

Financial Review for 2009/10

For the fourth year in succession UKAS enjoyed record sales volumes and revenues, surpassing the previous records set in 2008/09 by over 6% and 7% respectively. When the turnover of the CPA acquisition is included the revenue climbs to £17.8m. By careful cost management and FRS17 pension adjustments profit after tax is £244,000 for UKAS and £456,270 for the Group.

Accreditation Volume

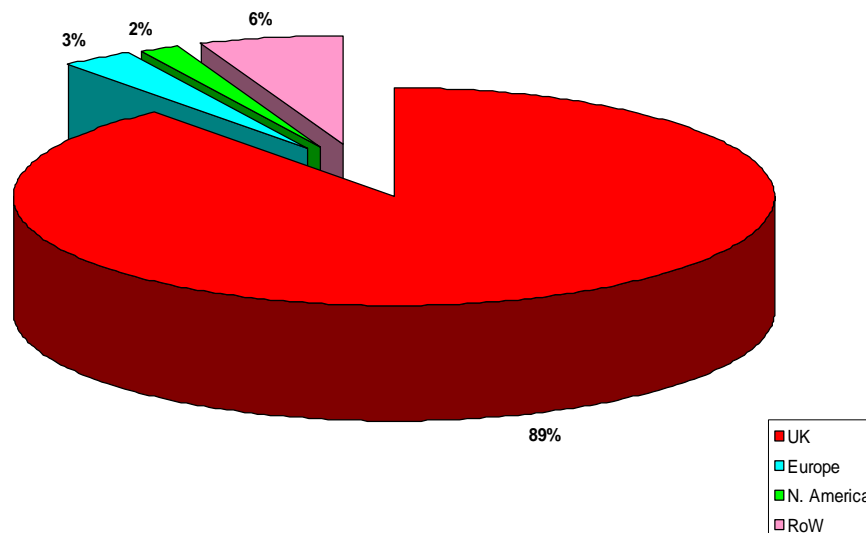
The numbers of assessment days delivered for the year was 15,737 days, another record, with all types of work exceeding the previous year's results excepting 'Travel Days Recovered'. New accreditation work for first time and existing customers grew from 2510 days to 2,781 days (up 11%), showing that demand for new accreditation is still strong. Ongoing Surveillance and Reassessment work for existing customers also increased, 4.6% up to 12,199 days as a result of the previous year's new accreditations.

UKAS budgeted for a continued decline of days billed for overseas travel as we met the new international agreements for cross frontier accreditation. A budget of 527 days, a decline on previous years of 16%, proved to be too low and we still billed 629 days for this type of work.

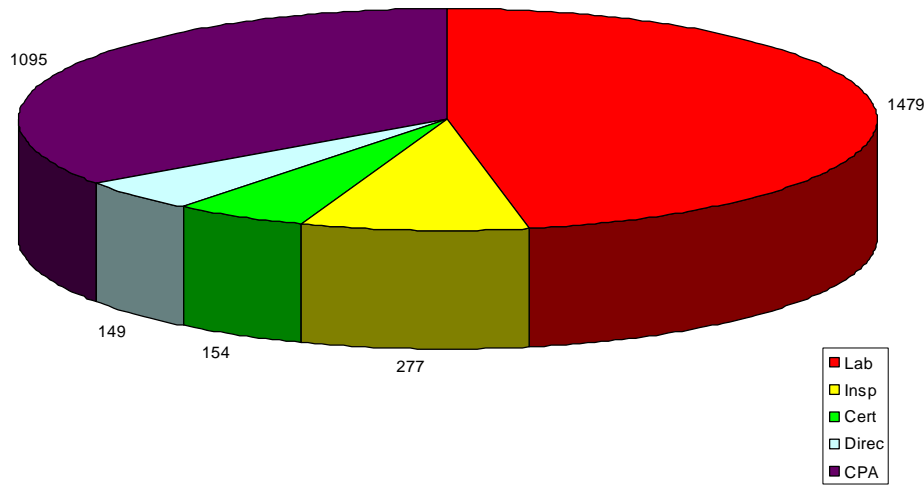
The pleasing point concerning the year on year increase in volume is that every single section showed increased volume versus 2008/09. The minimum increases were EPT with a modest 0.5% and Construction, 3%. Other sections showed double digit increases, for example, Industrial Chemistry, 13.3%, Environment 10.2% and Inspection 17.6%. This was particularly pleasing in an economic climate where the economy shrunk by circa 4%.

Turnover

Turnover reflected volume and for the year under review we also adjusted our day rates in line with price inflation but held the annual accreditation fee and other fees for the third year in succession. Our Income is still dominated by the UK but the 'other regions' percentage has now grown to 11%.



With the acquisition of CPA the profile of our customer base has altered to look like this.



The advent of the CPA acquisition means we now have a further 1,000+ medical laboratories to service. The favourable volume from UKAS accreditation days was worth £683k and the price increase £268k. Further slight increases on Development and training Income were offset by Finance Income from interest or credit charges reducing to nil. The overall effect on Turnover was an increase, year on year, of £951k (7%) to £14.7m for the UKAS business plus £3.1m income from CPA.

Costs and Gross profit

As stated in previous years our aim 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 during the year from 84 to 89 (60% of total staff). This increase and a general wage review of 2% pushed up staff costs by £275,000 to £4.51m compared to the previous year. This increase should partly cover the increased volumes but a higher demand for subcontractors in the future will continue as volumes continue to grow. Subcontractors deliver around 40% of all days but the £210,000 increase in their fees over the year from £2.25m to £2.46m indicates a 5% reduction in day rate as we better manage our costs.

After limiting the price increases for a fourth year post the price restructuring and absorbing the additional costs above, UKAS managed to increase the gross profit margin by 3% to 37% of turnover. Gross margin for the new consolidated group is approximately 40% and this will be the marker for future year comparisons.

Administrative Expenses

Commercial training revenue increased in the year from £322k to £393k, an increase of 22%. Costs declined also by £10k and so therefore contribution to fixed costs increases year on year by £84k to £160k. This business stream is highly sensitive to the economic climate and therefore to the individual take-up of places but after a poor start to the year, training course attendances picked up in quarters 3 and 4 as suggestions of the recession coming to an end became more prevalent.

External Affairs made a negative contribution of £77,000 in 2008/09 compared to one of £11,000 in 2008/09, but this was broadly in line with the annual budget forecast of a £66,000 loss. The income increased from the Department for Business Innovation and Skills,

(BIS) and staff costs also grew as the full year impact of prior year recruitment was charged to the department. Subscriptions also rose as sterling weakened against the Euro.

Our Corporate Communications programmes continued in 2009/10 again partly supported by BIS. The total spend went up marginally from £516,000 in 08/09 to £571,000 supported by £153,000 and £180,000 by BIS.

Corporate Services costs rose by £187k (8%) to £2.5m due to the following reasons: no interest receivable in the year, £55,000 less than 08/09; rent, rates and other office facilities increased by £61,000; IT upgrades generated on costs in the year of £70,000; pension administration charges rose due to actuarial costs linked to the triennial revaluation, £17,000; and an increase in mobile phone and laptop connectivity charges of £41k as we improved our field communication between UKAS and the customer. Offsetting the increases were recruitment costs that dropped £67k 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 the UKAS operating result from £258,000 to £458,000 profit. Due to the banking climate we lost all interest that we could earn in previous years by placing our surplus funds on short-term deposits with a commercial bank. Therefore the reported profit before tax at the end of the full year was £378,000. Profit before tax for the Group was £670k, and after tax, £456k

The reported (UKAS excluding CPA) figures, including the FRS17 adjustments continue to adversely affect the underlying profitable operating condition of the company. Nevertheless the profit and loss reserve is still positive after absorbing the negative £2,405,000 FRS17 obligation. Before restatement for the FRS17 effects, the reserves carried forward from 2008/09 were £3.0m, the profit after tax for the year (excluding all FRS17 effects) was £248,000 and this has been added to reserves so as to carry forward £3.2m into 2009/10.

Headcount

UKAS headcount increased by five during the year, all technical staff recruited to take account of new expanding areas of forensics and Imaging Services Accreditation Scheme (ISAS) and additional management and operational office support.

Capital Items and cash

During the year the only capital expenditure was IT investment for laptops but we prudently took the opportunity to expense this expenditure. There was other IT investment of circa £20k.

There was a cash inflow from Group Operating activities during the year of £1,525k increasing the cash held at the year end to £2.3m. It was expected in 2009/10 that there would be three major investments, ISAS, replacement of the operating system, UBIS, and the acquisition of Clinical Pathology Accreditation (UK) Limited (CPA), but the expected cash outflow to replace UBIS has rolled into 10/11.

The debtor's position at the end of 2009/10 was due to an increased focus and pressure brought to bear during the year to bring debtors down. Trade debtors decreased by circa £760k for UKAS down to £2.2m from 2008/09's £3.0m.

Alan Hill – Finance Director