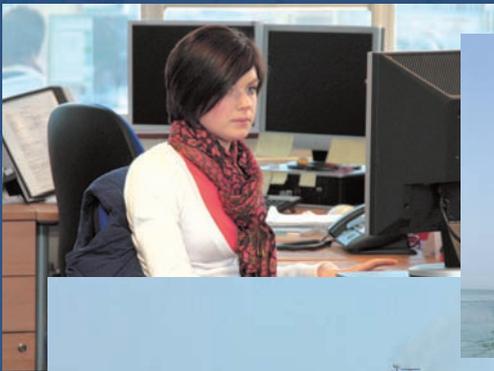


# The United Kingdom Hydrographic Office



## Annual Report and Accounts 2009/10



THE UNITED KINGDOM  
HYDROGRAPHIC OFFICE

**ANNUAL REPORT AND ACCOUNTS**  
**2009/2010**

Presented to Parliament pursuant to section 4 (6) of the Government Trading Funds Act 1973  
(as amended by the Government Trading Act 1990)

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## CHAIRMAN'S STATEMENT

UKHO is well placed as the world economy begins to emerge from recession. We continue to transform our businesses with a relentless focus on driving down costs, improving customer service and innovating to deliver our 'digital vision'. We know there is a lot more to do but our results show we are making progress.

Given our improved operational performance, the Board is paying a dividend of £11.16m for the full year to our Shareholder.

We have met or exceeded all Key Targets covering Safety; Defence; Return On Capital Employed and Organisational Excellence.

Focus on our Defence customer remains central to our operations as demonstrated by our maintenance of a consistently high Key Target 2 performance which is a measure of financial, quality and timeliness of our delivery of the Defence Programme and we are continuing to integrate our services with wider geospatial capabilities across Defence.

Our Digital business reached 6,190 customers by end of March 2010, confirming its position as the World's largest provider of official digital products.

We believe that our new digital product range will underpin future competitiveness and economic growth, and are very pleased to have accelerated our roll-out plans with the launch of Admiralty e-Navigator to 5 shipping companies in March 2010. Admiralty e-Navigator is the single biggest enabler to delivering our digital vision. It is a seamless ordering and fulfillment service for our partners and customers and is the platform for delivering our future digital products. Our AVCS digital product now has over 10,000 cells in service covering all major shipping routes and 2,024 ports and is fast becoming the 'official' product of choice for mariners. AVCS is now utilised by 5% of the world's shipping fleet. This coverage is expected to grow and by the end of 2010 we will have extended cell coverage to over 11,000 and port coverage to over 2,100 worldwide.

Our paper chart business has held up well, despite recessionary pressures, although we can anticipate further pressure next year with a significant number of ships still 'laid up' and a decrease in the number of new builds coming onto the market.

To achieve our ambitions and to best serve customers, UKHO needs to continue to develop its capability to become the supplier of choice to the World's shipping fleets. We have made progress over the past year:

- We launched a new partnering programme with our Distributors which now number over 100, demonstrating our continued support and understanding of the importance of the role of Admiralty Chart Agents to our current and future business model
- Improved our 'data assessment' productivity by 29% this year

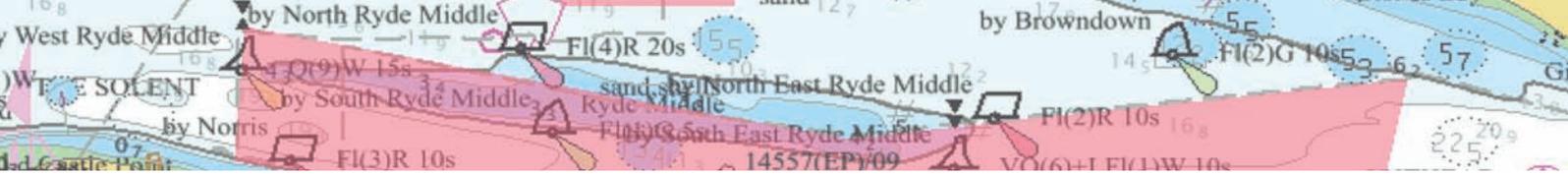
- Established a presence in Singapore to further strengthen our relationships with the Far East Hydrographic offices and customers
- Opened an office in the Reading area to attract marketing and IT talent to support our growth
- Benchmarked our 'employee engagement' and are focused on increasing this next year
- Started a modernisation program of our head office facilities in Taunton
- Disposed of a subsidiary SeaZone, as it was not core to our 'digital vision'

UKHO is well positioned to support its customers as they emerge from recessionary pressures and help them with the transition from analogue to digital charting.



SG Rogers

**Sandra Rogers**  
Chairman



## FOREWORD BY THE CHIEF EXECUTIVE

Our Defence customer remains our top priority and despite the challenging financial environment, we have managed to maintain our flexibility to allow us to respond to their changing needs. We have achieved this through close cooperation and negotiation of priorities, and in doing so have fully achieved Key Target 2. We have improved our customer engagement through restructuring of our Defence business unit to more closely align it with the key MoD structures. Good progress has also been made in developing our capability to provide network enabled delivery services for our Defence customer through the development and implementation of Defence Maritime Geospatial Services.

Looking forward, there will be increased focus on extracting maximum value though working more closely with our key Defence associates. This will increase burden sharing in a variety of areas as increased financial pressures are felt across the international Defence community as a whole.

From a safety perspective, despite significant increases in the amount of data assessed and a 29% increase in the number of paper chart New Editions, we exceeded our target of 95 with a score of 98.4 ensuring we achieved Key Target 1.

As part of our support to Wider Government, we have agreed to take on the responsibility of operating the data archive centre for bathymetric data under the Marine Environmental Data & Information Network ('MEDIN'). This will require improvements to the way we hold, process and deliver data which will also ultimately benefit our Defence customer.

From a commercial perspective, it has also been a very successful year. Overall, sales growth remained strong, up 7.7% to £117m and with tight cost control, retained profit increased to £22.4m which is essential to support investment in the development of digital products and services for mariners worldwide.

Although paper products account for the majority of our turnover, charts up 6.7% to £56m and publications up 7.7% to £26.5m, sales of digital vector products, charts and publications, grew by 38% from £5.0m to £6.9m.

Following its successful launch in 2008, AVCS has now become the market leader with a c70% market share. During the year we have more than doubled the number of vessels using AVCS (to c2000) and the current run rate is seeing over 30 vessels a week converting to the service.

Despite very difficult trading conditions, in particular, the increasing number of vessels 'laid up' and a sharp reduction in the number of 'new builds', we are forecasting to continue the overall growth within the digital market for 2010/11.

To complement AVCS, we have developed Admiralty e-Navigator which is the UKHO's new integrated digital catalogue, product viewer and passage planning tool. Admiralty e-Navigator will help the maritime community to be ready for the implementation of the 2012 ECDIS mandate.

One of the first new digital products available through Admiralty e-Navigator will be Admiralty Information Overlay (AIO), which will be the only global digital service that includes worldwide Temporary

and Preliminary Notices to Mariners. Combined with Admiralty Vector Chart Service (AVCS), AIO will give the mariner the power, utility and safety which electronic charts provide together with the quality, reliability and integrity of Admiralty assured data. Both Admiralty e-Navigator and AIO will be made available to the market to coincide with World Hydrography Day on June 21.

Looking internally, increasing our employee engagement is central to achieving our vision for the UKHO and remains a key focus for us. The comprehensive range of initiatives put in place during 2009 has achieved real momentum during the period and have been key to transforming the culture and skills of our people whilst at the same time deepening our understanding and sharpening our focus.

One measure of our success in this respect is the result of the recent Civil Service wide engagement survey which placed the UKHO 32nd out of the 92 other public sector organisations surveyed and only 1% short of the 'high performance benchmark'. We were also ranked 7th highest (out of 19) within our size category, i.e. for organisations of between 1000 - 3000 employees.

During the coming year, in order to further improve engagement, we are now focussing on building a high performing management team able to inspire and motivate employees, increasing Executive Committee and senior management visibility and introducing a whole-organisation Career Level Framework.

During the year we have also been very active in terms of our support to our sister Hydrographic Offices around the world, either directly, through the bursaries we offer, or in support of other organisation's capacity building initiatives, we have during the last 12 months provided training to 93 students from 24 different countries.

In light of increased focus within Government on value for money and efficiency, and our ability to better measure performance in a number of areas, we have refined and built on the existing Key Target measures for the coming year. We have added one new target designed specifically to measure our performance in delivering increased efficiencies and value for money.

Overall, the UKHO has had a very successful year in quite difficult and challenging times. Our vision to build a sustainable digital business is requiring the organisation to undergo significant change which naturally creates pressures on individuals within the organisation. Our people are our greatest asset and I am proud to lead an organisation with such loyal, dedicated and talented employees and I thank each and every one of them for their contribution in delivering our success over the last year.



**Mike Robinson**  
Chief Executive



## VISION, MISSION AND OBJECTIVES

### Vision

The UKHO's vision is to remain the world leader in the supply of marine navigational information and services.

### Mission

To meet national, defence and civil requirements for navigational and other hydrographic information in the most efficient manner.

### Objectives

The UKHO has agreed with its Owner, top-level objectives relating to:

- Objective 1 – Operational Support to Defence Customers  
The UKHO provides value to Defence by delivering the Hydrographic services which enable the Royal Navy and other Defence customers to meet current and potential future operational tasks in times of peace, crisis or war.
- Objective 2 – Support to “Safety of Life at Sea” Treaty Obligations  
The UKHO provides wider value to the government, in support of the Maritime and Coastguard Agency, which is the responsible authority for the UK's Treaty obligations under the United Nations SOLAS Convention.
- Objective 3 – Developing Profitable Business Streams  
Subject to maintaining the capability to deliver against the two objectives above, the UKHO is required to extract maximum value from its assets and capabilities by generating profitable revenue from customers outside Government.
- Objective 4 – Organisational Excellence  
In delivering the above objectives, the Government requires the UKHO to demonstrate organisational excellence.



## MANAGEMENT COMMENTARY

### History

The United Kingdom Hydrographic Office (UKHO) was established in 1795 and has since developed into a world authority and provider of data essential to safe marine navigation. The UKHO became an Executive Agency in 1990 and has operated as a Trading Fund within the UK Ministry of Defence (MoD) since 1 April 1996.

### Description of the business

The UKHO's strength traditionally lies in the universally trusted portfolio of charts and publications and the unrivalled coverage under the Admiralty brand. The Admiralty portfolio includes over 3,300 Standard Navigational Charts, over 150 Navigational Publications and a growing number of digital products and services which include the Admiralty Vector Chart Service and the Admiralty Raster Chart Service.

The UKHO uses data from Royal Navy and Maritime and Coastguard Agency (MCA) surveys, from foreign hydrographic offices and from other sources, such as ports and shipping companies around the world. All of these organisations are key stakeholders of the UKHO.

Whilst the UK Defence and commercial maritime fleets represent the core business, the UKHO continues to operate in a number of related market segments, namely leisure, law of the sea consultancy services and training.

The MoD is the UKHO's most important customer – receiving not only charts and publications but also a number of specialist services.

The UKHO also discharges the International Maritime Organisation's (IMO) Safety of Life at Sea (SOLAS) charting obligations on behalf of the UK Government, including provision of a round-the-clock Radio Navigational Warnings service. As the Government's centre of expertise in hydrographic matters, the UKHO provides advice on policy formulation and represents the UK at international fora, including the International Hydrographic Organization (IHO).

The majority of UKHO's sales are made through independent distributors across the world who service the commercial shipping market.

### The regulatory and market environment

Aside from meeting the navigational needs of our prime users our Defence customers, the UKHO's major target sector comprises vessels operating internationally which are subject to inspection for carriage of official nautical chart and publications compliance as mandated in Chapter V of the SOLAS Regulations. The current regulatory regime mandates the use of official (carriage compliant) charts and publications for primary navigation for certain vessels that make up the majority of the commercial fleets with few exceptions. Official information is defined as that published by or on behalf of a government hydrographic office (such as the UKHO) or other relevant government institution.

The IMO has approved the introduction of a mandatory carriage requirement for Electronic Chart Display and Information Systems (ECDIS). These were formally adopted on 29 May 2009. All vessels that come under SOLAS regulations will be required to be fitted with these electronic systems over a 6 year period commencing 2012 with exceptions for those vessels that are to be taken out of service within 2 years of the implementation dates. It is expected that this change in regulation will herald the start of a major shift from the use of traditional paper based navigational products to their digital counterparts.

Whilst the global economy is returning to growth, the effects of the economic downturn will continue to have an effect on the UKHO's performance as there are a number of factors which will remain depressed over the coming years. An example would be the anticipated decline in new deliveries of vessels over the next 12-18 months which will impact on sales for a further 18-24 months.

Over the next few years there is also likely to be a growth in the government's requirement for the non-navigational use of hydrographic data with the passage of the Marine Bill through Parliament and the EU INSPIRE Directive.

### Implementing the strategy

Over the past two years the UKHO has achieved a much deeper understanding of its market and awareness of its customers' needs, achieved through a much greater level of direct engagement with its customer groups. This is just one aspect of its transformation to a customer-centric, global digital business that is required if it is to maintain its pre-eminent international position.



The following are examples of how its deeper understanding has resulted in changes to its delivery:

- Value-added products for the navigational market; customers are moving from products and services that support protective navigation to solutions that support proactive navigation such as voyage optimisation delivering fuel and emissions savings.
- 24/7 customer support; in order to support the increasing needs of customers across the globe the UKHO is now providing 24/7 customer support.
- As part of its support to the wider Government it has agreed to take on the responsibility of operating the data archive centre for bathymetric data under the Marine Environmental Data & Information Network ('MEDIN'). This will require improvements in the way the UKHO holds, processes and delivers data.
- Flexible and dynamic licensing; customers have expressed strong desires for more flexible and dynamic licensing of digital products and for enterprise-level pricing propositions.

In delivering its strategy, the UKHO is focused on striking the right balance between:

- increasing efficiency to achieve a reduction in headcount and costs;
- improving productivity to achieve greater return using existing resources;
- providing value to the owner and stakeholders, particularly defence and commercial customers; and
- investing in its future digital business

Development of digital products and planned investments in the transformation of technology infrastructure and processes to support them, will enable the UKHO to deliver smarter and more efficient solutions to both the defence customer and the commercial maritime fleet.

- The UKHO is continuing to invest in its digital vision, with the market release of key elements of its digital products portfolio; Admiralty e-Navigator, the Admiralty Information Overlay, and voyage decision support.
- A number of projects to transform data management systems and processes will roll out over the next few years to support the development and delivery of digital products and services. These projects will ensure the UKHO has the capability to efficiently deliver digital products and services on-demand, 24/7.

- The next two years will see notable improvements to our customer services, training and up-skilling of Admiralty distributors to support the digital products portfolio, and direct sales and marketing to international defence and wider government customers.

Investments in these areas are dependant on Government policy and market conditions. If the market does not perform according to assumptions plans are in place to slow the rate of investment and other areas of discretionary spend to make sure key target 3 is met.

## Risk Management

The UKHO faces a wide range of risks which arise from both external influences and internal developments. It seeks to reduce both the probability of adverse events occurring and the impact should they happen.

The safety of vessels and crews, who rely on the UKHO's products, is vital and emphasis continues to be placed on maintaining the quality and the timely dissemination of existing and new products and services.

Strategy development necessitates continuous monitoring of the status of the risks faced and their mitigation actions. Risks associated with the transformation of the business in an increasingly competitive environment inherently carry additional commercial risks, we are focused on identifying and mitigating these risks which include; establishing new capabilities and skills; developing new products and services within relatively tight timescales; the quality of some foreign government Electronic Navigational Charts (ENCs) and the assumptions made regarding the timing of mandation.

The UKHO relies heavily on Information Systems. Information assurance is therefore critical to our operations. Information assurance policy and controls are in place to protect the confidentiality, integrity and availability of the systems and data. These controls are reviewed regularly and updated in order to ensure that we conform to the latest Cabinet Office and MoD instructions and mandatory safeguards regarding personal and personnel data. The UKHO will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.



## Report of Protected Personal Data Related Incidents

The Government has made a commitment to enhance transparency with Parliament and the public about action to safeguard information and the results of that action. As part of this process, Departments and their Agencies are required to publish details of incidents that have resulted in the unauthorised disclosure of personal data in their annual reports.

An incident is defined as any circumstance (loss, unauthorised disclosure, insecure disposal) of inadequately protected electronic equipment, devices or paper documents from either secure Government premises or outside secured Government premises; insecure disposal of inadequately protected electronic equipment, devices or paper documents; unauthorised disclosure or any other situation.

Protected data is defined as data that meets the definition of the minimum scope of protected personal data, or data that the UKHO considers should receive a similar level of protection because it would put those affected at significant risk of harm or distress.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

During 2009/10 one incident involving the loss of a UKHO laptop was identified. An investigation found that the laptop was encrypted and no evidence that any compromise of the information had arisen.

## People

To meet the challenges, the UKHO is committed to ensuring that people are appropriately trained and that they have the right systems, tools and processes to support delivery. The application of core cartographic and compilation skills is critical to achieving the vision.

By investing in new technology, automating and streamlining processes and using people more effectively the UKHO will become more dynamic and agile, without compromising the safety and quality of its products.

The average number of days lost through sickness in the year was 8.57 (8.44 in 2008/09) Excluding those off with long term illness (defined as more than 3 months) this reduces to 5.88 (6.49 in 2008/09)

## Admiralty Holdings Limited

Admiralty Holdings Limited (AHL) is a private limited company, managed by the UKHO on behalf of the Secretary of State for Defence, who owns 100% of the company. It was established for the purpose of exploiting the commercial activities of the UKHO through greater private sector involvement. SevenCs GmbH, produces key software for the display of ENC's on board ship. It was acquired by AHL in 2005. SeaZone Solutions Limited, which also became a wholly-owned subsidiary of AHL in 2005 and supports the exploitation of data for non-navigational uses was sold to HR Wallingford on 23 March 2010. The global market for Marine GIS is entering a phase of rapid growth and SeaZone required support in expanding its reaches internationally. The Board believes that HR Wallingford are ideally placed to offer this support with an established global sales channel and customer base.

## Financial Performance

Income increased in year by 7.7% to £116,618k all of which was generated from commercial customers; a rise of 8.3% to £98,448k. Sales to the MoD £12,379k. MoD sales as a percentage of total UKHO income represented 11.2% of the annual income.

Expenditure in 2009/10, excluding depreciation and the impairment of goodwill was £81,459k, a decrease of 2.1% compared with 2008/09. Whilst average staff numbers stayed the same, the proportion of agency staff employed increased from 4.7% to 7.4% partly due to a desire to keep a flexible cost base and partly due to difficulties in recruiting permanent staff into key skills. Development expenditure was £5,596k in year, principally due to the development of Admiralty e-Navigator and the upgrade of the SAP ERP system.

Operating cashflow generated in 2009/10 was £26,466k, an increase of £7,254k compared with 2008/09. Trade and other receivables at the year end of £25,372k compares with £22,857k in the previous year. Trade and other payables < 1 Year were £35,786k up 8.0% compared with 2008/09. Capital expenditure in 2009/10 was £7,388k, £184k below that of 2008/09. Cash and Cash equivalents totalled £48,486k at the end of March 2010, an increase of £13,601k. Cash is expected to reduce over the next two years as the major change programme projects and associated expenditure reach their peak. The level of Government Funds increased in 2009/10 by £20,339k to £82,231k.

## Dividends and capital

Dividends have been paid to the MoD every year since 1998/99 and in the current year a further £11,160k is provided.



## KEY PERFORMANCE TARGETS

### RESULTS 2009/10

In assessing the performance of the UKHO, the Owner (advised by the Owner's Council) uses a number of key targets. The results against these key targets are as follows:

#### Key target 1

Whilst aiming for 100, to achieve a Safety Index of 95 or higher.

**Status: Achieved**

Performance		2009/10	2008/09
Safety Index	Target	95.0	95.0
	Actual	98.4	99.5

The Safety Index indicates the timeliness and quality of the process for identifying navigationally significant changes in incoming hydrographic source material, and issuing product updates through Notices to Mariners and Electronic Navigational Chart (ENC) updates. The index tracks all delays in this process compared to set Performance Indicators, together with errors that required the publication of a correction. We have achieved Key Target 1 with a Safety Index Score of 98.4, the 1.1 recorded drop in the index compared to last year's results from the more stringent criteria introduced in 2009/10. On the new basis, the 2008/09 index would have been 98.3. Therefore, on a comparator scale, performance has slightly improved.

#### Key target 2

To achieve an Index rating of 95 or higher for the Defence Programme.

**Status: Achieved**

Performance		2009/10	2008/09
Index rating	Target	95.0	95.0
	Actual	99.2	99.2

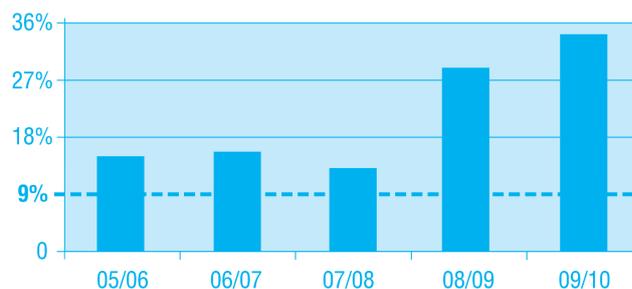
This target addresses financial, quality and timeliness performance against the endorsed Defence Programme. It also includes quality of service and ensures that the UKHO will take proper action to satisfy all unplanned, short notice operational demands. Timescales for such work are agreed with customers before work commences.

Performance averaged 99.2 over the year.

#### Key target 3

To achieve a Return on Capital Employed of 9% on a 3 year rolling basis ending 2009/10.

**Return on Capital Employed**



**Status: Achieved**

The in-year Return on Capital Employed was 34.2%; this is before exceptional items. The 3-year rolling average of 25.4% was above the target of 9%.

#### Key target 4

To achieve at least 75 out of 100 against 10 targets which together reflect a measure of Organisational Excellence.

**Status: Achieved**

Performance:		2009/10
Organisational Excellence	Target	75.0
	Actual	87.5

Organisational Excellence is assessed across 10 separate measures with each scoring 10 for full achievement and 5 for partial achievement and 0 for failure. One of the measures was further split into two sub-measures with each scoring 5 for full achievement and 2.5 for partial achievement. Achievement of this target was a score of 87.5; two of the measures being partially achieved and one of the sub-measures also being partially achieved.



## REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ON THE UKHO'S STATEMENT OF PERFORMANCE AGAINST 2009/10 KEY PERFORMANCE TARGETS

The Chief Executive has asked me to validate the UK Hydrographic Office's performance against the 2009-10 Key Performance Targets (KPTs).

### Respective responsibility of UKHO, the Chief Executive and the Auditor

The UK Hydrographic Office and the Chief Executive are responsible for the measurement and reporting of the UK Hydrographic Office's performance against its KPTs.

I examine and conclude on whether the UK Hydrographic Office has:

- provided full details of performance against all the UK Hydrographic Office's KPTs; and
- ensured that all performance information is reliable and fairly presented.

### Basis of conclusion

The validation includes an examination, on a test basis, of evidence relevant to the amounts and disclosures of the outturns and achievements included within the Statement. It also includes an assessment of the significant judgements and methodologies made by the UK Hydrographic Office and the Chief Executive in the Statement's preparation.

### Conclusion

The Statement of Performance includes all of the UK Hydrographic Office's 2009-10 KPTs and it reliably and fairly presents the Trading Fund's performance against the KPTs.

I have no observations to make on this Statement.

**Amyas Morse**  
Comptroller and  
Auditor General  
16 June 2010

**National Audit Office**  
157-194 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## KEY PERFORMANCE TARGETS FOR 2010/11

The Key Targets remain aligned with our Top Level Objectives. Where changes have been made, these are indicated below.

### Key target 1 – Safety

Whilst aiming for 100, to achieve a Safety Index exceeding 95.

*Change from prior year:* performance indicators amended to reflect reduction in time for publication of Notice to Mariners on the UKHO website.

### Key target 2 – Defence

To deliver the Defence Programme achieving an index rating of 95 or higher.

*Change from prior year:* unchanged.

### Key target 3 – Finance

To achieve a Return on Capital Employed of 9% on a 5 year rolling basis.

*Change from prior year:* Target unchanged but will be based on International Financial Reporting Standards (IFRS).

### Key target 4 – Organisational Excellence

To achieve at least 75 out of 100 against 10 targets which together reflect a measure of Organisational Excellence.

*Change from prior year:* overall target unchanged but some of the measures and some of the individual targets have been changed to reflect current priorities.

### Key target 5 – Efficiency

To achieve at least 50 out of 70 against 7 targets which together reflect a measure of Organisational Efficiency.

*Change from prior year:* new measure designed to target how the UKHO delivers increased efficiencies and greater value for money.



## GOVERNANCE AND STRUCTURE

### Statutory Background

The UKHO operates as a Trading Fund Executive Agency within the Ministry of Defence in accordance with Statutory Instrument SI 1996/73. The accounts have been prepared in accordance with the Direction given by HM Treasury on 22nd December 2009 in pursuance of section 4(6)(a) of the Government Trading Funds Act 1973.

The accounts are consolidated, incorporating those of the Trading Fund and those of AHL including all of the AHL subsidiary undertakings. All the entities are consolidated using the acquisition method and their results are incorporated from/to the date that control passes. All accounts are drawn up to 31 March each year.

AHL was incorporated during 2002/2003 as a vehicle for commercial exploitation and collaboration. All the issued share capital of AHL is held in the name of the Secretary of State for Defence who has delegated the management of operations to the UKHO Chief Executive.

AHL acquired full control of SeaZone (one of its initial joint ventures) with effect from 1 September 2005. Admiralty Deutschland GmbH was established during 2005 and acquired SevenCs with effect from 1 December 2005. AHL continued to hold all shares in Admiralty Deutschland GmbH, shares in SeaZone were sold to HR Wallingford on 23 March 2010.

Under the guidance provided in International Accounting Standard 27: Consolidated and Separate Financial Statements, the UKHO has prepared consolidated accounts on the basis that, despite not having a direct investment interest in AHL, the UKHO Board is capable of exercising, and exercises, dominant influence over the activities of the corporate group through majority control of the board of directors of AHL and its subsidiary undertakings.

### Financial Structure

Investment in the UKHO has been provided by the Secretary of State for Defence by way of Public Dividend capital, which is the equivalent of equity funds on which dividends are paid and an originating borrowings repayable over 25 years at a fixed rate of 8.375%. Other financial instruments include cash and liquid resources, and various items such as trade receivables, trade payables etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the UKHO's operations.

The UKHO does not enter into derivative transactions such as interest rate swaps or forward foreign currency exchange contracts.

The UKHO has no material risks arising from its financial instruments that arise in the course of normal business operational activities. Liquidity is strong. Its loan capital is repayable at a fixed rate of interest. It made a £5.1M investment, comprising equity capital, in the acquisition of SevenCs of Hamburg, Germany on 1 December 2005. This is not considered to represent a significant foreign currency exposure risk. The majority of sales are made in sterling thus minimising the risk from foreign currency exchange fluctuations.

### Governance

The UKHO governance structure is similar to all other MoD Trading Funds. Top-level strategy and plans are subject to Ministerial approval by the Parliamentary Under Secretary of State for Defence, as the Minister responsible for the Hydrographic Office Trading Fund. The Minister is advised by an Owner's Council, which also meets to monitor progress against approved plans and targets and recommend approval of specific major investments.

Plans are formulated by a Board comprising UKHO executives and non-executives. This Board also routinely monitors progress and endorses investment business cases. The same governance arrangements apply to AHL, which (for legal reasons) has a separate Board structure, but many members are the same.

Governance of AHL accords with agreed MoD policy. The AHL Board has a non-executive Chairman; there is also independent representation on the boards of individual companies.

Membership of the various governance structures is as follows:



## UKHO Owner's Council

### **Kevan Jones MP - Chairman**

Parliamentary Under Secretary of State for Defence and Minister for Veterans

### **David Palmer CBE**

Chairman of the UKHO Board  
(to 31 Oct 2009)

### **Sandra Rogers**

Chairman of the UKHO Board  
(from 1 Nov 2009)

### **Mike Robinson**

Chief Executive

### **Jon Thompson**

MoD Finance Director

### **Emma Davies**

MoD BSG  
(from 21 Apr 2009)

### **Vice Admiral R P Boissier CB**

Deputy Commander in Chief Fleet  
(to 7 Apr 2009)

### **Vice Admiral Richard Ibbotson CB DSC**

Deputy Commander in Chief Fleet  
(from 8 Apr 2009)

### **Major General Jerry Thomas**

Assistant Chief of Defence Staff (Intelligence Capability)

### **Peter Shortt**

Director, Shareholder Executive

### **Peter Cardy**

Chief Executive, Maritime and Coastguard Agency

### **Michael Everard CBE**

External Advisor  
Business/Shipping

## UKHO Board

### **David Palmer CBE**

Chairman  
(to 31 Oct 2009)

### **Sandra Rogers**

Non-Executive Director (to 31 Oct 2009)  
Chairman (from 1 Nov 2009)

### **Mike Robinson**

Chief Executive

### **Emma Davies**

Non-Executive Director  
(from 21 Apr 2009)

### **Philip Langsdale**

Non-Executive Director

### **Captain Bob Stewart RN**

Captain HM and Hydrographer of the Navy  
Non-Executive Director

### **Barry Wootton**

Non-Executive Director

### **Jan Smith**

Non-Executive Director  
(from 1 Mar 2010)

### **Michael Cauter**

Chief Operating Officer and Deputy Chief Executive- Corporate

### **Rear Admiral Ian Moncrieff CBE**

UK National Hydrographer and  
Deputy Chief Executive-Hydrography  
Acting as Chief Information Officer  
(from 11 Jan 2010)

### **Richard Brooks**

Head of Transformation, Change and Human Resources

### **David Loosley**

Head of Operations and Production

### **Jennifer Peart**

Head of Admiralty Nautical Products and Services  
(to 31 Mar 2010)

### **Ian Johnson**

Chief Information Officer  
(to 28 Jul 2009)

In attendance:

### **Philippa Childs**

Trade Union Representative

### **Tom Saunders**

Acting Chief Information Officer  
(attended from 22 Jul 2009 to 12 Jan 2010)



## UKHO Board Participation as Directors of AHL and Subsidiaries

- AHL**
- David Palmer CBE**, Chairman (to 31 Oct 2009)
  - Sandra Rogers**, Chairman (from 1 Nov 2009)
  - Mike Robinson**
  - Barry Wootton**
  - Sandra Rogers**
  - Captain Bob Stewart RN**
  - Rear Admiral Ian Moncrieff CBE**
  - Michael Cauter**
  - Philip Langsdale**
  - David Loosley**
  - Richard Brooks**
  - Ian Johnson** (to 1 Sep 2009)
  - Jennifer Peart** (from 1 Apr 2009)
  - Emma Davies** (from 1 Apr 2009)
  - Jan Smith** (from 1 Mar 2010)
- Michael Cauter is Company Secretary.

- SeaZone**
- Barry Wootton** (to 23 Mar 2010)
  - Damian Bowler** (from 1 May 2009 to 23 Mar 2010)
- Michael Cauter Company Secretary (to 23 Mar 2010)

## Details of Company Directorships and significant interest of Board Members

None of the existing or past board members has directorships that are in conflict with their management responsibilities of the UKHO or AHL.

### Audit Committee

The Audit Committee provides the Chief Executive with guidance and independent assurance on the effectiveness of the system of internal control. Meeting four times a year, its membership consists of three non-executive directors, one of whom chairs the committee, and other senior executives depending on topic. The Committee comprises:

**Barry Wootton**  
Chair  
Non-Executive Director

**Sandra Rogers**  
(until 31 Oct 2009)  
Non-Executive director

**Captain Bob Stewart RN**  
Non-Executive Director

**Emma Davies**  
(from 1 Nov 2009)  
Non-Executive director

### Auditor

The accounts are audited by the Comptroller and Auditor General in accordance with section 4(6) of the Government Trading Funds Act 1973. The cost was £79k for performance of the statutory audit and £4k for validation of key targets. No other audit services were provided by the Comptroller and Auditor General during the financial year. All audit findings are reviewed by the Audit Committee.

### Statement on Disclosure to Auditors

So far as I am aware, there is no relevant audit information of which the UKHO's auditors are unaware, and I have taken all appropriate steps to make myself aware of any relevant audit information and to establish that the UKHO's auditors are aware of that information.

Mike Robinson  
Chief Executive  
14 June 2010



## REMUNERATION REPORT

### Remuneration Policy

Mike Robinson, Chief Executive was appointed on 3 July 2006 on an initial three-year fixed-term contract. This has been extended by a further two years to 2 July 2011.

Michael Cauter was appointed on 25 June 2007 on an initial three-year fixed-term contract. This has been extended by a further two years to 24 June 2012. He assumed the role of Chief Operating Officer and Deputy Chief Executive (Corporate) from 9 November 2007.

David Loosley was appointed Head of Operations and Production on 16 April 2007 on an initial three-year fixed-term contract. This has been extended by a further two years to 16 April 2012.

Jennifer Peart joined the UKHO on 7 April 2008 as Interim Head of Products. She was appointed Interim Head of Admiralty Nautical Products and Services on 5 January 2009 and following her success in an open recruitment competition confirmed in the post with effect from 27 January 2009. She became a permanent member of staff from 1 April 2009. She is employed on an initial three year fixed-term contract .

Ian Johnson was appointed to the post of Chief Information Officer on 1 July 2008. He was employed on an initial five year fixed-term contract, but relinquished the position on 28 July 2009. His employment terminated on 31 December 2009.

Tom Saunders was appointed Interim Deputy Chief Information Officer through an agency on a three month contract. His contract was extended from 26 July 2009 and came to an end on 11 January 2010.

Salaries of the above are reviewed annually on 1 April in line with provisions applying to special appointments outside the standard Civil Service performance related pay scheme. The Office of Public Service centrally determines the annual increases for these special appointments.

Richard Brooks was appointed as Head of Transformation Change and Human Resources with effect from 12 November 2007. He is a member of the senior civil service.

The Prime Minister following independent advice from the Review Body on Senior Salaries sets the remuneration of senior civil servants. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

All other employees have their remuneration determined by a process consistent with MoD and HM Treasury regulations. The Chief Executive has delegated powers for the setting of terms and conditions of employment, including pay, for all UKHO employees. This delegation requires him to consult with the MoD and HM Treasury before agreeing any changes to pay and grading systems and arrangements. This is achieved through the Pay Remit process whereby the UKHO Pay Strategy is submitted for MoD and HM Treasury approval before negotiation with employee representatives.

The outcome of negotiations is reported back to HM Treasury through the annual outturn statement. The UKHO pay strategy is approved by the Chief Executive to achieve the Corporate business strategy having due regard to the financial success of the UKHO, current Government and MoD policies and targets, and public sector pay guidance.

Performance pay is dependent firstly on the UKHO meeting agreed Key Targets at a corporate level and then on individuals meeting agreed targets cascaded from the Corporate Plan. Achievement is determined by individual assessment within the line management chain audited by a Moderation Panel, which reviews application of reporting standards and approves exceptional (enhanced) bonus awards across the business. No external comparisons are made. For 2009/10, performance-related pay amounted to just over 3.6% of salary (3.8% in 2008/09). All pay awards are subject to satisfactory performance. This includes consolidated base pay and non-consolidated bonuses.

### Service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code. The Code requires appointments to be on merit based on fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated, the employees covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at:  
[www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).



The Chief Executive holds a delegation from the Ministry of Defence for recruitment within the UKHO. The duration of contracts and notice periods are in accordance with the Civil Service Management Code. The duration of contracts are determined by business need and include some Fixed Term Appointments. Compensation on termination of all appointments is in accordance with the Civil Service Compensation Scheme.

The appointments of non-executive directors are in accordance with Ministry of Defence guidelines and the Office of the Commissioner for Public Appointments (OCPA) Code of Practice.

## Remuneration Committee

The Remuneration Committee works within MoD and other Government guidelines to advise the Chief Executive and Chairman with regard to remuneration and reward. The Committee comprises;

### Barry Wootton

Chair  
Non-Executive Director

### Sandra Rogers

(until 31 Oct 2009)  
Non-Executive director

### Philip Langsdale

(from 1 Nov 2009)  
Non-Executive Director

### Emma Davies

(from 30 Apr 2009)  
Non-Executive Director

### Invited UKHO attendees

Richard Brooks – Head of Transformation Change and HR

Linda Linnell – HR Manager

The Committee meets at least twice a year and must have a quorum of two. The underlying principle is that members may not recommend or approve their own reward package.

The committee will:

- recommend the regular review of performance schemes
- review and endorse objectives
- consider individual performance and recommend related bonus payments
- agree the reward parameters applicable to or any significant revision of existing senior posts
- consider and advise on any other remuneration and conditions of employment issues

The Committee has responsibility for the selection, appointment, terms of reference and dealings with any remuneration consultants who advise the Committee.

The Chair of the Committee reports to the Board on its proceedings following each meeting.

## Salary and pension entitlements

(This section has been subject to audit)

The following tables provide details of the remuneration and pension interests of the executive members of the Hydrographic Office Board. Details are based on actual payments made by the United Kingdom Hydrographic Office and thus recorded in these accounts.

## Salary

'Salary' includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

## Benefits in kind

The monetary value of benefits in kind would cover any benefits provided by UKHO, which are treated by the Inland Revenue as a taxable emolument.

Details are as follows:-



## Remuneration Details

	Notes	2009-10 Salary Band £K	2009-10 Benefits in Kind (to the nearest £100) (Note 7)	2008-09 Salary Band £K	2008-09 Benefits in Kind (to the nearest £100) (Note 7)
<b>Mike Robinson</b>	1	<b>185 – 190</b>	<b>£15,500</b>	250 – 255	£4,300
<b>Michael Cauter</b>	2	<b>135 – 140</b>	<b>£700</b>	145 – 150	£600
<b>Rear Admiral Ian Moncrieff CBE</b>	3	<b>105 – 110</b>	<b>£400</b>	95 – 100	£600
<b>David Loosley</b>	4	<b>110 – 115</b>	<b>£0</b>	120 – 125	£800
<b>Richard Brooks</b>		<b>75 – 80</b>	<b>£1,600</b>	75 – 80	-
<b>Ian Johnson</b> (up to 31 Dec 2009)	5	<b>95 – 100</b> (115 – 120*)	-	85 – 90 (110 – 115*)	£200
<b>Jennifer Peart</b>	6	<b>110 – 115</b>	<b>£18,000</b>	40 – 45 (215 – 220*)	-

\* denotes full time equivalent

### Notes

1. The 2009/10 salary total for Mike Robinson includes payment of his bonus for 2008/09. Provision was included in his initial contract for an annual bonus of up to 40% of annual salary subject to meeting required performance targets. A proportion of the annual bonus was to be deferred and accumulated for payment (subject to adjustment up or down) at the end of the contract, dependent upon overall performance.
2. The 2009/10 salary total for Michael Cauter includes payment of his bonus for 2008/09. A sum up to 30% of annual salary was contractually payable subject to meeting required performance targets.
3. Rear Admiral Moncrieff CBE is a serving Royal Navy Officer on loan to the UKHO. Whilst MoD charges for his services are based on loan capitation rates, the figures above reflect his actual salary.
4. The 2009/10 salary total for David Loosley includes payment of his bonus for 2008/09. A sum up to 20% of annual salary is contractually payable subject to meeting required performance targets.
5. The 2009/10 salary total for Ian Johnson includes payment of his bonus for 2008/09. A sum up to 30% of annual salary is contractually payable subject to meeting required performance targets.
6. Jennifer Peart became a permanent member of staff from 1 April 2009. A performance related bonus of up to 40% of her salary will be payable for meeting on target delivery rising to 50% of salary against the achievement of stretch targets.
7. Benefits in kind primarily reflect payments for the provision of temporary accommodation in Taunton and weekend travel home. Meals provided in the pursuance of official business activities are also reflected. These figures represent gross taxable values. The tax liability is met by the UKHO.



## Pension Benefits

(This section has been subject to audit)

	Accrued benefits*		Real increase in benefits		CETV at 31/03/10	CETV at 31/03/09 Note e	CETV Real increase
	Pension Note a	Lump sum Note a	Pension Note a	Lump sum Note a			
	£K	£K	£K	£K	£K	£K	£K
<b>Mike Robinson</b>	5-10	Note c	0-2.5	Note c	101	66	25
<b>Michael Cauter</b>	5-10	Note c	0-2.5	Note c	59	35	18
<b>David Loosley</b>	5-10	Note c	0-2.5	Note c	57	35	16
<b>Richard Brooks</b>	20-25	70-75	(0-2.5)	(2.5-5)	365	370	(23)
<b>Jennifer Peart</b>	0-5 Note b	Note c	2.5-5.0	Note c	23	0	19
<b>Ian Johnson</b> (from 1 Jul 2008)	10-15 Note b	Note c	0-2.5 Note b	Note c	146	116	16

\* as at 31st March 2010

### Notes

- Pension and lump sums are as at pension age.
- Notional pension figures – member does not have two years service to qualify for a pension.
- No automatic lump sum payable as member is in the Premium scheme.
- None of the above are members of partnership pension schemes.
- The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations.



## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a “final salary” scheme (classic, premium, or classic plus); or a “whole career” scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality ‘money purchase’ stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos, a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and immediately after the scheme year end, the accrued pension is updated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found on their website at: [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



## Fees Paid to Non-Executive Directors

(This section has been subject to audit)

Non-executive directors are not appointed as Civil Servants. Contracts may be terminated at one month's notice by either party or on dissolution of the Board unless found guilty of gross misconduct when termination will be immediate. They may be exceptionally extended by mutual agreement at the end of the period normally for one further period only. There are no compensation entitlements for early termination. Current contractual arrangements applying to the non-executive directors as at 31 March 2010 were as follows:

- a. David Palmer CBE was appointed Chairman of the Hydrographic Board on a three-year contract commencing 6 June 2005. This was extended for a further three years from 6 June 2008. His appointment terminated on 31 October 2009 by mutual agreement.
- b. Sandra Rogers was appointed on a three-year contract commencing 15 July 2005. This has been extended to 9 July 2010. She was appointed as Chairman with effect 1 November 2009.
- c. Barry Wootton was appointed on a three-year contract commencing 3 July 2006. This has been extended for a further three years from 3 July 2009.
- d. Philip Langsdale was appointed on a three-year contract commencing 11 July 2007.
- e. Jan Smith was appointed on a three-year contract commencing 1 March 2010.
- f. Captain Bob Stewart RN was appointed with effect from 1 August 2007 in his capacity as Hydrographer of the Navy and will retain his position whilst in that post. He is a serving Naval Officer and as such no compensation would be payable in the event that his appointment as a non-executive director was terminated prematurely.

Fees paid to non-executive directors were as follows:

	Notes	2009-10 £K	2008-09 £K	Partnership Pension £K
<b>David Palmer CBE</b>	1	<b>35-40</b> <b>(35-40*)</b>	35-40	-
<b>Sandra Rogers</b>	2	<b>30-35</b>	15-20	4.7
<b>Barry Wootton</b>		<b>15-20</b>	15-20	-
<b>Philip Langsdale</b>		<b>15-20</b>	15-20	-
<b>Jan Smith</b>		<b>0-5</b> <b>(15-20*)</b>	-	-
<b>Captain Bob Stewart RN</b>	3	<b>0</b>	<b>0</b>	-
<b>Emma Davies</b>	3	<b>0</b>	-	-

\* denotes annual equivalent

### Notes

1. An ex-gratia payment of £13,333 is included in the 2009-10 total.
2. In this instance, UKHO contributes to a partnership pension by the amount shown. This is in addition to the fees paid.
3. Captain Bob Stewart RN is a serving Royal Navy Officer. His appointment is made in conjunction with his responsibilities as Hydrographer of the Navy. Emma Davies represents MoD BSG. They do not receive separate remuneration in undertaking these duties.

**Mike Robinson**  
Chief Executive  
14 June 2010



## STATEMENT ON INTERNAL CONTROL

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the UKHO's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

Each year I obtain approval from the responsible Minister for my Corporate Plan and financial projections covering a rolling five year period. The Minister reviews performance against the first year of the plan through the UKHO Owner's Council. Considerable effort has been engaged in the business planning process to address significant risks regarding the future financial viability of the UKHO.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of UKHO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the UKHO for the year ended 31st March 2010 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

### Capacity to handle risk

Corporate aims and objectives are agreed by the UKHO Board annually. They form the basis of a five-year corporate plan, which is endorsed by the UKHO Board and approved by the responsible Minister. Individual divisional risk-based plans underpin the corporate plan.

Members of the Executive Committee, and their senior managers provide written assurance bi-annually to the Accounting Officer that, to the best of their knowledge, risks have been adequately identified and managed through the implementation of appropriate controls. This forms part of a wider assurance statement covering the integrity and accuracy of performance reports; maintenance of effective controls in relation to the delivery of business objectives, security (physical and data), financial propriety and fraud prevention; conduct of UKHO business; management of internal audit recommendations; identification of contingent liabilities and compliance with staff reporting requirements

including the provision of appropriate business skill capabilities.

The risk management policy sets out the responsibilities of the Board, Executive Committee, Audit Committee and business risk owners.

All employees have on-line access to the business risk management policy and guidance in the identification and mitigation of risk. This sets out clear accountabilities and a structured process for identifying, assessing, communicating and managing risks. The policy and guidance is updated at least annually. Staff are supported by a Business Risk Manager who provides guidance and training to staff as necessary.

All identified risks are assessed and ranked. A risk owner is assigned to each risk and has the authority to allocate risk management tasks to specific owners. Executive decision papers contain a section on key risks.

During the year the Business Risk Manager carried out a self assessment of the organisation's risk maturity against a Treasury developed risk maturity model, this gave the UKHO an average score of 2 out of 5 across 7 different aspects of risk management. During 2010/11 the aim is to increase maturity to level 3 and to facilitate this a measure of Risk Maturity has been included in Key Target 4 – Organisational Excellence plus staff directly involved in risk management will have personal objectives which focus on risk management and divisional performance measures will also include a measure of effective risk management. Progress towards achieving level 3 will be subject to independent review by internal audit

To ensure that the business responds to changes in risk profile the corporate risk register is reviewed and reported to the Board quarterly. The Audit Committee also reviews the corporate risk register annually and in addition receives, at each quarterly meeting, a report from heads of divisions on a rotational basis. Heads of divisions review the risks within their divisions quarterly.

### The risk and control framework

The most significant risk to the organisation is in the safety of our core products. Controls include:

- Prioritising of activity needed to update current products through the application of a Safety Index,
- Formal risk assessment of new products by the UKHO Product Safety Management Board,
- Regular review of the quality of professional standards by the Safety Of Navigation Assurance Committee (SONAC), chaired by a non-executive director,



- Sample quality checks by the Nautical Products Review Team,
- Head of profession focussed on maintaining key skills.

Financial performance is controlled by cascading detailed plans supporting delivery of objectives articulated in the first year of the corporate plan. These form the basis of the two year Business Plan and the annual budget from which delegated authority is derived. They also demonstrate the linkage between detailed short-term financial plans and the UKHO's long-term risk-based financial objectives.

The UKHO Executive Board undertakes monthly reviews based on total financial performance against budgets and forecasts. Budget holders carry out monthly reviews of revenues and spend in their areas of responsibility. Forecasts are in turn updated quarterly.

Management have scrutinised the assumptions underlying all the major programmes and projects to ensure that they continue to remain valid. All major programmes are subject to programme and project management disciplines, investment appraisal, risk assessment and formal scrutiny by the UKHO Programme Review Board. The Programme Office further improves governance and oversight of the delivery of all programmes and projects across the UKHO.

The UKHO relies heavily on Information Systems. Information security is therefore critical to our operations. Information security policy and controls are in place to protect the confidentiality, integrity and availability of the systems and data. These controls have been reviewed and updated in order to ensure that we conform to Cabinet Office and MoD instructions and mandatory safeguards regarding personal and personnel data. I also submit an Annual Security Report to MoD which addresses wider security performance, including: personnel security, physical security and training.

UKHO is bound to operate its commercial function in accordance with relevant administrative, policy and regulatory requirements. Management are undertaking a review to enhance its commercial strategy which will be based upon enhanced category management principles and will ensure procurement accountabilities are clearly defined.

The principles of ISO9001:2008 continue to be applied to our internal control framework, with focus on monitoring the effectiveness of controls measured and tested against business objectives rather than simply addressing compliance. Our adherence to these principles is evidenced by our successful recertification during the year.

Some UKHO Board members are also members of the equivalent management boards of AHL and its subsidiaries. This, together with external audit reports, ensures effective controls equivalent to and consistent with those for UKHO.

UKHO Board members and members of my Executive Committee are also required to declare any personal interests that they have with current or potential UKHO customers or vendors. A register of interests records any declarations made with access provided to this by my Contracts and Finance teams, as well as UKHO Board and Executive Committee members.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the UKHO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the UKHO board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The review of the effectiveness of internal control is coordinated through the Audit Committee, which provides guidance and independent assurance. Meeting quarterly, its membership consists of three non-executive directors. Executive managers attend as necessary with input from the National Audit Office (NAO) and Internal Audit. A representative from Defence Internal Audit (DIA) attends periodically and receive all Audit Committee papers to provide assurance to Permanent Under-Secretary of State (PUS) that adequate audit arrangements, compliant with Government Internal Audit Standards, are in place.

The Audit Committee considers and approves the coverage of the Internal Audit programme and this is flexed to address risks arising during the year. The UKHO Board and the Audit Committee are aware of the major challenge of maintaining a consistent and improving internal control framework in a period of major change. The activities of the Internal Audit programme take into account challenges and ensure focus is given where there is the greatest perceived risk. Internal Audit for 2009/10 was contracted out to Price Waterhouse Coopers, who as part of their duties, carried out independent checks on the control process on my behalf. Operating to standards defined in the Government Internal Audit Standards they have carried out a programme of risk based audits. They submitted regular reports which include their independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement which, when accepted by senior managers,



form improvement actions. Outstanding improvement actions, which arise from both internal and external audit recommendations, are reported to, and monitored by, the Executive Committee and are reviewed periodically by the Audit Committee and the UKHO Board.

During the year the UKHO has been working towards achieving level 1 of the Information Assurance Maturity Model and achievement was confirmed at an audit in April 2010. All UKHO staff have completed mandatory Information Assurance training which is inline with current MoD policy. Work is continuing to identify Information Assets and Information Asset Owners. Key Target 4, Organisational Excellence contains for 2010/11, a measure on Information Assurance focussed on taking the UKHO to level 2 during 2010/11 with the intention to achieve level 3 by 2011/12.

## Significant Internal Control Issues

Project Management – During the year continued efforts were made to further improve and establish better project management processes and governance. While a great deal of progress has been made, there remains room for further improvement, which is a key management objective as this is key to our continued success in the future.

### **Mike Robinson**

Accounting Officer and Chief Executive  
14 June 2010



## POLICIES

### Research and Development

These activities primarily relate to the development of new products and enhancement of existing products.

### Treatment of Pensions

Information on pensions can be found in the Remuneration Report, Accounting Policies Note 1 and Note 2 to the Accounts.

### Payment Policy

In October 2008, the Government made a commitment to speed up the payments process of Public Sector Organisations with the aim to pay suppliers wherever possible within 10 days of the receipt of a valid invoice or delivery date whichever was later unless more specific terms are agreed. This compared to the previous target of 30 days. The UKHO adopted this as policy from 2 February 2009. From this date to the year end at 31 March 2010, 96.6% of undisputed invoices were paid with the revised target. Performance against the previous target of 30 days for the whole year was 99.6% (2008/09 98.8%) of undisputed invoices that were paid within the stipulated timeframe. The Government has since made a commitment to further speed up payments and from 1 May 2010 the aim will be to pay at least 80% of suppliers within 5 days. The principles of the "Better Payment Procedure Code" have been observed. A summary of these are contained in "Managing Public Money".

### Euro Conversion Preparation

No additional expenditure has been incurred during 2009/10 in respect of preparatory work to support any future decision for conversion to the Euro. The UKHO operates recognised commercial systems which are capable of supporting multicurrency transactions.

### Policy on the Employment of the Disabled

The UKHO is committed to a policy of equality of opportunity. Disablement is not seen as a bar to recruitment or advancement, the test applied being the ability to do the job.

### Employee Involvement

The UKHO is committed to quality communication with employees and encouraging their commitment to the UKHO's continued success. Line management provides

the key focus for employee involvement supplemented by dissemination of information by means of monthly summaries of issues including financial performance, the publication of a bi-monthly UKHO newspaper, presentations by the Chief Executive to all employees and other ad hoc bulletins. The UKHO intranet includes a weekly blog by the Chief Executive and an employees' forum in which employees are free to raise any issues of general concern or of topical interest. A bi-annual staff survey is supplemented by a monthly 'staff barometer', results of which are reported to the Board. Formal consultations over a wide range of issues are conducted through the Whitley Committee, chaired by the Chief Executive, which meets several times a year. Trades Unions are actively encouraged to contribute to studies and other reviews and are represented on the UKHO Board.

### Environment and Community

The UKHO's EcoHydro initiative which was created in 2008, in accordance with the Secretary of State's Environmental Policy, continues to operate. The UKHO is committed to increasing recycling facilities on site, reducing the amount of waste going to landfill, and seeks to make sure that the disposal of waste material is carried out legally and in an environmentally sound way. Over 70% of office waste was sent for recycling (and over 90% of Production Waste was recycled), some of the highest rates in the public sector. The UKHO continues to encourage cycling to work, providing regular bicycle servicing sessions at no cost to staff and car sharing continues to be encouraged. Energy saving measures such as double-glazing windows and low-energy lightbulbs make the most of our older buildings, while the newer ones have Energy Performance Certificates. The UKHO maintains the environment on site in a sustainable way, composting green waste and protecting wildlife. Staff at the UKHO are kept informed about the activities of the Taunton Transition Town organisation so that they can participate in any of the various activities that may be of interest.

The UKHO is very involved with local education, with staff giving their time to reading and mentoring schemes at schools in Taunton, and provides Work Experience placements for local school children. It also hosts the thriving local Sea Cadet unit, which provides opportunities for young people in the Taunton area. A UKHO charity is chosen every year, 2009 seeing in excess of £9,000 being raised for Open Door. The UKHO charity for 2010 is the Somerset & Dorset Air Ambulance.



## Environment and Community – World-wide

World-wide protection of the environment is one of the themes, besides safety of navigation, which is implicit in the core definition of Hydrography. Accordingly, UKHO staff make a major contribution to the efforts of the International Maritime Organization (IMO) and the International Hydrographic Organization (IHO) to encourage all coastal states, not only in the requirements to implement appropriate arrangements to promote safety of life at sea, but also in the wider non-navigational use of hydrographic data. The use of GIS as a platform for display and analysis of such information in support of the wider protection of the environment, and of coastal and offshore commercial development, is also key.

UKHO has taken a leading role in the development of technical standards and the provision of capacity building assistance. During the year such capacity building has centred on the provision of training in hydrographic data processing and marine cartography and ENC production, with fifteen students from as many countries benefiting. The establishment of a dedicated capacity building post within the National Hydrographer's division is a further demonstration of the UKHO's commitment to international capacity building initiatives. UKHO is also a major supporter of IHO efforts to coordinate surveying and charting in Antarctica.

UKHO continues to work closely with Government in the UK (DEFRA), in developing the understanding of the value of Hydrographic information in supporting new marine legislative requirements (e.g. the Marine Bill) and with the British Geological Society (BGS) in the creation of a new medium scale seabed geology dataset.

All of these improvements will greatly contribute to a successful delivery of information in Project ATLANTIS, an initiative relating to the warning prediction and planning prevention of flood defences from fluvial, pluvial and coastal inundation problems.

On the wider canvas in UK, the UKHO has also been involved in work which has gone into the Marine Bill, the EU INSPIRE Directive, as well as collaborating with the BGS in the creation of a new medium scale seabed geology dataset, all of which will benefit joined-up cross government planning considerations in respect of the offshore marine environment.



## STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds Act 1973 HM Treasury has directed the United Kingdom Hydrographic Office to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued on 21st December 2009. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the UKHO will continue in operation.

The Treasury has appointed the Chief Executive of the United Kingdom Hydrographic Office as Accounting Officer for the Hydrographic Office Trading Fund. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Hydrographic Office's assets, are set out in "Managing Public Money" published by HM Treasury.



## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the UK Hydrographic Office Group and Trading Fund for the year ended 31st March 2010 under the Government Trading Funds Act 1973. These statements comprise the Consolidated and Trading Fund Income Statements; Consolidated and Trading Fund Statements of Changes in Taxpayers' Equity; Consolidated and Trading Fund Statements of Financial Position; Consolidated and Trading Fund Statements of Cash Flows and the related notes. These Financial Statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the United Kingdom Hydrographic Office, Chief Executive as Accounting Officer and auditor

As explained more fully in the Statement of the Responsibilities of the UK Hydrographic Office and the Chief Executive, the Chief Executive as Accounting Officer is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. My responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Hydrographic Office's and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the Financial Statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the UK Hydrographic Office Group and Trading Fund's affairs as at 31st March 2010 and of the Group and Trading Fund's profit, changes in taxpayers' equity and cash flows for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued there under.

### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Management Commentary, the Directors' Report, the Financial Review and the unaudited part of the Remuneration Report, included within the annual report for the financial year for which the financial statements are prepared is consistent with the Financial Statements.



## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

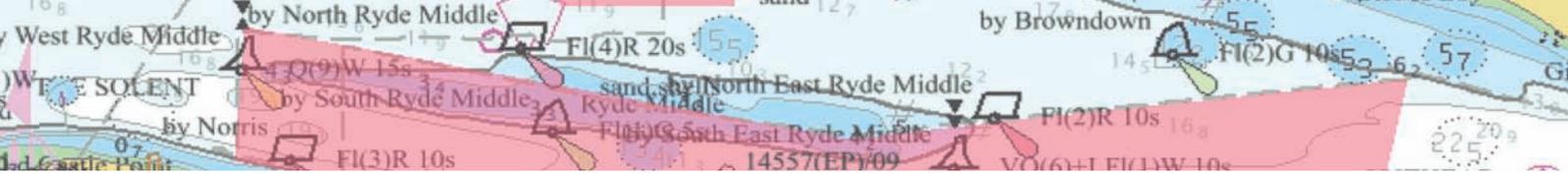
## Report

I have no observations to make on these financial statements.

**Amyas Morse**  
Comptroller and  
Auditor General  
16 June 2010

**National Audit Office**  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP





## THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2010



## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Note	2009/10 £K	2009/10 £K	2009/10 £K	2008/09 £K	2008/09 £K	2008/09 £K
<b>Profit and Loss</b>			<b>Discontinued Operation</b>	<b>Total</b>		<b>Discontinued Operation</b>	<b>Total</b>
<b>Income:</b>							
Group Income	4	115,164	1,454	116,618	107,114	1,195	108,309
Change in inventories of finished goods and WIP		67	0	67	128	0	128
Materials and other external charges		(8,086)	8	(8,078)	(6,006)	0	(6,006)
Staff costs	3	(45,353)	(712)	(46,065)	(46,259)	(634)	(46,893)
Depreciation and impairment	6a	(7,409)	(52)	(7,461)	(6,775)	(56)	(6,831)
Goodwill Impairment	6a	0	0	0	(3,799)	0	(3,799)
Other operating charges	6b	(26,900)	(483)	(27,383)	(29,829)	(476)	(30,305)
<b>Profit on ordinary activities before interest</b>	6	<b>27,483</b>	<b>215</b>	<b>27,698</b>	14,574	29	14,603
Trading Fund Rationalisation	7	7,079	0	7,079	(5,124)	0	(5,124)
<b>Profit on ordinary activities before interest and after exceptionals</b>		<b>34,562</b>	<b>215</b>	<b>34,777</b>	9,449	30	9,479
<b>Loss on sale of discontinued operation</b>		<b>0</b>	<b>(412)</b>	<b>(412)</b>	0	0	0
Interest receivable and similar income	8	137	0	137	1,145	0	1,145
Interest payable and similar charges	9	(982)	0	(982)	(1,289)	17	(1,272)
<b>Profit on ordinary activity before tax</b>		<b>33,717</b>	<b>(197)</b>	<b>33,520</b>	9,305	47	9,352
Taxation	10	3	0	3	(28)	0	(28)
<b>Net Profit</b>		<b>33,720</b>	<b>(197)</b>	<b>33,523</b>	9,277	47	9,324
<b>Dividend</b>		<b>(11,160)</b>	<b>0</b>	<b>(11,160)</b>	(4,363)	0	(4,363)
<b>Retained profit for the financial year</b>		<b>22,560</b>	<b>(197)</b>	<b>22,363</b>	4,914	47	4,961

The notes on pages 40 to 62 form part of these accounts.



## TRADING FUND INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Note	2009/10	2008/09
		£K	£K
Income:		111,289	103,665
Change in inventories of finished goods and WIP		67	128
Materials and other external charges		(6,935)	(4,795)
Staff costs		(43,187)	(43,908)
Depreciation and impairment		(7,344)	(6,336)
Other operating charges		(27,378)	(33,887)
<b>Profit on ordinary activities before interest</b>		<b>26,512</b>	<b>14,867</b>
Trading Fund Rationalisation		7,079	(5,124)
<b>Profit on ordinary activities before interest and after exceptionals</b>		<b>33,591</b>	<b>9,743</b>
Interest receivable and similar income		383	1,111
Interest payable and similar charges		(981)	(1,239)
<b>Net Profit</b>		<b>32,993</b>	<b>9,615</b>
Dividend		(11,160)	(4,363)
<b>Retained profit for the financial year</b>		<b>21,833</b>	<b>5,252</b>

The notes on pages 40 to 62 form part of these accounts.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Note	2009/10 £K	2008/09 £K	2007/08 £K
<b>Non-current assets:</b>				
Intangible Assets	11a	25,522	20,940	16,359
Property Plant & Equipment	11c	29,665	36,308	39,051
<b>Total non-current assets</b>		<b>55,187</b>	<b>57,248</b>	<b>55,410</b>
<b>Current Assets:</b>				
Assets Classified as held for Sale		2	0	0
Inventories	13	1,907	2,027	1,871
Trade and other receivables	14	25,372	22,859	18,370
Cash and Cash Equivalents		48,486	34,885	27,752
<b>Total current assets</b>		<b>75,767</b>	<b>59,771</b>	<b>47,993</b>
<b>Total assets</b>		<b>130,954</b>	<b>117,019</b>	<b>103,403</b>
<b>Current liabilities</b>				
Trade and other payables < 1 Year	15	(35,786)	(33,135)	(29,151)
Long term borrowings	17	(538)	(496)	(457)
Provisions	16	(2,531)	(2,247)	(2,752)
<b>Total current liabilities</b>		<b>(38,855)</b>	<b>(35,878)</b>	<b>(32,360)</b>
<b>Non current assets plus net current assets</b>		<b>92,099</b>	<b>81,141</b>	<b>71,043</b>
<b>Non-current liabilities</b>				
Provisions	16	(3,395)	(12,755)	(9,152)
Long term borrowings	17	(8,693)	(9,231)	(9,727)
<b>Total non-current liabilities</b>		<b>(12,088)</b>	<b>(21,986)</b>	<b>(18,879)</b>
<b>Assets less Liabilities</b>		<b>80,011</b>	<b>59,155</b>	<b>52,164</b>
<b>Taxpayers' equity:</b>				
Trading Fund				
Public dividend capital		13,267	13,267	13,267
Revaluation reserve		12,197	14,082	13,560
Profit and loss account		56,767	34,543	27,852
<b>Total government taxpayers' equity</b>		<b>82,231</b>	<b>61,892</b>	<b>54,679</b>
Admiralty Holdings Limited				
Profit and loss account		(2,220)	(2,737)	(2,515)
<b>Total taxpayers' equity</b>		<b>80,011</b>	<b>59,155</b>	<b>52,164</b>

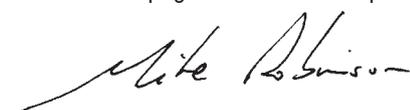
The notes on pages 40 to 62 form part of these accounts.

**Mike Robinson**  
Chief Executive  
14 June 2010

## TRADING FUND STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Note	2009/10 £K	2008/09 £K	2007/08 £K
<b>Non Current Assets</b>				
Intangible Assets	11a	25,493	20,840	12,151
Property Plant & Equipment	11d	29,568	36,142	38,906
<b>Total non-current assets</b>		<b>55,061</b>	56,982	51,057
<b>Investment</b>	12	<b>3,159</b>	3,039	7,115
<b>Current Assets</b>				
Assets Classified as held for Sale		2	0	0
Inventories	13	1,899	2,027	1,871
Trade and other receivables	14	24,666	21,872	17,721
Cash and Cash Equivalents		47,224	33,515	26,028
<b>Total current assets</b>		<b>73,791</b>	57,414	45,620
<b>Total assets</b>		<b>132,011</b>	117,435	103,792
<b>Current liabilities</b>				
Trade and other payables < 1 Year	15	(34,797)	(30,957)	(27,025)
Long term borrowings	17	(538)	(496)	(457)
Provisions	16	(2,531)	(2,247)	(2,752)
<b>Total current liabilities</b>		<b>(37,866)</b>	(33,700)	(30,234)
<b>Non current assets plus net current assets</b>		<b>94,145</b>	83,735	73,558
<b>Non-current liabilities</b>				
Provisions	16	(3,221)	(12,612)	(9,152)
Long term borrowings	17	(8,693)	(9,231)	(9,727)
<b>Total non-current liabilities</b>		<b>(11,914)</b>	(21,843)	(18,879)
<b>Assets less Liabilities</b>		<b>82,231</b>	61,892	54,679
<b>Taxpayers' equity:</b>				
Public dividend capital		13,267	13,267	13,267
Revaluation reserve		12,197	14,082	13,560
Profit and loss account		56,767	34,543	27,852
<b>Total taxpayers' equity</b>		<b>82,231</b>	61,892	54,679

The notes on pages 40 to 62 form part of these accounts.



**Mike Robinson**  
Chief Executive  
14 June 2010



## CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2010

	Profit and Loss Reserve £K	Revaluation Reserve £K	Public Dividend Capital £K	Total Reserves £K
<b>Balance at 31/3/08</b>	<b>25,337</b>	<b>13,560</b>	<b>13,267</b>	<b>52,164</b>
<b>Changes in equity for 2008/09:</b>				
IFRS Adjustments	448			
Royalty adjustment (Note a)	502			
<b>FX Changes</b>	<b>68</b>			
Revaluation of non current assets		1,011		
	1,018	1,011	0	0
Transfer between reserves, realisation of revaluation surplus	489	(489)		
Net Income for the period	9,325			
<b>Total Recognised income and expense for the period</b>	<b>10,832</b>	<b>522</b>		
Public dividend capital dividend	(4,363)			
<b>Balance at 31/3/09</b>	<b>31,806</b>	<b>14,082</b>	<b>13,267</b>	<b>59,155</b>
<b>Changes in equity for 2009/10:</b>				
FX Changes	(15)			
Revaluation of non current assets		(1,493)		
	(15)	(1,493)		
Transfer between reserves, realisation of revaluation surplus	392	(392)		
Net Income for the period	33,524			
<b>Total Recognised income and expense for the period</b>	<b>33,901</b>	<b>(1,885)</b>		
Public dividend capital dividend	(11,160)			
<b>Balance at 31/3/10</b>	<b>54,547</b>	<b>12,197</b>	<b>13,267</b>	<b>80,011</b>

a. The royalty adjustment relates to unsigned bilateral agreements that are probably not going to result in an ultimate legal obligation to pay backdated royalties.

The notes on pages 40 to 62 form part of these accounts.

## TRADING FUND STATEMENT OF CHANGES IN TAXPAYERS EQUITY FOR THE YEAR ENDED 31 MARCH 2010

	Profit and Loss Reserve £K	Revaluation Reserve £K	Public Dividend Capital £K	Total Reserves £K
<b>Balance at 31/3/08</b>	<b>27,852</b>	<b>13,560</b>	<b>13,267</b>	<b>54,679</b>
<b>Changes in equity for 2008/09:</b>				
IFRS Adjustments	448			
Royalty adjustment (Note a)	502			
<b>FX Changes</b>				
Revaluation of non current assets		1,011		
	950	1,011	0	0
Transfer between reserves, realisation of revaluation surplus	489	(489)		
Net Income for the period	9,615			
<b>Total Recognised income and expense for the period</b>	<b>11,054</b>	<b>522</b>		
Public dividend capital dividend	(4,363)			
<b>Balance at 31/3/09</b>	<b>34,543</b>	<b>14,082</b>	<b>13,267</b>	<b>61,892</b>
<b>Changes in equity for 2009/10:</b>				
Revaluation of non current assets		(1,493)		
		(1,493)		
Transfer between reserves, realisation of revaluation surplus	392	(392)		
Net Income for the period	32,992			
<b>Total Recognised income and expense for the period</b>	<b>33,384</b>	<b>(1,885)</b>		
Public dividend capital dividend	(11,160)			
<b>Balance at 31/3/10</b>	<b>56,767</b>	<b>12,197</b>	<b>13,267</b>	<b>82,231</b>

a. The royalty adjustment relates to unsigned bilateral agreements that are probably not going to result in an ultimate legal obligation to pay backdated royalties.

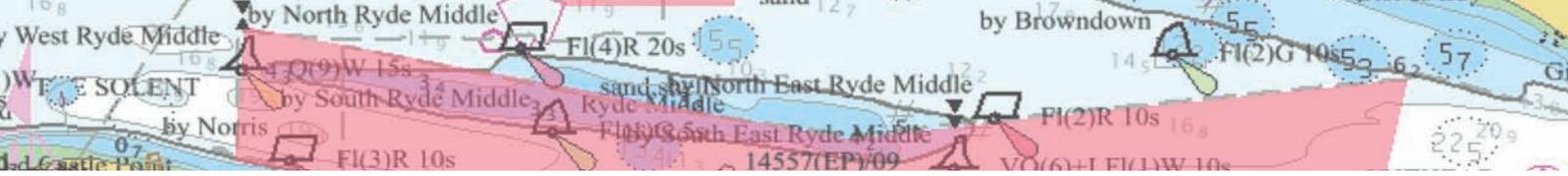
The notes on pages 40 to 62 form part of these accounts.



## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

	Note	2009/10	2008/09
		£K	£K
<b>Net Cash Flow from operating activities</b>	20	<b>26,466</b>	19,212
<b>Cash flows from investing activities</b>			
Investments		73	0
Interest received		165	1,312
Purchase of property, plant and equipment		(6,242)	(399)
Purchase of intangible assets		(1,146)	(6,805)
Receipts from Sale of Subsidiary		125	0
<b>Net cash outflow from investing activities</b>		<b>(7,025)</b>	(5,892)
<b>Cash flows from financing activities</b>			
Repayment of long term loan		(496)	(457)
Dividend paid on public dividend capital		(4,363)	(4,854)
Interest paid	9a	(981)	(876)
<b>Net Cash outflow from financing activities</b>		<b>(5,840)</b>	(6,187)
<b>Net financing</b>			
<b>Net Increase in cash and cash equivalents in the period</b>		<b>13,601</b>	7,133
<b>Cash and Cash equivalents at beginning of year</b>		<b>34,885</b>	27,752
<b>Cash and Cash equivalents at end of year</b>		<b>48,486</b>	34,885

The notes on pages 40 to 62 form part of these accounts.



## TRADING FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

	2009/10	2008/09
	£K	£K
<b>Net Cash Flow from operating activities</b>	<b>26,047</b>	19,289
<b>Cash flows from investing activities</b>		
Investments	198	0
Interest received	123	1,287
Purchase of property, plant and equipment	(5,651)	(56)
Purchase of intangible assets	(1,145)	(6,878)
Proceeds of disposal of Property, Plant & Equipment	(23)	0
<b>Net cash outflow from investing activities</b>	<b>(6,498)</b>	(5,647)
<b>Cash flows from financing activities</b>		
Repayment of long term loan	(496)	(457)
Dividend paid on public dividend capital	(4,363)	(4,854)
Interest paid	(981)	(844)
<b>Net Cash outflow from financing activities</b>	<b>(5,840)</b>	(6,155)
<b>Net financing</b>		
<b>Net Increase in cash and cash equivalents in the period</b>	<b>13,709</b>	7,487
<b>Cash and Cash equivalents at beginning of year</b>	<b>33,515</b>	26,028
<b>Cash and Cash equivalents at end of year</b>	<b>47,224</b>	33,515

The notes on pages 40 to 62 form part of these accounts.



# 1. ACCOUNTING POLICIES

## A. Basis of Accounting

These financial statements have been prepared in accordance with the Direction given by HM Treasury on 22nd December 2009 in pursuance of section 4(6)(a) of the Government Trading Funds Act 1973. The accounting policies contained in the IFReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the IFReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by UKHO are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Under the guidance provided in International Accounting Standard IFRS3 – Business Combinations and IAS27 – Consolidated and Separate Financial Statements, the UKHO is preparing consolidated accounts on the basis that it exercises control over the activities and day-to-day operations of the corporate group through majority control of the board of directors of AHL and all of its subsidiary undertakings.

As the 2009/10 accounts are the first to adopt IFRS the requirements of IFRS 1 First-time Adoption of International Reporting Standards have also been followed.

## B. Basis of Consolidation

The consolidated accounts incorporate those of the trading fund together with those of AHL and all of its subsidiary undertakings. All the entities are consolidated using the acquisition method and their results are incorporated from the date that control passes. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable net assets acquired is capitalised and written off on a straight-line basis over its estimated economic life. Provision is made for impairment.

Accounts are drawn up to 31 March each year, all inter-company transactions and balances are eliminated on consolidation.

AHL and its subsidiary undertakings were incorporated during 2002/2003. All the issued share capital of AHL is held in the name of the office of the Secretary of State for Defence. Authority to manage the operation of the company and its subsidiary undertakings has been delegated to the UKHO Chief Executive.

Following HM Treasury guidance, this group of companies has been set up as a suitable vehicle to enter into joint ventures and other similar arrangements.

## C. Income

Income represents the value of invoiced sales, net of VAT, at the point of physical delivery or in the case of service agreements (e.g. sales of digital products) it is realised equally over the licence period (see Note 4). Exceptionally, they may be accrued but income is singular where work is complete and there is certainty of future payment. Segmental reporting is provided in Note 5 of the Accounts in accordance with IFRS 8 Operating Segments.

## D. Provision for Sales Credits

A provision is made for potential sales returns from Admiralty Chart Distributors in respect of superseded paper products. The provision is derived from a moving average of actual returns over the last three years, expressed as a percentage of income.

## E. Non Current Assets

Ownership of the Agency's assets is vested in the Secretary of State for Defence.

### Intangible Assets

Software licences are retained at historic cost due to their short-term economic life. They are amortised over their useful economic lives of between 2 and 5 years.

### Development Expenditure

Internal development expenditure is capitalised only if it meets the recognition criteria of IAS 38 'Intangible Assets'. Where the criteria are not met the expenditure is recognised in the income statement. Where the recognition criteria are met, intangible assets are recorded at cost and capitalised and amortised on a straight-line basis over their useful economic lives from the date economic benefit starts to be derived.

All intangible assets are tested for impairment when there are indications that the carrying value may not be recoverable. Any impairment losses are recognised immediately in the income statement.

The following factors are considered in estimating useful lives:

expected use of the asset;

the effects of obsolescence, changes in demand, competing products and other economic factors, including the stability of the market and known technological advances.

Specifically, databases and other software that are established for the internal use of management within the reporting entity (such as payroll or HR systems) will not be recognised as intangibles.



For internally generated software (inc. databases and websites) to be recognised as assets, these intangibles must either generate economic benefits or deliver services direct to the customer such that use of the intangible by the customer replaces, reduces or otherwise negates the need for manual performance of that service.

All development expenditure has been revalued as at 31 March 2010 through the application of appropriate indices:

- Intangible Assets – Development Costs IT COMMS. These are published annually by DASA (Defence Analytical Services and Advice)

### Goodwill

External goodwill is determined following a fair value assessment of net assets acquired on the acquisition of a business. Goodwill will be subject to an annual impairment test together with an impairment review if there are indicators of impairment. It tests if events or changes in circumstances indicate that the carrying values may not be recoverable.

### Property, Plant & Equipment

Land and Buildings were professionally valued at 1 April 2009 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and Buildings were valued at Depreciated Replacement Cost of the Estate with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a Market Value has been provided. The valuation suggested an increase in the carrying value of land to £9,400k and of buildings to £21,031k. Due to the current economic downturn, the condition of a number of the buildings on the UKHO site and the Board's plans to invest in the site in future years to upgrade the working environment, the directors do not wish to take the full increase in value at this time and as a result have increased only the land valuation to the full £9,400k. All assets, with the exception of the wholly owned subsidiaries, have been revalued as at 31 March 2009 through the application of appropriate indices:

- Land - the Gross Domestic Product Index;
- Buildings – the Buildings Tender Price Index;
- Plant and Equipment – the Office for National Statistics index 2924 (industrial and commercial machinery and services equipment);
- Computers (excluding software licences) – are retained at historic cost due to their short-term economic life.

New additions and improvements in respect to both Property, Plant & Equipment and intangible assets are capitalised by the UKHO at cost where the value of discrete items exceeds £1,000 excluding VAT. Improvements need to show “future economic benefit” before they are capitalised. Software and associated licences are capitalised when they are stable (i.e. not subject to frequent upgrades) and related to processes vital to core business. SevenCs applies a minimum threshold of €410 for the capitalisation of movable assets.

### F. Depreciation and Amortisation

Freehold Land is not depreciated. Depreciation on other assets is calculated to write off the original cost or restated value evenly (except in large items of plant & equipment purchased since April 2007) over their estimated useful lives taking account of any residual second-hand or scrap value. Large items of plant & equipment purchased since April 2007 are depreciated on a reducing balance methodology. Estimated useful lives are as follows:

Buildings	Not exceeding 50 years
Plant and Equipment	Between 1 and 20 years
Computers (including capitalised software and licences)	Between 2 and 5 years

Asset lives are periodically reviewed for obsolescence in the light of technological development.

### G. Non Current Assets held for sale

IFRS 5 Non current Assets held for Sale and Discontinued Operations was effective from 1st April 2009. The standard sets out the requirements for the classification, measurement and presentation of non-current assets held for sale and replaces IAS35 Discontinued Operations.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets are reclassified only when management are committed to the sale and the sale is expected to be completed within a year. Assets identified as held for sale are reclassified as current assets and depreciation ceases from the date of reclassification.



## H. Inventories and Work in Progress

Raw material inventory is valued at the lower of cost or net current replacement cost. Finished goods inventory and work in progress is valued at the lower of cost and realisable value. Provision is made, where necessary, for obsolete, slow moving and defective inventories.

## I. Hydrographic Data

In carrying out its business, the UKHO utilises raw hydrographic data provided by the Ministry of Defence and the Maritime and Coastguard Agency but a significant element is also derived from foreign governments and private companies. The vast bulk of this hydrographic data is owned by these third parties, and the UKHO pays for its usage through royalties. The very small proportion of data owned by the UKHO was mainly acquired many years ago, and is not normally used now in the production of charts without being updated by recent soundings etc. Consequently, the data is of limited value to the UKHO.

The UKHO has not valued, therefore, any part of the hydrographic data but has charged direct to revenue all costs of acquiring and maintaining data as they were incurred.

## J. Non Operational Assets

The UKHO is custodian of some unique and irreplaceable historically important hydrographic records acquired or produced by the Agency during its 200-year history. They have the legal status of public records and meet the HM Treasury definition of non-operational assets. They do not have a marketable value and have therefore not been valued.

## K. Pensions

Civilian employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). The PCSPS is an unfunded multi-employer defined benefit scheme. However, since the UKHO is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid at rates determined from time to time by the Government Actuary. New entrants from 1 October 2002 have the option to open a partnership pension account, a "money purchase" stakeholder pension arrangement with an employer contribution. Service personnel are deemed to be on loan to the UKHO, which carries no liability for their pension other than insofar as these form a constituent element of

the monthly loan service charge paid to the MoD for their services. Full provision for early retirements is normally made in the year of retirement.

## L. Insurance

UKHO carries commercial insurance for professional indemnity, motor insurance to cover third party liability for its own and hire cars, buildings and computers, Directors and Officers liability in line with HM Treasury guidelines which allows for this if cost effective. It carries its own risks in respect of all other insurable risks. In the event of any loss occurring which exceeds the scope to be covered from insurance or retained profit, the UKHO will consult with the MoD about the action to be taken.

## M. Research and Development

All expenditure on research and development of non-commercial products is written off to the Income and Expenditure Account. Research and development of commercial products is similarly written off until such time as all the requirements of accounting standards are met. These are laid down in IAS 38 "Intangible Assets" as adapted by the Government Financial Reporting Manual. Amortisation of these costs commences with the commercial production of the product. The costs are amortised on a straight-line basis over the product commercial lives.

## N. Foreign Currencies

Assets and liabilities denominated in a foreign currency are translated at the rate(s) of exchange ruling as at 31 March 2010. Transactions are recorded at the rate(s) ruling at the time of the transaction. Exchange differences are taken to the Income statement. Assets, liabilities, and results of overseas subsidiaries are translated at the rate(s) ruling at 31 March 2010. Exchange differences arising are recognised in reserves.

## O. Investments

In accordance with Treasury rules, funds surplus to immediate requirements of £1,000k or more are deposited with the Debt Management Office for a minimum of 7 days. Immediate cash requirements are held in an interest bearing bank account.

## P. Royalties

The conditions governing the payment and receipt of royalties are covered by appropriate formal agreements with third parties and accounted for on an accruals basis.



## Q. Treatment of Leases

All expenditure incurred in respect of operating leases is charged to operating expenses in the year in which they arise. The UKHO has no finance leases.

## R. Treasury Discount Rate

The Pensions Discount rate of 3.2% has been used for early retirement and the provisions rate of 2.2% for all other provisions.

## S. Liquid Resources

For the purposes of the Statement of Cashflows, all amounts deposited with the Debt Management Office have been treated as liquid resources in line with IAS 7 “Statement of Cashflows”.

## T. Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the 31 March 2010 where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the 31 March 2010. Timing differences are differences between the group’s taxable profits and its results as stated in the financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the 31 March 2010, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the 31 March 2010. Deferred tax is measured on a non-discounted basis.

## U. Treatment of Finance Leases as a Lessor

The UKHO is participating in the cycle purchase scheme which is a salary sacrifice scheme through which employees are provided with equipment purchased by the UKHO and leased to employees over a three-year term with an option to purchase at the end. The purchase cost is accounted for as “Net Investments in Finance Leases” and included within the statement of financial position “Current Assets – Trade and other receivables” total. Recovery of the cost is made through fixed monthly deductions from salaries (on which the employee receives tax and national insurance contribution relief) and credited to the account.

Monthly charges also include a financing element. This is included under “Interest receivable and similar income (Group)” in the Income Statement.

## V. Financial Instruments

We are accounting for financial instruments within IFRS 7 and IAS39.

The UKHO has reviewed all its material contracts for embedded derivatives. While embedded derivatives were identified, they were all deemed to be closely related to the host contract and hence no separate valuation was required.

### Trade and other receivables

All receivables, including trade and VAT receivables, staff loans and advances are classified as Loans and receivables and are initially recognised at fair value (plus transaction costs) and subsequently at amortised cost. Discounting is relevant to those receivables and loans which carry no rate of interest or a subsidised rate. However, the UKHO’s receivables that are due within 1 year are not discounted on the grounds of materiality. Provisions are only made for specific bad debts.

Our loan investments to AHL are classed as financial assets and have been impaired in 2008/09 for the investment in Seven Cs.

### Trade and other payables

Liabilities covering trade payables, accruals, VAT, tax, and loans are classified as other liabilities and are initially recognised at fair value (plus transaction costs) and subsequently at amortised cost. This applies to those liabilities carrying a nil or a subsidised rate of interest. On the grounds of materiality, the UKHO’s liabilities falling due within 1 year are not discounted.

### Cash and cash equivalents

UKHO invest cash deposits with the Debt Management Office (DMO); each deposit is at a fixed rate of interest until the deposit is returned. These are recognised initially at fair value net of transaction costs and subsequently at amortised cost under the effective interest rate.



## 2. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all periods up to and including the year ended 31 March 2009, UKHO prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). UKHO was required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS's) with effect from 1 April 2009. The Annual Report and Accounts for the year ended 31 March 2010 comprises UKHO's first consolidated financial statements prepared under IFRS.

In preparing these financial statements, the group has complied with all IFRS's applicable for periods beginning on or after 1 April 2009.

The principal differences for the group between reporting on the basis of UK GAAP and IFRS are as follows:-

- Ceasing to amortise goodwill
- Recognise the amount of short-term employee benefits expected to be paid in respect of holiday and flexi-time accrued but not yet taken.
- Internal Development expenditure is capitalised if it meets the recognition criteria of IAS 38. These are held on the Statement of Financial position and recorded at cost.
- Reclassification of short term deposits from investments to cash equivalents.

The new accounting policies adopted by the group are summarised on pages 40-43.

### RECONCILIATIONS BETWEEN UK GAAP AND IFRS AS AT 31 MARCH 09

<b>Equity</b>	<b>2009</b>	<b>2008</b>
	<b>£K</b>	<b>£K</b>
Reserves (UK GAAP)	<b>19,706</b>	<b>15,455</b>
<b>IFRS Adjustments:</b>		
Development Expenditure	12,911	10,319
Royalty Adjustment	0	388
Holiday and Flexi Pay Accrual	(811)	(825)
	<u>12,100</u>	<u>9,882</u>
<b>Reserves (IFRS)</b>	<b>31,806</b>	<b>25,337</b>
<b>Net Profit</b>	<b>£K</b>	<b>£K</b>
Profit (UK GAAP) - 31 March 2009		<b>3,180</b>
<b>IFRS Adjustments:</b>		
Development Expenditure	<b>2,592</b>	
Holiday and Flexi Pay Accrual	<u>(811)</u>	
		<b>1,781</b>
<b>Profit (IFRS) - 31 March 2009</b>		<b>4,961</b>
<b>Cash Flows</b>		<b>£K</b>
Cash (UK GAAP) - 31 March 2009		<b>(367)</b>
<b>IFRS Adjustments:</b>		
Reclassification of DMO Deposits from investments to cash equivalents		<b>7,500</b>
<b>Cash (IFRS) - 31 March 2009</b>		<b>7,133</b>



### 3. STAFF NUMBERS AND RELATED COSTS

#### Staff Numbers

The average number of employees during the year was made up as follows:

	2009/10	2008/09
Operations	436	443
Print and supply	135	131
Marketing	68	58
Support	408	404
<b>Sub Total UKHO</b>	<b>1047</b>	<b>1036</b>
SeaZone (Note a)	20	20
SevenCs	40	51
	<b>1107</b>	<b>1107</b>
Civil Servants	960	979
Agency Staff	82	52
Service Personnel	5	5
Subsidiaries	60	71
	<b>1107</b>	<b>1107</b>

a. Admiralty Holdings Ltd sold its subsidiary company, SeaZone Solutions Limited on 23 March 2010.

Of these staff, 61 permanent staff and 15 agency staff were employed on capital projects during the year.

#### Salary

Total employee costs for the year were as follows:

	2009/10 £K	2008/09 £K
Salaries, wages etc.	30,164	32,440
Social security costs	2,784	2,882
Pension costs	5,636	5,774
Agency staff costs	6,641	5,101
Service personnel costs	840	696
	<b>46,065</b>	<b>46,893</b>

£3,800k was capitalised as staff costs that were engaged in capital projects during the year.

Members of the Owner's Council receive no remuneration from the UKHO apart from the Chief Executive and the Chairman of the UKHO Board. The latter is paid on an annual fee basis which includes Owner's Council duties. The costs of full time government officials are borne by their parent departments. The fees and expenses of the external advisers are paid by the MoD.

Service personnel occupy permanent posts within the UKHO, and are included in employee numbers shown above. However, they are MoD employees on loan to the UKHO for which MoD charges UKHO a capitation rate rather than actual salary costs. The UKHO carries no specific liability for the pension costs of Service personnel.

#### Pension

For 2009/10, the applicable pension rates were as follows:

Scheme and Annual Salary Bands to which rates apply	%
PCSPS - Band 1 - £20,500 and under	16.7
PCSPS - Band 2 - £20,501 to £42,000	18.8
PCSPS - Band 3 - £42,001 to £72,000	21.8
PCSPS - Band 4 - £72,001 and over	24.3

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the UKHO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2008. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2009/10, employers' contributions of £5,604k were payable to the PCSPS (2008/09 £5,745k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010/11, the rates will be in the range 16.7% to 25.8%. For 2010/11, our estimate of contributions expected to be paid into the plan is £5,635k

The contribution rates are set to meet the cost of the benefits accruing during 2009/10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, (a stakeholder pension with an employer contribution). Employers' contributions of £31.9k were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, Employer contributions of £2.4k, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the statement of financial position date were £4.6k. There were no prepaid contributions at that date.

There have been no early retirements on ill health grounds during 2009/10; the total additional accrued pension liability for 2008/09 was £2,474.



## 4. INCOME

	2009/10 £K	2008/09 £K
Sales to the Ministry of Defence	12,379	12,413
Commercial Sales	98,447	90,904
AHL	45	21
SeaZone (Note a)	1,446	850
Seven Cs	4,301	4,121
<b>Total Income</b>	<b>116,618</b>	<b>108,309</b>

a. Admiralty Holdings Ltd sold its subsidiary company, SeaZone Solutions Limited on 23 March 2010.

## 5. OPERATING SEGMENTS

	Commercial 2009/10 £K	Defence 2009/10 £K	Total 2009/10 £K
Revenue	106,926	10,692	116,618
Cost of Sales	(21,513)	(1,948)	(23,461)
Gross Profit	84,413	8,744	93,157
Margin %	80%	82%	80%
Unallocated Overheads			(65,456)
Loss Sale of Discontinued Operation			(412)
Profit on ordinary activities before interest			27,698
Trading Fund Rationalisation			7,079
Interest expense			(982)
Interest income			137
Taxation			3
<b>Net Profit</b>			<b>33,523</b>
Dividend			(11,160)
<b>Retained Profit for the financial year</b>			<b>22,363</b>

Commercial sales include sales of Paper Charts, Paper Publications, Digital Products and Data licensing. These have not been shown separately on the grounds of Commercial sensitivity.

Overhead costs, assets and liabilities are not routinely allocated to segments for internal reporting purposes.



### Sales Revenue by Geographical Market

	2009/10 £K
United Kingdom	44,519
Other Foreign Countries	72,099
<b>Total Revenue</b>	<b>116,618</b>

### Information about Major Customers

Revenues from three customers exceeded 10% of the UKHO's total revenues.

	Commercial 2009/10 £K	Defence 2009/10 £K	Total 2009/10 £K
Customer 1	12,616	0	<b>12,880</b>
Customer 2	1,752	10,627	<b>12,379</b>
Customer 3	9,722	0	<b>9,722</b>

## 6. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

Profit on ordinary activities before interest of £27,698k, (2008/09 -£14,603k) is stated after charging:

	Note	2009/10 £K	2008/09 £K
Depreciation/amortisation - owned assets		7,278	6,392
Loss on disposal of non-current assets		24	62
Impairment		159	377
Impairment adjustments Goodwill (Note a)		0	3,799
	6a	<b>7,461</b>	<b>10,630</b>
Operating leases: Office machinery (Note b)		17	19
Professional fees		883	2,918
Research and development		5,596	6,899
External Auditor's remuneration (Note c)		144	136
Travel, training and entertainment expenses		1,460	3,535
Materials and services		1,587	1,311
Utilities and other estates operating costs		4,263	3,955
Computing and office machines		3,591	3,641
Royalties payable		9,842	7,891
	6b	<b>27,383</b>	<b>30,305</b>

a. For 2008/09, the Impairment relates to the impairment of the Goodwill acquired on the acquisition of Seven Cs.



b. An analysis of future operating lease commitments is shown below:-

	Within 1 year	Between 1 and 5 years	After 5 years
	£K	£K	£K
Building	100	100	-
Vehicles	16	-	-
Office Equipment	24	18	-
	<b>140</b>	<b>118</b>	-

The building within Admiralty Deutschland GmbH is leased on a three-year contract expiring in 2011/12. Vehicles are leased under the MoD White Fleet contract, a ten-year contract expiring in 2010/11. Vehicles within Admiralty Deutschland GmbH, are leased on a three-year contract, expiring in 2010/11. All other equipment is leased from commercial suppliers on two-three year contracts.

c. Auditor's remuneration includes fees for both UKHO and AHL companies: The NAO audit fee is £73k (73k 2008/09). Fees for the IFRS Trigger point 4 work and the audit of the KPTs were £6k and £4k respectively.

## 7 TRADING FUND RATIONALISATION

On 5 December 2007, the Under Secretary of State for Defence announced in the House of Commons UKHO proposals for the rationalisation of the Trading Fund (Project Amber). These included plans for a net reduction in posts of between 200 and 250 over a five year period commencing 2007/08. Since this announcement these plans have been adjusted to reflect the growing requirement to invest efficiency savings back into the business to support a range of evolving requirements not initially planned for, these include supporting our growing digital business by 24/7 support to our customers, expanding the capability of our sales force and assessing all electronic navigational charts to ensure the same standard as our paper based series and improving the currency of our products. It is expected that the planned savings will ultimately be made but over a longer period and this in turn means that the reductions can be managed through natural staff turnover and retirement. As a result £7,079k of the provision made over the past two years to cover the cost of early retirement or redundancy has been released leaving a provision of £2,531k to cover committed early release costs. The remaining provision has been discounted at 3.2%.

## 8 INTEREST RECEIVABLE AND SIMILAR INCOME

This relates to interest receivable from investments in the Debt Management Office, short-term deposits held in an interest bearing bank account and interest charges on overdue payments. Interest from investments in the Debt Management Office constitutes the majority of interest receivable. Interest received and receivable has arisen from financial assets classified as loans and loan receivables. These are primarily short-term investments held at fixed interest rates.

## 9 INTEREST PAYABLE AND SIMILAR CHARGES

	Note	2009/10 £K	2008/09 £K
a. Interest paid to the MoD in respect of the long-term loan		<b>805</b>	876
b. Unwinding of the discount and movement on provision for early retirements and rationalisation	16	<b>177</b>	396
		<b>982</b>	1,272

Interest paid and payable has arisen from financial liabilities classified as other liabilities measured at amortised cost. This is primarily interest payable on the MoD Borrowings.



## 10. TAXATION

The UKHO is not subject to income or corporation tax in the United Kingdom. However, AHL is liable to pay corporation tax in the United Kingdom on their taxable profits. AHL subsidiaries are liable to, and have provided for, tax payable in their countries of domicile. No provision has been made in these accounts for tax payable by AHL on the grounds that tax losses arose during the year. AHL has a deferred tax asset in respect of tax losses carried forward, which has not been recognised in these accounts on the grounds of uncertainty with regard to recoverability.

### Tax Reconciliation

		£K
<b>Profit on Ordinary Activities Before Tax</b>		<b>33,520</b>
Less UKHO Profit	(32,993)	
Add AHL Loss	25	
Less Discontinued Operations	<u>(197)</u>	
		(33,165)
		355
Write Back of Goodwill	(358)	
Losses Carried Back	(18)	
Other Tax Adjustments	<u>31</u>	
		(345)
<b>Taxable Profit</b>		<b>10</b>
Tax Rate %		32.275%
<b>Taxable Expense 2009-10</b>		<b>3</b>



## 11A. INTANGIBLE NON-CURRENT ASSETS – CONSOLIDATED

Cost or Valuation:	Software Licences £K	Development Software £K	Assets under Construction £K	Goodwill SeaZone £K	Goodwill SevenCs £K	Total £K
At 1 April 2008	7,209	11,353	12	8	4,837	23,419
Additions	7,307	3,915	428	0	0	11,650
Reclassification	(30)	0	0	0	0	(30)
Disposals	1	0	0	0	0	1
Impairment	0	(377)	0	0	(3,799)	(4,176)
<b>At 31 March 2009</b>	<b>14,487</b>	<b>14,891</b>	<b>440</b>	<b>8</b>	<b>1,038</b>	<b>30,864</b>
At 1 April 2009	14,487	14,891	440	8	1,038	30,864
Additions	310	846	7,856	0	0	9,012
Reclassification	10	0	0	0	0	10
Disposals	(156)	0	0	(8)	0	(164)
Revaluation	0	25	0	0	0	25
Impairment	0	(155)	0	0	0	(155)
<b>At 31 March 2010</b>	<b>14,651</b>	<b>15,607</b>	<b>8,296</b>	<b>0</b>	<b>1,038</b>	<b>39,592</b>
<b>Amortisation:</b>						
At 1 April 2008	5,291	1,045	0	8	714	7,058
Charged	1,166	1,374	0	0	324	2,864
<b>At 31 March 2009</b>	<b>6,457</b>	<b>2,419</b>	<b>0</b>	<b>8</b>	<b>1,038</b>	<b>9,922</b>
At 1 April 2009	6,457	2,419	0	8	1,038	9,922
Charged	2,132	2,123	0	0	0	4,255
Reclassification	10	0	0	0	0	10
Disposals	(109)	0	0	(8)	0	(117)
<b>At 31 March 2010</b>	<b>8,490</b>	<b>4,542</b>	<b>0</b>	<b>0</b>	<b>1,038</b>	<b>14,070</b>
<b>Net Book Value:</b>						
<b>At 31 March 2010</b>	<b>6,161</b>	<b>11,065</b>	<b>8,296</b>	<b>0</b>	<b>0</b>	<b>25,522</b>
At 31 March 2009	8,030	12,472	440	0	0	20,942
At 31 March 2008	1,918	10,308	10	0	4,123	16,359

## 11A. INTANGIBLE NON-CURRENT ASSETS – TRADING FUND

	Software Licences £K	Development Software £K	Assets under Construction	Total £K
<b>Cost or Valuation:</b>				
At 1 April 2008	7,044	11,354	11	18,409
Additions	7,234	3,915	428	11,577
Reclassification	(30)	0	0	(30)
Disposals	1	0	0	1
Impairment	0	(377)	0	(377)
<b>At 31 March 2009</b>	<b>14,249</b>	<b>14,892</b>	<b>439</b>	<b>29,580</b>
At 1 April 2009	14,249	14,892	439	29,580
Additions	288	846	7,857	8,991
Reclassification	10	0	0	10
Revaluation	0	25	0	25
Impairment	0	(155)	0	(155)
<b>At 31 March 2010</b>	<b>14,547</b>	<b>15,608</b>	<b>8,296</b>	<b>38,451</b>
<b>Amortisation:</b>				
At 1 April 2008	5,212	1,046	0	6,258
Charged	1,109	1,373	0	2,482
<b>At 31 March 2009</b>	<b>6,321</b>	<b>2,419</b>	<b>0</b>	<b>8,740</b>
At 1 April 2009	6,321	2,419	0	8,740
Charged	2,085	2,123	0	4,208
Reclassification	10	0	0	10
<b>At 31 March 2010</b>	<b>8,416</b>	<b>4,542</b>	<b>0</b>	<b>12,958</b>
<b>Net Book Value:</b>				
<b>At 31 March 2010</b>	<b>6,131</b>	<b>11,066</b>	<b>8,296</b>	<b>25,493</b>
At 31 March 2009	7,928	12,473	439	20,840
At 31 March 2008	1,832	10,308	11	12,151

Under the cost model, the opening book value of development software as at 1 April 2009 was £13,285k and the carrying value at 31 March 2010 was £11,763k.



## 11B. ANALYSIS OF INTANGIBLE NON-CURRENT ASSETS

Project	Description	Carrying Value 31-Mar-10	Remaining Amortisation Period (Months)
<b>Development Software</b>			
HDB/CPT	A structured store of vector hydrographic data from which a variety of products may be drawn.	3,609	45
Maritime Data Project	The development of global, digital, vector based data and service capability.	3,970	96
Digital Licensing Project	Replacement licensing and permit creation system to manage ENC order processing.	426	33
AVCS	The Admiralty Vector Chart Service (AVCS) brings together Electronic Navigational Charts (ENCs) from national Hydrographic offices around the world and new ENC coverage produced by UKHO in cooperation with Foreign Governments to provide comprehensive, official, worldwide coverage.	2,296	96
		<b>10,301</b>	
<b>Software Licences</b>			
HDB Software	A structured store of vector hydrographic data from which a variety of products may be drawn.	3,823	45
CPT Software	A structured store of vector hydrographic data from which a variety of products may be drawn.	1,203	45
		<b>5,026</b>	

The disclosure above shows individual intangible assets that are material to the UKHO's financial statements.

## 11C. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Freehold Land	Buildings	Plant and Machinery	Furniture & Fittings	Information Technology	Assets under Construction	Total
Cost or Valuation:	£K	£K	£K	£K	£K	£K	£K
At 1 April 2008	4,803	28,052	7,474	1,402	7,669	4,830	54,230
Additions	0	0	92	34	908	(1,227)	(193)
Reclassification	0	0	0	0	30	0	30
Disposals	0	0	(124)	(159)	(116)	0	(399)
Revaluation	4,597	(3,516)	(70)	0	0	0	1,011
<b>At 31 March 2009</b>	<b>9,400</b>	<b>24,536</b>	<b>7,372</b>	<b>1,277</b>	<b>8,491</b>	<b>3,603</b>	<b>54,679</b>
At 1 April 2009	9,400	24,536	7,372	1,277	8,491	3,603	54,679
Additions	0	0	108	0	734	(2,896)	(2,054)
Reclassification	0	0	0	0	(10)	0	(10)
Disposals	0	0	(54)	(327)	(624)	0	(1,005)
Revaluation	270	(1,817)	28	0	0	0	(1,519)
Impairment	0	0	(4)	0	0	0	(4)
Reclassification-Held for Sale	0	0	(83)	0	0	0	(83)
<b>At 31 March 2010</b>	<b>9,670</b>	<b>22,719</b>	<b>7,367</b>	<b>950</b>	<b>8,591</b>	<b>707</b>	<b>50,004</b>
<b>Depreciation:</b>							
At 1 April 2008	0	6,336	2,898	682	5,263	0	15,179
Charged	0	916	1,213	222	1,178	0	3,529
Reclassification	0	0	0	0	1	0	1
Disposals	0	0	(87)	(159)	(92)	0	(338)
<b>At 31 March 2009</b>	<b>0</b>	<b>7,252</b>	<b>4,024</b>	<b>745</b>	<b>6,350</b>	<b>0</b>	<b>18,371</b>
At 1 April 2009	0	7,252	4,024	745	6,350	0	18,371
Charged	0	818	1,022	168	1,003	0	3,011
Reclassification	0	0	0	0	(10)	0	(10)
Disposals	0	0	(47)	(327)	(578)	0	(952)
Reclassification-Held for Sale	0	0	(81)	0	0	0	(81)
<b>At 31 March 2010</b>	<b>0</b>	<b>8,070</b>	<b>4,918</b>	<b>586</b>	<b>6,765</b>	<b>0</b>	<b>20,339</b>
<b>Net Book Value:</b>							
<b>At 31 March 2010</b>	<b>9,670</b>	<b>14,649</b>	<b>2,449</b>	<b>364</b>	<b>1,826</b>	<b>707</b>	<b>29,665</b>
At 31 March 2009	9,400	17,284	3,348	532	2,141	3,603	36,308
At 31 March 2008	4,803	21,716	4,576	720	2,406	4,830	39,051



## 11D. PROPERTY, PLANT AND EQUIPMENT

Trading Fund	Freehold Land	Buildings	Plant and Machinery	Furniture & Fittings	Information Technology	Assets under Construction	Total
Cost or Valuation:	£K	£K	£K	£K	£K	£K	£K
At 1 April 2008	4,803	28,052	7,474	1,401	7,278	4,829	53,837
Additions	0	0	92	33	773	(1,227)	(329)
Reclassification	0	0	0	0	30	0	30
Disposals	0	0	(124)	(159)	(77)	0	(360)
Revaluation	4,597	(3,516)	(70)	0	0	0	1,011
<b>At 31 March 2009</b>	<b>9,400</b>	<b>24,536</b>	<b>7,372</b>	<b>1,275</b>	<b>8,004</b>	<b>3,602</b>	<b>54,189</b>
At 1 April 2009	9,400	24,536	7,372	1,275	8,004	3,602	54,189
Additions	0	0	106	0	718	(2,895)	(2,071)
Reclassification	0	0	0	0	(10)	0	(10)
Disposals	0	0	(54)	(326)	(499)	0	(879)
Revaluation	270	(1,817)	28	0	0	0	(1,519)
Impairment	0	0	(4)	0	0	0	(4)
Reclassification-Held for Sale	0	0	(83)	0	0	0	(83)
<b>At 31 March 2010</b>	<b>9,670</b>	<b>22,719</b>	<b>7,365</b>	<b>949</b>	<b>8,213</b>	<b>707</b>	<b>49,623</b>
<b>Depreciation:</b>							
At 1 April 2008	0	6,336	2,898	681	5,016	0	14,931
Charged	0	916	1,213	221	1,064	0	3,414
Reclassification	0	0	0	0	1	0	1
Disposals	0	0	(87)	(159)	(53)	0	(299)
<b>At 31 March 2009</b>	<b>0</b>	<b>7,252</b>	<b>4,024</b>	<b>743</b>	<b>6,028</b>	<b>0</b>	<b>18,047</b>
At 1 April 2009	0	7,252	4,024	743	6,028	0	18,047
Charged	0	818	1,022	168	946	0	2,954
Reclassification	0	0	0	0	(10)	0	(10)
Disposals	0	0	(47)	(326)	(482)	0	(855)
Reclassification-Held for Sale	0	0	(81)	0	0	0	(81)
<b>At 31 March 2010</b>	<b>0</b>	<b>8,070</b>	<b>4,918</b>	<b>585</b>	<b>6,482</b>	<b>0</b>	<b>20,055</b>
<b>Net Book Value:</b>							
<b>At 31 March 2010</b>	<b>9,670</b>	<b>14,649</b>	<b>2,447</b>	<b>364</b>	<b>1,731</b>	<b>707</b>	<b>29,568</b>
At 31 March 2009	9,400	17,284	3,348	532	1,976	3,602	36,142
At 31 March 2008	4,803	21,716	4,576	720	2,262	4,829	38,906



## 12. INVESTMENTS

	Consolidated	Trading Fund
	£K	(Note a) £K
<b>Analysis of Loans</b>		
1 April 2009	0	3,039
Movement in Year	0	120
<b>Net Book Value 31 March 2010</b>	<b>0</b>	<b>3,159</b>

- a. Trading Fund investments include the capitalisation of long-term trading debts owed to UKHO. All other loans have been provided to AHL for investment as equity and loan capital in SevenCs and SeaZone.

### Holdings of more than 20%

UKHO prepares consolidated accounts under the guidance provided in IAS 27: Consolidated Financial Statements. Despite not having a direct investment interest in AHL, the UKHO Board is capable of exercising, and actually exercises, dominant influence over the activities and day-to-day operations of the corporate group through majority control of the board of directors of AHL and all of its subsidiary undertakings.

Based on the dominant influence of the corporate group, details of the companies of which the trading fund holds more than 20% of the share capital are detailed in the following table. Details are also shown of the aggregate amount of capital and reserves and results of these undertakings for the last relevant financial year.

Company	Country (Note *)	Shares held		Capital £K	Profit / (loss) £K
		Class	%		
<b>Subsidiary undertakings</b>					
Admiralty Holdings Ltd	England	Ordinary	100	2778	25
Admiralty Deutschland GmbH	Germany	Ordinary	100	2441	340
Admiralty Ltd	England	Ordinary	100	1	-
Admiralty Charts Ltd	England	Ordinary	100	1	-
Admiralty Consultancy Ltd	England	Ordinary	100	1	-
Admiralty Digital Ltd	England	Ordinary	100	1	-
Admiralty Marine Ltd	England	Ordinary	100	1	-
Admiralty Overseas Ltd	England	Ordinary	100	1	-
Admiralty Sea Law Ltd	England	Ordinary	100	1	-
Admiralty Services Ltd	England	Ordinary	100	1	-
Admiralty Ventures Ltd	England	Ordinary	100	1	-

The results of SevenCs GmbH and ChartWorld GmbH are consolidated into Admiralty Deutschland GmbH



## 13. INVENTORIES

	2009/10 £K	2009/10 £K	2008/09 £K	2008/09 £K	2007/08 £K	2007/08 £K
	Consolidated	Trading Fund	Consolidated	Trading Fund	Consolidated	Trading Fund
	£K	£K	£K	£K	£K	£K
Materials	459	452	482	482	454	454
Work in Progress	71	71	138	138	100	100
Finished inventories	1,377	1,376	1,407	1,407	1,317	1,317
	<b>1,907</b>	<b>1,899</b>	<b>2,027</b>	<b>2,027</b>	<b>1,871</b>	<b>1,871</b>

## 14. TRADE AND OTHER RECEIVABLES

	2009/10 £K	2009/10 £K	2008/09 £K	2008/09 £K	2007/08 £K	2007/08 £K
	Consolidated	Trading Fund	Consolidated	Trading Fund	Consolidated	Trading Fund
<b><i>Falling due within one year</i></b>						
Trade Receivables	20,099	19,646	18,121	17,362	14,571	14,001
Other Receivables	188	46	587	480	712	751
Prepayments & Accrued Income	5,069	4,958	4,135	4,014	3,006	2,888
Net Investments & Finance Leases	16	16	14	14	81	81
	<b>25,372</b>	<b>24,666</b>	<b>22,857</b>	<b>21,870</b>	<b>18,370</b>	<b>17,721</b>
<b><i>Falling due after more than one year</i></b>						
Net Investments & Finance Leases	0	0	2	2	0	0
	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
	<b>25,372</b>	<b>24,666</b>	<b>22,859</b>	<b>21,872</b>	<b>18,370</b>	<b>17,721</b>
<b>Analysis of Total Receivables</b>						
Other Central Government bodies	3,519	2,613	3,988	2,841	1,845	2,030
Public Corporations & Trading Funds	34	0	34	0	49	15
Intra-government balances	3,553	2,613	4,022	2,841	1,894	2,045
Bodies External to Government	21,819	22,053	18,837	19,031	16,476	15,676
	<b>25,372</b>	<b>24,666</b>	<b>22,859</b>	<b>21,872</b>	<b>18,370</b>	<b>17,721</b>

## 15. TRADE AND OTHER PAYABLES < 1 YEAR

	2009/10	2009/10	2008/09	2008/09	2007/08	2007/08
	Consolidated	Trading Fund	Consolidated	Trading Fund	Consolidated	Trading Fund
	£K	£K	£K	£K	£K	£K
Trade Payables	494	372	1,051	608	1,927	1,605
Other taxation and social security	804	804	797	779	824	823
Other Payables	98	1	144	14	161	4
Accruals and other deferred income (a)	23,230	22,460	26,780	25,193	21,385	19,739
Proposed dividend	11,160	11,160	4,363	4,363	4,854	4,854
	<b>35,786</b>	<b>34,797</b>	<b>33,135</b>	<b>30,957</b>	<b>29,151</b>	<b>27,025</b>
<b>Analysis of Total Payables</b>						
Other Central Government bodies	12,569	12,569	5,852	5,832	6,352	6,351
Public Corporations and Trading Funds	5	5	17	17	154	154
Intra-government balances	12,574	12,574	5,869	5,849	6,506	6,505
Bodies External to Government	23,212	22,223	27,266	25,108	22,645	20,520
	<b>35,786</b>	<b>34,797</b>	<b>33,135</b>	<b>30,957</b>	<b>29,151</b>	<b>27,025</b>

a. Re-alignment of prior year provision for pension from accruals and other deferred income



## 16. PROVISIONS

<b>Consolidated</b>	Balance at 01 April 2008 £K	Charged to Operating Cost £K	Unwinding of discount £K	Applied £K	Reclassification £K	<b>Balance at 31 March 2009 £K</b>
<b>Current liabilities</b>						
Provision for sales credits	2,752	1,639	0	(2,144)	0	<b>2,247</b>
	<b>2,752</b>	<b>1,639</b>	<b>0</b>	<b>(2,144)</b>	<b>0</b>	<b>2,247</b>
<b>Non-current liabilities</b>						
Provision for early retirement	1,225	226	27	(604)	0	<b>874</b>
Provision for Rationalisation	7,927	5,124	174	(1,622)	0	<b>11,603</b>
Provision for Royalties	0	0	0	0	135	<b>135</b>
Provision for Pension (a)	0	143	0	0	0	<b>143</b>
	<b>9,152</b>	<b>5,493</b>	<b>201</b>	<b>(2,226)</b>	<b>135</b>	<b>12,755</b>
	<b>Balance at 01 April 2009 £K</b>	<b>Charged to Operating Cost £K</b>	<b>Unwinding of discount £K</b>	<b>Applied £K</b>	<b>Reclassification £K</b>	<b>Balance at 31 March 2010 £K</b>
<b>Current liabilities</b>						
Provision for sales credits	<b>2,247</b>	3,094	0	(2,810)	0	<b>2,531</b>
	<b>2,247</b>	<b>3,094</b>	<b>0</b>	<b>(2,810)</b>	<b>0</b>	<b>2,531</b>
<b>Non-current liabilities</b>						
Provision for early retirement	<b>874</b>	(12)	19	(357)	0	<b>524</b>
Provision for Rationalisation	<b>11,603</b>	(7,195)	255	(2,130)	0	<b>2,533</b>
Provision for Royalties	<b>135</b>	0	3	0	26	<b>164</b>
Provision for Pension	<b>143</b>	31	0	0	0	<b>174</b>
	<b>12,755</b>	<b>(7,176)</b>	<b>277</b>	<b>(2,487)</b>	<b>26</b>	<b>3,395</b>

a. Re-alignment of prior year provision for pension from accruals and other deferred income

### Provision for Sales Credits

A provision is made against current sales in respect of future credits for superseded inventories held by Admiralty Chart Distributors. The provision represents a moving average of credits allowed over the last three years, expressed as a percentage of sales after discounts. It is anticipated that the provision will be fully applied during 2009/10.

### Provision for Early Retirement

This reflects the outstanding liability for early retirements arising from a variety of restructuring exercises undertaken in previous years. The provision has been discounted at 3.2%. The provision will be fully applied by 2014/15.

### Provision for Rationalisation

See Note 7.

### Provision for Royalties

These royalties have been reclassified from an accrual into a provision. These amounts refer to bilateral agreements with other Hydrographic Offices that are not yet finalised that will probably result in a legal obligation to pay future royalties.



## 17. LONG TERM BORROWINGS

Analysis of repayments	2009/10		2008/09		2007/08	
	Consolidated £K	Trading fund £K	Consolidated £K	Trading fund £K	Consolidated £K	Trading fund £K
<b>Current liabilities</b>						
Within 1 year	538	538	496	496	457	457
	<b>538</b>	<b>538</b>	496	496	457	457
<b>Non Current liabilities</b>						
Between 1 and 2 years	585	585	538	538	496	496
Between 2 and 5 years	2,071	2,071	1,908	1,908	1,758	1,758
After 5 years	6,037	6,037	6,785	6,785	7,473	7,473
	<b>8,693</b>	<b>8,693</b>	9,231	9,231	9,727	9,727
	<b>9,231</b>	<b>9,231</b>	9,727	9,727	10,184	10,184

## 18. FINANCIAL INSTRUMENTS

IAS 39, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IAS 39 mainly applies. The UKHO has very limited powers to borrow or invest surplus funds and except for relatively insignificant sales in foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the UKHO in undertaking its activities.

As permitted by IAS 39, receivables and payables which mature or become payable within 12 months from the statement of financial position date have been omitted from the currency profile if deemed immaterial.

### Liquidity risk

The UKHO is able to meet both its normal working capital requirements and future capital investments without recourse to borrowing. It is not therefore exposed to significant liquidity risks.

### Interest-rate risk

All UKHO financial assets and liabilities that are subject to interest are assessed at fixed rates. The UKHO is not exposed to significant interest-rate risk. There is no sensitivity analysis provided on this risk because all financial liabilities are subject to fixed rates.

### Foreign currency risk

The UKHO's trading exposure to foreign currency risk is not significant. Of a £7.1m investment in AHL, which excludes provisions, approximately £5.1m was invested in the acquisition of SevenCs, £3.8m was impaired in 2008/09 and the remaining balance was amortised. Both the capital and interest payments are exposed to foreign currency fluctuations. A sensitivity analysis is not disclosed as assets and liabilities at the statement of financial position date expressed in foreign currency are not deemed to be material.

### Fair values

The fair value of borrowings provided to the UKHO is assessed at £5.1m as at 31 March 2010, discounted applying the National Loans Fund rate for equivalent term annuity loans as at that date of £6,952k. The current value of all our financial instruments are considered to equate to fair value at the 31 March 2010.

### Financial Instruments

IFRS 7-Financial Instruments – Disclosures, requires the UKHO to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the credit risks to which the UKHO is exposed and how these risks are managed. For each type of credit risk arising from financial instruments, the UKHO is also required to provide summary quantitative data about its exposure to the credit risk at the reporting date.



The UKHO is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other receivables consist of a large number of diverse customers spread over a diverse geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. All outstanding financial assets which remain within their credit terms at 31 March 2010 primarily relate to established customers whose credit

worthiness has been subject to regular review and gives no cause for concern regarding full future settlement. The table below provides details of receivables beyond the due date and impairments made:

### Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument are disclosed in Note 1 to the financial statements.

Receivables Beyond the Due Date	0 - 3 months	3 - 6 months	6-12 months	Over 12 months	Total
	£K	£K	£K	£K	£K
Receivables beyond the due date - not impaired	14,032	29	97	315	14,473
Receivables beyond the due date - impaired	0	2	0	128	130
<b>Gross receivables Total</b>	<b>14,032</b>	<b>31</b>	<b>97</b>	<b>443</b>	<b>14,603</b>
Bad Debt Provision	0	(2)	0	(128)	(130)
<b>Net total receivables beyond the due date</b>	<b>14,032</b>	<b>29</b>	<b>97</b>	<b>315</b>	<b>14,473</b>

### Catagories of Financial Instruments

Please refer to Note 1 accounting policies for details of the financial assets and liabilities

	Carrying Value 31 March 2010 £K	Carrying Value 31 March 2009 £K
<b>Financial Assets</b>		
Loans and receivables (including cash and cash equivalents) (Note a)	<b>73,183</b>	57,567
	<b>73,183</b>	<b>57,567</b>
<b>Financial Liabilities</b>		
Other financial Liabilities (Note a)	<b>45,017</b>	42,862
	<b>45,017</b>	<b>42,862</b>

a. Re-alignment of prior year Financial Assets to Financial Liabilities

The UKHO has no exposure to the following classes of financial instruments: Collateral-financial assets pledged as security for financial liability, Compound financial instruments, Loan defaults & breaches and Hedge accounting.



## 19. CAPITAL COMMITMENTS

	2009/10 Consolidated £K	2009/10 Trading Fund £K	2008/09 Consolidated £K	2008/09 Trading Fund £K
<b>Contracted capital commitments not otherwise included in these accounts:</b>				
Property, plant & equipment	0	0	174	174
Intangible Assets	600	600	76	76
Capital	600	600	250	250

## 20. RECONCILIATION OF CONSOLIDATED PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST TO CONSOLIDATED NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009/10 £K	2008/09 £K
Consolidated profit on ordinary activities before interest and after exceptionals	34,777	9,857
Income and expenses taken directly to equity:	0	505
Income and expenses comparatives	0	(4,343)
Royalty adjustment (Note a)	0	502
Depreciation & Amortisation	7,278	6,392
Impairment adjustment	0	3,799
Loss on sale and disposal of non-current assets	24	62
Decrease/(Increase) in inventories	120	(156)
(Increase) in receivables	(2,513)	(4,633)
(Decrease)/Increase in payables	(4,145)	4,128
(Decrease)/Increase in provisions	(9,076)	3,099
<b>Consolidated net cash inflow from operating activities</b>	<b>26,465</b>	<b>19,212</b>

- a. The royalty adjustment relates to unsigned bilateral agreements that are probably not going to result in an ultimate legal obligation to pay backdated royalties.

## 21. LOSSES AND SPECIAL PAYMENTS

During the year there were unrecoverable trade receivables of £10,218 (£191 for 2008/09); there have been no write-offs of in respect of fruitless payments (none for 2008/09); There were inventory count discrepancies of (£6,104 in 2008/09), unrecoverable overpayments to staff of £0 (£12,818 in 2008/09) and no special severance payments in year (£0 for 2008/09).



## 22. RELATED PARTY TRANSACTIONS

During the year the following related party transactions are noted, where a qualifying association existed between the supplying company and a UKHO Board member: The wife of an executive member of the UKHO Board was an employee of KPMG during the year. The executive member of the UKHO Board was excluded from all related competitions. During 2009/10 payments made to KPMG totalled £219,688 (£1,881,844 in 2008/09).

The spouse of a senior manager is the UK representative of the IIC Technologies Group with whom the UKHO contract various outsourced production activities. Some of the officers' managers are responsible for the day to day operation of this relationship and on occasion, in their absence, the manager has approved low value payments to the company as part of pre-agreed contracts. The manager has not however been involved in any contract negotiations or commitments with the company. During 2009/10 payments made to IIC Technologies totalled £1,853,771 (£1,379,731 in 2008/09).

All figures reported excluding VAT.

The Ministry of Defence as the UKHO's parent Department is regarded as a related party. During the year, the UKHO has also entered into material transactions with the Department and with other entities for which the Department is regarded as the parent Department viz.

**Defence Intelligence Joint Environment** – sale of hydrographic products and services.

**Defence Estates** – purchase of professional services.

**Ministry of Defence Guard Service** – purchase of site security services.

**Director General Human Resources (Navy)** – RN service personnel on loan to the UKHO.

**Defence Equipment & Support** – sale of hydrographic products.

**Meteorological Office** – purchase of services.

**People, Pay and Pensions Agency** – purchase of services.

**Director General Civilian Personnel** – purchase of occupational welfare services.

**Defence Business Learning** – purchase of training.

**Other related parties:-**

**Central Office of Information** – purchase of advertising services.

**Maritime and Coastguard Agency** – provision of professional services.

**Treasury Solicitor** – purchase of legal services.

**National School of Government** – purchase of training.

**SevenCs** – sale of data and purchase of products and services.

**SeaZone** – sale of data and purchase of professional services.

**AHL** – The consolidated accounts incorporate those of the trading fund together with those of AHL and all of its subsidiary undertakings. See further details above. During the year, UKHO incurred certain expenses on behalf of AHL.

With the exception of AHL and its subsidiaries, these are all government bodies and not separate legal entities.

## 23. AUTHORISATION OF ACCOUNTS

The accounts were authorised for issue (defined as date of despatch by the auditors to the Clerk of the House of Commons for laying before parliament) on 28 June 2010.





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