

Chairman's Report

I can once again report that UKAS's services continued to enjoy growing demand by customers in a wide range of sectors. The volume of business increased over the twelve months by 5.5% to 14,800 days. As with recent years, there was a continued growth in the number of organisations coming forward to be accredited for the first time as well as amongst current customers seeking to extend the scope of their existing accreditation. Much of this growth has stemmed from our on-going commitment to establish greater recognition and understanding of accreditation across target audiences.

The most significant developments for UKAS since the last Annual Report have perhaps been in the healthcare sector. First and foremost was the successful merger between UKAS and Clinical Pathology Accreditation (CPA) in April 2009. This was achieved in the wake of the recommendation in Lord Carter's Report to Health ministers that accreditation is a way of modernising and improving the quality of pathology services in the UK. The merger also vindicated our commitment to developing our partnership with CPA through allowing Paul Stennett to accept CPA's earlier invitation to be their Chief Executive in parallel to his role in UKAS.

In June 2009, in culmination of a great deal of preparatory work throughout the previous year, UKAS launched an accreditation scheme for imaging services in collaboration with the Royal College of Radiologists and the Society and College of Radiographers. This scheme is aimed at providing confidence in the x-ray and scanning services delivered across the health service. We are in addition currently working with the health sector to develop a number of further accreditation opportunities, involving activities that range from new pathology Point-of-Care Testing to the provision of health and social care information.

It is not only in the healthcare sector where UKAS has seen significant new opportunities materialise. In a major Home Office consultation, the UK Forensic Regulator recommended that all providers of forensic science services throughout the criminal justice system, including police 'in-house' laboratories and crime scene investigation, gain accreditation from UKAS. UKAS also commenced a pilot project for the accreditation of certification bodies to certify products and services to PAS 2050, the new specification for assessing life cycle green house gas emissions. The development of this specification was co-sponsored by the Carbon Trust and the Department for the Environment, Food and Rural Affairs and, it is hoped, will make a major contribution to the climate change agenda.

On the international front, UKAS has continued to provide both leadership and expertise to the wide range of committees, working groups and task forces needed to ensure that accreditation can be consistently delivered across the globe. Within Europe, UKAS has contributed significantly to the process leading to the adoption of the new EU regulation that will provide both a legal framework for the provision of accreditation services across Europe and further recognition of the importance of accreditation in delivering trust, confidence and credibility across products and services in all sectors. Graham Talbot, UKAS' Technical & External Affairs Director, has led on much of this international and European activity, and I should take this opportunity to congratulate him on his recent election to the Chair of European Co-operation for Accreditation (EA).

In being able to deliver so much progress across so many fronts, I must thank the Department for Innovation, Universities and Skills, now the Department for Business, Innovation and Skills (BIS), for their continued confidence in UKAS on behalf of the

Government. Also of considerable importance is their support for UKAS' international programme and the UKAS Awareness Campaign, which promotes the role and value of accreditation to key audiences through meetings, receptions, an annual UKAS Think-Tank, articles, press releases and advertisements.

I should also thank Paul Stennett, the senior management team and every member of the UKAS staff for what has been achieved over the last year. Their dedication has underpinned the progress that we have made both in terms of the increased volume of accreditation and our continued commitment to increase customer satisfaction from "good" to "excellent", as measured by the regular independent monitoring that is in place.

Finally, I would like to thank my fellow Board members and the members of UKAS's Policy Advisory Committee and technical committees. They, and indeed all our Members, have played a key role. The time and advice that they have contributed throughout the past year have been considerable. Their expertise adds a valuable dimension to a UKAS team that I believe is well positioned to address the opportunities that the future holds.

Lord Jamie Lindsay, Chairman

Chief Executive's Report

Business review

The past year has seen some of the most significant changes in terms of business development since UKAS formed in 1995.

Most of the changes related to development in the healthcare sector. At the start of the year, UKAS was contracted by the Department of Health (England) to investigate the possibilities to use accreditation to ensure quality in the delivery of Point of Care Testing. Point of Care Testing covers a range of tests that are increasingly being made outside of the usual confines of a Doctor's surgery (for example, for cholesterol measurement) and for obvious reasons, it is vital that these tests are carried out consistently and accurately. The role of accreditation in helping deliver consistent quality in Point of Care Testing is under development.

In September 2008, UKAS was selected by the Royal College of Radiologists and the Society and College of Radiographers to develop an accreditation scheme for diagnostic imaging services, which covers, for example, body scanners, x-rays and ultrasound checks carried out in hospitals across the UK. This project is a major development. In the coming 3-5 year period, it is expected that the majority of the UK's imaging service providers (both NHS and private) will apply for accreditation to the new standard. When this is achieved, it is estimated that it will grow UKAS's current business by approximately 40%.

Finally, December 2008 saw the publication of Lord Carter's report into the modernisation of pathology services in the UK. One part of the report focused on the delivery of accreditation services and made a number of recommendations that have since resulted in the acquisition of Clinical Pathology Accreditation (UK) Limited (CPA) by UKAS. CPA assesses nearly 1,250 medical laboratories, mainly in the UK but also operating in the Republic of Ireland, Italy and the United Arab Emirates. UKAS is delighted to welcome CPA, its employees and stakeholders into the UKAS family.

Following these three major areas of progress in accreditation in healthcare, UKAS has received several enquiries from other areas of healthcare and further schemes could be in development in 2009-2010. These developments are not only significant for UKAS in terms of business expansion, but also underline the growing relevance of accreditation in other areas of society and serve to underline UKAS's public

interest ethos in helping the NHS and other Healthcare providers deliver high quality services.

However, turning to UKAS's current business, one of the more significant events in the year concerned certification bodies and the transition to the new standard ISO/IEC 17021 which replaced ISO/IEC Guide 62: 1996 and ISO/IEC Guide 66: 1996.

The new standard placed rigorous requirements for competence and impartiality on bodies that offer audit and certification to standards such as ISO 9001: 2000 and ISO 14001:2004. UKAS followed the International Accreditation Forum guidelines to allow a two year transition period to the new standard, and as of 15th September 2008, all certification bodies had to be working to the new standard.

The transition period was a very challenging time for both UKAS and its CB customers, and we fulfilled our main aims to ensure that all CBs had the same opportunity and support from UKAS to achieve accreditation by 15th September 2008.

I am pleased to report that UKAS received positive feedback from a significant number of CBs about our approach and I would like to thank the UKAS employees who put in much extra work during the summer months to ensure we met our deadlines for the transition.

A side of UKAS less frequently seen by our direct customers is the activity with Government and other opinion leaders to make them aware of the value of accreditation. Events included the UKAS Think Tank which took place in November 2008 on the topic of "Quality and Equality", debating the role that regulation, accreditation and standards might play in support of the forthcoming Single Equality Bill. This followed on from a very successful reception held at the House of Lords to promote the value of accreditation to more than 100 senior Government officials. We were delighted that Ian Pearson, the then Minister of Innovation and Skills was able to deliver the keynote address to the event.

All of these activities help raise the awareness of accreditation and UKAS is grateful for the support it receives from DIUS (now BIS) in this area.

In November 2008, UKAS held a customer Open Day, which was over-subscribed with some 120 customers filling the conference centre at Centre Point, London. A series of presentations and discussions encouraged a positive open debate with many of our customers. I was very pleased at the level of feedback from customers who remarked on improvements to UKAS's service delivery.

Finally, in March 2009, UKAS said farewell to Richard Crookes, who has been Finance Director with UKAS since 1996. Richard has played a vital part in UKAS's development and will be greatly missed. My colleagues and I would like to thank Richard for his key contributions to UKAS over the years and wish him a long and happy retirement.

I am also delighted to announce that Alan Hill replaces Richard and I am certain that Alan will continue to develop the finance and IT functions within UKAS in the coming years.

Outlook

2009/10 promises to be a challenging year for UKAS on several fronts.

Firstly, UKAS has to consolidate its work in the healthcare sector by ensuring that the Imaging Service Accreditation Scheme (ISAS) is successfully launched and implemented. The integration of CPA within the UKAS corporate and legal structures will also demand our attention simultaneously with the requirements for UKAS to implement the changes to medical laboratory accreditation recommended in Lord Carter's report.

The work that UKAS is carrying out in these areas of pathology and diagnostic imaging has raised the profile of accreditation in other areas of the health service, and there may be further areas of new work in the coming year.

Despite the potential for growth in areas of healthcare, the external business climate is one of recession and UKAS has regrettably lost a few customers who have gone into liquidation. UKAS is also having to deal with a number of bad debts with customers who are unable to pay for the services that UKAS has provided. Alan Hill is focused on minimising the risk to UKAS whilst taking a sympathetic and supportive role to help customers who may be experiencing financial problems and this will continue to be the case in the coming year.

A further consequence of the recession is that income from training schemes has fallen sharply and this is likely to affect our year-end profitability.

However, despite the recession, UKAS is still seeing a steady flow of applications from new customers, which is offsetting some of the losses.

In summary, in the coming year, UKAS faces some big challenges brought on by the recession, but will continue to strive to improve its service delivery to customers and will consolidate and develop the areas of new business gained in healthcare.

Paul Stennett, Chief Executive

Financial Review

UKAS enjoyed record sales volumes and revenues in 2008/9, surpassing the previous records set in 2007/08 by 5.5% and 9.5% respectively. This coupled with cost management and the FRS17 pension adjustments meant that a profit after tax of £201,000 will be transferred to reserves.

Accreditation Volume

The sales volume for the year was 14,800 days, another record, with most types of work exceeding the previous year's results. New accreditation work for first time and existing customers continued to be strong at 2510 days (up 5%). Ongoing Surveillance and Reassessment work for existing customers also posted an increase, 13% at 11,661 days as a result of the new accreditations and extensions to scopes in earlier years. Recent international agreements ("cross frontier accreditation") caused us to expect and plan for a decrease in the number of days billed for overseas travel for the last two years and this has finally happened. We

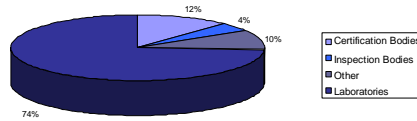
planned for a 158 day decrease, 22%, but in fact the reduction in the year was 88 days, 12% to 629 days, 4% of total days sold. We have planned for a further reduction of 16% in the current year.

The increased volume was shared across all operating sections except Food and Mechanical. Industrial Chemistry and Construction continue to grow to the extent that they are now both 15% each of the entire business volume. Engineering Inspection and Electrical, Physical, Thermal, (EPT) sections also showed double digit growth of 13% each.

Turnover

For the year under review we adjusted our day rates in line with price inflation but held the annual accreditation fee and other fees for the second year in succession and further held these charges in 09/10. Even with this however, ongoing fees for the majority of customers were lower than the RPI increases since 2005/6.

Customer Breakdown 2008/9



The additional volume (see above) and slight adjustments to prices increased our accreditation revenues by £544,000 and £483,000 respectively. This was improved further by an increase in development income, £24,000 to £193,000, an increase in charged travel and subsistence, £278,000 to £1,763,000 and a slight increase in income from Training & Other Contracts £65,000. The overall effect on Turnover was an increase, year on year, of £1.2m (9%) to £13.8m.

Costs and Gross profit

Our aim always is to deliver the majority of our assessment work using our own employees to ensure the quality, consistency and efficiency of our service, whilst of course keeping a tight control over costs. To achieve this, and given the continuing volume growth, we increased the average technical headcount by four during the year to 84 (59% of total staff). This increase and a general wage review in line with price inflation pushed up staff costs by £382,000 to £4.23m compared to the previous year. While this increase should result in a lower demand for subcontractors in the future, subcontractors deliver around one third of all days but the £157,000 increase in their fees over the year from £2.1m to £2.25m reflects a slowing down in prior

year's increases. Generally the UKAS business will never be able to totally cover the specialist disciplines required by the market through its own workforce but the proportional cost will continue to fall.

After limiting the price increases for a third year post the restructuring and absorbing the additional costs above, UKAS managed to hold the gross profit margin at 34% of turnover

Administrative Expenses

Commercial training revenue declined in the year but UKAS courses are still well received in the market place. As one of the attendees to an ISO 15189 course states, "The course was immensely enjoyable and of huge benefit to me." So while income was down, training and advisory services still generated a positive contribution to fixed costs of £76,000. This business stream is highly sensitive to the economic climate and therefore to the individual take-up of places.

External Affairs made a negative contribution of £11,000 in 2008/09 compared to a positive one of £15,000 in 2007/08, but this was broadly in line with the annual budget forecast of an £8,000 loss. The income rose from the Department for Business Innovation and Skills, (BIS) at the same time as an extra staff member was recruited to provide internal administrative support to the head of the department allowing him to spend more time promoting UKAS's external profile.

Our Corporate Communications programmes continued in 2008/09 again partly supported by BIS. The total spend went up marginally from £511,000 in 07/08 to £516,000 in 08/09 supported by £153,000 and £180,000 respectively by the Department for Innovation, Universities and Skills, (DIUS) and now BIS.

Corporate Services costs rose by 11% to £2.3m due to the following reasons: last year's accounts had a one off benefit from a rates review of £50,000; recruitment and training cost increases of £71,000; outsourcing IT had on costs in the year of £36,000 as the benefits were part year; increased legal and professional fees related to the Clinical Pathology Accreditation (UK) (CPA) acquisition £38,000; and an increase in bad debt provisioning of £27,000. Finally the sub-lease of the ground floor ceased reducing rental income by £77,000 versus prior year.

Profits, taxation and reserves

The mandatory FRS17 pension scheme adjustment for the difference in current service costs and pension scheme costs increased our operating result from £111,000 to £158,000 profit. We also earned interest by placing our surplus funds on short-term deposits with a commercial bank. The reported profit before tax at the end of the full year was £242,000.

The reported results including the FRS17 effect contradict the underlying operating condition of the company. This is because the profit and loss reserve is negative due to the £2,710,000 FRS17 obligation. Before restatement for the FRS17 effects, the reserves carried forward from 2007/08 were £2.9m, the profit after tax for the year (excluding all FRS17 effects) was £124,000 and this has been added to reserves so as to carry forward £3.0m into 2009/10.

Headcount

Headcount increased by seven during the year, split between technical staff (4) recruited to take account of new expanding areas of forensics and Imaging Services Accreditation Scheme (ISAS) and additional management and office support (3) to bolster new activities in Marketing, Communications and Quality Management.

There was some movement in technical staff early in the year but a noticeable lack of movement amongst administration and operational support staff throughout the year as the recession started to bite.

Capital Items and cash

During the year the only capital expenditure was the IT expenditure as part of our three year replacement programme at £8,000.

There was a cash outflow during the year of £234k reducing the cash held at the year end to £1.3m. 2009/10 is going to be a different story with three major investments, ISAS, replacement of the operating system, UBIS, and the acquisition of Clinical Pathology Accreditation (UK) Limited (CPA). Along with the impact of recession this means that cash management is going to be at a premium as our clients start to feel the crunch, taking longer to make payments and debtor's days could start to rise.

The high debtors at the end of 2008/09 were due to March income being at a record high, 11% of the full years' income was generated in a 7% time period. This contributed to the high debt position of £3.3m versus 2008/09's of £2.8m. Obviously at the 1st April 2009, March Income was not due or collectable. However, looking forward, Finance has measures in place to significantly resolve this position.

Alan Hill, Director of Finance