DRS

EDUCATION ELECTIONS CENSUS

Annual Report and Accounts **2014**

"As a business we continue to focus on solutions that provide for large-scale, secure capture and processing of high-stakes data."

A key objective for the business is the delivery of new products, features and related professional services

AT A GLANCE

DRS is a specialist provider of automated data capture technology and solutions in the UK and overseas to three market sectors: **Education, Elections and Census.**

DRS specialises in providing sophisticated scanning and software data capture technologies, and solutions for education, elections and censuses all over the world. Our many years of experience in the field of data capture and our unique combination of skills enables us to deliver complete solutions designed to meet market and customer demands.

FINANCIAL SUMMARY

	2014 £000	2013 £000
Turnover	13,684	18,095
(Loss)/profit before tax	(1,951)	1,269
Cash reserves	3,612	3,680
Earnings per share	(4.90p)	4.38p
Research and Development spend	2,966	2,484
Education revenue	13,027	15,450
Non-Education revenue	657	2,645

As a business we continue to focus on solutions that provide for large-scale secure capture and processing of high-stakes data, primarily from manually completed, paper-based forms and the output of the results to a fixed schedule. These results might be election counts, census results or examination marks. Two of the markets, Census and Elections, offer opportunities that, while they are high value are, by their nature, non-recurring and tend to be project based requiring specific customisation. By contrast, events in the Education market such as examinations are regular and repeatable and offer the opportunity for recurring revenue streams. We have a particular objective to maintain a stable UK revenue stream and increase revenue from the international education market.

KEY MARKETS

EDUCATION

For over four decades DRS has supported awarding bodies, assessment authorities, schools, colleges and universities in the UK and in selected overseas markets, providing secure data capture and examination processing products and specialist services.

ELECTIONS

DRS provides an end-to-end solution for electronically counted elections 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.

CENSUS

DRS Census services provide data capture solutions for large-scale censuses including paper-based national or regional population censuses and specialised industrial, commercial and agricultural censuses. Any census is a complex undertaking presenting many challenges, especially concerning the collection and dissemination of the data.

STRATEGIC REPORT

OUR BUSINESS MODEL

DRS is a specialist provider of automated time-critical data capture technology solutions to governments, education authorities and commercial organisations.

In the education market, for over four decades, DRS has supported awarding bodies, assessment authorities, universities, colleges and schools internationally with its secure examination processing data capture and marking solutions. In the UK the Company has provided electronic marking solutions for high-stakes, high-volume general qualifications such as GCSE and GCE A-level examinations since 2002.

The Company provides end-to-end hardware and software solutions for the electronic capture and counting of election ballots and the electronic capture of census data. It also provides a specialised capability for the secure printing of examination scripts, election ballots and census forms.

Since its formation the Company has become a name to trust for the delivery of time-critical, large-scale, logistically challenging projects, with experience gained through the delivery of substantial projects at a national level in the UK, Africa, the Middle-East and Asia.

CHAIRMAN'S STATEMENT

Sir David Brown
Chairman

Principal Activities

The Group had a difficult 2014, resulting in a significant downturn in revenue and profit. Group revenue for the year was £13,684,000 (2013: £18,095,000) and there was a £1,951,000 loss before tax after providing for £813,000 (2013: £nil) of impairment charges on the Linford Wood property compared to a profit before tax of £1,269,000 in 2013.

The basic loss per share was 4.90p (2013: basic earnings per share 4.38p). Cash holdings at the end of 2014 were £3,612,000 (2013: £3,680,000). The Board recommends that no final dividend be paid (2013: 0.4p per share).

The Group suffered three substantial setbacks. The structural changes to academic qualifications in the UK secondary education market caused a decline in demand for examination marking services; sales were lower in the overseas education markets for the Group's more established products and services, in particular scanners and printing; and the Group did not have any new large-scale census or election projects in the year.

As a result, UK education revenue decreased by 6.6% to £9,872,000 (2013: £10,570,000) and international education revenue decreased by 35.3% to £3,155,000 (2013: £4,880,000). Overall education revenue reduced by 15.7% to £13,027,000 (2013: £15,450,000).

The absence of new large-scale census and election projects in the year resulted in a decrease in non-Education revenue to £657,000 (2013: £2,645,000).

The reduced profitability resulting from the downturn in the Group's general level of business activity has necessitated an impairment of the value of business assets carried on the balance sheet, in accordance with International Accounting Standards. This has resulted in the value of the Linford Wood property, the Group's head office location, being reduced to its most recent commercial valuation of £1,600,000, being a reduction of £813,000 which is recognised as a non-cash impairment charge to the Income Statement. This adjustment was made in June 2014 and was reflected in the half year results.

The Board

No changes were made to the Board of Directors in 2014 but two are foreseeable in 2015. I will be retiring from the Board when my present term expires, at the conclusion of the 2015 AGM, having by then served for nearly seven years including six years as Chairman. The process to select my successor is under way. After completing his full term as a non-Executive Director, John Linwood will be retiring at the conclusion of the 2015 AGM and the Board thanks him for his service.

Outlook

The Board intends to continue to pursue a strategy of progressively strengthening and exploiting its software-based services business model so as to maintain its position in the UK market and seizing opportunities for diversification in selected education markets overseas, with a particular focus on core examination processing solutions.

In line with this strategic focus, in March 2015 we were pleased to announce a new three year contract with one of our principal customers in the UK, AQA Education, which extends our relationship to 23 March 2018.

Following the downturn in 2014 the Group implemented appropriate cost saving measures to better align operating costs with the reduced level of revenue. These measures are expected to stabilise the business and underpin a better performance in 2015.

Sir David Brown
Chairman
7 April 2015

CHIEF EXECUTIVE'S STATEMENT

Steve Gowers
CEO

MARKETS

DRS is a specialist provider of automated data capture technology and solutions in the UK and overseas to three main market sectors: Education, and non-Education consisting mainly of Elections and Census.

The Group's core business is the delivery of time-critical, large-scale, logistically challenging solutions for examination processing, elections and population censuses. We implement complete solutions using our extensive expertise in document design, printing, forms scanning, software development, logistics, project management and consultancy.

The combination of software products, professional services, scanner technology and specialised printing of forms, provides clients with robust end-to-end solutions for major data capture and processing projects.

The provision of services, scanning technology and printed forms provides the common link between the three distinct market sectors in which the Group operates. Specialised software has been created for each market sector which is combined with the above elements to produce the large-scale solutions which the Group sells.

Education

For over four decades DRS has supported awarding bodies, assessment authorities, schools, colleges and universities in the UK and in selected overseas markets, providing secure data capture and examination processing products and specialist services.

DRS is the provider of the longest established online examination marking service in the UK. Awarding bodies and professional bodies have been using electronic marking to mark high-stakes, high-volume general qualifications such as GCSE and GCE A-level examinations since 2002. AQA Education, a leading UK provider of academic qualifications, remains the Group's largest customer overall, among a range of awarding bodies and other examining entities in the UK and overseas.

The products and services provided by the Group include:

- **Software:** DRS marking and examination software including e-Marker® software for online electronic examination marking and Multiple Choice Questionnaire (MCQ) marking software;
- **Services:** full service bureau operations in the UK, providing secure receipt and storage of scripts, scanning and imaging of completed exam answer booklets and electronic delivery of online marking, as well as on-site professional services for client's in-house operations or to support partners delivering such services overseas;
- **Scanning equipment:** DRS PhotoScribe® PS900 series scanners: robust, high speed, network-ready form scanners able to capture complex data in real-time; and
- **Printed forms:** production of bespoke examination scripts including fully optimised examiner answer and mark sheets for electronic capture, exam entry and registration forms incorporating photo capture and MCQ answer forms and exam marking forms.

Elections

DRS provides an end-to-end solution for electronically counted elections including ballot 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.

We have developed knowledge and expertise through the delivery of national and local elections in a number of markets including Europe, Africa and the Middle-East. In 2012 DRS, working in conjunction with ERS (Electoral Reform Services Limited) under the name IntElect®, provided the technology and expertise for the electronic counting of ballots in London for the Mayor of London and London Assembly elections, the third time since 2000 that the Group has delivered this election. Taking place every four years, this is one of the most complex elections in the UK, with 5.8 million voters and three ballot papers per voter. In 2014 we were pleased to announce that IntElect® was awarded the contract to deliver the forthcoming election in 2016.

DRS Election software, scanning equipment and services include the following:

- **Software:** electronic counting (e-Counting) solutions for statutory and non-statutory elections including national elections, local and regional council elections and by-elections;
- **Services:** provision of professional and technical services and project management for complex election projects;
- **Scanning equipment:** DRS PhotoScribe® PS900 series scanners for ballot scanning and for voter registration; and
- **Printed forms:** ballot paper design and forms production.

Census

DRS Census services provide data capture solutions for large-scale censuses including paper-based national or regional population censuses and specialised industrial, commercial and agricultural censuses. Any census is a complex undertaking presenting many challenges, especially concerning the collection and dissemination of the data.

The Group has delivered national population censuses around the world, with several in Africa including Nigeria, Ethiopia, Malawi, Sudan, Zambia, Zimbabwe and Tanzania. In 2013 we signed a long-term agreement with the United Nations Population Fund (UNFPA) which provides a framework for census contracts in the future. The first sale under that agreement was a contract for the provision of a solution for the Myanmar census, which DRS successfully completed during 2014.

We recognise that every census project is different and that market requirements are constantly changing. DRS has therefore developed a flexible, adaptable solution combined with proven and innovative data capture methods and technology. The Group is able to provide complete bespoke solutions, including:

- **Software:** customised census software to handle Optical Mark Recognition (OMR), Intelligent Character Recognition (ICR), barcode and image;
- **Services:** provision of professional and technical services and project management to cover all stages of a project from planning through to project implementation, document scanning of enumeration/census forms using DRS PhotoScribe® PS900 series scanners, data

CHIEF EXECUTIVE'S STATEMENT
continued

processing and export of the data to a chosen analysis package for complex census projects;

- **Scanning equipment:** DRS PhotoScribe® PS900 series scanners; and
- **Printed forms:** enumeration/census forms design and printing.

STRATEGY AND BUSINESS MODEL

The Group's core business is the delivery of time-critical, large-scale, logistically challenging solutions for examination processing, elections and population censuses in the UK and overseas. Such solutions depend, in different combinations on the Group's expertise in document design, printing, scanning of forms, software development, logistics, project management and consultancy. The software element has, over time, become increasingly important such that the Group's core strategy is to develop its software-based services business. The Group's product development programmes reflect that strategy and currently the Group is directing its principal software development effort into products for its education solutions and is continuing to invest in the competitiveness of its scanners.

Education

Our core education business focuses on the delivery of solutions for student registration and examination processing and the electronic marking of high-stakes, high-volume examinations.

The business strategy is focussed on carefully selected geographies that the Group feels represent the best opportunities for growth for DRS' education products and services, with a particular focus on Africa and India, including both secondary and higher education examination processing.

The education market is a particular focus because it offers regular and repeatable business opportunities arising from the annual cycle of examinations. The Group's view is that these markets offer the necessary scale of opportunity, in terms of numbers of students, student volume growth and examination volumes to meet DRS' growth aspirations. Africa in particular is a market in which the business has built strong relationships over many years with both public and private sector specialist organisations, including national and regional awarding, assessment and educational bodies and government institutions.

Key drivers include the size and growth of the student populations in these markets, the investment being made in education by governments and individuals and the potential benefits that electronic marking offers as a replacement for what are predominantly manual processes in the majority of overseas markets. These benefits include enhancements to the data collection process by reducing transportation of answer booklets, improvements in marking quality and better use of markers through targeted allocation and re-allocation of scripts and real-time monitoring of marking, the removal of bias and improved administration and reporting of the marking process.

The e-Marker® solution provides awarding bodies with the functionality for Item Level Marking, allowing a script to be split into individual questions which may be marked by different examiners. Such a solution offers the potential for improvements in efficiency and accuracy in marking and the reduction of the influence of a single examiner over a whole script.

It is our intention to offer these services and solutions, including the e-Marker® electronic marking solution, either directly or in conjunction with carefully selected strategic partners in each of our markets.

The business model in the UK is based on direct sales and the delivery model is to offer a full bureau service, including script handling, scanning and image preparation for electronic marking and the delivery of online marking services to exam markers through the e-Marker® software as a service, supported by DRS staff.

In the overseas markets the services which support the use of e-Marker® may be offered directly or delivered through selected service provider partners to provide script handling, scanning and electronic marking services. We are currently working with a number of partners in Africa and India to develop these services and future growth opportunities will arise from the development of these channels, both to grow volume with existing customers and to open up new opportunities when applicable.

The licence model that DRS uses for e-Marker® is to charge a recurring fee, with a per-transaction (per-examination script) charge applied for the use of the licence. Other DRS solutions, such as MCQ may be licenced to clients for an up-front initial licence fee.

Elections and Census

In addition to the recurring opportunities offered by the education market, the Group is also continuing to pursue large-scale, one-off opportunities in the elections and census markets, based on DRS software applications and the Group's PhotoScribe® scanners. The focus is on national population censuses in selected markets, voter registration and ballot counting for large statutory and non-statutory elections.

Our customers require a combination of data capture, processing and reporting solutions as well as the delivery of related services which include technology infrastructure design, operational training, document printing, scanning and data handling. These solutions and services in combination result in the provision of a full end-to-end service.

A key factor in the Census market is that it is subject to a decennial cycle, with the majority of censuses being clustered on or around the decade end. Outside of those peaks there are markedly fewer projects, limited to those countries which have not held a census for some time or decide to carry out an intercensal population survey.

OBJECTIVES

As a business we continue to focus on solutions that provide for large-scale, secure capture and processing of high-stakes data, primarily from manually completed, paper-based forms and the output of the results to a fixed timetable. These results might be election counts, census results or examination marks. Elections and Census, offer opportunities that, while they are high value are, by their nature, non-recurring and tend to be project based requiring specific customisation. By contrast, events in the Education market such as examinations are regular and repeatable and offer the opportunity for recurring revenue streams. Because of this we have a particular objective to increase revenue from the education market.

A key objective for the business continues to be the delivery of new products and related professional services and the Group is continuing to invest in Research and Development (R&D) in line with its multi-year development and implementation programme for the release and roll-out of the new e-Marker® platform with a focus on new business and, over the long-term, the transition of existing clients from the legacy product to the new platform.

In the census and elections markets the primary objective is to continue to successfully meet all the milestones for the multi-year project with the Greater London Authority (GLA) for the delivery of the 2016 Mayor of London and London Assembly elections.

As a result of the current market conditions, in the short-term a particular focus will be on actions to increase resilience in the business through appropriate cost saving measures and robust cash management.

OVERVIEW OF THE YEAR

The Group had a difficult year in 2014, achieving overall revenue for the year of £13,684,000 (2013: £18,095,000) and a loss before tax prior to the exceptional item, as disclosed in Note 10, of £1,138,000 (2013: profit before tax £1,269,000).

2014 saw a reduction in Education revenue overall of 15.7% to £13,027,000 (2013: £15,450,000). The structural changes to academic qualifications in the UK secondary education market caused a decline in demand for examination marking services, which resulted in a reduction in UK Education revenue of 6.6% to £9,872,000 (2013: £10,570,000). Challenging economic conditions in the overseas market for the Group's traditional scanner and print sales, in particular in Africa, resulted in a lack of MCQ opportunities and reduced scanner sales. The weaker performance in these markets resulted in a reduction in International Education revenue to £3,155,000 (2013: £4,880,000).

In the Group's non-Education markets, while an overall reduction in revenue was anticipated, the Group had identified a prospective international census project that was expected to complete during the year. Such projects are usually large-scale opportunities generating up to £1,000,000 or more in revenue. However during the year the prospective client decided to undertake their count manually. In the absence of any other large-scale projects, this resulted in reduced census and election revenue for the year of £585,000 (2013: £2,043,000).

UK SALES

UK sales overall in 2014 were £9,892,000, a reduction of 6.9% (2013: £10,620,000) as a result of the above-mentioned market conditions.

We continue to work with AQA and our other UK clients to support the transition in their business which is arising from the government's plans to reform GCSEs and A-levels. These reforms will see the removal of modularisation, a move to a numerical grading system and the abolition of course work. The plans are for selected subjects to be ready for teaching in 2015 and the first exams to take place in 2016 and 2017.

In the UK, electronic marking has been widely adopted for general qualifications, with around two thirds of all scripts being marked on-screen. In conjunction with the current examination reforms, there are industry wide initiatives by the awarding bodies to increase the proportion of scripts marked electronically. During 2014 DRS provided electronic marking services for the majority of AQA's GCSEs and A-level scripts, for which DRS was paid a fee covering the service bureau operations for the scanning and imaging of scripts and for the delivery of DRS' online marking solution. The remaining volume, which was deemed to be unsuitable for Item Level Marking, has historically been marked manually and the results stored in e-Marker®, for which a reduced fee is charged.

FINANCIAL PERFORMANCE

	EDUCATION		COMMERCIAL		ELECTIONS AND CENSUS		TOTAL	
£000's	2014	2013	2014	2013	2014	2013	2014	2013
UK Sales	9,872	10,570	19	39	1	11	9,892	10,620
International Sales	3,155	4,880	53	563	584	2,032	3,792	7,475
Total	13,027	15,450	72	602	585	2,043	13,684	18,095

CHIEF EXECUTIVE'S STATEMENT
continued

On 24 March 2015, we were pleased to announce a new agreement with AQA Education, a leading UK provider of academic qualifications, for the provision of e-Marker® examination software and services. DRS recognises that in providing these services we compete with other suppliers and that AQA has introduced a multi-supplier model which will enable them to reduce manual marking and increase the percentage of scripts they mark electronically, while at the same time mitigating supplier risk. Over the three year term of the new agreement DRS will remain the primary provider delivering the majority of the electronic marking volume to AQA, with the principal focus continuing to be on the provision of Item Level Marking services.

INTERNATIONAL SALES

As expected, during 2014 DRS saw lower demand from overseas markets and as a result of a combination of the absence of any large-scale elections and census projects and weak demand for traditional scanner and print business, particularly in Africa, international sales overall were significantly reduced in comparison with prior years, with revenue of £3,792,000 (2013: £7,475,000).

DIVIDEND POLICY

The Board follows a dividend policy which provides a return to Shareholders whilst retaining sufficient cash to continue to fund the development of the Group's products.

As a consequence of trading conditions in 2014, the Directors do not propose the payment of a final dividend (2013: 0.4p).

RESEARCH AND DEVELOPMENT

Research and development continues to be a fundamental part of DRS' strategy. A structured programme of work to generate new products for our education business and the PhotoScribe® scanners has resulted in a significant level of expenditure in 2014. A breakdown of the investment over 2013 and 2014 is set out in the tables below:

2014	Income Statement Expense £000	Balance Sheet Expenditure Capitalised £000	Customer Projects in Progress £000	Total £000
Software Research and Development	1,192	981	-	2,173
Hardware Research and Development	491	-	302*	793
Total cash spend	1,683	981	302*	2,966
Amortisation	135	-	-	135
Total Research and Development cost (including amortisation)	1,818	981	302*	3,101

* This amount is included within Trade and other receivables.

2013	Income Statement Expense £000	Balance Sheet Expenditure Capitalised £000	Customer Projects in Progress £000	Total £000
Software Research and Development	731	1,182	-	1,913
Hardware Research and Development	548	23	-	571
Total cash spend	1,279	1,205	-	2,484
Amortisation	105	-	-	105
Total Research and Development cost (including amortisation)	1,384	1,205	-	2,589

e-Marker®

DRS' largest development programme continues to be investment in its examination marking software solution, e-Marker®. 2014 saw the completion of the first components of the new e-Marker® platform, despite delays in development, which will provide improvements and new capabilities, including whole script marking, that will provide benefits to customers in the UK and internationally over the next few years. This is the foundation of a continuing development programme for DRS' examination product suite, with the goal of enhancing and ultimately superseding the current e-Marker® product.

In 2015 further functional enhancements to the new e-Marker® platform will be developed based on the new platform.

PhotoScribe®

During 2014 development work continued on the next generation of PhotoScribe® scanning machines, a new platform for a range of machines that can handle larger documents than the current PS900 range. The new model, the PS1000, should demonstrate faster scanning throughput with greater paper handling tolerances and produce higher definition images.

The new PhotoScribe® PS1000 scanner will go through a series of prototype and pre-production stages during the course of 2015 prior to commencing the initial manufacturing build stage, which will continue into 2016.

LIQUIDITY AND TREASURY MANAGEMENT

The Group held £3,612,000 in cash at the end of 2014 (2013: £3,680,000). A high-volume of sales during December 2013 resulted in a year-end trade and other receivables balance of £4,056,000. Trade and other receivables have been reduced during 2014 to £1,452,000 and the cash inflow has offset the cash outflow resulting from the trading loss and the investment in developing new products. The Group continues to maintain 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 be 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 £180,000 credit line to cover operational performance bonds required in the general line of business. In January 2013 the Group extended its mortgage facility with Barclays Bank plc to 2018. The balance on this mortgage at the end of 2014 was £1,506,000 (2013: £1,731,000).

In view of these arrangements the Directors believe the access to cash resources is adequate to meet liabilities as they fall due over the next 12 months.

FINANCIAL RISK MANAGEMENT

Internal financial controls are based upon a budgetary process which begins with the Board agreeing a three year strategic plan detailing 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 performance targets 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 ongoing 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 consolidation and analysis of material variances. The Audit Committee reviews the application of International Financial Reporting Standards and any significant accounting judgements made by management. The process remains 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 appropriate action is taken promptly to remedy significant weaknesses which may be identified.

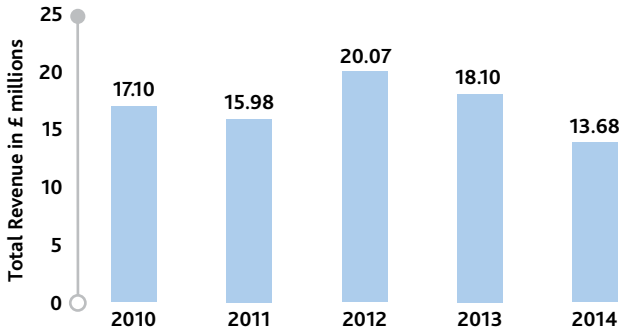
Details of the financial risk management objectives and policies of the Group, and exposures to financial risks are given in Note 4.1 to the financial statements.

CHIEF EXECUTIVE'S STATEMENT
continued

KEY PERFORMANCE INDICATORS (KPIs)

The Company uses a number of performance indicators throughout the business to monitor the Group's performance. The seven KPIs presented below are considered to be the main measures which monitor that performance is in line with the Group's strategy covering 2010 to 2014.

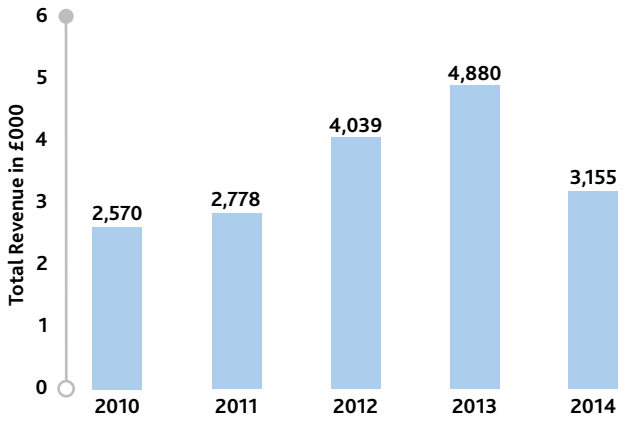
1. Total Revenue



Revenue performance tracks the level of activity of the business. Monitoring revenue provides a means of measuring growth in the business. Elections and census projects tend to be large-scale, infrequent and non-recurring and this leads to significant fluctuations in the Group's revenue. The focus on examinations and assessment within education provides the opportunity to build a stable base of consistent recurring revenue.

In 2014 there was a year-on-year decline of 24.4% in total revenue. UK revenue declined by 6.9% and international revenue declined by 49.3%. Changes to academic qualifications in the UK secondary education market caused a decline in examination marking services resulting in a fall in UK revenue. International markets proved more challenging with DRS experiencing reduced activity in all its international markets demonstrated by the absence of a census contract, MCQ contract and reduced levels of legacy scanner and print business. A more detailed year-on-year analysis of revenue is provided in Note 5 Segmental Information.

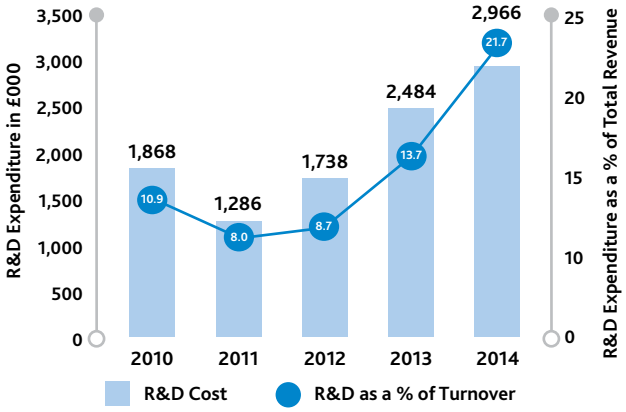
2. International Education Revenue



International education revenue is seen as a principal area for the Group to generate sustainable sales growth. DRS experienced challenging trading conditions in all its international markets and the 35.3% decline in international education revenue was unexpected. An MCQ deal to match the Southern Nations MCQ deal in 2013 was not found and there was a £1,000,000 reduction in legacy scanner and print business.

3. Research and Development expenditure (cash expenditure excluding amortisation)

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 software and hardware products to maintain a competitive advantage is very important. Research and Development expenditure is recorded on a monthly basis to monitor the level of expenditure and ensure investment in comparison to the level of recognised revenue provides a balance between spend and profitability.

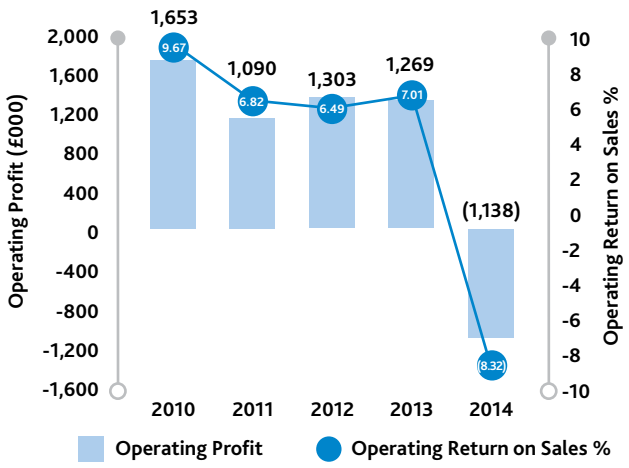


There are currently two main ongoing product development activities. Firstly, there is a new version of the e-Marker® examination marking product under development and the first components of this new product are expected to be released in summer 2015. This will enable DRS to offer a broader range of examination marking solutions. Secondly, a new version of DRS' PhotoScribe® scanner is planned for the second half of 2015. The existing level of investment is planned to continue throughout 2015.

4. Operating Return on Sales

The operating return on sales is based on loss/profit before income tax adjusted for discontinued operations* and exceptional items° expressed as a percentage of total revenue. The strategy and business model of the Group covers three very different market sectors and the solutions delivered into these markets often involve an element of tailoring to meet customers' needs. Monitoring the direct cost of project delivery and ensuring adequate controls are in place to ensure they are delivered within budgeted project costs is an important part of the internal controls within the business.

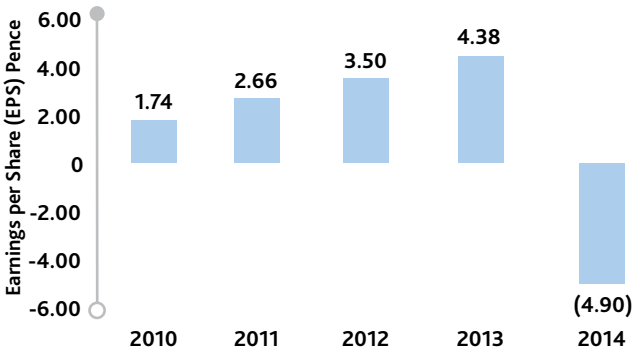
The percentage operating loss on sales for 2014 was 8.32% as a consequence of the 24.4% fall in total revenue. Cost savings have been implemented across the business to reduce the cost base in line with the lower revenue expectation, but the initial cost associated with reducing the number of employees to produce ongoing operational savings has had a limited impact on 2014.



* The profit before income tax figures for 2010 is adjusted by £328,000 for discontinued operations in respect of the sale of Peladon Software Inc in September 2010.

° The loss before income tax figure for 2014 is adjusted by £813,000 relating to the impairment charge against the carrying value of the Linford Wood property.

5. Earnings per Share



Earnings per share is a principal measure used by the Board to measure the overall profitability of the Group. The Board measures earnings per share as part of the performance criteria for the Executive Directors' long-term incentives and it provides a standard by which Shareholder returns are assessed.

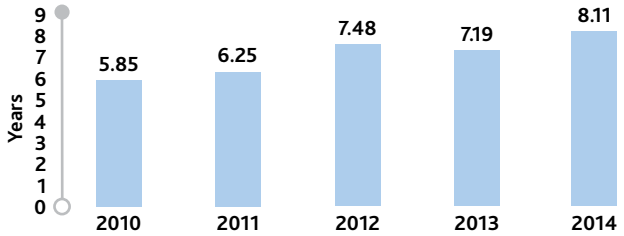
There are two main reasons for the 9.28 pence fall in earnings per share from 2013 to 2014. The principal reason is due to the 24.4% decline in revenue year-on-year. A further 2.56 pence fall in earnings per share is a consequence of the impairment of the Linford Wood property. The 2014 loss per share before impairment is 2.34 pence.

6. Employees' Average Length of Service

Retaining staff and ensuring the right mix of skills is maintained is particularly important to DRS 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 maintain our competitive edge. The average length of service calculation is based on the permanent monthly workforce.

In 2014 the Group employed an average of 238 full time equivalent employees (2013: 255) of which 185 (2013: 186) were permanent monthly paid and 53 (2013: 69) were weekly paid temporary workers that cover the peaks of operational activity.

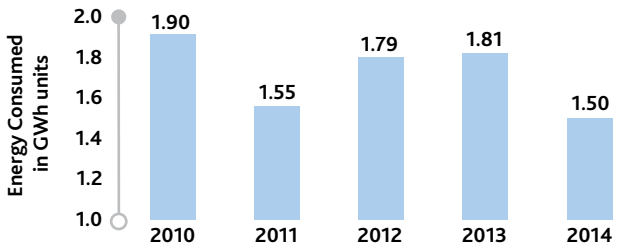
The number of permanent monthly paid full time equivalent employees peaked in May 2014 at 203. Subsequent cost saving measures led to some roles being made redundant and a freeze in recruitment during the second half of the year resulted in the monthly full time equivalent employees decreasing to 161 in December 2014.



7. Total Energy Consumed

Energy companies often initially estimate usage and then charge for actual usage retrospectively. The 2014 usage is the latest usage estimate and last year's 2013 estimated use of 1.73 GWh has been restated at 1.81 GWh actual usage.

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 2014 decreased by 17% compared to 2013. Whereas energy saving initiatives continue to be implemented, such as energy efficient lighting, the main users of energy within the business are the print presses. A 51% fall in the level of print activity accounts for the majority of the energy saving. Further details on energy usage are provided in the Greenhouse Gas Emissions Report on page 27.



CHIEF EXECUTIVE'S STATEMENT
continued

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	IMPACT	MITIGATION
MARKET **Political and geographical uncertainties**	Changes to national and political policies or uncertainties over environmental stability could lead to sudden changes in the size of the market or delays in implementation of solutions.	In light of the market setbacks in 2014, DRS seeks to work even more closely with its customers and regulatory authorities to which they are accountable to understand the environments in which they operate and the changes they encounter in order for DRS to anticipate the impact on the business.
PRODUCT **Products meet market requirements**	There is a risk that the Group fails to develop its products on a timely basis to meet customer and market expectation, for reasons such as poor market understanding, poor programme management or loss of key individuals. In respect of software, this could materially impact the objective of rolling out the new examination marking software. In respect of hardware, this could result in the new PhotoScribe® scanner not being available to meet product launch deadlines. Both these would adversely affect revenue and for software, the balance sheet value of intangible assets.	The approach to product development is to prepare details of the functional requirements of the product being developed prior to preparing an analysis of the work for the current release which is broken down into milestones that are measurable and costed. These details are reviewed by the DRS Data Services Limited executive directors monthly as part of their regular management reporting process. In respect of software products, the business looks to undertake pilots with prospective customers to evaluate its performance. The Group Board regularly challenges the executive on the delivery status of the critical product development projects.
STRATEGIC **Over reliance on key customers**	There is a risk that the Group's business model of focussing on large-scale, technically complex projects places over-reliance on a small number of key customers tying up the Group's working capital. This could result in revenue and profit volatility.	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. An evaluation of the resource requirements is undertaken at the start and end of each supply to identify savings and efficient use of working capital. It is a core strategy to focus on the international education market to increase geographical diversification in new areas that offer sustainable recurring revenue growth.
STRATEGIC **Effect of complexity of customer environments on working capital and other resources**	The risks associated with providing large-scale technically complex solutions which are automating previously manual processes require comprehensive planning and a phased delivery to implement effective change, putting abnormal demands on the Group's working capital requirements and a corresponding delay of revenue generation. For example, the Group is a party to a significant contract to provide the technology and expertise for the electronic counting of ballots in London for the Mayor of London and London Assembly elections in 2016.	The Group's strategic approach takes into account the need to plan ahead to ensure capacity and access to adequate finance and resources are available along with investing in the development of its people, products and services. This places a high level of importance on ensuring the right mix of skills and knowledge is retained in the business. In respect of significant contracts, the Group recognises the need to identify and work with specific third-parties that provide expertise and complementary skills to enable delivery of the contractual requirements.
STRATEGIC **Appropriate resource and resilience to meet market and customer requirements**	DRS may not have sufficient resources and resilience to be able to realign the business to keep up with changing market and customer requirements, or to respond to the failure to deliver a major software or hardware development project.	DRS has adjusted its cost base and organisational structure in line with the current outlook. Product development is focussed on delivering customer requirements and where possible product is piloted with customers to obtain user perspective. DRS continues to focus on key opportunities that will enable it to achieve its strategic objectives.
OPERATIONAL **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 has engaged in an ongoing improvement programme to ensure the use of up-to-date business practice and appropriate hardware, infrastructure and software allow security measures to be applied, maintained and controlled at a suitable level to meet the needs of both customer and corporate obligations. The Company continues to be certified to BS ISO/IEC 27001:2005 and is required to realign to 27001:2013 in June 2015.
OPERATIONAL **Infrastructure and process resilience**	Any substantial business disruption, whatever the cause, could significantly impede our ability to operate as usual. This could be as a consequence of the lack of 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, reputational damage and loss of revenue and profit.	Certification of compliance to Business Continuity Management has been in place since February 2012 (Standard ISO 22301:2012). The recent changes to the Standards the Company adheres to requires ongoing review of the processes and controls supporting business continuity and incident management. 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.
OPERATIONAL **Employee recruitment and retention of appropriately skilled staff**	The business model requires the design, development and implementation of technically complex solutions that makes the business very dependent on the skill of a number of key personnel.	Recruitment, retention and development of key staff is a priority for DRS and a high value is placed on identifying and supporting key personnel throughout the business whilst the necessary skills are developed to meet future requirements in order to reduce reliance on a number of key personnel.

This section sets out the principal risks and uncertainties facing the Group, but is not exhaustive. These risks have the potential to impact our business, revenue, profits, assets, liquidity or capital resources.

The Board has overall responsibility for managing risks affecting the Group. A risk management framework has been developed and adopted across the organisation. The Board regularly reviews either directly, or through the Audit Committee, the effectiveness of our risk management framework and internal controls. The risk management framework provides reasonable assurance that significant risks are identified and addressed but there may be risks that are unknown or presently judged to not be significant, that later prove to be significant.

The principal risks currently facing the Group are set out on page 16, but are not arranged in order of relative impact or probability.

EMPLOYEES

We respect and value the individuality and diversity that each of our employees brings to the business. We are committed to equal opportunities and the development of our people to realise their potential, in line with best practice and in accordance with our Investors In People accreditation. As at 31 December 2014 100 of our employees out of a total of 168 were male and 68 were female. Of these 18 were senior managers, 13 of whom were male and 5 were female. In terms of the Company's Board of Directors there were 6 Directors, 4 male and 2 female.

CAUTIONARY STATEMENT

This Strategic Report 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 report. 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

To address the downturn in revenue in 2014, we have taken action to reduce the operational costs of the business in line with the current revenue expectation.

There are two major projects to be delivered in 2015 which are both very important to the future success of the business. These are meeting the milestones of the Greater London Authority (GLA) for the delivery of the 2016 Mayor of London and London Assembly elections, a key requirement of which is the completion of development of the new PhotoScribe® PS1000 scanners for a user acceptance test in Q4 2015 and the delivery of a pilot project for the new e-Marker® platform planned for the second half of 2015, to obtain external user assessment of the product.

We believe that the successful delivery of these goals will provide a firm foundation for delivery of the Group's Strategy.

Steve Gowers
Chief Executive Officer
7 April 2015

REPORT ON CORPORATE RESPONSIBILITY

INTRODUCTION

The Board believes that sound management of environmental, governance and social issues has a key part to play in the successful delivery of the Company's business strategy and objectives. 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 responsibility at DRS is focussed on the following 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 society and our environment and contribute to our community.

These responsibilities continue to be supported by the KPIs referred to on pages 14 - 15 and are considered in the management of its risks using a framework which deals with the risks and opportunities directly connected to delivering the Company strategy and objectives. These risk management practices are informed by corporate governance principles and ISO 31000 2009, the international standard for risk management. The Principal Risks and Uncertainties on page 16 and the Corporate Governance Statement on page 28 provide further information on the Company's management of risk.

The Company's policies relating to corporate responsibility and the environment are reviewed annually by the Board. They are implemented throughout the business and are followed by our staff.

Our Business Standards

The Company retains its certification to the following standards which contribute to the way in which business is conducted with all our suppliers, customers and other partners:

- ISO 27001:2005 - for the quality of its information security management systems 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;
- BS EN ISO 9001:2008 - for quality management which is helping the Company to focus upon meeting our customers' stated requirements;
- BS ISO 22301:2012 – Business Continuity Management System. The Group successfully transitioned from BS 25999-2:2007 to the replacement, internationalised version of the standard during May 2014. The business driven processes that this system provides, continue to be proactively improved to ensure increased resilience to any disruption that could affect our ability to achieve our key objectives.

Human Rights in DRS

Respect for the rights of others guides DRS in much of its work in the UK and overseas.

When working with customers, suppliers and partners, the importance of complying with applicable laws is emphasised in our relationships and is supported by the contractual documentation we use. Workers operating on behalf of the Company anywhere in the world must be afforded satisfactory labour conditions that meet our requirements of cleanliness, safety and services. Inspections are often undertaken by DRS personnel who make themselves available to answer workers' concerns. All workers are required to be aged at least 16 years.

In the UK our staff are supported by policies intended to deliver a workplace that promotes dignity and respect. A proactive approach is taken to any circumstance which could potentially damage health or a colleague's ability to carry out their role safely. Examples include a stress management policy operating alongside the Employee Assistance Programme and the Anti-Harassment and Bullying Policy, which is strictly enforced.

Customers, Suppliers and Partners

Our working relationships remain a high priority throughout DRS.

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.

The Company's in-house legal and contract management teams assist with finalising business terms and help to ensure all concerns are dealt with in a timely manner and obligations are met by the contracting parties.

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 the Bribery Act 2010 (The Act)

The Company operates a Code of Business Ethics with all its stakeholders and works only with organisations which recognise responsibility for upholding this Code. The Company's terms and conditions of trading and relevant trading policies are regularly 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 are subject to the terms of the Group's Anti-Bribery Policy and 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 here and abroad. These training modules are reviewed and updated annually. Our employees are also advised of ongoing developments in the field of corruption control which may have an impact on the business.

Our Employees

We employed 168 people on the payroll as at 31 December 2014 compared with 204 in 2013. The annual employee turnover rate for the year is estimated to be 31.69%, including roles which were made redundant during the year which compares with 15.7% in 2013.

The Board is committed to clear and effective communication with all DRS colleagues and staff are kept informed of the development of the Group's operations. Meetings are held on a quarterly basis and all staff are encouraged to attend and raise questions and concerns with the CEO and Directors. Senior managers also meet quarterly with the Company's Directors. News items and various information bulletins are published throughout the year on the Group's intranet site.

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

Training and development of all new and existing employees remains a commitment. The Group ensures that the skills and abilities of all staff are developed to meet current business objectives and each individual's personal development. Partners are also trained to comply with many 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 is appropriate and meets the professional and personal goals 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.

A Group Personal Pension Plan is open to all employees which complies with the contributory requirements of auto-enrolment introduced under the Pensions Act 2008.

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

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

REPORT ON CORPORATE RESPONSIBILITY
continued

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 refresher training when appropriate, 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 2014 there was 1 reportable and 12 minor accidents compared with 15 minor accidents in 2013.

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 staff via the Company's intranet site.

An ongoing training programme of fire safety and evacuation and first aid is provided.

Employees can participate in the Group's various sports and social clubs including golf, badminton and netball. A golf tournament is held annually and is open to all staff. The Group 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 2014 we recycled 111.0 metric tonnes (151.3: 2013); the decrease being due to reduced levels of print production in the business. The environmental 'Green Team' provides a focus for environmental considerations and assists in raising environmental awareness in the organisation.

Staff are 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 be reviewed. Details on the Group's Greenhouse Gas emissions are set out on page 27 of the Directors' Report. For details on energy usage see KPI information on page 15 in this report.

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

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

Our 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 institutional investors are also invited to attend a presentation on the annual results.

Our Community

The Group is committed to supporting and sponsoring employees who wish to undertake charitable or community related activities. During the year the Company supported the initiative of an employee who raised funds for Aspire, a national charity which supports people with spinal cord injuries.

The Strategic Report as set out on pages 5 - 20 has been approved by the Board.

ON BEHALF OF THE BOARD

Steve Gowers
Chief Executive Officer
7 April 2015

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Sir David Brown

Non-Executive Chairman | Chair of Nomination Committee

Sir David Brown was appointed to the Board 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 Limited. 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.

Alison Reed

Non-Executive Director
Senior Independent Director | Chair of Audit Committee

Alison Reed was appointed to the Board as a non-Executive Director in January 2011 and as Senior Independent Director on 25 May 2011. 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 Newday Ltd. She is also a Trustee for Whizz-Kidz. Alison qualified as a Chartered Accountant after graduating from Exeter University.

John Linwood

Non-Executive Director | Chair of Ethics Committee

John Linwood was appointed to the Board as a non-Executive Director in January 2012 and became Chair of the Ethics Committee in May 2012. John is Chief Technology Officer of Wood MacKenzie. He has 30 years of technology experience, including 15 years' delivery of internet-based services to global audiences and has held senior positions at Microsoft, Yahoo and the BBC.

Dame Sandra Dawson DBE

Non-Executive Director | Chair of Remuneration Committee

Dame Sandra was appointed to the Board as a non-Executive Director in February 2012. She graduated from Keele University and has experience in academia, government and financial services. Dame Sandra is KPMG Professor Emeritus of Management Studies at Judge Business School, Cambridge, a non-Executive Director of TSB Banking Group plc, Winton Capital Group, the Institute for Government, The SSRC (USA), The American University of Sharjah and a member of the UK India Round Table. Her previous appointments include non-Executive roles at Oxfam, Barclays Bank plc, JP Morgan Fleming Claverhouse Investment Trust plc and the Financial Services Authority and membership of the Prime Minister's Council for Science and Technology. She was also formerly one of the Deputy Vice Chancellors of the University of Cambridge (2008-2012), Director of Judge Business School (1995-2006) 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, and in 2006 she was inducted into the International Women's Forum (IWF) Hall of Fame.

Steve Gowers

FCCA

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 roles as Chief Technology Officer and Director of Development at Misys and at Oracle Corporation, including a period of time in the USA. Steve has also held senior positions in professional services roles. He is a Fellow of the Association of Chartered Certified Accountants.

Mark Tebbutt

FCMA

Finance Director

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

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 2014.

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

CORPORATE GOVERNANCE

The Corporate Governance Statement on page 28 forms part of this Directors' Report and provides information concerning the meetings of the Board and its Committees which took place in 2014. The Corporate Governance Statement is available on the Company's website at: *www.drs.co.uk/corporate.*

The Appointment of Directors

Subject to the terms of its Articles of Association, the Company may by ordinary resolution appoint any person who is willing to act as a Director. The Board may also appoint a Director either to fill a vacancy or as an addition to the existing Board, which appointment shall continue until the next AGM when it will be subject to re-appointment by ordinary resolution of the members. The Articles require a minimum of two Directors and there is no maximum number that may be appointed to the Board. The Company may, also by ordinary resolution, remove a Director before the expiry of his/her term of office and may, subject to the Articles, appoint another person who is willing to act, as a Director in his/her place.

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 appear on pages 22 - 23. All of the Directors served on the Board throughout the year. At the AGM in 2014, Alison Reed and Steve Gowers were re-elected to the Board.

Sir David Brown will retire from the Board at the end of the 2015 AGM when he will have completed his second term. A recruitment process to identify his successor has commenced. John Linwood will retire from the Board at the end of the 2015 AGM having completed his full term as a non-Executive Director.

Under the Articles of Association, each Director is required to retire from office at the AGM unless he/she was appointed or re-appointed as a Director at either of the last two AGMs before that meeting. In accordance with this rule, Sandra Dawson is retiring by rotation at the forthcoming AGM and, being eligible, will offer herself for re-election.

Dame Sandra Dawson: Sandra was appointed to the Board as a non-Executive Director with effect from 1 February 2012 and Chairs the Remuneration Committee. In November 2014 she indicated her willingness to continue these roles for a second term of three years and her nomination was approved by the Board. Her current letter of engagement will expire on 31 January 2018 and may be terminated by either party giving not less than one month's notice to the other or by the Company with immediate effect in certain circumstances. No compensation is payable on termination of Sandra Dawson's appointment. The Board confirms that Sandra continues to make an effective and valuable contribution to the Board demonstrating commitment to the role and unanimously supports her 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 are given in the Directors' Remuneration Report on page 34.

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.

Indemnity Provisions

There were no qualifying third party indemnity provisions or qualifying pension scheme indemnity provisions put in place or in force in the financial year for the benefit of Directors of the Company or for the benefit of Directors of associated companies.

Directors' Responsibilities

The statement of Directors' Responsibilities in preparing the Financial Statements and the Annual Report can be found on page 50.

Directors' Disclosure of Information to the Auditor

The following statement applies to the individuals who were Directors of the Company on the date this report was approved:

(a) so far as the Directors are aware there is no relevant audit information of which the Company's auditor is not aware; and

(b) the Directors have taken all reasonable steps that he/she ought to have taken as Directors to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of such information.

SHAREHOLDERS

Shareholders with significant direct or indirect holdings in the securities of the Company.

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 excluding Treasury shares:

Rank	Shareholder	Shares	% IC
1	Mr Malcolm Brighton	7,079,697	21.66
2	Discretionary Unit Fund Managers	2,350,000	7.19
3	Mr J S Rockliff	2,155,000	6.59
4	Mr Gary Brighton	2,000,000	6.12
5	Ms Jennifer A Brighton	2,000,000	6.12
6	Mr Mark Brighton	2,000,000	6.12
7	Charles Stanley	1,226,622	3.75
8	CriSeren Investments	1,010,000	3.09

Relationship Agreement

The Company is required to comply with the Listing Rules introduced last year relating to controlling Shareholders. For the purposes of the Listing Rules Malcolm Brighton, Gary Brighton, Mark Brighton and Jennifer Brighton (the Family) are deemed to be a controlling Shareholder of the Company as a result of the Family exercising or controlling more than 30% of the voting rights of the Company. Under the terms of a Relationship Agreement with the Family it has been agreed that the Company will at all times be capable of carrying on its business independently and that all transactions and arrangements between the Company and the Family will be conducted at arm's length and on normal commercial terms. The Company has complied with the terms of the Relationship Agreement and, so far as the Company is aware, the Family and the Family's associates have also complied with the terms of the Relationship Agreement.

Structure of Capital
Disclosure and Transparency Rule 7.2

The Company's share capital is as follows:

Ordinary shares of 5p each at 31 December 2014 and 2013

	Number	£000
Allotted, issued, called up and fully paid	34,621,600	1,731

Further details are provided on the Company's share capital in Note 18.

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 Company is not aware of any agreement that may result in restrictions on the transfer of shares or on any voting rights.

The Directors were granted specific authority to issue the Company's shares in certain circumstances, at the Annual General Meeting in 2014. That authority will expire at the forthcoming Annual General Meeting at which the Directors will be seeking a similar authority. Further details are provided in the Notice of Annual General Meeting which accompanies this report.

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

The Corporate Governance Statement sets out the steps taken by individual Directors and by the Board as a whole to develop and maintain contact with the Company's Shareholders.

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 19 August 2015 or at the 2015 Annual General Meeting, if earlier. Resolution 6 as set out in the Notice of 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 2016 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 19 August 2015 or at the 2015 Annual General Meeting, if earlier. Resolution 7 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 renewed) will expire 15 months after the date of passing of the resolution or, if earlier, at the 2016 Annual General Meeting.

DIRECTORS' REPORT
continued

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 8 as set out in the Notice of 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 2016 Annual General Meeting.

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 issued share capital.

KEY CONTRACTUAL ARRANGEMENTS

AQA Education

In March 2015 a three year contract with AQA Education 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. AQA may terminate the agreement if there is a transfer of overall control of DRS Data Services Limited or if DRS Data Services Limited no longer has exclusive ownership of the e-Marker® software. Details of e-Marker® development are provided in the Strategic Report.

Changepond Technologies - Private Limited of Chennai

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 imminent development of the next generation of e-Marker® software.

Greater London Authority (GLA)

DRS Data Services Limited, operating as IntElect® its joint operation with Electoral Reform Services Limited, has been retained to provide electronic counting and related supplies and services to the GLA in connection with the ordinary elections in 2016. In the event of a change of control of that company, it is required to give reasonable notice to the GLA which retains the right to terminate the contract if such a change of control should occur.

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.

Auditor

The auditor, Grant Thornton UK LLP, has indicated its willingness to continue in office. Resolution 4 proposing the re-appointment of Grant Thornton UK LLP is contained in the Notice of 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 cash flows, liquidity position and borrowing facilities. The Group meets its day-to-day working capital and other funding requirements through a combination of long-term funding and short-term cash holdings.

In 2014 the Directors implemented cost saving measures to reduce the Group's cost base in line with the reduction in revenue. A detailed analysis of resource and cash flow requirements relating to the Group's main contractual commitments for 2015 and 2016 was undertaken. This cost restructuring was presented to Barclays Bank resulting in the mortgage covenants being renegotiated to support the three year financial plan. The mortgage arrangement remains unchanged other than the covenants (see Note 20 on Borrowings).

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 section Liquidity and Treasury Management within the Strategic Report on page 13.

A financial plan has been prepared incorporating realistic assumptions taking into account the reduced operational capacity of the business. Based upon this financial plan, 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, accordingly, the Directors believe it is appropriate to continue to adopt the Going Concern basis of accounting in preparing the annual financial statements.

Amount of Interest Capitalised by the Group

No interest was capitalised by the Group in 2014.

ENVIRONMENTAL AND SOCIAL ISSUES

Environmental and social issues are reviewed within the Report on Corporate Responsibility. This report also sets out information on the number of persons employed in the business during 2014.

POLITICAL DONATIONS

The Company does not make political donations.

GREENHOUSE GAS EMISSIONS REPORT

Organisational Boundary

This report covers the DRS Group comprising DRS Data and Research Services plc and its subsidiary company DRS Data Services Limited which operate from premises comprising nine mixed units in Milton Keynes. This number has increased by one since the last report.

Period Base Year and Base Year + 1

The date provided is for the baseline year of 1 January to 31 December 2013 and subsequent operating year 1 January to 31 December 2014. The baseline is considered to remain appropriate. Should there be any significant changes to the business undertaken by the Group then the baseline may be recalculated using a more appropriate metric – "significant" being a change in premises or other major change in business operations.

Quantification and Reporting Methodology

We continue to follow the UK Government Environmental Reporting Guidelines.

The chosen intensity measure is CO_2e against £ revenue. The CO_2e figures are based upon Scope 1 and Scope 2 activities as defined by the Greenhouse Gas Protocol using the UK Government GHG Conversion Factors.

GHG Emissions from Current Reporting Year:

Emissions from:	2014 Tonnes of CO_2e	2013 Tonnes of CO_2e
Combustion of fuel and operation of facilities	20	34
Electricity, heat, steam and cooling purchased for own use	673	705
Emissions reported above normalised per £000 revenue	0.0506	0.0408

Variation between Current Reporting Year and Base Year

Although the emissions have decreased by 6% overall despite the addition of an extra operating unit, the emissions reported normalised per £000 revenue have increased by 24% due to the reported fall in revenue during 2014.

Assurance and Verification

Utility data is provided from visual inspection, supplier reports, monthly meter readings and billing information received. The utility data is verified by the Finance Team.

DIVIDENDS

The Directors do not recommend a dividend for 2014 (2013: 0.4p). Further details concerning the dividend policy can be found in the Strategic Report on page 12.

ARTICLES OF ASSOCIATION

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

RESEARCH AND DEVELOPMENT

Please refer to page 12 of the Strategic Report where the Company's activities in respect of Research and Development have been disclosed.

FUTURE DEVELOPMENTS

Please refer to the Strategic Report set out on pages 5 - 20 where the Future Developments have been disclosed.

EQUAL OPPORTUNITIES AND EMPLOYMENT OF DISABLED PERSONS

Employment policies are designed to provide equal opportunity irrespective of age, gender, sexual orientation, disability, religion, race or marital status. Full consideration is given to applications for employment by and the continuing employment, training and career development of disabled people.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 1 Danbury Court, Linford Wood, Milton Keynes, Buckinghamshire, MK14 6LR on 18 May 2015 at 3.00pm. The Notice of Annual General Meeting and explanation of the business to be put to the meeting has been sent to Shareholders with this Report.

DIRECTORS' REPORT
CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement forms part of the Directors' Report which begins on page 24. The Business Model of the Company is described in the Strategic Report which also contains a description of the Principal Risks and Uncertainties. A review of Going Concern has also been provided on page 26.

Compliance Statement

The Board is responsible for good governance. It reviews its procedures regularly to ensure high standards of corporate governance are maintained. The Company complies with the provisions set out in the UK Corporate Governance Code published in September 2012 (the Code) which is applicable to the accounting period ending 31 December 2014. The Board has noted that the provisions of the revised Code published in September 2014 will apply to the 2015 financial year. The Code can be reviewed on the website of the Financial Reporting Council at www.frc.org.uk. This statement and the Directors' Remuneration Report describes how the Board has applied the main principles of good governance as set out in the Code during the financial year.

Having reviewed the main principles of the Code, the Board is satisfied that throughout the accounting period ended 31 December 2014, the Company has complied with the main principles. This statement 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 25.

Leadership

The Board is led by the Chairman, Sir David Brown. The Board is responsible to the Shareholders for the performance and long-term success of the Company. It provides effective leadership and prudent control of the Group comprising the Company and DRS Data Services Limited.

The Chairman is responsible for leadership and for the workings of the Board. He sets the agenda for all Board meetings and ensures it operates effectively in all aspects of its role. He also oversees the composition of the Board and reviews the balance of skills, experience, independence and knowledge. David Brown 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 22. During the year he was also Chairman of the Ofcom Spectrum Clearance Finance Committee until July 2014 when the Committee was disbanded having completed its purpose.

In May 2012 he was appointed Chairman for a second term of three years. This appointment will expire at the end of the 2015 Annual General Meeting when he will retire from the Board, having completed his second term.

The roles of the Chairman and the Chief Executive Officer are separate and their responsibilities are clearly established, set out in writing and agreed by the Board.

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

The Board of Directors

At Board meetings, the discussion is open and supported by relevant written information. All Directors contribute to the debate and no individual or small group of Directors dominate the debate.

The Board has specific duties which it does not delegate. These are set out in the formal schedule of matters reserved to the Board. These include:

- setting and monitoring strategic objectives and reviewing the performance of the Group against those objectives;
- approving the annual budget and business plans;
- responsibility for the Company's governance and the evaluation and management of continuing and emerging risks; and
- approving the Group's capital expenditure.

The Board also regularly considers the Group's financial and human resources needs to enable the Group's strategic objectives to be met.

Board Composition and Diversity

The majority of the Board's members are non-Executive Directors.

At 31 December 2014 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

The non-Executive Directors' letters of appointment will be available for inspection by Shareholders at the Company's registered office on the day of the AGM.

Board members bring a variety of commercial experience to their work with DRS. The non-Executive Directors challenge the Board in its thinking and assist with great effect in the development of the Company strategy and the management of its risks. Principal Risks and Uncertainties are reported in the Strategic Report on page 16.

Having carefully reviewed the relevant circumstances with each non-Executive Director and having considered the guidance provided in the Code, the Board is of the view that Alison Reed,

John Linwood and Sandra Dawson remain independent while retaining sufficient knowledge of the Company to discharge their responsibilities effectively. David Brown was independent when first appointed to the Board in 2008.

Alison Reed is the Senior Independent non-Executive Director and is available for Shareholders to contact with matters of concern. She is the contact for whistleblowing 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.

Diversity

The Board is committed to its established policy of drawing on the diversity of talents and skills in the communities within which it operates to build and maintain the strong teams needed throughout the Group to deliver business success. All appointments are made on merit, taking the benefits of diversity fully into account. It is considered inappropriate to set gender targets but gender distribution is monitored. The Board applies the same policy to its own composition. At the end of the year the gender balance of total Group employees was 40% female and the gender balance of the Board of Directors was 33% female. The Chief Executive's Statement provides further detail on the diversity of the Group's employees.

Board Succession and Appointment

The process for Board appointments is led by the Nomination Committee and details of the formal transparent procedures it undertakes for new Board appointments are set out later in this report. No changes to the Board's composition took place within the year under review.

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

The biographical details of Sandra Dawson can be found on page 23.

After full and careful consideration the Board has determined that Sandra Dawson continues to display the necessary knowledge, skills, commitment and energy and recommends her re-election as a Director of the Company.

Board Effectiveness and Training

Together with the Company Secretary, the Chairman ensures the Board is kept informed and consulted on all issues that are reserved to it. Directors undertake a thorough induction on joining the Company which includes meetings with the Company Secretary, the Senior Independent Director, the CEO and senior executives. A pack of information is also provided by the Company Secretary. Its purpose is to introduce the Directors to the responsibilities of the office and the procedures and practices the Company has implemented for good governance.

Comprehensive papers are prepared in advance of each Board and Committee meeting. These are circulated a week prior to the meeting to assist Directors in their knowledge of the subject matter to be discussed. Every month the Company Secretary reports on recent developments of corporate governance matters, best practice and legislative and governance changes which may affect the Board's considerations. Directors may also obtain further information from any manager or employee of the Company and there is a process to obtain independent advice from external advisers, consultants or any such further professional individual or entity at the Company's expense. The Company maintains appropriate liability insurance for the benefit of its Directors.

Every Director refreshes and updates their individual knowledge, skills and expertise by receiving relevant and appropriate information.

Non-Executive Directors' knowledge of the Company's business is enhanced when Board and Committee meetings are attended by senior managers working in key areas such as business continuity and improvement and product strategy.

Board Meetings

Board meetings are scheduled monthly, and the Board will meet as regularly as necessary in order to discharge its duties effectively. In 2014 twelve board meetings were held with the agenda and supporting papers being circulated one week in advance of each meeting. There were, in addition, four meetings convened and held as conference calls. The attendance record of each Director is set out on page 32 of this report.

The non-Executive Directors led by the Senior Independent Director met once during the year to review the Chairman's performance. The Chairman held meetings during the year with the non-Executive Directors and without the Executives being present.

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.

Nomination Committee

The process for Board appointments is led by the Nomination Committee which meets as required to propose to the Board, 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

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Continued

requirements and the job descriptions for specific appointments. The Committee is chaired by David Brown. Throughout 2014, the other members of the Committee were John Linwood, Sandra Dawson, Alison Reed and Steve Gowers.

A rigorous procedure is undertaken when considering new Board appointments which are made subject to election by Shareholders. Independent recruitment consultants are used in the search for candidates. Job descriptions are prepared by the Committee. Expected time commitments are communicated to all candidates and their other significant commitments are considered. 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. Appointments are made on merit against objective criteria, with close consideration being given to the need for diversity on the Board.

The Nomination Committee met three times in 2014. The attendance record of each Committee member is set out on page 32 of this Report. In February 2014 it considered the Board's structure and its succession plan. It agreed that the ratio of four non-Executive Directors and two Executive Directors continued to meet the requirements of the Code and also the Company's requirements in 2014. During the year the Committee also agreed to nominate Sandra Dawson's re-appointment as a non-Executive Director.

Following the end of the year, the Committee commenced a recruitment process to identify a successor to the Chairman to ensure a smooth transition from David Brown.

Remuneration Committee

During 2014 the Remuneration Committee was chaired by Sandra Dawson. John Linwood, David Brown and Alison Reed also served on the Remuneration Committee throughout 2014. Executive Directors and senior managers were invited to attend its meetings as required by the Committee.

The Remuneration Committee is responsible for determining the remuneration of the Chairman and the Executive Directors and for recommending and monitoring the level and structure of remuneration for senior management. 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 the Remuneration Policy and best practice. BDO LLP served as the Company's remuneration consultants throughout the trading year. They have no other connections with the Company.

The Committee met seven times in 2014. The attendance record of each Committee member is set out on page 32 of this Report. The Committee submitted the Remuneration Policy and received approval from Shareholders at the 2014 AGM. The Committee has confirmed that it remains appropriate and, hence, will not be seeking further Shareholder approval to amend the Policy at this year's AGM. It has also reviewed the salaries and benefits of executives and their performance in the Company's short-term and long-term pay incentive schemes.

No new long-term incentive awards were granted in 2014.

The Directors' Remuneration Report set out on page 34 provides more information on the Remuneration Committee and the Company's Remuneration Policy for Executive and non-Executive Directors.

It also reviewed the benefits payable to all employees and the terms of the salary exchange scheme.

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

Audit Committee

During 2014 the Audit Committee was chaired by Alison Reed. John Linwood, Sandra Dawson and David Brown served as members of the Committee throughout the year. 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. The diverse backgrounds of the Committee members and their combined skills and experience enable them to fulfil the Committee's remit, as set out in the terms of reference. The terms of reference of the Audit Committee are published on the Company's website and are reviewed annually.

The Committee met four times in 2014. The attendance record of each Committee member is set out on page 32 of this Report. The Committee has an annual work plan which includes standing items together with specific matters requiring the Committee's attention. During the year the Committee reviewed the half yearly and annual financial statements and trading update statements and focussed on the accuracy of the financial reporting, the appropriateness of the Group's accounting policies, relevant compliance issues and critical accounting estimates and areas of judgement.

The Executive Directors, the Company Secretary, the Quality Manager and the Financial Controller attend Audit Committee meetings as invited. The Partner and Audit Senior Manager from the external auditor were invited to and attended each meeting. The external auditors are not present when their performance and/or remuneration is discussed.

The main areas of judgement that have been considered by the Committee, in relation to the financial statements for the year ended 31 December 2014, and that were closely considered with the external auditor were:

Revenue recognition

The Group enters into contracts where multiple products and services, such as scanning machines, software, printed forms and professional services are provided. The recognition of revenue in accordance with IAS 18 is impacted by the terms and conditions of each contract and can be highly judgemental. The Committee reviewed information provided by Management setting out when revenue is recognised, received and reviewed the accounting policy and considered the treatment of work in progress at the year-end and the half year by enquiry of

management to ensure revenue is being recognised in line with the requirements of the accounting standard. The Committee in particular reviewed Management's treatment of the GLA contract and are satisfied it is appropriate.

Capitalisation of development expenditure

The Committee received and reviewed detailed reports from management outlining the management process and methodology for capitalising development costs relating to the development of the new e-Marker® platform. The Committee reviewed the capital expenditure policy and assessed the nature of the expenditure to ensure that the requirements of IAS38 in respect of capitalisation have been applied correctly. The Committee discussed and challenged management's forecast of revenues and margins expected to be derived from this development expenditure, including the delivery of a successful pilot in 2015 and also the discount rate applied. The Committee reviewed the product development plan with reference to product release dates. The Committee agreed with management's assessment that the requirements of IAS have been applied correctly.

Going Concern

The Committee considered management's forecasts of Group cash flows and net debt as well as the financing facilities available to the Group. In particular, the Committee discussed with management the project plan for the new PhotoScribe® scanners required for the GLA contract and the investment associated with the development of the new e-Marker® platform. Following this review and a discussion of the sensitivities of the critical milestone deliverables, the Committee confirmed that it continues to be appropriate to follow the Going Concern basis of accounting in the financial statements.

Valuation of Linford Wood Property

The Committee considered the commercial valuation of the property provided by Berry's, an independent valuer; reviewed the return on business asset calculations provided by management through enquiry of management and review of the underlying assumptions and reviewed management's proposal to impair the property, ensuring it is in accordance with IAS 36. The Committee was satisfied with the treatment of the impairment.

The Committee considered the effectiveness of both the external and the internal audit functions. It made recommendations to the Board on the external Auditor's remuneration and terms of engagement.

External audit: The Committee reviewed and approved the Auditor's Audit Plan. The key risks identified included the capitalisation of software developments costs, revenue recognition on significant contracts, Going Concern, the valuation of the Linford Wood property, and management override of controls. These issues were again reviewed with the Auditor at the time of consideration of the Financial Statements for the year.

Auditor effectiveness: Grant Thornton UK LLP were reviewed and found to have the expertise to provide a thorough, accurate, robust audit in order to meet all regulatory requirements.

Auditor independence: The independence of the Auditor was reviewed and was found to meet a satisfactory standard for the Company in accordance with the Auditing Practice Board's Ethical Standards. To safeguard independence, the Company requires the audit partner and audit manager to serve a maximum of five years on the Company's audit account. The current partner has served two years and the audit senior manager has been in place for three years.

Non-audit services: Services provided to the Group by Grant Thornton UK LLP cover advice on accounting standards and issues relating to the preparation of the Group's half year unaudited accounts. Further information is provided in Note 6 to the financial statements. The Auditor is not consulted on the Group's tax issues or on other matters which could compromise its independence in undertaking the audits.

The Committee considered the re-appointment of Grant Thornton UK LLP as the Company's external auditor. Grant Thornton UK LLP has acted in this capacity since 1991. Their role has been periodically reviewed by the Audit Committee and fees have been challenged, although a formal tender process has not been carried out since their appointment. The Committee has taken note of the recently published requirement for FTSE 350 companies to tender their statutory audit engagement at least every ten years and, whilst this is not applicable to the Group, it will form part of the Committee's consideration when addressing the re-appointment of auditor in future years.

Internal audit: During the year, the Committee considered the internal audit function which was led by the Business Improvement Manager and which examined the procedures, documentation and processes of each major business department. The Committee reviewed the audit timetable and the results of the audits undertaken. The Committee was made aware of all major non-conformities and the necessary follow-up actions.

Risk Management: DRS' risk management processes, which have been in place throughout the period under review, identify and monitor the risks facing the Group. The risks are reported to the Board and the Audit Committee and risks which are considered material are regularly reviewed by the Board. These included the risks set out in Principal Risks and Uncertainties on page 16. Further details of our standards certification can be found in the Report on Corporate Responsibility on page 18. During the year, the Quality Manager advised the Committee regarding compliance with the Company's risk management procedures and its certified standards.

Whistleblowing: We consider any whistleblowing reports regarding accounting, internal accounting controls or auditing matters.

Governance: Our performance is reviewed annually by inviting members, key executives and the external auditors to complete questionnaires. The results show the Committee continues to work effectively.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Continued

Ethics Committee

The Ethics Committee was under the chairmanship of John Linwood during 2014. Sandra Dawson and Steve Gowers are members and David Brown and Alison Reed attend the Committee's meetings when invited. In 2014 the Committee reviewed ethical matters of concern to the Company and the Company's Code of Business Ethics. It also addressed the implementation of the Company's measures to comply with anti-corruption and bribery legislation. Two meetings of the Ethics Committee were held in 2014. The attendance record of each Committee member is set out below.

ATTENDANCE AT ALL MEETINGS

The following table details the number of Board and Committee Meetings held during the year ended 31 December 2014 and the attendance record of each Director and Committee member.

	Board	Audit	Remuneration	Nomination	Ethics
NUMBER OF MEETINGS HELD IN 2014	16	4	7	3	2
David Brown	16	4	7	3	-
Alison Reed	16	4	7	3	-
Sandra Dawson	16	4	7	3	2
John Linwood	14	3	6	3	2
Steve Gowers	16	-	-	3	2
Mark Tebbutt	16	-	-	-	-

Board and Committee Evaluations

The Board: A formal rigorous annual evaluation of the Board and its performance is undertaken. The results of the evaluation are considered by the whole Board and are reviewed throughout the year to ensure required improvements are actioned in a timely manner. For a company of the size of DRS it is not considered an effective use of resources to externally facilitate this exercise.

The Board's Committees: A thorough annual evaluation of the work and performance of the Audit and Remuneration Committees is undertaken. Evaluations of the Nomination and Ethics Committees are not undertaken.

The Chairman: An annual performance evaluation of the Chairman takes place in every year under the leadership of the Senior Independent Director, Alison Reed, who considers the views of all of the Company's Directors.

Relations with Shareholders

The Board is committed to maintaining an active dialogue with Shareholders and works to ensure Shareholders are aware of the Company's objectives. The Group's website provides all our stakeholders and interest groups 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 dialogue with Shareholders. On its behalf, the Chairman, Chief Executive Officer and Finance Director meet regularly with the Company's major Shareholders. Major Shareholders, fund managers and analysts are given an opportunity to meet with the Chairman or with the Senior Independent Director, if they so require.

Additionally, all non-Executive Directors make themselves available to meet with major Shareholders to discuss any concerns they may have. The Board regularly receives independent feedback from analysts and major Shareholders through face-to-face contact and analyst's and brokers' briefings.

All 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 indicates 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 transparent and well documented arrangements which apply procedures for prudent internal controls for the management of risk and corporate reporting. The controls that have been implemented are designed for the requirements of the Company's business model and the strategies the Board has approved for delivering the business objectives. The Board, by presentation of a formal report from the Business Improvement Manager to the Audit Committee, conducted a review of the effectiveness of the Group's internal control and risk management systems on four occasions in 2014. Further details concerning the business model are set out in the Strategic Report on pages 10 - 11.

The Group successfully achieved transition from BS 25999-2:2007 to BS ISO 22301:2012 for Business Continuity in May 2014. The Group also continues to maintain its certification in the other key areas of Quality Management (ISO 9001), Environmental Management (ISO 14001) and Information Security Management (ISO 27001). The Board continues to regard these certifications as important evidence of the effectiveness of the Group's focus on compliance with best practice risk management standards.

In designing the improved internal controls system, the Directors have considered the principal risks and uncertainties further referred to in the report of Principal Risks on page 16, which forms part of the Strategic Report, 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 clear 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 environmental 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 Reporting

The Audit Committee scrutinised the half yearly and annual financial statements and focussed on the accuracy of the financial reporting, the appropriateness of the accounting policies, critical accounting estimates and key judgements. Particular areas of focus were revenue recognition, the accounting treatment of the capitalisation of software development costs, Going Concern, and the impairment of the Linford Wood property.

Financial Risk Management

Details of the Group's approach to financial risk management are given in the Strategic Report within the section Liquidity and Capital Management and in Note 4 to the financial statements on pages 67 - 68.

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

Richard Cole
Company Secretary
7 April 2015

DIRECTORS' REMUNERATION REPORT 2014

LETTER TO THE SHAREHOLDERS FROM THE CHAIR OF THE REMUNERATION COMMITTEE

UNAUDITED INFORMATION

Dear Shareholders

I write as Chair of the Remuneration Committee on behalf of the Board to present the Company's Remuneration Report.

Below I have summarised the work of the Remuneration Committee (the Committee) in 2014 with particular regard to:

- the major decisions on Directors' remuneration which have been taken;
- the changes to Directors' remuneration that have been made by the Company; and
- the context within which those changes occurred and those decisions were taken.

This report follows the structure we put in place last year after the implementation of the new regulations governing Directors' remuneration. You will find the Remuneration Policy starting on page 36 of this Annual Report. The policy supports the Company's strategy and was approved in a binding vote at the Annual General Meeting on 19 May 2014. It came into effect immediately following that meeting and has been approved for a period of three years. Should the Company become aware of any market, regulatory or other change which suggests the policy should be updated within that period, the Company would seek appropriate approval from Shareholders to make the necessary revisions to the policy.

You will find the Annual Report on Remuneration starting on page 44. This shows how the policy has been applied in the 2014 financial year. This part of the Report will be subject to the approval of the Shareholders at the 2015 Annual General Meeting.

THE PHILOSOPHY OF THE REMUNERATION COMMITTEE

When undertaking its work the Committee seeks to ensure that the Company offers remuneration packages that are fair and competitive and are designed to attract, motivate, incentivise and retain the high calibre of Executive Directors required to lead the Company to achieve its strategic goals. The Committee is eager to ensure that the Company's Remuneration Policy and practice reward and encourage sustained high levels of individual, team and Company performance.

2014 has been a challenging year during which the long-term success of the Company has been the main focus of the Executive Directors. All elements of their remuneration have been reviewed by the Committee and a number of changes have been made consistent with the Remuneration Policy and the goal to achieve long-term success.

The major decisions on Executive Directors' remuneration that have been taken are set out below.

Salary Review

In January 2015 there were no salary increases awarded to Executive Directors which was consistent with there not being an annual pay increase for any member of the workforce.

In January 2014 Steve Gowers and Mark Tebbutt were awarded a salary increase of 2.0% compared to an average increase of 2.56% for the workforce excluding the Executive Directors.

Benefit Review

A review of the benefit packages of all staff and Directors was undertaken in Q4 2014 and was implemented with effect from 1 January 2015 which has resulted in the following changes to the Executive Directors' benefits:

- a reduction to 10%, from 20%, in the employer's contribution to each Director's personal pension arrangements;
- a reduction in life assurance cover from four times to three times basic salary; and
- amendment of the terms of the permanent health insurance scheme to provide cover at a reduced premium to the Company.

Share Incentive Plan (SIP)

The Committee reviewed the SIP in February 2014 and considered the benefits of the plan against those offered by similar companies. The plan was altered in order to increase the participants' maximum contribution from £1,500 to £1,800 per annum with effect from 6 April 2014.

Pension - The Salary Exchange Scheme

The Salary Exchange Scheme, which was explained in detail in the 2013 Annual report, continued to operate and enable participants to make a contribution to their pension scheme directly from gross salary.

Annual Discretionary Bonus Plan

An important aspect of our Remuneration Policy is the challenging company and individual performance conditions underpinning the annual discretionary

bonus plan. In February the terms of the 2014 Annual Discretionary Bonus Plan were reviewed and targets set. The revenue and profit targets for 2014 were not met. Accordingly the Committee decided no bonus payments should be awarded to Executive Directors and members of the Senior Executive team for the 2014 trading year.

Long-Term Incentive Plan (the 2012 Plan)

The 2012 DRS Long-Term Incentive Plan was approved by Shareholders at the AGM in 2012.

No new awards were made to the Executive Directors during 2014 and existing awards have lapsed. A summary of the rules of the 2012 Plan is set out on pages 42 - 44 for information.

The following sections of this Remuneration Report comprise:

- the Company's Remuneration Policy on pages 36 - 44 for information; and
- the Annual Report on Remuneration which sets out, in respect of the Directors, the payments made and remuneration commitments entered into in 2014 on pages 44 - 49.

At the forthcoming AGM an advisory ordinary resolution will be put to Shareholders seeking approval for the Annual Report on Remuneration. As set out above the Company's implementation of Remuneration Policy remains consistent with the authority from Shareholders in a binding vote at the 2014 AGM and, hence, no further binding resolution will be put to Shareholders at the 2015 AGM.

I look forward to meeting our Shareholders at the AGM.

DAME SANDRA DAWSON DBE
Chair of the Remuneration Committee
7 April 2015

DIRECTOR'S REMUNERATION REPORT 2014

1. INTRODUCTION

The Remuneration Policy, which is set out below for information, was approved by the Company's Shareholders at the 2014 AGM. It is currently intended that all payments made and benefits provided to Directors shall be within its scope.

2. THE COMPANY'S POLICY REGARDING THE MAKING OF REMUNERATION PAYMENTS

The Remuneration policy approved by Shareholders at the 2014 AGM is intended;

(i) to offer remuneration packages that are fair and competitive;

(ii) to attract, motivate, incentivise and retain the highly skilled and high calibre Directors required to lead the Company to achieve its strategic goals;

(iii) to implement and maintain an appropriate balance between fixed and performance-related elements;

(iv) to pay a significant proportion of potential total remuneration conditional upon longer-term performance;

(v) without mechanistically tracking benchmarks, to progress towards median base salary payments in comparable companies as strategic goals are delivered; and

(vi) to align the interests of Executive Directors with Shareholders by delivering long-term value through the 2012 Long-Term Incentive Plan and the Share Incentive Plan. Please refer to page 41 for further details of the Company's Share Incentive Plan (SIP).

The Committee considers each year whether recovery or withholding is appropriate in respect of any incentive payment.

3. REMUNERATION POLICY TABLE

Executive Directors

Executive Directors - Salary and Benefits	Objective and Link to the Strategy	Operation	Maximum Potential Value	Performance Conditions and Assessment
Base salary, taxable benefits, pension.	To attract and retain Executive Directors with the appropriate skills and experience to lead the Company in achieving its strategic goals, by offering reasonable and competitive benefits.	Paid monthly throughout the year in equal instalments. Death in service and permanent health insurances are paid only when the terms of payment under the applicable insurances schemes apply.	Determined in January each year. The Committee considers whether to increase or retain these payments at current levels. A benchmarking exercise is undertaken with assistance from the Committee's remuneration advisers, reviewing salary and benefits against those paid in companies of a similar size and complexity to DRS and against salary and benefits offered to other DRS employees. The maximum pension contribution is 20% of base salary.	An annual appraisal process is undertaken in January each year. The Executive Director's performance during the whole of the previous year is assessed and has a direct impact upon the Committee's decision whether to award an increase.

3. REMUNERATION POLICY TABLE

Executive Directors - Continued

Executive Directors - Discretionary Benefits	Objective and Link to Strategy	Operation	Maximum Potential Value	Performance Conditions and Assessment
Annual Discretionary Bonus Plan (the Bonus Plan).	To reward Executive Directors for the achievement of the Company's profitable growth.	The Bonus Plan starts on 1 January and ends on 31 December each year. Performance is measured by the achievement of targets preset by the Committee. Any bonus earned is paid through the Company's normal payroll system. Target profit and bonus before tax must be achieved before any bonus is payable.	Up to 75% of base salary.	80% of the maximum bonus is linked to the financial performance of the business based on the annual budget figure. 20% of the maximum bonus is linked to the achievement of the Executive Directors' personal performance objectives. Both performance conditions are approved in advance by the Committee.
2012 DRS Long-Term Incentive Plan (the 2012 Plan).	To encourage the Executive Directors to focus on the long-term performance of the Company and to link their rewards to Shareholder return providing a common interest with Shareholders.	EMI qualifying Options can only be granted under the 2012 Plan if the conditions of the EMI regime and Schedule 5 ITEPA 2003 are met. Options are granted at nil-cost and are subject to the 2012 Plan rules.	100% of base salary.	Total Shareholder Return (TSR) relative to the FTSE Fledgling Index, over a 3 year period with 25% vesting at median, 100% at upper quartile subject to underlying growth in earnings per share (EPS). TSR was chosen as a way of linking Directors' reward to returns to Shareholders. External factors can impact on TSR so an underlying financial measure of growth in earnings per share was also implemented.

DIRECTOR'S REMUNERATION REPORT 2014
continued

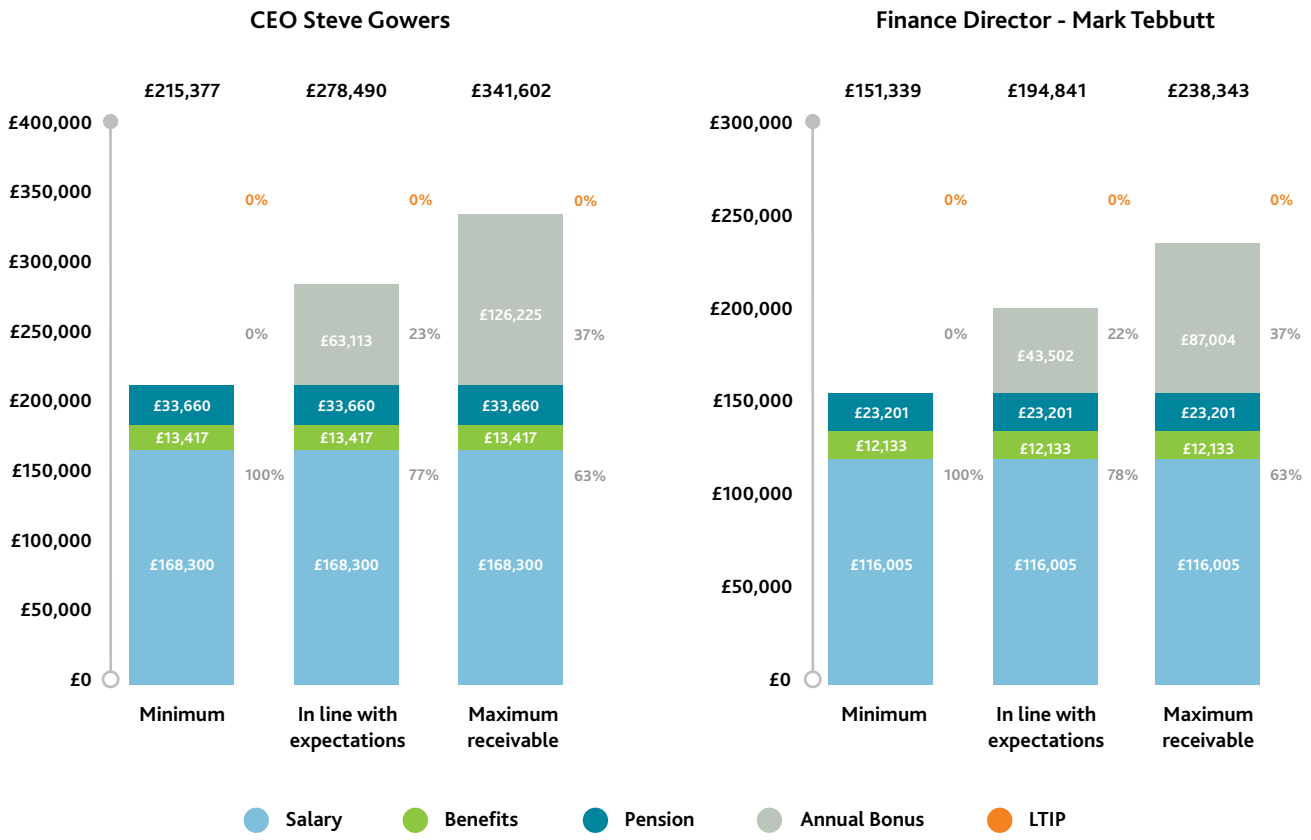
Chairman

	Objective and Link to Strategy	Operation	Maximum Potential Value	Performance Conditions and Assessment
Fees	To attract a Chairman with the requisite skills and experience to perform the role.	Fees are set at the level paid for comparable roles at Premium Main Market companies of a similar size and complexity to DRS. The Chairman's fees are determined by the Committee which decided that the fees would not be increased in 2014.	Fee levels are set by reference to the median of this peer group and are reviewed annually. In the course of considering any increases the Committee will take into consideration increases within the external peer group, increases provided to DRS employees and inflation.	N/A

Non-Executive Directors

	Objective and Link to Strategy	Operation	Maximum Potential Value	Performance Conditions and Assessment
Fees	To attract non-Executive Directors with the requisite skills and experience to perform the role.	Fees are set at the level paid for comparable roles at Premium Main Market companies of a similar size and complexity to DRS. The non-Executive Directors' fees are determined by the full Board which decided that the fees would not be increased in 2014.	Fee levels are set by reference to the median of this peer group and are reviewed annually. In the course of considering any increases the Board will take into consideration increases within the external peer group, increases provided to DRS employees and inflation.	N/A

ILLUSTRATION OF THE APPLICATION OF THE REMUNERATION POLICY IN 2014



1. **Minimum Receivable**
   If an annual bonus payment is not awarded the Executive Directors will receive 100% of their remuneration under this Policy in the form of salary, benefits and pension payments as shown in column 1.

2. **LTIP Awards**
   Awards were made to the Executive Directors under the 2012 DRS Long-Term Incentive Plan in September and November 2012 and the performance period runs from 1 January 2012 to 31 December 2014. A payment in the first year of the Remuneration Policy would only be possible if vesting were accelerated in accordance with the rules of the Plan.

3. The table above was produced last year for the first year application of the policy approved in 2014. Accordingly, certain information in the above table is now of historical interest only, including the LTIP awards, which have now lapsed.

DIRECTOR'S REMUNERATION REPORT 2014
continued

4. THE COMPANY'S POLICY REGARDING EACH OF THE COMPONENTS OF THE REMUNERATION PACKAGES WHICH THE COMPANY WILL MAKE TO EACH OF ITS DIRECTORS

Chairman and non-Executive Directors' Fees

Fees are set by reference to a median level for comparable roles following close consideration of benchmarking research reviewed on an annual basis. It is expected that the Chairman will work approximately 24 full days annually for the Company and that non-Executive Directors will work approximately 15 full days annually for the Company. In the event that the Chairman or a non-Executive Director is requested in exceptional circumstances to undertake work on behalf of the Company which is outside the normal scope of their role of Chairman or non-Executive Director an additional payment may be made. Expenses which are incurred solely on the Company's business are reimbursed when properly documented. Fees are reviewed annually; increases are not automatic, only where reasonable and supported by the Company's performance. The Committee expects the flexibility set out above shall continue with respect to the payments made to the Company's Chairman and non-Executive Directors for the lifetime of the Remuneration Policy.

EXECUTIVE DIRECTORS - COMPONENTS OF THE REMUNERATION PACKAGE

Set out below is the Company's policy and current practice regarding each component of the Executive Directors' remuneration package. In each case, the Committee will retain future flexibility and discretion to deliver the Company's policy regarding the making of remuneration payments and in order to meet the Committee's remuneration philosophy. The Committee's philosophy can be found in the Chairman's annual statement on page 34. We have set out the Company's policy regarding the making of remuneration payments on page 36 of this Report.

i. Base Pay

Base Pay is set at a conservative level and, without mechanistically tracking benchmarks, progresses towards the median base salary payment in comparative companies as strategic objectives are met. Pay is reviewed once in every calendar year when the Committee has discretion to increase base salary or retain it at the existing level. The Company has discretion to deduct from base pay any pay in lieu of notice or other termination payment, any overpayment of salary, expenses, debts, loans or other sum required or permitted by the Employment Rights Act 1996 (as amended from time to time) or by other applicable legislation.

ii. Car Benefit

a) It is current practice to provide a car allowance of up to £12,000 per annum paid to the Executive Director in 12 monthly instalments subject to relevant lawful deductions.

b) The Committee may amend the car benefit in accordance with common practice of similar companies. The Company also has discretion to review the fixed pence per mile allowance for business use applied to the use of an Executive Director's vehicle.

iii. Health Benefits - Sick Pay

a) It is current practice that in any one calendar year an Executive Director's sick pay entitlement less Statutory Sick Pay where applicable, is that number of weeks which is four per cent of the number of weeks for which he or she has been employed by the Company from the date of joining less the number of weeks of sick pay already taken, up to a maximum of 13 weeks.

b) Any further payment not set out in (iii)(a) above is subject to Board approval.

iv. Health Benefits - Death in Service

a) When the policy was adopted, it was the Company's practice to provide that the death in service benefit equals four times annual salary (subject to the terms of the insurance policy provider from time to time). This has now been reduced to three times salary.

b) The Company may negotiate alternative cover with a suitable provider retaining substantially the same benefit to the Executive Director while ensuring cost-effectiveness for the Company.

v. Health Benefits – Permanent Health Insurance

a) The Executive Directors have the benefit of a permanent health insurance policy, in the event an Executive Director is incapacitated by sickness or accident.

b) The policy is subject to the terms of the insurance policy provider from time to time. The Company may negotiate alternative cover with a suitable provider retaining substantially the same benefit to the Executive Director while ensuring cost-effectiveness for the Company.

vi. Health Benefits – Private Medical Insurance

a) Private medical insurance is offered, in which the Executive Director may choose to participate. Cover is made available to the Executive Director and his or her dependent family.

b) The policy is subject to the terms of the insurance policy provider from time to time. The Company may negotiate an alternative policy with a suitable provider retaining substantially the same benefit to the Director while ensuring cost-effectiveness for the Company.

vii. Pension

a) When the policy was adopted, it was the Company's practice to offer a contribution of 20% of base salary towards the Executive Director's personal pension scheme operating as part of the Company's Group Personal Pension Scheme. Currently there is no requirement for the Executive Director to make any contribution but he or she may do so. With effect from 1 January 2015, the Company's contribution was reduced to 10%.

b) An Executive Director may join the pension scheme after three months' continuous service. The Committee may alter this requirement. A salary exchange scheme is available allowing an Executive Director to make contributions to his or her pension from gross salary.

viii. Short-Term Incentive - Annual Bonus

a) Currently the Executive Director may, at the discretion of the Board, as recommended by the Committee, be eligible to receive an annual bonus of up to 75% of base pay (subject to income tax and other statutory deductions) which is subject both to the Company's performance and the achievement of personal objectives as determined by the Remuneration Committee in advance.

b) The Committee's discretion is exercised both as to payment and amount.

ix. Share Incentive Plan (SIP)

a) The Executive Directors are eligible to participate in an HMRC approved Share Incentive Plan on the same terms as other employees.

At the Committee's discretion, the Director must be employed for a period of time before being entitled to participate in the SIP which is currently set at nine months but may be altered by the Committee.

b) The Committee would not seek to withdraw the SIP, introduce any alternative share incentive scheme designed to align the Director's interests with those of the Company's Shareholders or alter the terms of the SIP except to bring it in line with legislative requirements, without first seeking the approval of the Company's Shareholders.

x. Long-Term Incentive Plan (the 2012 Plan)

(a) The Company's policy is to grant options under the 2012 Plan at nil-cost. The Committee will consider making annual awards of options for all executives when the grants made in 2012 vest or expire and will consider the exercise cost, if any, attaching to any such grants.

(b) An Executive Director is invited to participate in the 2012 Plan and if accepted will be granted an option over a number of the Company's Ordinary shares.

A summary of the 2012 Plan can be found on page 42 of this report.

Other Remuneration Policies in DRS

The Company's Policy on Recruitment Payments

a) The recruitment package is designed to be fair and competitive with an appropriate balance between fixed and performance-related elements and is designed to attract, motivate, incentivise and retain high calibre executives.

b) The Committee regularly reviews the salary and benefits offered on recruitment to ensure they are reasonable with regard to (i) equitable provisions with other DRS workers, (ii) the wider financial/economic climate, and (iii) comparisons with Directors undertaking similar jobs in similar companies.

c) Payments made to an Executive Director upon joining the Company, e.g. by way of a one-off bonus payment or share award, may be made on a case-by-case basis. Such payment or award may be subject to performance conditions.

d) Any previous outstanding share awards may be compensated at fair value, using a recognised valuation methodology by an independent third party. The fair value may be awarded as a combination of cash and shares. Any new award may be granted subject to performance conditions no less onerous than applied to the forfeited awards. The terms of any such compensation will be determined by the Committee on a case-by-case basis taking into account all relevant factors.

e) A relocation package may be paid on a case-by-case basis.

The Company's Policy on Notice Periods

a) On the termination of employment it is the Company's policy to give to an Executive Director six months' written notice and to require the Executive Director to provide the Company with the same notice. Alternatively the Company may choose to make payment of base salary in lieu of such notice or an unexpired portion thereof.

b) The Company may terminate the employment of an Executive Director by giving six months' notice (not necessarily in writing) if the individual has been incapacitated by reasons of ill health, accident or otherwise from performing his/her duties for a total of 180 days or more in the preceding 12 month period.

c) At any time during the notice period, the Company may require the Executive Director to take a period of absence (known as Garden Leave) of up to six months during which all duties of the Executive Director's employment (whether express or implied) including duties of fidelity and good faith shall continue except as expressly varied in the Executive Director's service contract.

DIRECTOR'S REMUNERATION REPORT 2014
continued

The Company's Policy on Termination Payments

a) Payments will be made to the departing Executive Director in order to settle outstanding contractual notice and/or holiday entitlement.

b) All payments are made subject to income and other statutory taxation which the Company as an employer is required to deduct.

c) No tax obligations of a Director will be met by the Company.

d) Compensation for loss of office is paid in full and final settlement of claims the Executive Director has asserted against the Company in writing through independent legal advisers and when this course of action is recommended by the Company's own duly appointed external legal advisers.

e) An Executive Director who leaves the business due to ill health or upon retirement will be entitled to receive a pro-rata payment under the Annual Discretionary Bonus Plan based on their service during the relevant year. Otherwise there is no automatic entitlement to a bonus during the year in which an Executive Director leaves office.

Policy on Equitable Provisions with other DRS Workers

When considering the fairness of the remuneration package for Executive Directors it is the Committee's policy to review the pay and conditions of employment elsewhere in the Group.

The Company did not consult with the Company's employees when preparing this report.

Policy on Consideration of the Wider Financial/ Economic Climate

When considering the fairness of remuneration packages for Executive Directors it is the Committee's policy to consider the financial and economic climate then prevailing by reference to current information sourced from its remuneration advisers and other sources of generally accessible market data.

Policy on Benchmarking Against Similar Companies

The Company's executive remuneration packages are compared with those of a peer group of similar companies in the FTSE Fledgling Index as benchmarked by the Company's remuneration advisers from time to time.

Policy on Consultation with Major Shareholders on Remuneration Issues

The Company operates an Investor Relations Policy. It complies with Section E (Relations with Shareholders) of the UK Corporate Governance Code. Additionally the Chair of the Committee is authorised by the Board to arrange to meet with Shareholders regarding remuneration matters. The Chair meets Shareholders at the AGM and from time to time will offer additional meetings to major Shareholders. Any views expressed by Shareholders at these meetings are reported to the Committee and taken into consideration when setting levels of remuneration.

Please refer to the Chair of the Committee's annual statement for details of the work undertaken by the Committee in 2014 and 2015.

SUMMARY OF THE RULES OF THE DRS LONG-TERM INCENTIVE PLAN 2012 (THE 2012 PLAN)

1. Introduction

The 2012 Plan enables selected employees of the Company and its subsidiaries to be granted share options (Options) over Ordinary shares (Shares) in the capital of the Company. Options granted under the 2012 Plan are not transferable. Only the person to whom the Option is granted (participant) or his or her personal representatives may acquire Shares pursuant to Options. Benefits under the 2012 Plan are not pensionable benefits.

2. Administration

The Committee is responsible for the operation and administration of the 2012 Plan.

3. Eligibility

A participant must be an employee or an Executive Director of the Company or any of its subsidiaries (the Group). The Committee can exercise its discretion in selecting the executives and employees to whom Options are to be granted under the 2012 Plan.

4. Grant of Options

Options may only be granted in the period of 42 days beginning with the dealing day following the announcement of the Company's results for any period, or, subject to the Model Code and other relevant restrictions on dealings in Shares, on any other day on which the Committee determines that exceptional circumstances exist. No payment will be made for the grant of an Option. No Options will be granted after the tenth anniversary of the date of adoption of the 2012 Plan. The plan was adopted on 15 May 2012.

5. Form of Options

Options granted under the 2012 Plan may be granted either with an exercise price equal to the market value at the date of grant, or with a nil (or nominal) exercise price. The Options may be options to subscribe for new Shares, options to purchase existing Shares from an employees' trust or options to be satisfied by the transfer of Treasury shares.

It was the Committee's intention that the initial Options would be granted with a nil exercise price. The view of the Committee was that this is common practice for listed companies on the basis that it creates a more effective incentive and reduces the dilution of existing Shareholders. To date all Options that have been granted under the 2012 Plan have been granted with a nil exercise price.

For as long as the Company satisfies the qualifying conditions under the Enterprise Management Incentive regime, Options shall be granted under, and comply with the HMRC rules set out in Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003. This confers tax benefits on Options up to a certain threshold. In the event that this threshold is exceeded or the Company ceases to satisfy the qualifying conditions, unapproved Options may instead be granted under the 2012 Plan.

6. Size of Option Grants/Plan Limits

The size of any Option grants are determined by the Committee in line with its remuneration policy as disclosed in the Annual Report and approved by Shareholders. When the 2012 Plan was introduced it was the intention that the initial Options would be up to one times salary and those that have been granted since have been subject to this limit.

In any ten year period there is a limit of five (5) per cent of the issued share capital of the Company from time to time, on the number of new Shares which are issued or may be issued in connection with Options. A limit of ten (10) per cent applies to the aggregate of the Options under the 2012 Plan and similar rights under any other employees' share scheme of the Company. Shares transferred out of Treasury or to the trustee of an employees' trust count towards these limits on the issue of new Shares. No account will be taken of Shares which an employees' trust purchases at market value.

7. Vesting of Options

Except as referred to below, and subject to achieving the performance targets, Options will normally vest so that the participant may acquire the Shares subject to Options (unencumbered by any restrictions) three years after an Option is granted. On exercise, the Company must deliver or procure that there is delivered the relevant number of Shares.

If a participant dies or leaves employment within the Group during the period prior to vesting by reason of ill-health, disability, redundancy, retirement, the participant's employer being sold outside the Group, or other circumstances at the discretion of the Committee, the participant (or his/her personal representatives, as the case may be), may, depending on the extent to which the performance target has been met, exercise his/her Options within a period of 40 days after the cessation of employment, after which it shall lapse. This period shall be 12 months in the case of death.

If a participant ceases to be employed for any other reason than those referred to, his/her Option will normally lapse.

On a change of control of the Company or a resolution for its voluntary winding up, performance periods will immediately cease. Subject to the Committee's determination of the Company's performance at that time, Options may vest, normally in proportion to the amount of the performance period that had elapsed before the change of control or the passing of the resolution, as the case may be. On a demerger or a takeover of the Company (except for an internal reorganisation) the Committee may determine that a proportion of the Options may vest or vary the terms of the Options and/or the performance targets. Where Options vest, this will be on the same basis as a change of control.

8. Performance Targets

Options shall be subject in each case to the achievement of performance targets. Performance targets will be measured over a fixed period of three financial years, beginning with the financial year in which the Options are granted, and are determined by the Committee from time to time. To the extent that the performance targets are not met, the Options shall lapse, without opportunity for retesting. The Committee may change the performance targets for existing Options from time to time if events happen that make it fair and reasonable to do so, but not so as to make the performance targets, in the opinion of the Committee, materially easier or more difficult to satisfy than they were when the Options were first granted. Before offering the 2012 Plan in future years the Committee will review the continuing appropriateness of these performance targets.

9. Rights Attaching to Shares

Shares issued in connection with the exercise of Options will rank equally with all other Shares then in issue (save as regards any rights attaching to Shares by reference to a record date prior to the allotment and issue of such Shares). Application will be made for admission to the Official List of new Shares issued and for permission to trade those Shares.

10. Variation of Share Capital

If there is any alteration of the issued share capital of the Company, the number of Shares subject to an Option will be subject to adjustments. The Committee may adjust Options in such manner as it determines to be appropriate.

DIRECTOR'S REMUNERATION REPORT 2014
continued

11. Alteration of the 2012 Plan

No alteration or addition to the advantage of participants may be made by the Directors to the provisions of the plan relating to eligibility, limitations on the number of Shares in respect of which Options may be granted, or the basis of determining a participant's entitlement to acquire Shares and the adjustment to such rights in the event of a variation of share capital without the prior approval of Shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the 2012 Plan or to take account of any changes in legislation or to obtain or maintain favourable tax or regulatory treatment for participants, the Company or any associated company.

The above is a summary of the principal terms and does not form part of the rules of the 2012 Plan.

ANNUAL REPORT ON REMUNERATION

The figures included in the Executive Directors' Single Figure Table below have been audited.

2014 Executive Directors' Single Total Figure Table

Director's Name	A. Base Salary ∞ £000	B. Taxable Benefits + £000	C. Short-term Incentives £000	D. Long-term Incentives * £000	E. Pensions × £000	Total £000
Steve Gowers 2014	168	13	-	-	34	215
Steve Gowers 2013	165	13	-	-	33	211
Mark Tebbutt 2014	116	12	-	-	23	151
Mark Tebbutt 2013	114	12	-	-	23	149

∞ **Base Salary.** The Executive Directors may choose to participate in the salary exchange scheme. This voluntary scheme allows the Executive Directors to make a contribution to their personal pension schemes directly from gross salary. Steve Gowers participated in the salary exchange scheme from April 2013 and throughout 2014. In 2014 Steve Gowers' contribution amounted to £6,126 (2013: £5,000). Mark Tebbutt participated in the salary exchange scheme throughout 2014 and 2013. In 2014 he contributed £17,500 and in 2013 he contributed £24,000. These contributions under the salary exchange scheme are included in column A above. The Executive Directors are not entitled to receive into their pension any payment representing a saving of National Insurance received by the Company resulting from their participation in the salary exchange scheme.

+ **Taxable Benefits.** These benefits comprise a car allowance and private healthcare.

* **Long-Term Incentives.** Awards made under the terms of the 2012 DRS Long-Term Incentive Plan were due to vest as a result of the achievement of performance measures relating to the year ended 31 December 2014. The performance targets were not met and no awards vested during the year or will vest in 2015 as a result of the Company's performance in 2014.

× **Pensions.** In accordance with its current practice the Company contributed, in 2014, 20% of base salary towards the Executive Directors' personal pension schemes operating as part of the Company's Group Personal Pension Scheme. These contributions are shown in column E above. Column E does not include the voluntary contributions made by the Executive Directors to their pensions under the salary exchange scheme. As disclosed in the letter to Shareholders from the Chair of the Remuneration Committee on pages 34 - 35, the Company will contribute 10% of base salary towards the Executive Directors' personal pension schemes with effect from 1 January 2015.

Share Incentive Plan. Executive Directors are eligible to participate in the Share Incentive Plan (SIP), which qualifies for tax relief under Schedule 2 of the Income Tax (Earnings and Pensions) Act 2003, on the same basis as all other employees and in any other share plan which is operated in the future and is open to all employees. Throughout 2014 and 2013 Mark Tebbutt chose to participate in the Share Incentive Plan (SIP) and contributed £125 every month towards the purchase of partnership shares through the SIP. No matching shares were awarded to Mark Tebbutt under the rules of the SIP during 2014 or 2013. Mark Tebbutt's share interests in the Company are further explained in the Statement of Directors' Shareholding and Share Interests later in this report.

Both Executive Directors listed above have confirmed that no other items in the nature of remuneration have been received other than those already stated in the Single Total Figure Table above.

The Committee considered whether a recovery or withholding would be appropriate in respect of any incentive payment and agreed that no recovery or withholding was to be made in the reported year.

Non-Executive Directors' Single Total Figure Table 2013 and 2014

The figures included in the non-Executive Directors' Single Total Figure Table below have been audited.

Director's Name	2013 Fee £000	2013 Taxable Benefits* £000	2013 Total £000	2014 Fee £000	2014 Taxable Benefits* £000	2014 Total £000
David Brown	60	2	62	60	2	62
Alison Reed	35	-	35	35	-	35
Sandra Dawson	30	1	31	30	-	30
John Linwood	30	-	30	30	-	30

* The taxable benefits shown relate to reimbursement of travel costs which are deemed to be taxable under section 338 of the Income Tax (Earnings and Pensions) Act 2003.

All non-Executive Directors listed above have confirmed that no other items in the nature of remuneration have been received other than those already stated in the Single Total Figure Table above.

During the reported year none of the non-Executive Directors received any short-term incentive, long-term incentive, pension payment or any share or other benefit from a Share Incentive Plan.

There were no payments made during the reported year to past Directors for loss of office.

Statement of Directors' Shareholding and Share Interests

The information included in the Directors' Shareholding and Share Interests table below has been audited.

The Articles of Association of the Company do not contain any obligation on Directors to hold shares in the Company.

The Committee has not set a target on any Director in respect of share ownership.

Executive Directors	Shares Held on 1 January 2014	Partnership Shares Acquired in 2014	Dividend Shares Acquired in 2014	Other Shares Acquired During the Year	Shares Held on 31 December 2014
Steve Gowers	-	-	-	-	-
Mark Tebbut	554,481	7,726	1,541	-	563,748
Non-Executive Directors					
John Linwood	4,937	-	-	-	4,937

Partnership and Dividend Shares are those acquired under the Company's SIP. The only change to a Director's share interest from 31 December 2014 to the date of this report is in respect of Mark Tebbutt who at the date of this report held 566,358 shares.

DIRECTOR'S REMUNERATION REPORT 2014
continued

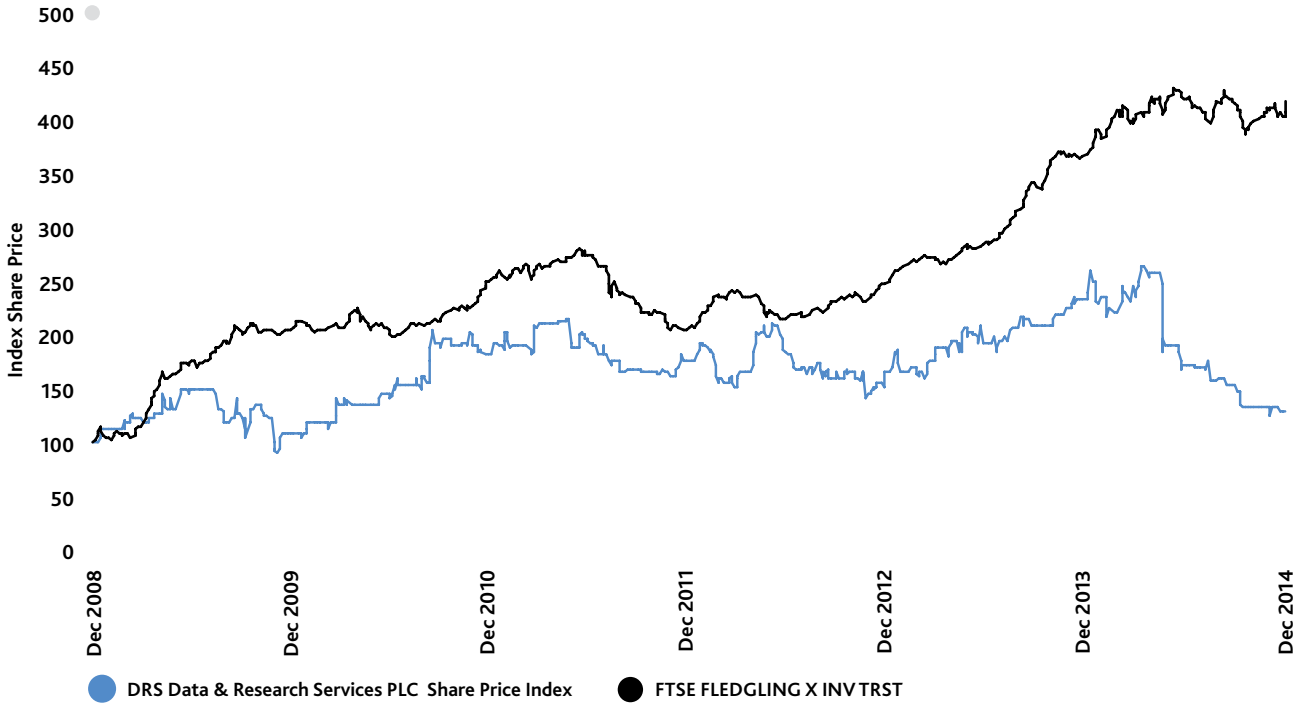
Directors' Interests in Share Schemes

The information included in the Directors' interests in share schemes below has been audited.

Director	Total Number of Share Options at 1 January 2014*	Name of the Scheme under which the Option was Granted	Were Performance Measures Applicable (Y/N)	Share Options Vested Not Exercised	Share Options Vested and Exercised	Share Options Lapsed	Total Number of Share Options at 31 December 2014*	Total Number of Share Options at 1 January 2015
Steve Gowers	916,666	2012 DRS Long-Term Incentive Plan	Y	-	-	916,666	916,666	0
Mark Tebbutt	120,000	2012 DRS Long-Term Incentive Plan	Y	-	-	120,000	120,000	0

* The exercise price of the options is zero. The performance criteria for the awards above were not met. Hence, the awards have lapsed. There were no awards granted during the year.

DRS Data and Research Services plc and FTSE Fledgling Index - total return on investment from 31 December 2008 to 31 December 2014 shown as daily share price index



The index chosen for comparison is the FTSE Fledgling Index. The Company is a constituent of the FTSE Fledgling Index.

Payment for Performance Table

The information included in the Payment for Performance Table below has been audited.

Year	CEO	CEO single figure of total remuneration £000	Annual Discretionary Bonus pay out against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2014	Steve Gowers	215	-	-
2013	Steve Gowers	211	-	-
2012**	Steve Gowers	39	19	-
2012*	Tony Lee	182	15	-
2011	Tony Lee	158	8	-
2010	Tony Lee	224	72	-
2009	Tony Lee	134	-	-

* Tony Lee left the business on 26 October 2012.
** Steve Gowers joined the business on 5 November 2012. He received a prorated bonus for 2012.

Long-term incentive vesting: In accordance with the rules of the 2012 Plan, no awards were due to vest in 2012 or 2013. Performance for the awards granted in 2012 has been tested and the targets found not to have been met. Hence they have lapsed in accordance with the rules of the 2012 Long-Term Incentive Plan. The value creation plan operated from 2009. A single set of awards was made under the value creation plan in 2009. Performance in respect of those awards was tested in 2012 and it was found that the performance targets had not been met so no awards vested.

CEO Percentage Change in Remuneration Table

Director	Salary % change	Explanation	Benefits % change	Explanation	Short-term incentives % change	Explanation
Steve Gowers 2013 to 2014	2.0	The Committee agreed a 2% increase in Steve Gowers' basic salary with effect from 1 January 2014.	1.86	The Committee agreed no change to his benefits in 2014. The benefit change shown is due to the change in annual premium of private medical insurance.	0.0	In respect of 2013 Steve Gowers received no bonus payment. In respect of 2014 Steve Gowers received no bonus payment.
DRS employees as a whole (excluding Executive Directors) 2013 to 2014	2.56	Taking account of the conditions prevailing in the wider financial and economic climate it was considered appropriate to implement an increase in the salaries of employees.	(2.45)	Benefits have been fixed over the period. The benefit change is due to a change in the profile of the workforce.	0.0	In respect of 2013 DRS employees received no bonus payment. In respect of 2014 DRS employees received no bonus payment.

DIRECTOR'S REMUNERATION REPORT 2014
continued

Relative Importance of Spend on Pay, Reflecting Returns to Stakeholders

	2014 Actual £000	Percentage of revenue %	2013 £000	Percentage of revenue %
Profit distributed by way of dividend	127†	0.9	127	0.7
Overall spending on pay including Directors	9,436 (Note 9)	69.0	9,292	51.4
Corporation tax credit for year*	(395)	(2.9)	(120)	(0.7)
(Loss)/profit retained by the Group	(1,704)	(12.5)	1,262	7.0

* An increase in the level of qualifying development expenditure in respect of research and development tax credits produced an overall tax credit in the 2013 income statement.
† Relates to 2013 final dividend paid May 2014.

HOW THE COMPANY INTENDS TO IMPLEMENT THE APPROVED REMUNERATION POLICY IN THE CURRENT FINANCIAL YEAR

The Company intends to implement the policy as follows in 2015:

Base Salary, Taxable Benefits, Pension

- These features will be considered for review by the Committee once during the current financial year. Details of a review resulting in changes to Executive Directors' benefits are set out on page 34 in the Letter to Shareholders from the Chair of the Committee.

Annual Discretionary Bonus Plan

- All payments will depend upon the Company achieving performance targets pre-set by the Committee.
- Thereafter, 80% of maximum payment will be dependent on the financial performance of the Company and 20% on the performance of the Executive Directors against their personal performance objectives.
- A maximum opportunity of 75% of basic salary will be applied and will be payable in cash.

Long-Term Incentive Plan

- It is the Company's intention to give careful consideration to the grant of awards under the Long-Term Incentive Plan in the current financial year and for vesting of these awards to be subject to appropriate performance conditions, but which shall not be, in the Committee's opinion, any less challenging than conditions used for previous grants of awards.
- A maximum opportunity of 100% of base salary will be applied in determining the number of shares over which options may be granted.

The Remuneration Policy is intended to provide for remuneration of Executive Directors to progress towards median base salary payments as the Company's strategic goals are delivered while maintaining an appropriate balance between fixed and performance-related elements. Short-term benefits are achievable through the Annual Discretionary Bonus Plan only if the necessary corporate and personal performance is delivered. The Executive Directors' personal performance objectives are regarded as containing commercially sensitive information and so have not been disclosed.

Consideration by the Directors of matters relating to Directors' Remuneration

During the reported year remuneration issues were considered by the Remuneration Committee. The key areas of its activity were:

- setting the remuneration of the Executive Directors, the Company Secretary and senior managers;
- reviewing and determining the Company's pension policy;
- setting targets for incentive payments;
- reviewing the scope and terms of the employment contracts of senior managers; and
- reviewing and determining the scope of the Company's share incentive plan.

The Committee is also responsible for determining the Chairman's fee.

The following non-Executive Directors served on the Remuneration Committee throughout 2014:

- Dame Sandra Dawson (Chair);
- Sir David Brown;
- Alison Reed; and
- John Linwood.

The Committee seeks to ensure that the remuneration advice it receives is both objective and independent. It regularly reviews the appointment and performance of its advisers who are not retained to advise on any other aspect of the Company's business.

Advice from within the Company on remuneration issues was obtained from the Finance Director, the Chief Executive Officer and the Company Secretary.

The Chief Executive Officer, Steve Gowers, the Finance Director, Mark Tebbutt and the Head of HR, Suzanne Matheson were invited to attend some parts of Committee meetings. No one is present when their own remuneration was under discussion. For the whole of the reported year, the Committee retained the services of BDO LLP as its independent Remuneration Adviser. BDO LLP was the firm selected from a competitive tender process conducted in December 2012 in which three firms were considered. BDO LLP was chosen for its objective, pragmatic and strategic approach to supporting the Committee on a full range of employment reward issues. During 2014 the total fee paid to BDO LLP on remuneration matters amounted to £14,000 (+VAT).

Statement of Voting at the Annual General Meeting in 2014

Text of Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
To approve the Directors' Remuneration Report for the year ended 31 December 2013	5,693,632	99.82	10,200	0.18	5,703,832	5,000
To approve the Directors' Remuneration Policy	5,690,632	99.78	12,700	0.22	5,703,332	5,500

BY ORDER OF THE BOARD

DAME SANDRA DAWSON
Chairman of Remuneration Committee
7 April 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Annual Report, the Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a Going Concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements 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 Director 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 as Directors in order 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 preparing this Annual Report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole is fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

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 Group 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
- this Annual Report, including the Strategic Report and the Financial Statements includes a fair view 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 prinicipal risks and uncertainties that they face.

BY ORDER OF THE BOARD

S J Gowers
Chief Executive Officer
7 April 2015

A M Tebbutt
Finance Director
7 April 2015

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRS DATA AND RESEARCH SERVICES PLC

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

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 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

What we have audited

DRS Data and Research Services plc's financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity, the Parent Company Statement of Cash Flows and the related Notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that are, in our judgement, likely to be most important to users' understanding of our audit.

Revenue recognition

The risk: The revenue from the Group's contracts undertaken in DRS Data Services Limited represents 100% of the Group's total revenue. The measurement of revenue to be recognised in the financial statements in accordance with International Accounting Standard (IAS) 18 'Revenue', including the determination of the appropriate timing of recognition, is impacted by the terms and conditions of each contract and can be highly judgemental. We therefore identified revenue recognition relating to contracts as a significant risk requiring special audit consideration.

Our response: Our audit work included, but was not restricted to, an evaluation of the methodology by which management determine when the performance conditions are satisfied for the respective elements of each contract. This included obtaining a sample of contracts and discussing the performance conditions with management and how they assessed that the conditions had been achieved. We assessed whether the methodology applied by management was consistent with the requirements of IAS 18. We performed an analysis, on a sample basis, of individual contracts to review the terms and conditions, including the nature of the contract, the combination of deliverables, contract revenue, contract costs, attributable profits and work-in-progress. We also evaluated and tested controls over invoicing and payment to assess the timing and recoverability of revenue recognised.

The Group's accounting policy for revenue recognition is included in Note 2.3. The Audit Committee also identified revenue recognition as an area of note. The action that the Audit Committee took in relation to this area is set out on pages 30 - 31.

Capitalisation of development expenditure

The risk: As disclosed in Note 14 of the financial statements, the Group has capitalised £981,000 of development expenditure as intangible assets in accordance with IAS 38 'Intangible assets'. The process to measure the amount of development costs that can be recognised as intangible assets in the financial statements, including the determination of whether the incremental revenues and margin derived from its future use will be sufficient to justify the capitalisation of the costs, involves significant management judgement. We therefore identified the capitalisation of development costs as intangible assets as a significant risk requiring special audit consideration.

Our response: Our work included, but was not restricted to, understanding and testing the controls management put in place over its process of identifying costs that meet capitalisation criteria, including an understanding of management's assessment of how the development costs will generate future economic benefits. We examined and assessed the appropriateness of the capitalisation of a sample of development costs during the period in line with the requirements of IAS 38 and the Group's accounting policy. We discussed the forecast

incremental revenues and margins to be derived from the assets with management, challenging management's key assumptions underlying the forecasts and taking into consideration management's historical success at forecasting.

The Group's accounting policies on intangible assets are included in Note 2.11. The Audit Committee also identified development expenditure as an area of note. The action that the Audit Committee took in relation to this area is set out on page 31.

Going concern

The risk: Although the Group is forecasting profitability in future years and the contract with a major client has been extended until 2018, the loss in the current year and the delay in product development indicate that there could be a risk that the Group does not remain a going concern. We therefore identified going concern as a significant risk requiring special audit consideration.

Our response: Our audit work included, but was not restricted to, reviewing cash flow forecasts prepared by management for the period to 30 April 2016 and performing sensitivity analysis on the underlying assumptions. In addition, we assessed additional areas such as the Group's cash position, development activities, debt facilities, forecast covenant compliance and contract pipeline.

The Group's accounting policies on going concern is included in Note 2.1. The Audit Committee also identified development expenditure as an area of note. The action the Audit Committee took in relation to this area is set out on page 31. The Directors' assessment of going concern is included on page 26.

Valuation of Linford Wood property

The risk: In August 2014, a valuation of the Linford Wood property was undertaken which was lower than the carrying value included in property, plant and equipment. In accordance with IAS 36 'Impairment of Assets', management is therefore required to carry out an annual impairment review. The process for measuring and recognising an impairment is complex and highly judgemental. We therefore identified the valuation of the Linford Wood property to be a risk requiring special audit consideration.

Our response: Our audit work included, but was not restricted to, an evaluation of the methodology and assumptions used by management to determine that the property required an impairment of £813,000. In particular, we discussed and challenged the underlying assumptions used in the property valuation and the impairment review with management and agreed key assumptions such as the discount rate to supporting documentation or publicly available market data. In addition, we carried out sensitivity analysis to determine the sensitivity of the underlying assumptions to change and the impact this may have on the financial statements.

The Group's accounting policy for impairment is set out in Note 2.21. The Audit Committee also identified the valuation of the Linford Wood property as an area of focus. The action that the Audit Committee took in relation to this area is set out on page 31.

Our application of materiality and an overview of the scope of our audit

Materiality

Materiality is defined as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We determined materiality for the audit of the Group financial statements as a whole to be £68,000, which is 0.5% of total revenues. This benchmark is considered the most appropriate because this is the metric against which the financial performance of the Group is measured both internally and externally. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set lower than financial statement materiality for the audit of the Group financial statements. We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £3,400. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

We conducted our audit in accordance with ISAs (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DRS DATA AND RESEARCH SERVICES PLC

continued

The Group financial statements are a consolidation of the Company, DRS Data and Research Services plc and its subsidiary undertaking, DRS Data Services Limited. Our audit approach included a full audit of the consolidated and Parent Company financial statements and the financial information of the subsidiary undertaking.

We undertook an interim visit in November 2014 to evaluate controls over key financial systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. After the year-end, we undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

OTHER REPORTING REQUIRED BY REGULATIONS

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

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

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

Under the Listing Rules, we are required to review:

- the Directors' Statement, set out on page 26, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

What an audit of financial statements involves:

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

What the Directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on page 50, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

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 Ethical Standards for Auditors.

Who we are reporting to:

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.

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

7 April 2015

CONSOLIDATED INCOME STATEMENT

for the years ended 31 December

	Notes	Total 2014 £000	Total 2013 £000
Revenue	6	13,684	18,095
Cost of sales		(9,810)	(11,286)
Gross profit		3,874	6,809
Other operating income	8	13	25
Selling and marketing costs		(1,097)	(1,155)
Administrative expenses		(3,847)	(4,327)
Exceptional item – impairment of property	10	(813)	-
Finance costs	11	(81)	(83)
(Loss)/profit before income tax		(1,951)	1,269
Tax credit	12	395	120
(Loss)/profit for the period attributable to owners of the parent		(1,556)	1,389
EARNINGS PER SHARE			
Basic earnings per share	25	(4.90p)	4.38p
Diluted earnings per share	25	(4.90p)	4.30p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Total 2014 £000	Total 2013 £000
(Loss)/profit for the period	(1,556)	1,389
Other comprehensive income	-	-
Total comprehensive (loss)/profit for the period attributable to owners of the parent	(1,556)	1,389

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2014 £000	31 December 2013 £000
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,152	2,908
Intangible assets	14	2,423	1,794
Deferred income tax assets	21	-	110
		4,575	4,812
Current assets			
Inventories	15	629	974
Trade and other receivables	16	1,452	4,056
Current tax assets	12	522	264
Cash and cash equivalents	17	3,612	3,680
		6,215	8,974
Total assets		10,790	13,786
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	1,731	1,731
Share premium account	19	5,377	5,377
Capital redemption reserve	19	115	115
Treasury shares	18	(1,166)	(1,166)
Own shares reserve	19	(298)	(306)
Retained earnings		1,292	2,996
Total equity		7,051	8,747
LIABILITIES			
Non-current liabilities			
Borrowings	20	1,280	1,505
Deferred income tax liabilities	21	409	222
Provisions	22	104	89
		1,793	1,816
Current liabilities			
Borrowings	20	226	226
Trade and other payables	23	1,720	2,997
		1,946	3,223
Total liabilities		3,739	5,039
Total equity and liabilities		10,790	13,786

The financial statements were approved by the Board of Directors on 7 April 2015 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 2013	1,731	5,377	115	(1,166)	(306)	1,723	7,474
Dividend paid to Shareholders	-	-	-	-	-	(127)	(127)
Employee share-based compensation	-	-	-	-	-	11	11
Transactions with owners	-	-	-	-	-	(116)	(116)
Profit for the period	-	-	-	-	-	1,389	1,389
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	1,389	1,389
At 31 December 2013	1,731	5,377	115	(1,166)	(306)	2,996	8,747

	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 2014	1,731	5,377	115	(1,166)	(306)	2,996	8,747
Dividend paid to Shareholders	-	-	-	-	-	(127)	(127)
Employee share-based compensation	-	-	-	-	-	(13)	(13)
Own shares vesting	-	-	-	-	8	(8)	-
Transactions with owners	-	-	-	-	8	(148)	(140)
Loss for the period	-	-	-	-	-	(1,556)	(1,556)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(1,556)	(1,556)
At 31 December 2014	1,731	5,377	115	(1,166)	(298)	1,292	7,051

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended 31 December

	Notes	Total 2014 £000	Total 2013 £000
Cash flow from operating activities			
(Loss)/profit after taxation		(1,556)	1,389
Adjustments for:			
Tax credit		(395)	(120)
Depreciation of property, plant and equipment		315	326
Impairment of property, plant and equipment		813	-
Amortisation of intangible assets		268	235
IFRS 2 (credit)/charge in respect of LTIP shares		(13)	11
Loss on sale of property, plant & equipment and intangibles		25	7
Exchange losses/(gains) recognised in the Income Statement		3	(7)
Operating income		(13)	(14)
Interest expense		72	81
Decrease in inventories		345	466
Decrease/(increase) in trade and other receivables		2,604	(1,017)
(Decrease)/increase in trade and other payables		(1,277)	199
Increase in long-term provisions		15	29
Cash generated from operations		1,206	1,585
Interest paid		(72)	(81)
Income tax refunded/(paid)		434	(114)
Net cash generated from/(used in) operating activities		362	(195)
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(372)	(180)
Proceeds from sale of PPE		66	21
Payment for intangible assets		(987)	(1,310)
Interest received		13	14
Net cash used in investing activities		(1,280)	(1,455)
Cash flows from financing activities			
Dividends paid to Shareholders		(127)	(127)
Repayment of loan		(226)	(125)
Net cash used in financing activities		(353)	(252)
Net decrease in cash and cash equivalents		(65)	(317)
Cash and cash equivalents at beginning of period		3,680	3,990
Exchange (decrease)/increase on cash		(3)	7
Cash and cash equivalents at end of period	27	3,612	3,680

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

1 GENERAL INFORMATION

1.1 Nature of Operations

The Company is a public limited company with a premium listing on the London Stock Exchange incorporated and domiciled in England. The address of its registered office is 1 Danbury Court, Linford Wood, Milton Keynes, Buckinghamshire, 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.

1.3 New and revised standards that are effective for annual periods beginning on or after 1 January 2014

In the current year the Group has applied a number of new and revised standards which are effective for annual periods beginning on or after 1 January 2014. Information on the standards relevant to the Group's financial statements is presented below.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognised or reversed in the period.

The amendments have been applied retrospectively in accordance with the transitional provisions.

IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation – Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

IFRS 11 'Joint Arrangements' (IFRS 11)

IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' (IAS 31) and SIC 13 'Jointly Controlled Entities – Non-Monetary – Contributions by Venturers'. IFRS 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, IAS 31's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that standard has been eliminated. IFRS 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The Group's only joint arrangement within the scope of IFRS 11 is its work with Electoral Reform Services Limited (ERS) as IntElect®, which was accounted for using the proportionate consolidation method under IAS 31.

Management has reviewed the classification of IntElect® in accordance with IFRS 11 and has concluded that it is a joint operation. IFRS 11 requires the Group to account for its share of assets, liabilities, revenues and expenses in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

The application of IFRS 11 did not have a material impact on the statements of financial position, the statement of comprehensive income, the statement of cash flows or on the earnings per share for the year ended 31 December 2014.

IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. Note 2.8 illustrates the application of IFRS 12 in the current year.

1.4 Standards and interpretations not yet effective

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2014 and considered relevant to the Group's financial statements are:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (IASB effective date 1 January 2017)

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB effective date 1 January 2016)
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016)
- Annual Improvements to IFRSs 2010-2012 Cycle (EU mandatory effective date 1 February 2015)
- Annual Improvements to IFRSs 2011-2013 Cycle (EU mandatory effective date 1 January 2015)
- Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date 1 January 2016)

IFRS 9 introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS also provides new guidance on the application of hedge accounting. The Group's management have yet to assess the impact of IFRS 9 on the consolidated financial statements. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities. IFRS is effective for reporting periods beginning on or after 1 January 2017. The Group's management have not yet assessed the impact of IFRS 15 on these consolidated financial statements.

The remaining new standards, interpretations and amendments are not expected to have a significant impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

These financial statements are for the year ended 31 December 2014 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 for a period of 12 months from the anticipated signing date. 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.

2.2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to 31 December each year. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All entities within the Group have a reporting date of 31 December.

The 2014 consolidated financial statements incorporate the financial statements of the Company, and its subsidiary, DRS Data Services Limited (together referred to as the 'Group'). 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 consideration transferred 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 transactions and balances between Group companies are eliminated on consolidation including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

Composition of the Group

Name of subsidiary	Country of incorporation and principal place of business	Principal activity	Proportion of interest held by the Group	
			31 December 2014	31 December 2013
DRS Data Services Limited	UK	Specialist provider of automated data capture technology and solutions in the UK and overseas	100%	100%
Seckloe 279 Limited	UK	None - Dormant	100%	100%

2.3 Revenue Recognition

Revenue is the fair value of consideration received or 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 software products, professional services, scanning machines and printed forms. 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.

For election contracts in which DRS is a principal contractor, revenue is recognised when the election has been successfully completed.

For examination marking contracts, where DRS is undertaking part of the marking process, revenue is normally recognised when the marks of the examination series have been agreed with the Awarding Body. However for large contracts (such as AQA), delivery of the series is split into two parts. One element relates to providing and maintaining the marking environment and support services for which a fixed monthly sum is recognised. The second element relates to the actual marking activity which is based on a price per script determined by the volume of examinations processed and is recognised when the marks of the examination series have been agreed with the Awarding Body.

Examination marking software is supplied to customers and a license fee is charged retrospectively for use based on the number of examination scripts marked using the software product, often supplied in conjunction with the sale of services as explained in the paragraph on examination marking contracts above. The license fee for Multiple Choice Questions (MCQ) software is a fixed fee which is charged up-front for use of the software and recognised in the Income Statement when the customer confirms acceptance of the software.

For census contracts, DRS usually provides the data capture solution to the in-country census authority who are responsible for conducting the actual census. DRS normally agrees to a number of specific deliverables relating to discrete delivery times and locations in respect of the products and services outlined below. The revenue of these discrete items is recognised when the goods and services have been delivered and accepted by the end user.

The consideration is allocated to each component according to its fair value, the amount for which each component could be sold separately.

Specialist software products have been created for each market sector. For elections there is e-Counting, for education there is e-Marker® and Multiple Choice Questions (MCQ) and census has its own customised software. Software for elections and census is charged as a single charge based on the size and complexity of the count.

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.

Sales of scanning machines and associated equipment are recognised when the products have been delivered to the customer and it is probable that economic benefits associated with the transaction will flow to the Group.

Large print contracts are recognised on a stage of completion basis. Print revenue is recognised in accordance with hours and costs incurred on the contract as a proportion to the total time and cost estimated for the contract.

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

In the case of long-term maintenance 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. Revenue is recognised on a straight-line time apportionment basis over the length of the underlying contract. 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 Exceptional Items

Exceptional items are non-recurring material items which are outside the normal scope of the Group's ordinary activities. Such items are separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. Details of these items are provided in the relevant notes.

2.5 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.

2.6 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.

2.7 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.

2.8 Joint Arrangements

Where a Group company enters into a contractual agreement to share control of an arrangement, under which each party has rights to assets and obligations for liabilities relating to the joint arrangement, it is treated as a joint operation. Such arrangements are accounted for by recognising the company's share of assets, liabilities, revenues and expenses according to that company's share under the contractual arrangement.

The Group's only joint arrangement is DRS Data Services Limited's work with Electoral Reform Services Limited (ERS) as IntElect® to deliver the 2016 London Mayor and Assembly elections. Its principal place of business is in the UK. DRS Data Services Limited is entitled to a share of assets, liabilities, revenues and expenses in accordance with which of the two entities has agreed to supply the various deliverables of the contract. The agreement itemises revenue across the deliverables and it is this basis which is used to apportion revenue and each company will be responsible for the related costs of delivery against their specific responsibilities. No revenue or expenses have been recognised in the current or preceding year.

2.9 Foreign Currency Translation

Functional and presentational currency

The consolidated financial statements are presented in Sterling which is also the Group's functional currency.

Transactions and services

Foreign currency transactions and balances 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 within Finance Income and Finance Costs.

2.10 Property, Plant and Equipment

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

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

Freehold buildings	25 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.

2.11 Intangible Assets

(a) Computer Software

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

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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, costs can be measured reliably and the Group has the resources available to complete the development. Development costs 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 five years.

2.12 Inventories

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

2.13 Trade and Other Receivables

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

2.14 Cash and Cash Equivalents

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

2.15 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.

2.16 Share Capital and Equity

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

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

2.17 Accounting for Income Taxes

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

The tax 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 and are reflected in the tax credit line of the Income Statement.

2.18 Employee Benefits

(a) Pension Obligations

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

(b) Bonus Plans and Profit Sharing

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

2.19 Financial Assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the financial instruments and are initially measured at fair value adjusted by transactions cost, except for those carried at fair value through profit and loss (FVTPL) which are measured initially at fair value with transaction costs expensed in the Income Statement. The fair values of financial assets held at fair value through profit or loss are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

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 quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instrument.

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

2.20 Financial Liabilities and Equity

Financial liabilities include borrowings and trade and other payables.

Financial liabilities and equity instruments are classified

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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.

2.21 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 asset's or cash-generating unit's 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 asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

3 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors of the Company considered judgements and estimates impacting the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates are based on management's best knowledge of current events and actions. Actual results may differ from those estimates.

3.1 Critical judgments that the Directors have made

Research and development expenditure

Note 14 includes capitalised development expenditure of £2,340,000 which relates to the cost of developing the first release of a new version of e-Marker® which is now due for release in Summer 2015. The business aims to have a live pilot running with an existing customer in the second half of 2015 which will test the effectiveness of the software platform built to date and where improvements may need to be made ready for commercialisation.

The project is running behind the original schedule. The judgement is that these capitalised costs are recoverable by reference to future cash flows. Detailed sensitivity analysis in respect of the incremental revenues which can be achieved from the software has been carried out recognising the delays in delivering the software and the changes to the education sector over the last 12 months, which the Directors have used to assess the carrying value of this asset.

Revenue recognition

Determining when to recognise revenues from services requires an understanding of both the nature and timing of the services provided and the customers' pattern of consumption of those services, based on historical experience and knowledge of the market. Recognition of services revenue requires significant judgement in determining actual work performed. On contracts which incorporate multiple products and services such as scanning machines, software, printed forms and professional services 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 as revenue.

Deferred tax

The extent to which deferred tax assets can be recognised is based on an assessment of the profitability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised.

Tax credits

Research and development tax credits are included within the tax charge/credit in the Income Statement. The judgement is whether to treat this credit as a reduction in corporation tax or as other income if it is considered to be a source of funding. Management do not consider the research and development tax credits to be a source of funding and have therefore made a judgement to include this within the tax charge/credit within the Income Statement.

3.2 Areas considered to involve significant estimates

Inventory provisions

Inventory provisions reflect future sales over the useful life of the product. In the case of the high value PhotoScribe® scanning machines it is necessary to estimate the expected useful life of the product and to estimate the volume of expected machine sales over the remaining useful life. Where there are insufficient machines held in stock to meet expected demand, machines are released from the inventory provision based on this estimate. The carrying value of the total inventory provision at the year-end is £993,000 (2013: £803,000). See Note 15.

Dilapidations provision

There are six property leases relating to eight business units occupied by operations. All the leases require the tenant to address the cost of leasehold dilapidations at the end of the lease. In order to apportion the dilapidation cost over the life of the lease, a provision is created to reflect an estimate of the projected dilapidation cost accruing over the life of the leases. At the year-end £104,000 (2013: £89,000) is provided. See Note 22.

Useful economic lives of depreciable assets

Management reviews its estimate of the useful economic lives at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to the conditions of the property assets and technological obsolescence that may change the utility of certain software and IT equipment. See Notes 13 and 14.

Carrying value of the Linford Wood property

The carrying value of the Linford Wood property is based on fair value less costs to sell. As a result of this the Group recognised an impairment loss on the property of £813,000. Details of the estimates used are in Note 10. The carrying value as at 31 December 2014 was £1,576,000 (2013: £2,446,000). See Note 13.

4 FINANCIAL RISK MANAGEMENT

4.1 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 accept payment in either US Dollars or Euros. During 2013 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 2013 and 2014 the Board decided not to purchase any form of interest rate cap to limit the impact of potential increases in interest payable as the cost of mitigation was perceived to be greater than the risk.

An increase or decrease of 1% in the rate of interest charged on the mortgage will increase or decrease, respectively, the amount of annualised interest payable by £15,000. On the Group's year-end cash holding, a 1% increase in interest rates would increase interest receivable by £35,000.

(iii) Investment Risk

The Board considers security of the principal investment to be 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 Strategic Report.

(b) Credit Risk

The Group has a small number of customers that account for a significant proportion of the revenue. Close working relationships with these customers established over a long-term manage the risk exposure. Where appropriate, sales to overseas customers are usually underwritten using letters of credit unless the customer makes a significant up-front payment. A summary of all customers with indebtedness greater than £100,000 is prepared on a monthly basis for the Directors and senior managers to review.

(c) Liquidity Risk

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

All £1,946,000 (2013: £3,223,000) of the current liabilities are payable within one year.

In January 2013 the Group's mortgage facility was extended and increased to £1,900,000 and £1,506,000 is the balance outstanding at 31 December 2014. In December 2014, the mortgage covenants were re-negotiated with Barclays Bank to support the three-year financial plan. The rate of interest is 4.0% over the base rate. Repayment of the principal shall be

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

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 quarterly in arrears.

4.2 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 2.14) to be able to have sufficient funds to finance the working capital requirements of large contracts. The dividend policy provides a return to Shareholders whilst retaining sufficient cash to continue to fund working capital and the development of the Group's products. The Group takes a cautious approach to investing this capital to minimise the Group's exposure to capital loss. The policy is consistent with the approach of previous years and explains the relatively large value of cash and cash equivalents held at the year-end (see Note 17).

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

	31 December 2014 £000	Restated 31 December 2013 £000
Total equity	7,051	8,747
Capital	7,051	8,747
Total equity	7,051	8,747
Borrowings	1,506	1,731
Overall financing	8,557	10,478
Capital to overall financing ratio	0.82	0.83

Capital has been reassessed in the current year and the prior period comparatives have been updated as a result.

5 SEGMENT INFORMATION

The principal activities of the Group are the provision of software, data capture services, the manufacture, sale and support of optical and image scanning equipment, design and printing of documentation used for data capture and bureau services. The Group is 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.

Management consider that there is only one operating segment, as this is the lowest level at which discrete financial information is available and is reflected by a single set of management accounts that are used throughout the Group. However, it reviews revenue according to various segments and the revenue split is disclosed below.

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

The revenue analysis generated from external customers for the year ended 31 December 2014 is as follows:

	Education revenue		non-Education revenue		
	Examination & Assessment £000	Other £000	Commercial £000	Elections & Census £000	Total £000
Region					
UK	9,408	464	19	1	9,892
Africa	2,906	30	2	-	2,938
Rest of world	200	19	51	584	854
Total	12,514	513	72	585	13,684
Revenue arising from specific products and related services thereon:					
e-Marker®	9,301				
e-Counting				14	

All of the Group's revenue from continuing operations of £13,684,000 was generated from UK operations.

DRS' largest customer generated revenue of £8,112,000 in 2014 (2013: £8,669,000) and is shown under UK examinations and assessment. There were no other customers that accounted for more than 10% of revenue in 2014.

The contract to count the 2016 London Mayor and Assembly elections electronically was won by IntElect®, a joint arrangement between DRS Data Services Limited and ERS (Electoral Reform Services Limited). The Group did not recognise any revenue in the year in respect of this contract.

The revenue analysis generated from external customers for the year ended 31 December 2013 is as follows:

	Education revenue		non-Education revenue		
	Examination & Assessment £000	Other £000	Commercial £000	Elections & Census £000	Total £000
Region					
UK	10,057	513	39	11	10,620
Africa	4,709	25	494	135	5,363
Rest of world	128	18	69	1,897	2,112
Total	14,894	556	602	2,043	18,095
Revenue arising from specific products and related services thereon:					
e-Marker®	9,713				
e-Counting				94	

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

6 Revenue and (loss)/profit before tax

The significant categories of revenue recognised during the period are:

	2014 £000	2013 £000
Sale of goods	2,885	6,509
Rendering of services	10,646	11,434
Operating lease income (Note 7)	153	152
	13,684	18,095

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

	2014 £000	2013 £000
Auditor's remuneration:		
Audit services	7	6
Other services	40	39
Depreciation	315	326
Amortisation	268	235
Hire of plant and machinery	61	63
R&D expense	1,683	1,279
Share-based payment (credit)/charge	(13)	11

Auditor's remuneration relating to other services comprises:

	2014 £000	2013 £000
- audit of subsidiaries pursuant to legislation	26	25
- advice on IFRS	8	8
- interim review	6	6
	40	39

7 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 2014 amounted to £5,000 (2013: £8,000), all of which is recoverable within one year. Of this amount, £1,000 (2013: £1,000) is invoiced and included in the trade receivables balance as at 31 December 2014.

8 OTHER OPERATING INCOME

	2014 £000	2013 £000
Interest income		
- bank interest	13	14
- Peladon deferred consideration	-	2
Profit on foreign exchange (realised and unrealised)	-	9
	13	25

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.

9 DIRECTORS AND EMPLOYEE BENEFIT EXPENSE

Staff costs during the year were:

	2014 £000	2013 £000
Wages and salaries	7,794	7,717
Social security costs	838	885
Share options granted to Directors and employees	(13)	11
Pension costs – defined contribution plans	817	679
	9,436	9,292

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

	2014	2013
Print and bureau services	98	116
Hardware and software services	94	89
Sales and marketing	14	16
Administration	32	34
	238	255

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

Remuneration in respect of Directors was as follows:

	2014 £000	2013 £000
Emoluments	518	513
Pension contributions to money purchase pension schemes	57	56
	575	569

Key management remuneration:

	2014 £000	2013 £000
Short-term employee benefits	518	513
Post-employment benefits	57	56
Share-based payments	(13)	11
	562	580

All of the main Board Directors are considered to be the key management personnel of the Group. Further details on Directors' remuneration and share options are set out in the Directors' Remuneration Report.

10 Exceptional Item

	2014 £000	2013 £000
(Loss)/profit before exceptional item and tax	(1,138)	1,269
Exceptional item – impairment charge	(813)	-
(Loss)/profit before tax	(1,951)	1,269
Tax credit before exceptional item	395	120
Exceptional item – deferred tax charge	-	-
Tax credit	395	120
(Loss)/profit for the period	(1,556)	1,389

The exceptional item relates to an impairment charge against the carrying value of the Linford Wood property. 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.

DRS Data Services Limited holds a mortgage on the property, through Barclays Bank plc, who arranged for Berrys, an independent valuer, to conduct a commercial valuation of the property based on tenanted occupancy. The commercial valuation is based on a calculation derived from tennancy yields in the immediate vicinity of the Linford Wood property in August 2014. This valuation calculated the current market value at £1,600,000 which is the same value as the previous valuation undertaken in November 2012 by the same agent and on the same basis. The decline in the commercial valuation reflects the general fall in the value of commercial property within the locality. The market value at August 2014 is considered to be representative of the value as at 30 June 2014.

The fall in the Group's profitability led to a review being undertaken at the half year to consider whether the property should be impaired in accordance with IAS 36. The recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the business unit is determined on the basis of the fair value less costs. The fair value of the property has been estimated using the market approach by reference to comparable sales price per square foot and condition of the building and are categorised within Level 2 of the fair value hierarchy. The costs to sell are not considered to be material.

The fair value is therefore deemed to be the current market value. Accordingly, this did not justify continuing to hold the Linford Wood property at a carrying value above the current market value of £1,600,000. Consequently, an impairment adjustment of £813,000 was made reducing the carrying value to £1,600,000 at 30 June 2014. The impairment charge is recognised in administration expenses in the Income Statement. As at 31 December 2014 the carrying value of the property is £1,576,000 (2013: £2,446,000) after charging depreciation. See Note 13 Property, Plant and Equipment for further details.

The assets belong to the one operating segment of the business.

11 FINANCE COSTS

	2014 £000	2013 £000
Interest expense:		
- bank borrowings	(72)	(81)
- Peladon deferred consideration	(6)	-
- loss on foreign exchange (realised and unrealised)	(3)	(2)
	(81)	(83)

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.

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 two years of the arrangement is £4,000 (2013: £10,000). No consideration was received in the year and the charge in the year reflects the reduction of the estimated cash flows to be generated from this arrangement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

12 INCOME TAX

	2014 £000	2013 £000
Current tax – domestic	(522)	-
Foreign taxation	26	20
Adjustment in respect of previous period	(196)	(269)
Total current tax	(692)	(249)
Deferred tax current year (Note 21)	132	55
Deferred tax prior year (Note 21)	165	74
	(395)	(120)

Domestic income tax is calculated at the domestic effective tax rate of 21.5% (2013: 23.25%) of the estimated assessable profit for the year.

The unrealised losses for 2013 which were not recognised in the 2013 year-end accounts were surrendered in exchange for a research and development repayable tax credit of £196,000 resulting in an adjustment in respect of the previous period. Development expenditure has already been identified in the current year as qualifying expenditure for research and development repayable tax credits thereby creating the £522,000 credit in the current income tax credit. Details of this expenditure are provided within the section on Research and Development in the Strategic Report.

The credit for the year can be reconciled to the profit per the Income Statement as follows:

	2014 £000	2013 £000
(Loss)/profit before tax	(1,951)	1,269
Tax at domestic income tax rate of 21.5% (2013: 23.25%)	(420)	295
Tax effect of expenses that are not deductible in determining taxable profit	147	8
Income not taxable for tax purposes	(2)	-
Additional deduction for R&D expenditure	(458)	(476)
Surrender of tax losses for R&D tax credit	302	-
Chargeable gains	3	1
Foreign tax credits	26	20
Effect of change in tax rates	-	17
Deferred tax not recognised	37	211
Adjustment in respect of previous periods	(30)	(196)
Tax credit	(395)	(120)

13 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 2013							
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	-	-
For the year ended 31 December 2013							
Opening net amount at 1 January 2013	3,055	2,513	172	194	176	-	-
Additions	180	-	59	21	100	-	-
Disposals	(1)	-	-	(1)	-	-	-
Depreciation charge	(326)	(67)	(117)	(66)	(76)	-	-
Closing net book amount at 31 December 2013	2,908	2,446	114	148	200	-	-
At 31 December 2013							
Cost	10,237	2,900	1,185	2,473	3,226	447	6
Accumulated depreciation	(7,329)	(454)	(1,071)	(2,325)	(3,026)	(447)	(6)
Net book amount	2,908	2,446	114	148	200	-	-
For the year ended 31 December 2014							
Opening net amount at 1 January 2014	2,908	2,446	114	148	200	-	-
Additions	372	-	81	205	86	-	-
Disposals	-	-	-	-	-	-	-
Depreciation charge	(315)	(57)	(97)	(78)	(83)	-	-
Impairment charge (See Note 10)	(813)	(813)	-	-	-	-	-
Closing net book amount at 31 December 2014	2,152	1,576	98	275	203	-	-
At 31 December 2014							
Cost	10,530	2,900	1,257	2,671	3,255	441	6
Accumulated depreciation and impairment	(8,378)	(1,324)	(1,159)	(2,396)	(3,052)	(441)	(6)
Net book amount	2,152	1,576	98	275	203	-	-

An impairment review was undertaken in June 2014 that resulted in an impairment of the Linford Wood property in the amount of £813,000, see Note 10 for details. At 30 June 2014, the useful economic life of the building was estimated to be

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

25 instead of 30 years based on the condition of the building and the planned expenditure in light of the Group's cost saving programme. As a consequence of these two actions, depreciation has reduced from £67,000 per annum to £47,500 per annum.

Bank borrowings at 31 December 2014 are secured on the Linford Wood land and buildings to the value of £1,506,000 (2013: £1,731,000). See Note 20.

The fall in year-on-year cost of assets is the result of disposals made during the year with nil net book value.

14 INTANGIBLE ASSETS

	Total £000	Computer software £000	Development expenditure £000
At 1 January 2013			
Cost	5,206	1,311	3,895
Accumulated amortisation	(4,460)	(1,049)	(3,411)
Net book amount	746	262	484
For the year ended 31 December 2013			
Opening net amount at 1 January 2013	746	262	484
Additions	1,310	105	1,205
Disposals	(27)	(27)	-
Amortisation charge	(235)	(130)	(105)
Closing net book amount at 31 December 2013	1,794	210	1,584
At 31 December 2013			
Cost	6,481	1,381	5,100
Accumulated amortisation and impairment	(4,687)	(1,171)	(3,516)
Net book amount	1,794	210	1,584
For the year ended 31 December 2014			
Opening net amount at 1 January 2014	1,794	210	1,584
Additions	987	6	981
Disposals	(90)	-	(90)
Amortisation charge	(268)	(133)	(135)
Closing net book amount at 31 December 2014	2,423	83	2,340
At 31 December 2014			
Cost	7,378	1,387	5,991
Accumulated amortisation and impairment	(4,955)	(1,304)	(3,651)
Net book amount	2,423	83	2,340

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 developing the first release of a completely new version of e-Marker® software which is due to be available in summer 2015 plus additional new features which enhance the original core e-Marker® software used to mark examination scripts electronically within the education marketplace. This expenditure is amortised over its expected useful life from the month in which it becomes available for operational use. The software is used in an operational environment 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 based on Management's assessment of when the asset will be brought into use:

	Total £000	Computer software £000	Development expenditure £000
Future amortisation of assets by year			
2015	295	61	234
2016	489	21	468
2017	469	1	468
2018	468	-	468
2019	468	-	468
2020	234	-	234
Net book amount at 31 December 2014	2,423	83	2,340

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

15 INVENTORIES

	31 December 2014 £000	31 December 2013 £000
Raw materials	585	564
Work in progress	11	17
Finished goods	33	393
	629	974

	31 December 2014 £000	Movement during year £000	31 December 2013 £000	Movement during year £000	31 December 2012 £000
Inventory provision					
PS900 scanners	894	200	694	35	659
IntelliReg®	-	-	-	(22)	22
Other scanners	86	(12)	98	(35)	133
Print	13	2	11	(3)	14
Total	993	190	803	(25)	828

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

	31 December 2014 £000	31 December 2013 £000	31 December 2012 £000
Related carrying value			
PS900 scanners	420	780	1,160
Other scanners	4	12	107
Manufacturing inventory	424	792	1,267
Print inventory	205	182	173
Total	629	974	1,440

Inventory provisions are created to reflect future sales estimates over the useful life of the product. Reductions in the level of provision arise from inventory being written off and disposed of. In 2014 the value of fully provided inventory that was written off amounted to £12,000 (2013: £60,000).

The cost of inventories recognised as an expense and included in cost of sales amounted to £1,480,000 (2013: £2,311,000), comprising of £1,278,000 of materials (2013: £2,276,000) and £202,000 of inventory provision increases (2013: £35,000) as a result of the estimated sales of the PS900 scanners.

16 TRADE AND OTHER RECEIVABLES

	31 December 2014 £000	31 December 2013 £000
Loans and receivables		
- Trade receivables	517	3,111
- Less provision for impairment of receivables	(6)	(22)
- Trade receivables – net	511	3,089
Amounts recoverable on contracts	151	285
Prepayments and accrued income	790	682
	1,452	4,056

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 4.1.

Standard payment terms on credit sales are 30 days net.

The trade receivables ageing analysis is as follows:

	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 2014	511	348	45	86	10	9	13
31 December 2013	3,089	2,782	30	251	2	-	24

The Group recognised a decrease in its impairment of its trade receivables during the year of £16,000 (2013: increase £21,000). The trade receivables provision movement, representing those items past due and impaired, is included in 'administrative expenses' in the Income Statement and a breakdown is as follows:

	31 December 2014 £000	31 December 2013 £000
Opening amount at 1 January	22	1
(Decrease)/increase in provision to Income Statement	(16)	21
Closing amount at 31 December	6	22

17 CASH AND CASH EQUIVALENTS

	31 December 2014 £000	31 December 2013 £000
Cash at bank and in hand	85	124
Short-term bank deposits	3,527	3,556
	3,612	3,680

The effective interest rate on short-term bank deposits was 0.23% (2013: 0.21%). These deposits have an average maturity of one day (2013: two days).

The Group's approach to managing liquidity and currency risks is set out in Note 4.1.

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

	31 December 2014 US Dollars £000	31 December 2014 Euro £000	31 December 2013 US Dollars £000	31 December 2013 Euro £000
Sterling equivalent	21	47	87	27

18 SHARE CAPITAL

	Number of shares	Ordinary shares	Treasury shares	Total
At 1 January 2013	34,621,600	34,621,600	(1,930,000)	32,691,600
Balance at 31 December 2013	34,621,600	34,621,600	(1,930,000)	32,691,600
Balance at 31 December 2014	34,621,600	34,621,600	(1,930,000)	32,691,600

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

	Ordinary shares of 5p each at 31 December 2014 and 2013 Number	£000
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.

19 OTHER RESERVES

	Share premium reserve £000	Capital redemption reserve £000	Own share reserve £000	Total Group £000
As at 1 January 2013 and 31 December 2013	5,377	115	(306)	5,186
Own shares vesting	-	-	8	8
Balance at 31 December 2014	5,377	115	(298)	5,194

The Share Premium represents proceeds received in addition to the nominal value of shares issued less registration and other regulatory fees and net of related tax benefits.

The Capital Redemption Reserve represents shares which are redeemed or purchased wholly out of the Company's profits and is the amount by which the Company's share capital is diminished on cancellation of these shares

The Own Share Reserve represents the cost of shares purchased under the Restricted Share Scheme, less those unconditionally vested in employees. At 31 December 2014, 920,529 (2013: 960,529) shares with a market value of £124,271 (2013: £237,731) were held. 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.

20 BORROWINGS

	31 December 2014 £000	31 December 2013 £000
Current		
Bank borrowings – secured loan	226	226
Non-current		
Bank borrowings – secured loan	1,280	1,505
Total borrowings	1,506	1,731

In January 2013 the mortgage facility was extended to 7 January 2018 and increased to £1,900,000. The balance outstanding at 31 December 2014 was £1,506,000 (2013: £1,731,000). 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 3.25% over base rate. The facility is not currently in use.

21 DEFERRED INCOME TAX

	31 December 2014 £000	31 December 2013 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	409	222
Deferred tax assets	-	(110)
	409	112

At the balance sheet date, the main corporation tax rate for deferred tax purposes remains at 20% and therefore this rate is 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 2014 £000	31 December 2013 £000
At 1 January	112	(17)
Charge to income for the current year	132	55
Charge to income for the prior year	165	74
At 31 December	409	112

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

	R&D tax credits £000	Capital Allowances £000
At 1 January 2014	(110)	222
Charge to income for the year	110	187
At 31 December 2014	-	409

A deferred tax asset in respect of unrelieved tax losses has not been recognised due to the uncertainty of the Group generating sufficient profit against which these losses can be utilised, as the Group projects similar high levels of development expenditure over the next three years. The amount unprovided at 31 December 2014 was £34,000 (2013: £211,000), using the rate of corporation tax applicable for future years (20%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

22 PROVISIONS

	31 December 2014 £000	31 December 2013 £000
Leasehold dilapidations provision		
As at 1 January	89	60
Additonal provision	28	29
Amounts utilised	-	-
Reversals	(13)	-
Carrying amount at 31 December	104	89

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 six property leases relating to the eight business units occupied by operations in Milton Keynes. See Note 28 for further details about the property leases. The whole amount is included within non current liabilities.

23 TRADE AND OTHER PAYABLES

	31 December 2014 £000	31 December 2013 £000
Financial liabilities measured at amortised cost		
- Trade payables	386	904
Deferred income	359	958
Social security and other taxes	343	223
Accrued expenses	632	912
	1,720	2,997
Borrowings (see Note 20)	226	226
	1,946	3,223

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

24 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities

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

	Notes	31 December 2014 £000	31 December 2013 £000
Financial assets			
Loans and other receivables			
- Trade and other receivables	16	1,452	4,056
- Cash and cash equivalents	17	3,612	3,680
		5,064	7,736
Financial liabilities			
Financial liabilities measured at amortised cost:			
Non-current borrowings	20	(1,280)	(1,505)
Current			
- Trade and other payables	23	(1,018)	(1,816)
- Repayment of secured loan	20	(226)	(226)
		(1,244)	(2,042)

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

25 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 the Restricted Share Scheme (see Note 19) 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

	2014 £000	2013 £000
Earnings attributable to Ordinary Shareholders being (loss)/profit for the period	(1,556)	1,389
	Number	Number
Weighted average number of shares	31,767,482	31,731,071
Basic (loss)/profit per Ordinary share	(4.90p)	4.38p

Diluted earnings per share

	2014 £000	2013 £000
Earnings attributable to Ordinary Shareholders being (loss)/profit for the period	(1,556)	1,389
	Number	Number
Weighted average number of shares	31,767,482	31,731,071
Basic		
Dilutive effect of:		
- options under the Enterprise Management Incentive Scheme	-	40,000
- options under LTIP option scheme	-	544,550
Diluted	31,767,482	32,315,621
Diluted (loss)/profit per Ordinary share	(4.90p)	4.30p

26 DIVIDENDS PER SHARE

Amounts recognised as distributions to equity holders in this period:

	2014 £000	2013 £000
Final dividend for the year ended 31 December 2013 of 0.4p per share	127	-
Final dividend for the year ended 31 December 2012 of 0.4p per share	-	127

The Directors do not recommend a final dividend for the year ended 31 December 2014.

27 RECONCILIATION OF MOVEMENTS IN CASH AND CASH EQUIVALENTS

	1 January 2014 £000	Cash flow £000	31 December 2014 £000
Cash at bank and in hand	124	(39)	85
Term deposits	3,556	(29)	3,527
	3,680	(68)	3,612

28 COMMITMENTS

Operating lease commitments

The Company has the following future minimum lease commitments:

	Lease of land & buildings		Other leases	
	31 December 2014 £000	31 December 2013 £000	31 December 2014 £000	31 December 2013 £000
Within one year	210	192	68	76
Within two to five years	651	176	105	148
	861	368	173	224

The Group held six property leases relating to eight business units occupied by operations in Milton Keynes at 31 December 2014. Five of the property leases, relating to seven business units, run concurrently to 30 November 2021 with options for a break in the lease at 30 November 2017 and 30 November 2019. The remaining business unit lease was due to expire on 30 November 2015, however, in February 2015 the lease was terminated and a new lease for a similar business unit on the same trading estate in Milton Keynes was entered into which runs concurrently with the existing five leases. Rent is payable quarterly in advance.

The classification of other leases relates to Company vehicles that are held under three or four year contracts, plus 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.

Operating lease expense for the year ended 31 December 2014 amounted to £282,000 (2013: £264,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

29 PENSION COMMITMENTS

During 2013 and 2014 the Group operated various separate defined contribution schemes for the benefit of employees and Executive Directors. In all cases the assets of the schemes are administered by trustees in funds independent of the Group. Pension contributions are shown in Note 9.

30 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
Year-end 31 December 2013							
18 November 2013	LTIP	Directors	66,000	3 years	10 years	Nil	Equity

* 1996 DRS Restricted Share Scheme

Movements in the year:

Year-end 31 December 2013

	1 January 2013					31 December 2013	
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	-	-	100,000	-	370,000	-
16 November 2012	916,666	-	-	-	-	916,666	-
Year-end 31 December 2013							
18 November 2013	-	-	66,000	-	-	66,000	-

Movements in the year:

Year-end 31 December 2014

Date of Grant	1 January 2014 Outstanding options	1 January 2014 Exercisable options	Granted	Lapsed	Exercised	31 December 2014 Outstanding options	31 December 2014 Exercisable options
Year-end 31 December 2004							
7 April 2004	-	40,000	-	-	40,000	-	-
Year-end 31 December 2012							
24 September 2012	370,000	-	-	150,000	-	220,000	-
16 November 2012	916,666	-	-	-	-	916,666	-
Year-end 31 December 2013							
18 November 2013	66,000	-	-	33,000	-	33,000	-

The weighted average remaining contractual life of the exercisable options is 320 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 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
Year-end 31 December 2013								
18 November 2014	Monte Carlo	23.25p	0p	30.00%	3 years	2.00%	0.7031%	12.48p

Performance Criteria

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 of the year in which they are granted, are 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 2012 for the options granted in 2013).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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 £142,250.

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 2014 was nil, (2013: nil).

31 RELATED PARTY TRANSACTIONS

31.1 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.

31.2 Transactions with Joint Arrangements

Electoral Reform Services Limited (ERS) is working with DRS Data Services Limited in a joint arrangement as IntElect® to deliver the 2016 London Mayor and Assembly elections making ERS a related party. No amounts were outstanding between the two parties either at 31 December 2014 or at 31 December 2013. Further details about IntElect® are included in Note 5.

31.3 Transactions with Key Management Personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out in Note 9.

The Group paid a dividend of 0.4p per share on 30 May 2014 of which the following was paid to Directors:

J F Linwood	£20
A M Tebbutt	£2,226

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2014 £000	31 December 2013 £000
Assets			
Non-current assets			
Property, plant and equipment	34	1,594	2,472
Investment in subsidiaries	35	3,814	3,814
		5,408	6,286
Current assets			
Trade and other receivables	36	93	102
Cash and cash equivalents	37	3,205	3,289
		3,298	3,391
Total assets		8,706	9,677
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	38	1,731	1,731
Share premium account	39	5,377	5,377
Capital redemption reserve	39	115	115
Treasury shares	38	(1,166)	(1,166)
Own shares reserve	39	(298)	(306)
Retained earnings		1,365	2,080
Total Equity		7,124	7,831
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	40	64	112
		64	112
Current liabilities			
Trade and other payables	41	1,518	1,734
		1,518	1,734
Total liabilities		1,582	1,846
Total equity and liabilities		8,706	9,677

The financial statements were approved by the Board of Directors on 7 April 2015 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 2013	1,731	5,377	115	(1,166)	(306)	1,070	6,821
Dividends	-	-	-	-	-	(127)	(127)
Employee share-based compensation	-	-	-	-	-	11	11
Transactions with owners	-	-	-	-	-	(116)	(116)
Profit for the period	-	-	-	-	-	1,126	1,126
Total comprehensive income for the period	-	-	-	-	-	1,126	1,126
At 31 December 2013	1,731	5,377	115	(1,166)	(306)	2,080	7,831
At 1 January 2014	1,731	5,377	115	(1,166)	(306)	2,080	7,831
Dividends	-	-	-	-	-	(127)	(127)
Employee share-based compensation	-	-	-	-	-	(13)	(13)
Own shares vesting	-	-	-	-	8	(8)	-
Transactions with owners	-	-	-	-	8	(148)	(140)
Loss for the period	-	-	-	-	-	(567)	(567)
Total comprehensive loss for the period	-	-	-	-	-	(567)	(567)
At 31 December 2014	1,731	5,377	115	(1,166)	(298)	1,365	7,124

PARENT COMPANY STATEMENT OF CASH FLOWS

	Notes	31 December 2014 £000	31 December 2013 £000
Cash flows from operating activities			
(Loss)/profit for the period		(567)	1,126
Adjustments for:			
- income tax		(48)	(80)
- depreciation of property, plant and equipment	34	65	75
- impairment of property, plant and equipment		813	-
- exchange (gain)/loss on cash holdings		(10)	3
- interest income		(63)	(14)
- interest expense		-	3
- decrease in trade and other receivables		9	6
- (decrease)/increase in trade and other payables		(229)	628
- decrease in short-term borrowings		-	(1,855)
Cash used in operations		(30)	(108)
Interest paid		-	(3)
Net cash used in operating activities		-	(3)
Cash flows from investing activities			
Interest received		63	14
Net cash generated from investing activities		63	14
Cash flows from financing activities			
Dividends paid to Shareholders		(127)	(127)
Net cash used in financing activities		(127)	(127)
Net decrease in cash and cash equivalents		(94)	(224)
Exchange increase/(decrease) on cash		10	(3)
Cash and cash equivalents at beginning of period		3,289	3,516
Cash and cash equivalents at end of period		3,205	3,289

32 ACCOUNTING POLICIES

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

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

32.1 INVESTMENT IN SUBSIDIARIES

Investments in subsidiaries are measured at cost less accumulated impairment.

32.2 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 retranslation 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. At the year-end the Company does not hold any bank loans and is not considered to have any interest rate risk.

iii) Investment Risk

The Board considers security of the principal investment to be 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 Company's cash holding, thereby spreading the risk of loss as a consequence of a bank failure.

b) Credit Risk

The Company does not have any trade receivables and therefore has minimum credit risk.

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.

32.3 SHARE-BASED PAYMENT

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 30. Participants of the share based payment arrangements are the holding Company Executive Directors and the subsidiary company, DRS Data Services Limited, Executive Directors. The calculated cost is then charged out as a service to the relevant subsidiary.

32.4 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.

33 (LOSS)/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 decrease in retained earnings for the year was £715,000 (2013: £1,010,000 increase which included £900,000 of dividend). The trading loss for the financial year in the Financial Statements of the Parent Company is £567,000 (2013: £1,126,000 profit).

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2014

34 PROPERTY, PLANT AND EQUIPMENT

	Total £000	Freehold land & buildings £000	Fixtures & fittings £000
At 1 January 2013			
Cost	3,168	2,900	268
Accumulated depreciation	(621)	(387)	(234)
Net book amount	2,547	2,513	34
For the year ended 31 December 2013			
Opening net amount at 1 January 2013	2,547	2,513	34
Depreciation charge	(75)	(67)	(8)
Closing net book amount at 31 December 2013	2,472	2,446	26
At 31 December 2013			
Cost	3,168	2,900	268
Accumulated depreciation	(696)	(454)	(242)
Net book amount	2,472	2,446	26
For the year ended 31 December 2014			
Opening net amount at 1 January 2014	2,472	2,446	26
Depreciation charge	(65)	(57)	(8)
Impairment charge	(813)	(813)	-
Closing net book amount at 31 December 2014	1,594	1,576	18
At 31 December 2014			
Cost	2,355	2,087	268
Accumulated depreciation	(761)	(511)	(250)
Net book amount	1,594	1,576	18

An impairment review was undertaken in June 2014 that resulted in a decision to impair the Linford Wood property by £813,000. The impairment charge is recognised in administration expenses in the Income Statement, see Note 10 for details. Also at 30 June 2014, a decision was taken to reduce the outstanding expected life of the building by 5 years to 25 years reflecting the reduction in planned expenditure on the building's upkeep as part of reducing the Group's cost base. As a consequence of these actions, depreciation is reduced from £67,000 per annum to £47,500 per annum.

Bank borrowings held by DRS Data Services Limited are secured on the Linford Wood land and buildings for the value of £1,506,000 (2013: £1,731,000). See Note 20.

35 INVESTMENT IN SUBSIDIARIES

At 31 December 2014 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 2014 and 31 December 2013 was £3,814,000.

36 TRADE AND OTHER RECEIVABLES

	31 December 2014 £000	31 December 2013 £000
Current loans and receivables		
Prepayments and accrued income	93	102
	93	102

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

There are no trade receivables.

37 CASH AND CASH EQUIVALENTS

	31 December 2014 £000	31 December 2013 £000
Cash at bank and in hand	3,205	3,289

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 4.1.

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

	2014 US Dollars £000	2014 Euro £000	2013 US Dollars £000	2013 Euro £000
Sterling equivalent	1	-	1	-

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2014

38 SHARE CAPITAL

See Note 18 for details of the share capital of the Company.

39 OTHER RESERVES

See Note 19 for details of the other reserves of the Company.

40 DEFERRED INCOME TAX

	31 December 2014 £000	31 December 2013 £000
Analysis for financial reporting purposes		
Deferred tax liabilities	64	112
	64	112

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

	31 December 2014 £000	31 December 2013 £000
At 1 January	112	136
Credit to income for the year	(48)	(24)
At 31 December	64	112

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 2014	102	10	112
Credit to income for the year	(56)	8	(48)
At 31 December 2014	46	18	64

41 TRADE AND OTHER PAYABLES

	31 December 2014 £000	31 December 2013 £000
Financial liabilities measured at amortised cost		
Amounts owed to Group undertakings	1,430	1,621
Accrued expenses	88	113
	1,518	1,734

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:

	Notes	31 December 2014 £000	31 December 2013 £000
Financial assets			
Loans and other receivables			
- Trade and other receivables	36	93	102
- Cash and cash equivalents	37	3,205	3,289
		3,298	3,391
Financial liabilities			
Financial liabilities measured at amortised cost:			
Current			
- Trade and other payables	41	(1,518)	(1,734)
		(1,518)	(1,734)

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2014

43 INTRA-GROUP TRANSACTIONS

DRS Data and Research Services plc provided £700,000 (2013: £705,000) of services to its subsidiaries during 2014. 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. On 31 December 2013 an inter-Company loan agreement was signed providing for interest of 2.5% to be charged on outstanding balances. The amount of interest paid in the year was £54,000.

	DRS Data Services Limited £000
At 31 December 2013	
Amounts owed to subsidiary	(1,621)
At 31 December 2014	
Amounts owed to subsidiary	(1,430)

DIRECTORS AND ADVISERS

DIRECTORS	Sir David Brown, Chairman * Alison Reed *# John Linwood * Dame Sandra Dawson* Steve Gowers Mark Tebbutt * Non-Executive Director # Senior Independent Director
COMPANY SECRETARY	Richard Cole
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 Buckinghamshire MK9 2LD
REGISTRARS	**Equiniti Ltd** Aspect House Spencer Road Lancing West Sussex BN99 6DA

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