



CORPORATE GOVERNANCE

DRS DATA & RESEARCH SERVICES PLC

Approved at a meeting of the Board of Directors

4th September 2001 (updated and approved 11 December 2006)



CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

1. INTRODUCTION

Public companies operate within the environment of public opinion in the various jurisdictions and communities where they conduct their business. Within and subject to this environment three principal bodies influence the maintenance and management of a public company - its shareholders, its Board of Directors and its executive management. Shareholders have ultimate control over a company, exercisable in general meetings; executive management deploys the company's resources to provide returns to shareholders. In between sits the Board of Directors. Under UK company law the Board is collectively responsible and answerable to shareholders for its actions and those of management. Each individual Director has an equal responsibility as UK company law, unlike other jurisdictions, only recognises a unitary board; the law draws no distinction between executive and non-executive Directors. This individual responsibility is reflected in the requirement under the Articles of Association of DRS for all Directors, to retire by rotation and submit themselves for re-election by shareholders at Annual General Meetings.

In practice, Boards of public companies such as DRS, delegate authority and responsibility, whilst retaining powers of direction and control. Corporate Governance is the system by which companies are directed and controlled. Boards of Directors are responsible for their governance of their companies.

The purpose of this document is to define a formal structure for the discharge of this duty within DRS by addressing:

- the role and remit of the Board;
- the role and remit of the Chairman;
- the role and remit of the Managing Director;
- the constitution and terms of reference of the principal Committees of the Board: and
- the terms of appointment of non-executive Directors.



2. THE BOARD OF DIRECTORS OF DRS DATA & RESEARCH SERVICES PLC

The Board has responsibility for:

- agreeing strategic objectives and strategic policies, including financial policies;
- regular monitoring of achievements against planned objectives and compliance with policies;
- appointing top management;
- accounting to the Company's stakeholders - its shareholders, employees, customers and suppliers - for its actions.

A more comprehensive statement of the role and remit of the Board is contained in [Appendix 1](#).

In discharging its duties the Board needs to delegate certain issues and authorities, but should not delegate all. Within the Cadbury Code of Best Practice is the requirement that the Board should have "a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Company is firmly in its hands". A formal schedule of matters for the DRS Board is contained in [Appendix 2](#).

3. THE CHAIRMAN

Without derogating from the general principle of an unitary Board, DRS recognises a particular role for the Chairman. DRS is supportive of the view expressed in The Combined Code that, "There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business".¹

It is important therefore that the role and remit of the Chairman is understood by the incumbent and his/her fellow Directors. The statement for the DRS Chairman is contained in [Appendix 3](#).

4. THE MANAGING DIRECTOR

Similarly, DRS recognises a particular role for the Managing Director. The statement of the role and remit of the DRS Managing Director is contained in [Appendix 4](#).

¹ Main Principle A2- The Combined Code on Corporate Governance (2003)

5. BOARD COMMITTEES

DRS foresees the use of Board Committees by providing that “the Directors may delegate any of their powers to committees consisting of such one or more members of their body as they think fit. Any such committee shall in the exercise of any power so delegated conform to any regulations that may from time to time be imposed upon it by the Directors”.

DRS currently has five Committees of the Board, namely the Executive Directors’ Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Allotment Committee. In order to ensure appropriate delegation of authority it is important to ensure that these committees have formal constitutions and proposed terms of reference for these committees are contained in Appendices 5 to 9.

In addition, specific tasks may be delegated to committees from time to time by means of a specific resolution of the Board.

6. NON-EXECUTIVE DIRECTORS

Formal terms of appointment for non-executive Directors are set out in Appendix 10.



APPENDIX 1

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

THE BOARD - POWERS, DUTIES AND RESPONSIBILITIES

The powers, duties and responsibilities of the Board are prescribed by company law and the Memorandum and Articles of Association of the Company.

The Board will agree the objectives and broad policies of the Company/Group which must be consistent with enhancing long-term shareholder value. The Board will provide the overall strategic direction that is necessary to ensure that these policies are carried out, and will exercise stewardship of the Company/Group's resources in a manner that enables the objectives to be met. The main functions of the Board in carrying out its role act as follows:

- (1) agreeing objectives, policies and strategies, and monitoring the performance of the executive management;
- (2) keeping under review the general progress and long-term development of the Company/Group in the light of the political, economic and social environments in which it operates;
- (3) controlling and monitoring the financial state and performance of the Company/Group (including investment and financing plans), determining the desired financial ratios, approving the objectives of the Company/Group Medium Term Business Plan;
- (4) deciding on major changes in organisation and the shape of the Company/Group, including entry into new fields of operation and departure from those which are no longer appropriate;
- (5) approving major expenditure and transactions with other companies including, for example, acquisitions, disposals, joint ventures and significant supply arrangements;
- (6) ensuring that the Company/Group pursues sound and proper policies in relation to:
 - (a) safety, health and environmental matters; and
 - (b) corporate governance;
- (7) delegating clear responsibility and authority to the Chairman, Committees of the Board, the Managing Director, Directors or groups of Directors, Officers and others; and
- (8) giving approval or support as appropriate to the most senior appointments in the Company/Group and ensuring that adequate career development, succession and remuneration arrangements exist for them.



While responsible to the shareholders of the Company, the Board will have regard to the interests of the Company/Group as a whole, including its employees in general, its customers, its suppliers and to the Company/Group's social responsibilities to the communities where its operations have an impact.

BOARD MEETINGS

The Board will meet not less than [6] times a year and, whenever possible, at least 7 days notice of meetings will be given. An agenda and related papers will be circulated to Directors 5 days prior to a meeting.

In exceptional circumstances only, if urgent business arises in-between regular meetings and it is not possible to arrange a special meeting the following may exercise the powers of the Board on any matter which in their judgement is of sufficient urgency as to require a decision, other than the powers of the Board in respect of the appointment, remuneration or other terms of service or termination of service of any Director of the Company:-

- (i) the Chairman and the Managing Director, failing whom,
- (ii) the Managing Director and two non-executive directors, failing whom,
- (iii) an executive director and two non-executive directors.

All decisions taken will be presented for ratification at the next Board Meeting.

APPENDIX 2

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

FORMAL SCHEDULE OF MATTERS RESERVED TO THE BOARD

- (1) Approval of Annual Budget and Medium Term Business Plan.
- (2) Budgeted investment projects exceeding a value of £200,000, and unbudgeted projects exceeding a value of £50,000.
- (3) Lease/hire contracts for land, buildings and equipment etc., where the total payments under the contract to the date of first option to cancel, exceed £200,000 in respect of budgeted items and £50,000 in respect of unbudgeted items.
- (4) Disposal of any of the Company's assets having either a disposal value exceeding £200,000 or a net book value exceeding £200,000 whichever is higher, if budgeted, or £50,000 if unbudgeted.
- (5) Acquisition, disposal or closure of businesses having gross assets (including goodwill on acquisition) exceeding £50,000.
- (6) The approval and acceptance of any proposed borrowing facility where the amount exceeds £200,000.
- (7) The issue of any shares or rights to subscribe for any shares in DRS.
- (8) Use of derivatives.
- (9) Appointment and dismissal of directors.

APPENDIX 3

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

THE ROLE AND REMIT OF THE CHAIRMAN

The duties of the Chairman arise from his position as the senior officer of the Company and his responsibility for presiding over the official business of the Company and the Board.

The Chairman's duties will include:

- (1) managing the business of the Board and presiding over its meetings, resolving differences between Directors and seeing that decisions are reached promptly, ensuring that all Directors receive the information that is required for the proper performance of their duties;
- (2) keeping under review with the Board the general progress and long term development of the Company/Group and ensuring that effective strategic planning for the Company/Group is undertaken by the Managing Director, consistent with creating lasting shareholder value;
- (3) ensuring the submission to the Board by the Managing Director of objectives, policies (including principal financial policies) and strategies for the Company/Group, and the Company/Group Annual Budget;
- (4) monitoring progress towards the timely and effective achievement and implementation of the objectives, policies and strategies agreed by the Board and ensuring that appropriate decisions are taken promptly by or on behalf of the Board;
- (5) ensuring that the corporate governance of the Company/Group is maintained in line with current best practice policies agreed by the Board;
- (6) advising the Nomination Committee and the Board, after appropriate consultation with all Directors, on candidates for appointment as Chairman, Managing Director and Directors of the Company; also advising the Board on the retirement or removal of the Managing Director and other Directors from office;
- (7) after consultation as appropriate with the Managing Director, recommending to the Remuneration Committee the salaried remuneration, bonuses, pension payments, allowances, gratuities and compensation payable to the Directors of the Company other than the Chairman;
- (8) providing advice to the Managing Director on the allocation of duties to individual Directors and assignment of ad hoc responsibilities or special tasks to Directors or groups of Directors;



- (9) recommending to the Board the membership and functions of Committees of the Board and, with the agreement of the Managing Director, major changes in the organisation of the Company/Group;
- (10) participating with the Managing Director as appropriate in public relations, including relations with the Company's shareholders, governments, other public organisations, other companies, the media and the public generally; and
- (11) presiding over all general meetings of the Company.

APPENDIX 4

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

THE ROLE AND REMIT OF THE MANAGING DIRECTOR

As the senior officer of the Company responsible to the Chairman and the Board for directing and promoting the profitable operation and development of the Company/Group consistent with the primary objective of creating long term shareholder value, the Managing Director's duties will include:

- (1) exercising executive stewardship of Company/Group intellectual property, physical and human resources;
- (2) exercising executive stewardship of the provision and maintenance of Company/Group financial resources, ensuring the implementation of the financial strategies approved by the Board;
- (3) being generally responsible to the Board for the development of the Company/Group and its profitable operation, including the profits, cash and costs of all businesses;
- (4) having responsibility for effective strategic planning for the Company/Group consistent with the primary objective of enhancing long-term shareholder total return (share price and dividends) and for preparing objectives, policies and strategies, including the Company/Group Medium Term Business Plan and the Company/Group Annual Budget, for submission to the Board;
- (5) ensuring that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies agreed by the Board and of decisions taken by or on behalf of the Board;
- (6) ensuring that appropriate objectives, policies and strategies are adopted for each of the businesses or divisions of the Company/Group, that appropriate budgets are set for them individually, that their performance is effectively monitored, that guidance or direction is given where appropriate.
- (7) ensuring that the Company/Group complies with all relevant legislation;
- (8) after appropriate consultation with the Chairman, allocating duties to individual Directors and assigning ad hoc responsibilities or special tasks to Directors or groups of Directors;
- (9) leading the Company/Group's processes for communicating to, and consulting with employees;



- (10) with the participation as appropriate of the Chairman, being responsible for public relations, including relations with the Company's shareholders, governments, other public organisations, other companies, the media and the public generally; and
- (11) regularly keeping the Chairman informed on all matters that may be of importance to the Company/Group, including its current performance and progress.

APPENDIX 5

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

EXECUTIVE DIRECTORS' COMMITTEE - TERMS OF REFERENCE

Constitution, Authority, Membership and Quorum

- (1) The Executive Directors' Committee is a committee of the Board of DRS and, as such, is appointed by and reports to the Board of DRS.
- (2) The Executive Directors' Committee is an executive committee to the extent that specific authority is delegated to the Committee by the DRS Board within the Company/Group Delegation of Authority statement, primarily in respect of capital expenditure, authorisation and financing of the Company/Group.
- (3) The members of the Executive Directors' Committee shall consist of the Managing Director and all other executive Directors, and such other senior staff as may be co-opted by the Committee.
- (4) A quorum shall be two members; meetings may be held in person or by telephone.

The Executive Directors' Committee shall:

- (5) consider and, if appropriate, approve all capital expenditure proposals, acquisitions, and disposals provided that the expenditure or the consideration does not exceed the authorities delegated to the Committee by the Company/Group Delegation of Authority Statement as approved from time to time by the Board;
 - approve any financing or use of financial instruments within its delegation;
 - be empowered to delegate its authority to the Managing Director within the limits contained in the Company/Group Delegation of Authority Statement as approved from time to time by the Board;
 - review and, if appropriate, recommend approval to the Board of all capital expenditure proposals, acquisitions and disposals and financing or use of financial instruments to the extent that approval thereof is reserved to the Board in the Company/Group Delegation of Authority Statement;
 - discuss, and review budgets and Business Plans for submission to the Board and recommend a financial strategy in the following areas:
 - capital structure

- gearing
 - currency exposure
 - dividend cover
 - interest exposure
 - tax planning
-
- review compliance with financing agreements and covenants and the operation of treasury policies.
 - agree any changes to accounting policies before submission to the Audit Committee.

Reporting

- (6) Minutes of Executive Directors' Committee meetings will be circulated with the papers for the subsequent Board meeting and any paper submitted to the Executive Directors' Committee will be available to any Director on request.

APPENDIX 6

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

Constitution

The Board has resolved to establish a committee of the Board, to be known as the Audit Committee, to assist the Board in fulfilling its oversight responsibilities.

Membership

The Audit Committee shall be appointed by the Board. All members of the Committee shall be independent non-executive directors of the Company. The Committee shall consist of not less than three members. A quorum shall be two members.

The chairman of the Committee shall be appointed by the Board from amongst the independent non-executive directors.

One member of the Audit Committee should have significant, recent and relevant financial experience.

Secretary

The Secretary of the Company shall be the Secretary of the Committee.

Attendance at meetings

No one other than the Audit Committee members shall be entitled to attend audit committee meetings.

The chairman, other non-executive directors, CEO, finance director, head of internal audit (if appointed), representatives of the external auditors, or other persons shall attend meetings at the invitation of the Committee.

There should be at least one meeting a year, or part thereof, where the Audit Committee meets the external and internal auditors without executive Board members present. This need not be the same meeting.

Frequency of meetings

Meetings shall be held not less than three times a year (to coincide with key dates in the Company's financial reporting cycle).

External auditors or internal auditors may request a meeting if they consider that one is necessary.

Authority

The Committee is authorised by the Board to:

- Investigate any activity within its terms of reference.
- Seek any information that it requires from any employee of the Company and all employees are directed to co-operate with any request made by the Committee.
- Obtain outside legal or independent professional advice, at the Company's expense, and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary and after informing the chairman of the Committee.

Duties

The duties of the Committee shall be:

Financial reporting

- to review, and challenge where necessary, the actions and judgments of management, in relation to the Company's financial statements, operating and financial review, interim reports, preliminary announcements and related formal statements before submission to, and approval by, the Board, and before clearance by the external auditors. Particular attention should be paid to:
 - critical accounting policies and practices, and any changes in them;
 - decisions requiring a significant element of judgement;
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - the clarity of disclosures;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards;
 - compliance with stock exchange and other legal requirements;
- to consider other topics, as defined by the Board.

Internal control and risk management

- to review the Company's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters;
- to review management's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
- to monitor the integrity of the Company's internal financial controls;
- to review the statement in the annual report and accounts on the Company's internal controls and risk management framework;
- to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non financial risks. [Note: the Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the Audit Committee.]

Internal audit

To consider annually whether there is a need for an internal audit function where no such function exists.

External audit

- to oversee the Company's relations with the external auditor;
- to consider, and make recommendations on the appointment, reappointment and removal of the external auditor;
- to approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided;
- to assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually;
- to discuss with the external auditor, before the audit commences, the nature and scope of the audit;
- to review with the external auditors, the findings of their work, including:
 - any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved
 - key accounting and audit judgments;

- levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted.
- to review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues;
- to assess, at the end of the audit cycle, the effectiveness of the audit process by:
 - reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
 - consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgments identified and in responding to questions from the Audit Committee, and in their commentary, where appropriate, on the systems of internal control;
 - obtaining feedback about the conduct of the audit from key people involved.
- to review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon;
- to develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the auditor and ensure that the provision of such services does not impair the external auditor's independence or objectivity.

Reporting

The Secretary shall circulate the minutes of meetings of the committee to all members of the Board, and the chairman of the Committee shall, as a minimum, attend the Board meeting at which the accounts are approved.

The Audit Committee shall prepare a report on its role and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the annual report and accounts. Such a report should specifically include:

- a summary of the role of the Audit Committee;
- the names and qualifications of all members of the Audit Committee during the period;
- the number of the Committee's meetings and attendance by each member; and
- the way the Audit Committee has discharged its responsibilities.

The Audit Committee chairman shall attend the AGM and shall answer questions, through the chairman of the Board, on the Audit Committee's activities and their responsibilities.

APPENDIX 7

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

TERMS OF REFERENCE FOR THE REMUNERATION COMMITTEE

Constitution, Authority and Membership

- (1) The Remuneration Committee is a committee of the Board of DRS and, as such, is appointed by and reports to the Board of DRS.
- (2) Specific authority is delegated to the Committee to decide on all elements of remuneration for the Chairman of the Company and the executive Directors.
- (3) The Chairman and members of the Remuneration Committee shall be appointed from the non-executive members of the Board of DRS for whom the fee for their appointment as such represents only part of their total income. Members should have no personal financial interest other than as shareholders in the matters to be decided, no potential conflicts of interest arising from cross directorships and no day to day involvement in running the business of the Company/Group. The Committee shall consist of not less than three members. The members of the Remuneration Committee should be listed each year in the Committee's report to shareholders (see para 13 below) and when they stand for election or re-election, the proxy cards should indicate their membership of the Remuneration Committee.
- (4) The Secretary of the Remuneration Committee shall be the Company Secretary of DRS.
- (5) All non-executive directors have a right to attend meetings of the Remuneration Committee and shall be given notice of all meetings.

Meetings

- (6) The Committee shall meet at the request of its Chairman and a quorum shall be two members; meetings may be held in person or by telephone.
- (7) In addition to the members of the Committee it will be normal for the following to attend meetings save that they shall not be present when their remuneration is under discussion:
 - the Chairman of the Company
 - the Managing Director of the Company

The Chairman of the Remuneration Committee may also invite others to attend.

Duties

- (8) The Committee shall:
- a) consider and approve the terms of service and rewards, including bonus awards, profit sharing and other benefits, whether in cash or in kind and pension and termination arrangements for all Directors of the Company and also for such other senior executives as may be referred to the Committee by the Chairman of the Company;
 - b) authorise the grant of share options to executive Directors and other senior executives under the Company's executive share option schemes in accordance with the Rules of the schemes and agreed guidelines;
 - c) regularly review the Company's remuneration policies and practices to facilitate the employment and motivation of personnel, with a view to providing the packages needed to attract, retain and motivate Directors of the quality required but avoiding paying more than is necessary for this purpose.
- (9) In carrying out its duties the Committee should consult the Chairman and/or Managing Director about their proposals and have access to professional advice inside and outside the Company.
- (10) The Committee should give full consideration to the best practice provisions regarding Directors' remuneration as annexed to the Listing Rules of the London Stock Exchange from time to time.

Reporting

- (11) The Chairman of the Remuneration Committee shall report to the Board on the deliberations and activities of the Committee at each Board meeting following a Committee meeting.
- (12) The Chairman of the Remuneration Committee should attend the Company's Annual General Meeting to answer shareholders' questions about Directors' remuneration and should ensure that the Company maintains contact as required with its principal shareholders about remuneration in the same way as for other matters.
- (13) The Remuneration Committee shall report each year to the shareholders on behalf of the Board in accordance with the Listing Rules of the London Stock Exchange from time to time. The Committee's annual report to shareholders need not be a standard item of agenda for annual general meetings, but the Committee should consider each year whether the circumstances are such that the annual general meeting should be invited to approve the policy set out in its report and should minute its conclusions.



APPENDIX 8

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

TERMS OF REFERENCE FOR THE ALLOTMENT COMMITTEE

The Allotment Committee shall be:

- any two Directors of the Company or one Director and the Company Secretary.

The Committee is authorised to allot ordinary shares of the Company which fall to be issued on the exercise of options granted under the terms of the Company's Share Option Schemes and to authorise any documentation required by the Registrars for the transfer of shares.



APPENDIX 9

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

TERMS OF REFERENCE FOR THE NOMINATION COMMITTEE

- (1) The Nomination Committee is a committee of the Board of DRS and, as such, is appointed by and reports to the Board of DRS.
- (2) The Committee shall comprise the Chairman of the Company (who shall be the Chairman of the Committee), the Managing Director and at least two non executive directors, save that the Managing Director will not be present when the office of Managing Director is under discussion.
- (3) The Secretary of the Nomination Committee shall be the Company Secretary of DRS or such other person as the Chairman of the Committee shall decide.
- (4) The duty of the Committee is to propose to the Board, in the first instance, any new Board appointments whether of executive or non-executive Directors.
- (5) A quorum shall be two members; meetings may be held in person or by telephone.



APPENDIX 10

CORPORATE GOVERNANCE IN DRS DATA & RESEARCH SERVICES PLC

TERMS OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Appointment

The Nomination Committee will initially propose candidates for non-executive Directorships of the Board. The appointment of non-executive Directors will be a matter for the Board as a whole.

Term

Non-executive Directors will be appointed on the formal written understanding that they are expected to retire from the Board at the conclusion of the seventh Annual General Meeting following their appointment although, if appropriate, appointments may be extended by mutual agreement, subject to a latest retirement age of seventy.

Remuneration

The remuneration of non-executive Directors will be determined by the Board upon the recommendation of the Executive Directors' Committee.

Remuneration will consist of an Annual fee to include attendance at all Board meetings, Committee meetings and the Annual General Meeting.