liabilities		4,949	6,816
Total equity and liabilities		12,423	13,290

The financial statements were approved by the Board of Directors on 27 March 2013 and signed on its behalf by:

S J Gowers
Chief Executive Officer

A M Tebbutt
Finance Director

DRS Data and Research Services plc
Registered Company Number: 0959401

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	Total £000
At 1 January 2011	1,731	5,377	115	(1,166)	(313)	(120)	5,624
Divided paid to shareholders	–	–	–	–	–	–	–
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

	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 2012	1,731	5,377	115	(1,166)	(313)	730	6,474
Dividend paid to shareholders	–	–	–	–	–	(111)	(111)
Employee share based compensation	–	–	–	–	–	–	–
Own shares vesting	–	–	–	–	7	(7)	–
Transactions with owners	–	–	–	–	7	(118)	(111)
Profit for the period	–	–	–	–	–	1,111	1,111
Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–	1,111	1,111
At 31 December 2012	1,731	5,377	115	(1,166)	(306)	1,723	7,474

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2012 £000	2011 £000
Cash flow from operating activities			
Profit after taxation		1,111	843
Adjustments for:			
Tax charge		191	247
Depreciation of property, plant and equipment		369	318
Amortisation of intangible assets		267	483
IFRS 2 charge in respect of LTIP shares		–	7
Profit on sale of property, plant & equipment and intangibles		(21)	(21)
Exchange losses recognised in the Income Statement		60	18
Investment income		(19)	(37)
Interest expense		80	90
Decrease/(increase) in inventories		1,080	(1,654)
(Increase)/decrease in trade and other receivables		(728)	69
(Decrease)/increase in trade and other payables		(1,601)	698
Increase in long-term provisions		60	–
Cash generated from operations		849	1,061
Interest paid		(80)	(90)
Income tax paid		(278)	(663)
Net cash used in operating activities		(358)	(753)
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(250)	(338)
Proceeds from sale of PPE		21	21
Purchase of intangible assets		(805)	(10)
Interest received		19	37
Net cash used in investing activities		(1,015)	(290)
Cash flows from financing activities			
Dividends paid to shareholders		(111)	–
Repayment of loan		(226)	(169)
Net cash used in financing activities		(337)	(169)
Net decrease in cash and cash equivalents		(861)	(151)
Cash and cash equivalents at beginning of period		4,911	5,080
Exchange decrease on cash		(60)	(18)
Cash and cash equivalents at end of period	25	3,990	4,911

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

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 2012 are:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities
- 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)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)
- Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)
- Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective 1 January 2013)
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective 1 January 2014)
- Mandatory Effective Date and Transition Disclosures - Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)
- Annual Improvements 2009-2011 Cycle (effective 1 January 2013)
- Transition Guidance - Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2013)
- Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27 (effective 1 January 2014)

The 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 2012 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 12.
- 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 13.

2.2 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and 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 2012 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 the subsidiary 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 based on percentage of completion. 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, the Group does not recognise a liability in any period for dividends that have been proposed but will not be approved until after the balance sheet date.

2.6 Segment reporting

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

2.7 Joint arrangements

Joint arrangements, whereby a company within the Group 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.

Foreign currency transactions are translated into Pounds Sterling, 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.

2.9 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	3 - 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

2.10 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 Group, 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.

2.11 Inventories

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

2.12 Trade and other receivables

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

2.13 Cash and cash equivalents

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

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made to the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

2.15 Share capital

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

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

2.16 Accounting for income taxes

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

2.17 Employee benefits

(a) Pension obligations

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

(b) Bonus plans and profit sharing

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

(c) Share-based employee remuneration

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

All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options or shares awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the Income Statement with a corresponding credit to shareholders' funds. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options or shares expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Upon exercise of share options fulfilled by the issue of new shares, the proceeds received, net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium. Options or share grants fulfilled from shares held by employee share trusts are credited to their own share reserve.

2.18 Financial 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 cash flows 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.

2.19 Financial liabilities and equity

Financial liabilities include borrowings and trade and other payables.

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.

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

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

2.20 Impairment testing of intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets or cash-generating units carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the assets or cash-generating units recoverable amount exceeds its carrying amount.

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 Sterling. Sometimes DRS Data Services Limited is required to use either US Dollars or Euros. During 2012 the Group converted holdings of US Dollar and Euro currencies in excess of £150,000 into Sterling to minimise the Group's currency exposure.

(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. The Board's position remained the same throughout 2012.

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 £19,000. On the Group's year-end cash holding, a 1% increase in interest rates would increase interest receivable by £40,000.

(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 7.

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

All £3,123,000 (2011: £4,807,000) of the current liabilities are payable within one year.

For non-current liabilities, the balance outstanding at 31 December 2012 on the mortgage was £1,855,000 (2011: £2,081,000), repayments of principal of £56,400 are payable quarterly followed by a final bullet payment of the remaining balance on 24 March 2014. The next four instalments payable during 2013 are included in the current liabilities, leaving the balance of £1,630,000 to be reported as a non-current liability.

In January 2013 the Group's mortgage facility was extended and increased to £1,900,000. The rate of interest on the five year extension is 4.0% over base. Repayment of the principal shall be in 19 instalments of £56,400 payable quarterly commencing 31 March 2013, followed by a final bullet payment of £828,400 on 7 January 2018.

Interest payments are made separately on the quarter days in arrears.

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.

The Group retains a high level of cash and cash equivalents (See Note 2.13) to be able to have sufficient funds to finance the working capital requirements of large contracts. It takes a cautious approach to investing this capital to minimise the

Group's exposure to capital loss. The policy is consistent with the approach of previous years and explains the relatively large value of cash and cash equivalents held at the year-end (see Note 15).

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

	31 December 2012 £000	31 December 2011 £000
Total equity	7,474	6,474
Cash and cash equivalents	3,990	4,911
Capital	11,464	11,385
Total equity	7,474	6,474
Borrowings	1,630	1,855
Overall financing	9,104	8,329
Capital to overall financing ratio	1.26	1.37

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

The revenue analysis generated from external customers for the year ended 31 December 2012 is as follows:

	Education revenue		Non-education revenue		
Region	Examination & assessment £000	Other £000	Commercial £000	Census & elections £000	Total £000
Region					
UK	9,780	647	26	2,485	12,938
Africa	3,951	28	5	2,147	6,131
Rest of world	28	32	295	647	1,002
Total	13,759	707	326	5,279	20,071
Revenue arising from specific products and related services thereon:					
e-Marker®	9,113				
e-Counting				3,075	
IntelliReg®		1			

All of the Group's revenue from continuing operations of £20,071,000 was generated from UK operations.

NOTES TO THE FINANCIAL STATEMENTS *continued*

DRS' largest customer generated revenue of £8,444,000 in 2012 (2011: £8,307,000) and is shown under e-Marker® within UK examinations and assessment. There are no other customers that account for more than 10% of external revenue.

The contract to count the 2012 London Mayor and Assembly elections electronically that was won by IntElect®, a joint arrangement between DRS and ERS (Electoral Reform Services Limited), was completed successfully in May 2012. This work has resulted in the Group recognising revenue of £2,471,000 in the year (2011: £534,000). This revenue has been recognised within the census and elections segment of revenue within the UK.

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.

5 REVENUE AND PROFIT BEFORE TAX

The significant categories of revenue recognised during the period are:

	2012 £000	**2011 £000**
Sale of goods	7,028	3,984
Rendering of services	12,583	11,604
Operating lease income (Note 6)	460	392
	20,071	15,980

Profit on ordinary activities before taxation is stated after:

	2012 £000	**2011 £000**
Auditor's remuneration:		
Audit services	6	4
Other services	39	50
Depreciation	369	318
Amortisation	267	483
Hire of plant and machinery	23	19
R&D expense	1,738	1,286
Share-based payment charge	–	7

Auditor's remuneration relating to other services comprises:

	2012 £000	2011 £000
- audit of subsidiaries pursuant to legislation	29	33
- advice on IFRS	4	7
- employment tax advice	–	3
- interim review	6	7
	39	50

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. Total future minimum lease payments receivable at 31 December 2012 amounted to £12,000, all of which is recoverable within one year. Of this amount, £3,000 is invoiced and included in the trade receivables balance as at 31 December 2012.

7 OTHER OPERATING INCOME

	2012 £000	2011 £000
Interest income		
- bank interest	19	37
- Peladon deferred consideration	25	–
Profit on foreign exchange (realised and unrealised)	5	–
	49	37

The profit on foreign exchange gains relates to exchange rate differences on US Dollar and Euro transactions and the restatement of monetary assets at the year end.

The Peladon deferred consideration arises from the sale of Peladon Software Inc. to The Software Construction Company Inc., Texas during September 2010. The initial consideration was $1 followed by 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 the Group 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.

Management's best estimate of deferred consideration under the earn-out agreement for the remaining four years of the arrangement is £27,000.

8 DIRECTORS AND EMPLOYEE BENEFIT EXPENSE

Staff costs during the year were:

	2012 £000	2011 £000
Wages and salaries	7,313	7,042
Social security costs	790	772
Share options granted to Directors and employees	–	7
Pension costs – defined contribution plans	566	566
	8,669	8,387

NOTES TO THE FINANCIAL STATEMENTS *continued*

The average number of full time equivalents of the Group during the year was:

	2012	2011
Print and bureau services	115	101
Hardware and software services	78	88
Sales and marketing	20	18
Administration	36	38
	249	245

Remuneration in respect of Directors was as follows:

	2012 £000	2011 £000
Emoluments	618	475
Pension contributions to money purchase pension schemes	53	43
	671	518

Key management remuneration:

	2012 £000	2011 £000
Short-term employee benefits	618	475
Post-employment benefits	53	43
Share-based payments	–	7
	671	525

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.

9 FINANCE COSTS

	31 December 2012 £000	31 December 2011 £000
Interest expense:		
- bank borrowings	(80)	(88)
- HMRC interest	–	(2)
- loss on foreign exchange (realised and unrealised)	(65)	(18)
	(145)	(108)

The loss on foreign exchange relates to exchange rate differences on US Dollar and Euro transactions and the restatement of monetary assets at the year end.

10 INCOME TAX EXPENSE

	31 December 2012 £000	31 December 2011 £000
Current tax – domestic	196	306
Adjustment in respect of previous period	–	(44)
Total current tax	196	262
Deferred tax current year (Note 18)	(5)	(23)
Deferred tax prior year (Note 18)	–	8
	191	247

Domestic income tax is calculated at 24.5% (2011: 26.5%) 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:

	2012 £000	2011 £000
Profit before tax	1,302	1,090
Tax at domestic income tax rate of 24.5% (2011: 26.5%)	319	289
Tax effect of expenses that are not deductible in determining taxable profit	18	13
Income not taxable for tax purposes	(8)	(4)
Additional deduction for R&D expenditure	(138)	(9)
Deferred tax on industrial building allowances	–	(2)
Chargeable gains	7	2
Effect of marginal rate	(8)	(6)
Effect of change in tax rates	1	–
Adjustment in respect of previous periods	–	(36)
Tax expense	191	247

11 PROPERTY, PLANT AND EQUIPMENT

	Total £000	Freehold land & buildings £000	Computer equipment £000	Fixtures & fittings £000	Plant & machinery £000	Rental machines £000	Motor vehicles £000
At 1 January 2011							
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	–	–
For the year ended 31 December 2012							
Opening net amount at 1 January 2012	3,174	2,580	239	203	152	–	–
Additions	250	–	52	78	120	–	–
Depreciation charge	(369)	(67)	(119)	(87)	(96)	–	–
Closing net book amount at 31 December 2012	3,055	2,513	172	194	176	–	–
At 31 December 2012							
Cost	11,386	2,900	2,192	2,558	3,144	586	6
Accumulated depreciation	(8,331)	(387)	(2,020)	(2,364)	(2,968)	(586)	(6)
Net book amount	3,055	2,513	172	194	176	–	–

During November 2012, in accordance with extending the mortgage on the Linford Wood property, Barclays Bank plc conducted a commercial valuation of the property based on tenanted occupancy which calculated the current market value at £1,600,000. The decline in the commercial valuation reflects the general fall in the value of commercial property within the locality and does not alter its condition or expected useful life.

NOTES TO THE FINANCIAL STATEMENTS *continued*

The acquisition of the Linford Wood property was justified on the savings gained against the rental cost of leasing. The use and justification remain the same. However, to reflect the decline in residual value of the property a decision was taken to increase the depreciation charge by £27,000 per annum from 1 January 2012 to more accurately reflect the use of this asset over its remaining expected life.

Following the valuation of the freehold property carried out by Barclays Bank plc an impairment review has been conducted to consider whether the property is impaired in accordance with IAS36. This review did not result in an impairment of the property.

Bank borrowings at the 31 December 2012 are secured on the Linford Wood land and buildings to the value of £1,855,000 (2011: £2,081,000). See Note 20.

12 INTANGIBLE ASSETS

	Total £000	Computer software £000	Development expenditure £000
At 1 January 2011			
Cost	4,391	980	3,411
Accumulated amortisation	(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

	Total £000	Computer software £000	Development expenditure £000
For the year ended 31 December 2012			
Opening net amount at 1 January 2012	208	44	164
Additions	805	321	484
Amortisation charge	(267)	(103)	(164)
Closing net book amount at 31 December 2012	746	262	484
At 31 December 2012			
Cost	5,206	1,311	3,895
Accumulated amortisation and impairment	(4,460)	(1,049)	(3,411)
Net book amount	746	262	484

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 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			
- 2013	148	121	27
- 2014	269	108	161
- 2015	194	33	161
- 2016	135	–	135
Net book amount at 31 December 2012	746	262	484

All intangible amortisation is charged to cost of sales within the Income Statement.

13 INVENTORIES

	31 December 2012 £000	31 December 2011 £000
Raw materials	617	823
Work in progress	51	138
Finished goods	772	1,559
	1,440	2,520

Over 300 of our PhotoScribe® scanners were produced to deliver the 2012 London Mayor and Assembly elections in May and the provision created on PS900 scanning machines reflects the potential risk of holding these scanners in light of future technical obsolescence.

	31 December 2012 £000	Movement during year £000	31 December 2011 £000	Movement during year £000	31 December 2010 £000
Inventory provision					
PS900 scanners	659	624	35	33	2
IntelliReg®	22	(154)	176	28	148
Other scanners	133	(27)	160	(17)	177
Print	14	(2)	16	–	16
Total	828	441	387	44	343
Related carrying value					
PS900 scanners	1,160		2,204		563
IntelliReg®	–		–		–
Other scanners	107		118		103
Manufacturing inventory	1,267		2,322		666
Print inventory	173		198		200
Total	1,440		2,520		866

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 £2,909,000 (2011: £1,481,000).

NOTES TO THE FINANCIAL STATEMENTS *continued*

14 TRADE AND OTHER RECEIVABLES

	31 December 2012 £000	31 December 2011 £000
Loans and receivables		
Trade receivables	2,407	892
Less provision for impairment of receivables	(1)	(20)
Trade receivables – net	2,406	872
Amounts recoverable on contracts	144	–
Prepayments and accrued income	489	1,439
	3,039	2,311

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	31 – 60 days £000	61 – 90 days £000	91 – 120 days £000	120+ days £000
31 December 2012	2,406	1,733	157	249	24	–	243
31 December 2011	872	473	231	50	42	4	72

The Group recognised a decrease in its impairment of its trade receivables during the year of £19,000 (2011: increase £8,000). The trade receivables provision movement is included in 'administrative expenses' in the Income Statement and a breakdown is as follows:

	2012 £000	2011 £000
Opening amount at 1 January	20	12
(Decrease)/increase in provision to Income Statement	(19)	8
Closing amount at 31 December	1	20

15 CASH AND CASH EQUIVALENTS

	31 December 2012 £000	31 December 2011 £000
Cash at bank and in hand	73	2,586
Short-term bank deposits	3,917	2,325
	3,990	4,911

The effective interest rate on short-term bank deposits was 0.48% (2011: 1.00%). These deposits have an average maturity of three days (2011: one day).

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

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

	2012 US dollars £000	2012 Euro £000	2011 US dollars £000	2011 Euro £000
Sterling equivalent	13	38	504	50

16 SHARE CAPITAL

	Number of shares	Ordinary shares	Treasury shares	Total
At 1 January 2011	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
Balance at 31 December 2012	34,621,600	34,621,600	(1,930,000)	32,691,600

	Ordinary shares of 5p each at 31 December 2012 and 2011 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.

17 OTHER RESERVES

	Share premium £000	Capital redemption £000	Own share reserve £000	Total Group £000
As at 1 January 2011 and 31 December 2011	5,377	115	(313)	5,179
Own shares vesting	–	–	7	7
Balance at 31 December 2012	5,377	115	(306)	5,186

The Own Share Reserve represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2012, 960,529 (2011: 990,529) shares with a market value of £172,895 (2011: £193,153) were held. Of these 40,000 (2011: 100,000) 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

18 DEFERRED INCOME TAX

	31 December 2012 £000	31 December 2011 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	136	154
Deferred tax assets	(153)	(166)
	(17)	(12)

At the balance sheet date legislation had been substantively enacted which reduced the main corporation tax rate from 25% to 23%. 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 2012 £000	31 December 2011 £000
At 1 January	(12)	3
Credit to income for the current year	(5)	(23)
Charge to income for the prior year	–	8
At 31 December	(17)	(12)

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 2012	(12)
Charge to income for the year	(5)
Charge to equity for the year	–
At 31 December 2012	(17)

19 TRADE AND OTHER PAYABLES

	31 December 2012 £000	31 December 2011 £000
Financial liabilities measured at amortised cost		
- Trade payables	728	1,105
Deferred income	512	2,133
Social security and other taxes	210	407
Accrued expenses	1,348	754
	2,798	4,399
Repayment of secured loan (see Note 20)	226	226
	3,024	4,625

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

20 BORROWINGS

	31 December 2012 £000	31 December 2011 £000
Non-current		
Bank borrowings – secured loan	1,630	1,855
Total non-current borrowings	1,630	1,855

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 started in instalments of £56,400 payable quarterly commencing 30 June 2011. At 31 December 2012, £1,855,000 remains outstanding.

In January 2013 the mortgage facility was extended to 7 January 2018 and increased to £1,900,000. The facility from Barclays Bank plc is secured by a fixed charge against the freehold land and buildings to 7 January 2018. The interest rate on the five year extension is 4.0% over base rate. Repayment of the principal shall be in 19 instalments of £56,400 payable quarterly commencing 31 March 2013, followed by a final bullet payment of £828,400 on 7 January 2018. The extension included a reallocation of the mortgage to the subsidiary Company, DRS Data Services Limited, as tenant of the property.

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. The facility is not currently in use.

21 PROVISIONS

	31 December 2012 £000	31 December 2011 £000
Leasehold dilapidations provision		
Current	–	–
Non-Current	60	–
	60	–

The provision is based on previous negotiations to terminate these lease arrangements and reflects the Group's liability for dilapidation charges payable on the expiry of all five property leases relating to the seven business units occupied by operations in Milton Keynes. All five leases expire on 30 November 2015.

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	Total 2012 £000	Total 2011 £000
Financial assets			
Loans and other receivables			
- Trade and other receivables	14	3,039	2,311
- Cash and cash equivalents	15	3,990	4,911
		7,029	7,222
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	20	(1,630)	(1,855)
Current			
- Trade and other payables		(2,076)	(1,859)
- Repayment of secured loan	19	(226)	(226)
		(2,302)	(2,085)

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 2012 £000	31 December 2011 £000
Earnings attributable to Ordinary shareholders being profit for the period	1,111,000	843,000
Weighted average number of shares	31,722,082	31,701,071
Basic profit per Ordinary share	3.50p	2.66p

Diluted earnings per share

	31 December 2012 £000	31 December 2011 £000
Earnings attributable to Ordinary shareholders being profit for the period	1,111,000	843,000
Weighted average number of shares		
Basic	31,722,082	31,701,071
Dilutive effect of:		
- options under the Enterprise Management Incentive Scheme	40,000	100,000
- options under LTIP option scheme	79,735	–
Diluted	31,841,817	31,801,071
Diluted profit per Ordinary share	3.49p	2.65p

24 DIVIDENDS PER SHARE

Amounts recognised as distributions to equity holders in this period:

	31 December 2012 £000	31 December 2011 £000
Final dividend for the year ended 31 December 2011 of 0.35p (2010: Nil) per share	111	–

The proposed final dividend 0.4p per share was approved by the Board on 27 March 2013. The dividend is subject to approval by the shareholders at the 2013 Annual General Meeting and the expected cost of £127,000 has not been included in the liability as at 31 December 2012. If approved, it will be paid on 24 May 2013 to shareholders on the register at close of business on 26 April 2013.

25 RECONCILIATION OF MOVEMENTS IN CASH AND CASH EQUIVALENTS

	1 January 2012 £000	Cash flow £000	31 December 2012 £000
Cash at bank and in hand	2,586	(2,513)	73
Term deposits	2,325	1,592	3,917
	4,911	(921)	3,990

26 COMMITMENTS

Operating lease commitments

The Company has the following future minimum lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2012 £000	31 December 2011 £000	31 December 2012 £000	31 December 2011 £000
Within one year	192	192	82	30
Within two to five years	369	561	222	54
	561	753	304	84

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

The classification of other leases relates to company vehicles that are held under three or four year contracts, plus the company telephones, 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, the telephone contract payments are monthly in advance and the office equipment leases are payable quarterly in advance.

27 PENSION COMMITMENTS

During 2011 and 2012 the Group operated various separate defined contribution schemes for the benefit of employees and Executive Directors. In all cases the assets of the schemes are administered by trustees in funds independent of the Group. Pension contributions are shown in Note 8.

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 2012							
24 September 2012	LTIP	Directors and employees	470,000	3 years	10 years	Nil	Equity
16 November 2012	LTIP	Directors	916,666	3 years	10 years	Nil	Equity

*1996 DRS Restricted Share Scheme

Movements in the year:

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 2012

	1 January 2012					31 December 2012	
Date of Grant	Outstanding options	Exercisable options	Granted	Lapsed	Exercised	Outstanding options	Exercisable options
Year end 31 December 2004							
7 April 2004	–	40,000	–	–	–	–	40,000
Year end 31 December 2012							
24 September 2012	–	–	470,000	–	–	470,000	–
16 November 2012	–	–	916,666	–	–	916,666	–

The weighted average remaining contractual life of the exercisable options is 1,032 days.

Calculation of the fair value:

Options	Valuation model	Share price at grant	Exercise price	Expected volatility	Expected life	Expected dividends	Risk-free interest rate	Fair value of 1 unit
Year end 31 December 2004								
7 April 2004	Binomial	60.5p	0p	45.13%	3 years	3.67%	4.92%	56.76p
Year end 31 December 2012								
24 September 2012	Monte Carlo	17.25p	0p	30.00%	3 years	2.50%	0.315%	9.40p
16 November 2012	Monte Carlo	18.00p	0p	30.00%	3 years	2.50%	0.283%	9.80p

VCP	Valuation model	Share price at grant	Exercise price	Expected volatility	Expected life	Expected dividends	Risk-free interest rate	Fair value of 1 unit
Year end 31 December 2009								
20 May 2009	Monte Carlo	14.50p	0p	34.00%	3 years	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 was achieved. The hurdle price of 35p was not achieved and the VCP units were not entitled to be converted to nil-cost options on 20 May 2012 and the VCP arrangement had expired.

Under the Rules of the 2012 LTIP, the number of awards that can be exercised and will convert into nil-cost options at the end of the three year performance, which runs from 1 January 2012 to 31 December 2014, is dependent on the following two performance conditions:

1. A comparison of the Company's total shareholder return over a three year period commencing on the first day of the financial year in which the date of grant falls against a comparator group of companies, comprising the constituents of the FTSE Fledgling Index; and

2. The average growth of the Company's basic earnings per share in the three year period following grant compared to the earnings per share in the year prior to the date of grant (i.e. the year ended 31 December 2011)

The number of vesting nil-cost options in the 2012 LTIP will be calculated for all participants by reference to the value created for shareholders over the performance period.

The value created for shareholders will be based on the increase in the Net Return Index (which reflects movements in share price plus dividends reinvested on a net basis (without any associated tax credit) in shares on the ex-dividend date) for a company over the performance period and will be calculated based on the value created during the period between the three months ending on the last day of the performance period and the three months ending on the date of grant of an option.

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 the Company has taken into account those factors 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 awards granted under the 2012 LTIP, where the potential number of nil-cost options vesting will be dependent upon the absolute return to shareholders over the performance period was calculated using a Monte Carlo Simulation model. The total fair value of all units granted to participants in the LTIP was £134,013.

NOTES TO THE FINANCIAL STATEMENTS *continued*

Volatility Assumptions

Annualised expected volatility of all the options and units granted under the LTIP were determined by calculating the average of standard deviations of daily continuously compounded returns of the share price for the Company and the constituents of the comparator group calculated over three years back from the date of grant of each instrument.

The dividend yield used in the Monte Carlo model is based on an average yield over the Company's last five financial years.

Options outstanding

The weighted average exercise price of the options outstanding at 31 December 2012 was 10.98p (2011: 56.76p).

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 43.

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 2012 all work relating to the 2012 London Mayor and Assembly elections was completed and no business was being transacted through the joint arrangement. At 31 December 2012 DRS owed ERS £nil (2011: £326,000) and ERS owed DRS £nil (2011: £10,000). 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 28 and 29.

The Group paid a dividend of 3.5p per share on 25 May 2012, of which the following was paid to Directors:

N G Kinnock	£102
A C Lee	£564
A G Limb	£175
A M Tebbutt	£1,889

30 POST BALANCE SHEETS EVENTS

In January 2013 the mortgage on the freehold property was extended and increased to £1,900,000. Further details are provided in Note 20.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2012 £000	2011 £000
ASSETS			
Non-current assets			
Property, plant and equipment	33	2,547	2,583
Investment in subsidiaries	34	3,814	3,814
		6,361	6,397
Current assets			
Trade and other receivables	35	108	78
Cash and cash equivalents	36	3,516	3,849
		3,624	3,927
Total assets		9,985	10,324
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	37	1,731	1,731
Share premium account	38	5,377	5,377
Capital redemption reserve	38	115	115
Treasury shares	38	(1,166)	(1,166)
Own shares reserve	38	(306)	(313)
Retained earnings		1,070	340
Total equity		6,821	6,084
LIABILITIES			
Non-current liabilities			
Borrowings	39	–	1,855
Deferred income tax liabilities	40	136	154
		136	2,009
Current liabilities			
Trade and other payables	41	2,972	2,174
Current income tax liabilities		56	57
		3,028	2,231
Total liabilities		3,164	4,240
Total equity and liabilities		9,985	10,324

The financial statements were approved by the Board of Directors on 27 March 2013 and signed on its behalf by:

S J Gowers
Chief Executive Officer

A M Tebbutt
Finance Director

DRS Data and Research Services plc
Registered Company Number: 0959401

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 2011	1,731	5,377	115	(1,166)	(313)	(626)	5,118
Employee share-based compensation	–	–	–	–	–	7	7
Transactions with owners	–	–	–	–	–	7	7
Profit for the period	–	–	–	–	–	159	159
Dividend received from subsidiary	–	–	–	–	–	800	800
Total comprehensive income for the period	–	–	–	–	–	959	959
At 31 December 2011	1,731	5,377	115	(1,166)	(313)	340	6,084

	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 2012	1,731	5,377	115	(1,166)	(313)	340	6,084
Dividends	–	–	–	–	–	(111)	(111)
Own shares vesting	–	–	–	–	7	(7)	–
Transactions with owners	–	–	–	–	7	(118)	(111)
Profit for the period	–	–	–	–	–	148	148
Dividend received from subsidiary	–	–	–	–	–	700	700
Total comprehensive income for the period	–	–	–	–	–	848	848
At 31 December 2012	1,731	5,377	115	(1,166)	(306)	1,070	6,821

PARENT COMPANY STATEMENT OF CASH FLOWS

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Profit for the period		848	959
Adjustments for:			
- income tax		38	47
- depreciation of property, plant and equipment	33	72	41
- exchange gain on cash holdings		(5)	(4)
- interest income		(19)	(37)
- interest expense		81	88
- increase in trade and other receivables		(30)	(13)
- (increase)/decrease in trade and other payables		798	(1,328)
- decrease in long-term borrowings		(1,630)	–
Cash generated from /(used in) operations		153	(247)
Interest paid		(81)	(88)
Income tax paid		(57)	(65)
Net cash used in operating activities		(138)	(153)
Cash flows from investing activities			
Purchases of property, plant and equipment		(36)	–
Interest received		19	37
Net cash (used in)/generated from investing activities		(17)	37
Cash flows from financing activities			
Dividends paid to shareholders		(111)	–
Repayment of loan		(226)	(169)
Net cash used in financing activities		(337)	(169)
Net decrease in cash and cash equivalents		(339)	(532)
Exchange increase on cash		6	4
Cash and cash equivalents at beginning of period		3,849	4,377
Cash and cash equivalents at end of period		3,516	3,849

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2012

31 ACCOUNTING POLICIES

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

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

31.1 Investment in subsidiaries
Investments in subsidiaries are measured at cost less accumulated impairment.

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

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

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

ii) Interest rate risk
The Company finances its operations through a mixture of shareholders' funds and bank loans. The 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. The Board's position remained the same throughout 2012.

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.

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

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.

31.3 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.

31.4 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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS *continued*

32 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 increase in reserves for the year was £848,000 (2011: £959,000) which included £700,000 of dividend (2011: £800,000). The trading profit for the financial year dealt within the financial statements of the Parent Company is £148,000 (2011: £159,000).

The costs of Directors' remuneration and share payments are borne by DRS Data Services Limited. The details to which are disclosed in Note 8.

33 PROPERTY, PLANT AND EQUIPMENT

	Total £000	Freehold land & buildings £000	Fixtures & fittings £000
At 1 January 2011			
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
For the year ended 31 December 2012			
Opening net amount at 1 January 2012	2,583	2,580	3
Additions	36	–	36
Depreciation charge	(72)	(67)	(5)
Closing net book amount at 31 December 2012	2,547	2,513	34
At 31 December 2012			
Cost	3,168	2,900	268
Accumulated depreciation	(621)	(387)	(234)
Net book amount	2,547	2,513	34

Bank borrowings are secured on the Linford Wood land and buildings for the value of £1,855,000 (2011: £2,081,000). See Note 20.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS *continued*

34 INVESTMENT IN SUBSIDIARIES

At 31 December 2012 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 2012 and 31 December 2011 is £3,814,000.

35 TRADE AND OTHER RECEIVABLES

	31 December 2012 £000	31 December 2011 £000
Current loans and receivables		
Prepayments and accrued income	108	78
	108	78

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

There are no trade receivables.

36 CASH AND CASH EQUIVALENTS

	31 December 2012 £000	31 December 2011 £000
Cash at bank and in hand	3,516	3,849

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.

	2012 US dollars £000	2012 Euro £000	2011 US dollars £000	2011 Euro £000
Sterling equivalent	1	–	11	–

37 SHARE CAPITAL

See Note 16 for details of the share capital of the Company.

38 OTHER RESERVES

See Note 17 for details of the other reserves of the Company.

39 BORROWINGS

See Note 20 for details of the secured loan for £1,855,000 held by the Company on 31 December 2012. This mortgage was extended in January 2013 and reallocated to the subsidiary company, DRS Data Services Limited. As the facility will therefore be accounted for in the subsidiary accounts going forward, the year-end liability of £1,855,000 has been reflected in current liabilities as appropriate.

40 DEFERRED INCOME TAX

	31 December 2012 £000	31 December 2011 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	136	154
	136	154

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

	31 December 2012 £000	31 December 2011 £000
At 1 January	154	171
Charge to income for the year	(18)	(17)
At 31 December	136	154

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 2012	140	14	154
Charge to income for the year	(16)	(2)	(18)
At 31 December 2012	124	12	136

41 TRADE AND OTHER PAYABLES

	31 December 2012 £000	31 December 2011 £000
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	1,006	1,825
Accrued expenses	111	123
	1,117	1,948
Borrowings (see Note 20)	1,855	226
	2,972	2,174

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS *continued*

42 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities

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

	Note	31 December 2012 £000	31 December 2011 £000
Financial assets			
Loans and other receivables			
- Trade and other receivables	35	108	78
- Cash and cash equivalents	36	3,516	3,849
		3,624	3,927
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	39	–	(1,855)
Current			
- Trade and other payables	41	(1,117)	(1,948)
- Borrowings		(1,855)	(226)
		(2,972)	(2,174)

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

43 INTRA-GROUP TRANSACTIONS

DRS Data and Research Services plc provided £760,000 (2011: £815,000) of services to its subsidiaries during 2012. 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 2011	
Amounts owed to subsidiary	(1,825)
At 31 December 2012	
Amounts owed to subsidiary	(1,006)

44 POST BALANCE SHEET EVENTS

See Note 30 for details of post balance sheet events.

DIRECTORS AND ADVISERS

DIRECTORS	Sir David Brown, Chairman* Steve Gowers Mark Tebbutt Dame Sandra Dawson* John Linwood* Alison Reed *# *Non-Executive Director #Senior Independent Director
COMPANY SECRETARY	Sally Hopwood
REGISTERED 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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