

Ordnance Survey achieved a surplus on ordinary activities before interest and dividend payable for the year of £16.3 million (2007–08: £22.5 million). The underlying reduction in profit reflects an increase in operating costs of £4.7 million and a reduction in turnover of £1.5 million.

Turnover

Ordnance Survey has continued to perform well given general economic conditions, which have particularly impacted revenue in the land and property market. Turnover decreased by £1.5 million (1%) in the year to £117.2 million (2007–08: £118.7 million), as set out in the table below.

Analysis of turnover

£million	2008–09	2007–08
Trading activities	116.0	116.9
Other operating activities	0.6	1.3
Operating activities	116.6	118.2
Investment property income	0.6	0.5
	117.2	118.7

Trading activities are commented on separately below.

Other operating activities include the provision of services to the tenants of Ordnance Survey's investment property and subleased properties.

Trading activities

Ordnance Survey's principal activities comprise data licensing, paper map sales, and surveying, cartographic and printing services, as analysed in the table below.

Analysis of turnover from trading activities

£ million	2008–09	2007–08
Direct licences	73.2	74.0
Partner licences	29.1	27.4
Total licences	102.3	101.4
Paper maps	8.9	9.6
Services	4.8	5.9
	116.0	116.9

Key changes in trading activities over the year were:

Direct licences – down £0.8 million (1%) due to a small number of customers moving from direct licences to those supplied through the partner channel.

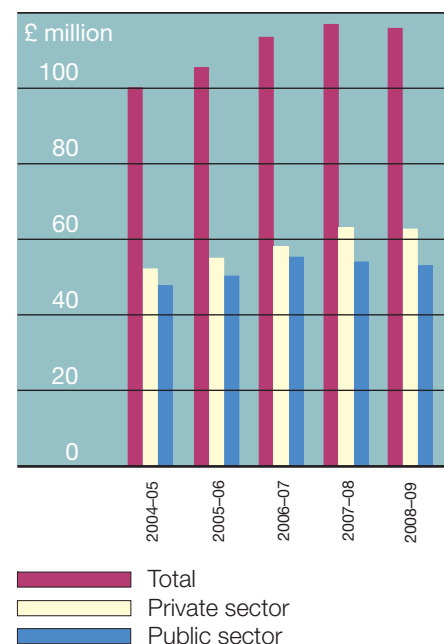
Partner licences – up £1.7 million (6%) as a result of the switch from direct licences, and growth in the transport and personal navigation markets, partially offset by a fall in revenue in the land and property market.

Paper maps – down £0.7 million (7%), reflecting the general economic downturn in high street sales.

Services – down £1.1 million (19%) due to a reduction in surveying services provided to HM Land Registry as a result of the downturn in the land and property market.

Revenue from trading activities is also analysed by private and public sector, as shown in the graph below.

Private and public trading activities



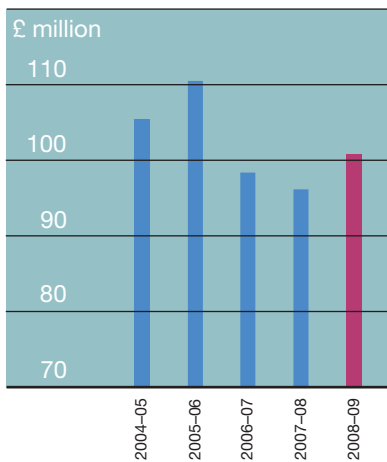
- Private sector – down £0.2 million to £62.8 million (54% of trading activities). This is due to falls in revenue from paper maps and the land and property sector, largely offset by growth in the personal navigation and transport markets.
- Public Sector – down £0.7 million to £53.2 million (46% of trading activities), due to a reduction in services provided to HM Land Registry.

Looking ahead to 2009–10, further growth is anticipated in markets for personal navigation, insurance and transport, offset by ongoing difficult trading conditions in the land and property sector.

Operating costs

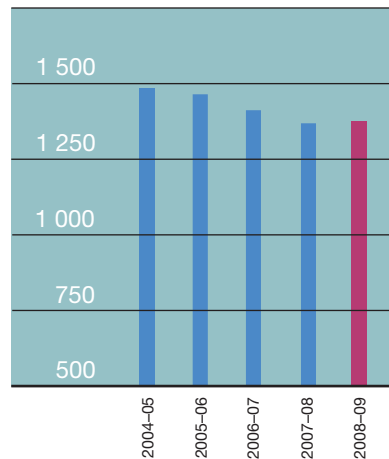
Operating costs have increased by £4.7 million (5%) to £100.8 million (2007–08: £96.1 million). This is due to increased staff costs of £4.7 million with additional other operating costs of £1.5 million being offset by reduced depreciation and amortisation of £1.5 million.

Operating costs



Staff costs, which cover both permanent staff, and temporary and agency labour, increased by £4.7 million to £63.0 million (2007–08: £58.3 million). The introduction of a new pay structure during the course of the year has contributed to an increase in permanent staff costs of £2.2 million to £52.9 million (2007–08: £50.7 million). Temporary and agency labour have increased by £2.5 million to £10.1 million (2007–08: £7.6 million), due principally to increased development activity. Average permanent staff numbers were largely unchanged at 1 372 (2007–08: 1 369).

Average staff numbers



Other operating costs have increased by £1.5 million to £34.5 million (2007–08: £33.0 million). This reflects increases in development expenditure partially offset by a reduction in contractor costs.

Development expenditure increased by £4.0 million to £8.6 million (2007–08: £4.6 million) when including staff costs associated with development activity. This reflects increased investment to refresh IT infrastructure and systems to provide new ways for customers to access data, including the ability to receive data directly via the Internet.

Contractor costs relate principally to the revision and update of geospatial data. The expenditure reduced by £1.8 million to £1.9 million (2007–08: £3.7 million), reflecting a reduced aerial photography programme and associated data processing.

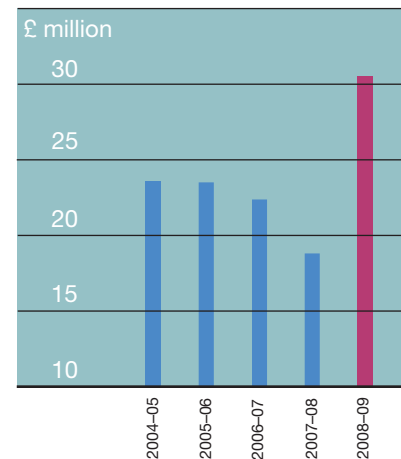
The depreciation and amortisation charge for the year was £3.3 million (2007–08: £4.8 million), down £1.5 million. The majority of capital additions during 2008–09 were assets under construction and land, both of which were not depreciated in the year. The existing database management system has already been fully depreciated, and its replacement is in the process of being completed.

Ordnance Survey has committed to reduce its underlying costs by an average of 5% per annum for the next five years. This forms a key part of its strategy as announced in April 2009 as part of the Treasury's Operational Efficiency Programme report.

Investment programme

Capital investment in the year was £22.4 million (2007–08: £10.3 million). Total investment was £31.0 million (2007–08: £15.3 million) when capital investment is combined with development expenditure.

Investment expenditure



The significant increase in capital investment is associated with the development of a new purpose-built head office at Adanac Park.

During March 2009 an option was exercised to purchase land for the development of the new head office for £6.7 million. Further investment in the new head office of £3.8 million is held within assets under construction.

A development contract was signed with Kier® Property Development Ltd on 9 March 2007. Unconditional planning permission at Adanac Park was obtained on 12 March 2009 and construction of the building commenced. Ordnance Survey expects to occupy the new building by the end of 2010.

A further £8.3 million was invested during 2008–09 in a replacement database management system, all of which was held in assets under construction. The system will transform the way in which data is captured, stored and extracted into products, resulting in higher levels of data integrity, lower business risk and increased flexibility when taking new products to market.

The remainder of the investment programme is weighted towards improving delivery systems and refreshing IT infrastructure.

Future investment will focus on new products and further improvements in IT infrastructure and delivery systems, as well as completion of the new head office and the database management system.

Land and buildings

Ordnance Survey's freehold site at Romsey Road, Southampton has been independently valued by King Sturge® LLP. Occupied land and buildings were valued at £11.6 million (2008: £17.8 million) and investment property at £4.2 million (2008: £8.5 million), reflecting changes in existing use value and market value respectively.

In accordance with UK GAAP, the basis of these valuations takes no account of the contracted disposal of these assets and the expected resulting cash flows.

The development contract with Kier Property Development Limited includes disposal of the freehold site at Romsey Road, Southampton. This legally binding agreement will result in proceeds of £24.3 million net of selling costs based on projected planning permission for redevelopment of the site. By contrast, the accounts show a combined valuation for occupied land and buildings, and investment property of £15.8 million, resulting in a difference of £8.5 million between the current carrying value and the projected sale proceeds.

Other investments

PointX® Ltd, a 50% joint venture investment, achieved turnover of £0.6 million (2007–08: £0.8 million), generating a loss of £250 000 (2007–08: profit of £16 000).

PointX Ltd has established a national Points of Interest database providing essential information for government and businesses delivering location-based services. This is a key part of Ordnance Survey's overall product portfolio and from April 2009 the data has been made available to central government departments as part of the Pan Government Agreement.

Working capital, cashflow and liquidity

The combined balance for cash at bank and in hand, and cash on deposit at 31 March 2009 was £18.3 million (£27.4 million at 31 March 2008). The decrease of £9.1 million reflects cash inflow from operating activities of

£12.6 million (2007–08: £26.3 million) and net interest received of £1.7 million (2007–08: £1.8 million), offset by capital investment of £18.6 million (2007–08: £10.4 million) and dividend paid in respect of the previous financial year of £3.7 million (2007–08: £4.6 million).

Overall liquidity is expected to continue to reduce as a result of increased investment activity, notably in the new head office. Ordnance Survey's medium-term plans indicate there may be a need to exercise borrowing powers over the next few financial years. Under Framework Document 2004, as amended by Statutory Instrument 2006 No. 2835, Ordnance Survey has maximum borrowing powers of £40 million and, within that limit, has an agreed credit facility with the National Loans Fund of £25 million.

Treasury management

The management of liquid assets is governed by the Ordnance Survey Trading Fund Order 1999 as supplemented by the Framework Document 2004 approved by HM Treasury. Cash balances are maintained in an interest bearing account at the Office of the Paymaster. Sums which are surplus to immediate requirements are deposited in a short-term interest bearing account with the National Loans Fund, typically seven days to six months in duration.

To manage the minimal foreign exchange rate variation risk exposure, contracts are negotiated with suppliers in sterling, or exceptionally in major currencies such as the euro or US dollar. Routine transactional conversions between currencies are effected at the relevant spot exchange rate.

Better Payment Practice Code

Ordnance Survey complies with the Better Payment Practice Code; in 2008–09 97.0% (2007–08: 96.3%) of all approved supplier invoices were paid within contractual conditions or within 30 days of receipt of a valid invoice.

Ordnance Survey has recently introduced new government payment guidelines requiring supplier invoices to be settled within 10 days of receipt. Since its inception 85.3% of supplier invoices were paid within 10 days.

Capital and reserves

Capital and reserves have increased by £2.9 million to £78.6 million at 31 March 2009 (£75.7 million at 31 March 2008). The General Reserve has grown to £56.2 million at 31 March 2009 (£43.6 million at 31 March 2008). The increase of £12.6 million reflects operating profit for the year plus net interest receivable less the dividend payable. Asset revaluations have resulted in a net decrease in revaluation reserves of £9.7 million to £8.4 million (2007–08: £18.1 million).

Long-term loans

The balance of Government loans repayable at the end of the year of £6.2 million (2007–08: £6.7 million) is expected to be repaid over the course of the next five years.

Dividends

A dividend of £4.8 million will be paid in respect of 2008–09 (2007–08: £3.7 million). The dividend is calculated on a 6.0% return on average capital employed for the year when combined with interest paid on Government loans. This dividend has been agreed with CLG.

Significant events after the balance sheet date

There have been no significant events since the end of the financial year that affect the results for the year, or the balance sheet at year end.

Accounting Policies

The key accounting policies are set out in Note 1 to the Accounts. In particular, note 1.7 describes the accounting treatment of the geographic data. This treatment means the data does not appear on the balance sheet. The reader of the financial statements is encouraged to take the data asset into account when seeking to understand the true value of the business and to recognise that the data is crucial to the successful delivery of the business strategy.

Ordnance Survey's auditor, the Comptroller and Auditor General, has qualified his opinion each year since 1999–2000, and has set out his views in his Certificate and Report on the 2008–09 Accounts and in more detail in a comprehensive report attached to his 2007–08 audit opinion. As part of the conversion to International Financial Reporting Standards (IFRS) in 2009–10, the future treatment of the data, which will be in accordance with those standards, has now been agreed with NAO. The removal of the qualification is therefore expected in 2009–10.

The business is organised into a single business unit to deliver Ordnance Survey's vision and national remit, therefore no segmental reporting is presented.



Mark Alexander
Finance Director

30 June 2009