



The United Kingdom Hydrographic Office



Annual Report and Accounts 2008/09



THE UNITED KINGDOM
HYDROGRAPHIC OFFICE

ANNUAL REPORT AND ACCOUNTS
2008/2009

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as amended by the Government Trading Act 1990.

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CHAIRMAN'S STATEMENT

The past year has been one of unparalleled success for the United Kingdom Hydrographic Office.

Twelve months ago, we launched the Admiralty Vector Chart Service (AVCS), the world's first Official Digital Vector product offering world coverage. AVCS was welcomed onto the market by the Shipping Industry, the ECDIS (Electronic Chart Display and Information System) Original Equipment Manufacturers, our Distributors and the Shipping Press.

Within months of launch, we had signed new deals with Transas and Kelvin Hughes, both of them leading ECDIS OEMs, to incorporate AVCS as the default Digital Navigation data in their systems; a move which will ease the administrative burden on the mariner.

Throughout the past year, we have beaten all forecasts for AVCS first year performance in the marketplace. Several major shipping lines have placed orders for AVCS across their fleets, displacing the unofficial data they had been using as an aid to navigation; a signal that Official vector data has come of age.

Overall, our sales of digital products in the past year have grown by 35%. Digital sales now represent 10.4% of our overall business, double the level three years ago.

It has also been another record year for sales of paper charts and publications. Paper charts were up 5% by volume, and up 8.9% by value, while publications advanced by 24.1% by value.

The result is that our revenues exceeded £100m for the first time, with Net Profits of £7.6m.

These are all considerable achievements. The strategic push towards digital over the past few years is at last beginning to bear fruit both for our Defence Customer, and for our Commercial Customers, with further product innovation to come over the next year.

Meanwhile in paper, the strength of the Admiralty brand worldwide, and the quality of the Hydrographic skills at Taunton, continue to make Admiralty Charts the choice of the professional navigator world wide.

Alas, the tale of continued success for UKHO is set against the background of a world economic recession of great severity. Exports of products around the world have all been hard hit. During the autumn and winter, the shipping industry was feeling the full force of these falls. Ships were being laid up and scrapped in large numbers, new orders reduced to a trickle, and charter rates for ships fell to almost zero levels, as ship owners struggled just to keep their ships moving.

So far, this slump in world trade has not fed through to UKHO's mainstream business—at the time of writing this report, charts are still being ordered with no fall-off in volumes. If anything, the short term nature of much ship chartering is leading to quick delivery orders for unplanned voyages.

But we have to expect that a world recession of the depth and length for which this one is forecast, will impact on our business. We have drawn up a number of contingency plans to meet any recession-based fall-off in sales.

One early casualty of the recession has been our plans for a new UKHO head office on our Taunton site. The economics of this plan depended on a significant sale of surplus land for housing development. In the current environment, no such sale is feasible, and the new Head Office project has been postponed indefinitely. We are working on different ways to improve the working conditions of our Taunton headquarters.

The pace and volume of change that Mike Robinson and his highly skilled management team has brought to Taunton over the past two years has not been easy for anyone. Mike and I and the whole UKHO Board are conscious of the stresses and strains that these changes have caused to all of our workforce.

I should like to thank everyone at Taunton for their forbearance and dedication. Without them, the successes of the past year could not have happened.



A handwritten signature in black ink, appearing to read 'David Palmer'.

David Palmer
Chairman

FOREWORD BY THE CHIEF EXECUTIVE

Last year's launch of our flagship digital product, the Admiralty Vector Chart Service (AVCS), meant that this year we have concentrated on building on this achievement and strengthening our position in the digital market place. Whilst we remain focused on the digital future and providing value added services to the mariner, Defence remains our principal customer and we are both starting to see the benefits of the new contractual arrangements coming through. We continue to support the Maritime Coastguard Agency's (MCA) Safety Of Life At Sea (SOLAS) obligations and providing a range of navigational products and services.

AVCS has been a huge success in the market, and a year on we are now able to offer a more flexible service with value added features and significantly enhanced coverage.

Linked to the development of AVCS, at the start of the year we made a commitment to the Royal Navy that we would start to provide the same level of assurance with our digital products as we do with our paper products and I am pleased to report that last month we achieved this. In doing so we have completed the assessment of all Foreign Government Electronic Navigational Charts (FGENCs) and through the development of Admiralty Layers will soon be able to provide this same level of assurance to all mariners. We are on track to providing our customers with a more comprehensive set of digital products in during 2009.

Whilst continuing to fulfil our customers needs for paper products and make an impact on the digital marketplace, we were faced with a large 'unknown' in terms of the effect the global recession would have on our organisation. We have modelled several recession scenarios and included our most realistic estimates in our new 2009-2014 Corporate Plan. We believe our immediate prospects are strong, but we remain cautious looking forward. We are also taking action to ensure we are well placed for the upturn.

One negative effect of the current economic situation is that plans to rebuild the UKHO on its existing site and relocate our print and supply works to a more suitable premises have been indefinitely postponed. Unfortunately, this does have an adverse effect on the resizing work that has been progressing on target over the last year, although the reskilling element continues to be beneficial.

A critical regulatory step towards the mandation of digital charts was taken this year, when the International Maritime Organisation (IMO) approved the introduction of a mandatory carriage requirement for Electronic Chart Display and Information System (ECDIS). These were formally adopted on 29 May 2009, and proposed implementation dates will underpin our forecast uptake of digital products. This is a positive move for the UKHO as we aim to maintain our leading position in the navigational market.

One of the major achievements over the last year, and one of our major challenges over the next year is Operations Requirements and Resource Planning. We now have robust resource and planning controls in place to ensure we can deliver, monitor and manage our future production demands. These controls will greatly improve the reliability of our output and allow us to respond more effectively to changes in demand. The challenge remains however in developing the culture of the organisation to ensure planned efficiency improvements are realised. This will be a continued focus over the coming year and will require increased employee engagement.

It has been another successful year with regards to our Key Targets. The scope for Key Target 1 was widened in 08/09 to include digital charting products, and further refinements will be included in 09/10. There will also be changes made to Key Target 4 in 09/10 giving a wider measure of Organisational Excellence.

Financially, we have had a successful year. Highlights include turnover increasing by 14.8% to £108.3m, which has helped support our continuing investment in trainee compilers to meet planned future retirements. This gave us a profit on ordinary activities before interest and joint venture of £12.9m. A Net Profit of £7.6m was achieved after the provision for redundancy costs of £5.1m. A dividend of £4.4m has been provided.

I am delighted to welcome our new Minister, Mr Kevan Jones MP, and two new key individuals to my top team, Jenny Peart who joins us as the Head of Admiralty Nautical Products and Services (ANPS) and Ian Johnson who joins us as Chief Information Officer. With the addition to my top team and the ongoing commitment of our people, we will continue to pursue our commitment to safety and build on our success in the digital market.



A handwritten signature in black ink that reads "Mike Robison". The signature is written in a cursive, flowing style.

Mike Robison
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 for 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 paper charts and publications and the unrivalled coverage under the Admiralty brand. The Admiralty portfolio includes over 3,200 Standard Navigational Charts, over 150 Navigational Publications and a growing number of digital products and services which include the Admiralty Vector Chart Service, launched in April 2008 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, around the world. All of these organisations are key stakeholders of the organisation.

Whilst the UK Defence and merchant marine markets 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 single customer – receiving not only charts and publications but also a number of specialist services.

The UKHO also discharges the UK's Safety of Life at Sea (SOLAS) charting obligations on behalf of the MCA. It also provides 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 UKHO's commercial sales are principally made through independent distributors across the world, which service the merchant shipping market.

The regulatory and market environment

Aside from meeting the navigational needs of our prime user, the Royal Navy, 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 International Maritime Organisation (IMO) Safety of Life at Sea (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 merchant fleets with few exceptions. Official information is defined as that published by a government hydrographic office (such as the UKHO) or other relevant government institution.

The International Maritime Organisation has now approved the introduction of a mandatory carriage requirement for Electronic Chart Display and Information Systems. 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 counterpart.

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.

Strategies

The use of technology is increasingly integral to both core internal processes and our product offering and methods of delivery. The UKHO's digital vision articulates the detailed market assumptions, specifically in regard to future products and services and the supporting infrastructure requirements.

A significant facilitator of all future products will be the development of improved production systems. The Production Systems Delivery Programme continues to progress with the implementation of the integrated hydrographic database and associated production tools. In addition, successful implementation of process improvement initiatives will ensure effective and efficient operations.

The ongoing structural Transformation Programme (Project Amber) seeks to manage a reduction in overhead costs and to reshape the organisation to meet future business needs.

Through the delivery of Admiralty eNavigator, our new Back of Bridge and B2B infrastructure development, we will deliver our digital products of the future to the mariner in the most efficient and cost effective means technology has to offer.

The Site Strategy programme had hoped to deliver new headquarters and manufacturing facilities and was seen as an opportunity to revolutionise UKHO working practices, has had to be put on indefinite hold. Selling off spare land was key to the affordability of the project. The fall in the development value of this land no longer makes this project viable.

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 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 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 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 2008/09 one minor incident involving the disclosure of personal data on a UKHO web page was identified. The page was withdrawn immediately. An investigation found no evidence that any compromise of the information had arisen.

Resources

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.

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, supports the exploitation of data for non-navigational uses.

Development and performance in 2008/09; trends and factors

A Status Review, conducted in 2007 on behalf of the Owner, to establish the optimum structure and ownership arrangements, concluded that the UKHO should retain its current trading fund status, but focusing further on leveraging the benefits of strategic relationships with other organisations. A number of key relationships have already been forged allowing us access to skills and resources not held within the UKHO.

During 2008/09, the value of sales of paper charts and publications continued to grow resulting in increases of 8.9% and 24.1% respectively, compared to the previous year. Digital product sales have increased by 35%.

The UKHO is moving apace to establish a strong position in the digital market through the launch of the Admiralty Vector Chart Service; providing the same level of assurance with our digital products as we currently do with our paper products, the development of various "value added" products, services and supporting infrastructure, and the full implementation of the Production Systems Delivery Programme.

Work continues to safeguard data sources and to assess foreign government ENC data. Progress continues to be made with the signing of new agreements with other hydrographic offices for the wider use of their data.

Financial Performance

Turnover increased in year by 14.8% to £108,309k. The growth in UKHO sales continued to be mostly generated from commercial customers, a rise of £12,694k to £90,924k. Sales to the MoD were up £590k to £12,413k. MoD sales as a percentage of total UKHO turnover represented 12.0% of the annual turnover.

Expenditure in 2008/09, excluding depreciation and the impairment of goodwill was £86,755k, an increase of 6.1% compared with 2007/08. Whilst average staff numbers decreased, the proportion of agency staff employed increased by 10. This was the primary reason for the increase of £2,312k compared to the previous year. R&D expenditure increased by 50% over 2007/08 totalling £6,899k, principally due to work on the Admiralty Data Service and the HDB and CPT Programmes. The balance of extra costs was mainly due to increased direct cost of sales.

Operating cashflow generated in 2008/09 was £19,212k, an increase of £2,660k compared with 2007/08. Debtors at the year end of £22,859k compares with £18,370k in the previous year. Creditors and accruals were 13.1% higher compared with 2007/08. Capital expenditure in 2008/09 was £7,236k, £1,397K above that of 2007/08.

Cash balances and short-term investments totalled £34,885k at the end of March 2009, an increase of £7,133k. 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 2008/09 by £4,526k to £59,519k.

During the year AHL's investment in Admiralty Deutschland GmbH has been impaired and the remaining balance amortised. Changes in circumstances including the negative impact of a deep recession on the shipping industry and the business starting to make a loss meant that the investment was impaired by £3,799k.

Dividends and capital

Dividends have been paid to the MoD every year since 1998/99 and in the current year a further £4,633k is provided.

KEY PERFORMANCE TARGETS

RESULTS 2008/09

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		2008/09	2007/08
Safety Index	Target	95.0	95.0
	Actual	99.5	99.2

The Safety Index indicates the timeliness and quality of the process for identifying navigational 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 99.5, which demonstrates consistency of performance compared to the previous year.

Key target 2

To achieve an Index rating of 95 or higher for the Defence Programme and to establish a Customer Supplier Agreement and Service Delivery Annexes by 31 March 2009, with the assistance of the Defence customer.

Status: Achieved

Performance		2008/09	2007/08
Index rating	Target	95.0	95.0
	Actual	99.2	97.7

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.

This year saw the successful introduction of the new Customer Supplier Agreement with MoD which was aimed at providing a more output orientated focus and increased transparency and efficiency in the relationship with the Defence customer.

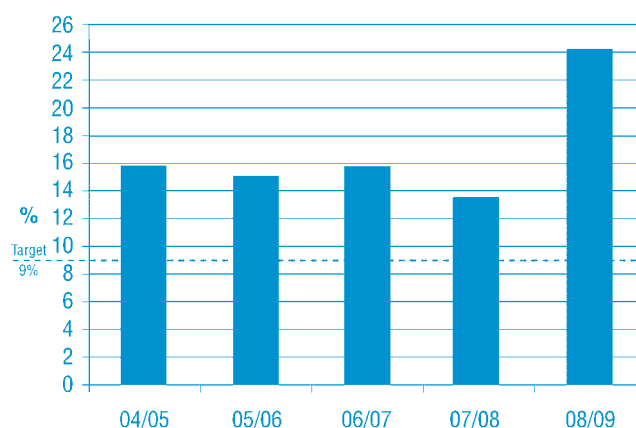
Key target 3

To achieve a Return on Capital Employed of 9% on a 3 year rolling basis ending 2008/09.

Status: Achieved

Performance:

Return on Capital Employed



The in-year Return on Capital Employed was 24.1%; this is before exceptional items. The 3-year rolling average of 17.8% was above the target of 9%.

Key target 4

To achieve an overall efficiency performance improvement of 3% year on year.

Status: Achieved

Performance:		2008/09
Efficiency	Target	103.4
	Actual	110.1

Efficiency, for the purpose of this target, is a measure of total revenue (removing any product price rises) in year, per the average number of personnel. The percentage improvement year-on-year represents the measure of efficiency improvement. The performance this year was 110.6, compared to 100.4 in 2007/08.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ON THE UKHO'S STATEMENT OF PERFORMANCE AGAINST 2008/09 KEY PERFORMANCE TARGETS

The Chief Executive has asked me to validate the UK Hydrographic Office's performance against the 2008-09 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 2008-09 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 C E Morse
Comptroller and
Auditor General
5 June 2009

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London SW1W 9SS

KEY PERFORMANCE TARGETS FOR 2009/10

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 to make the measure more sensitive to weekly performance changes.

Key target 2 – Defence

To deliver the Defence Programme achieving an index rating of 95 or higher whilst transitioning to a multi-year Service Definition Annex incorporating incentivised pricing.

Change from prior year to reflect the rationalisation of the Service Definition Annex.

Key target 3 – Finance

To achieve a Return on Capital Employed of 9% on a 3 year rolling basis.

Change from prior year. Unchanged and will continue to be based on Operating Net Profit.

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. Totally new target; previous year was a single measure of efficiency which is considered too narrow a measure of Organisational Excellence.

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 18th December 2008 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 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 these subsidiaries.

Under the guidance provided in Financial Reporting Standard No 2: Accounting for Subsidiary Undertakings, 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 and day-to-day operations 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 loan 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 debtors, trade creditors 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. £3.8 m was impaired in year and the remaining balance was amortised. 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.

During the year, membership of the UKHO Board was increased by the appointment of an additional executive director experienced in Information Technology and its application to business change.

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

Derek Twigg MP – Chairman

Parliamentary Under Secretary of State for Defence and Minister for Veterans
(to 5 Oct 2008)

Kevan Jones MP - Chairman

Parliamentary Under Secretary of State for Defence and Minister for Veterans
(from 6 Oct 2008)

David Palmer CBE

Chairman of the UKHO Board

Mike Robinson

Chief Executive

Trevor Woolley

MoD Finance Director
(to 11 Jan 2009)

Jon Thompson

MoD Finance Director
(from 12 Jan 2009)

Huw Walters

MoD BSG
(to 25 Mar 2009)

Vice Admiral R P Boissier CB

Deputy Commander in Chief Fleet

Major General John Rose, MBE

Assistant Chief of Defence Staff (Intelligence Capability)
(to 27 Mar 2009)

Major General Jerry Thomas

Assistant Chief of Defence Staff (Intelligence Capability)
(from 28 Mar 2009)

Peter Shortt

Director, Shareholder Executive

Paul Jackson

Director Maritime and Coastguard Agency
(to 18 Jul 2008)

Peter Cardy

Chief Executive Maritime and Coastguard Agency
(from 19 Jul 2008)

Michael Everard CBE

External Advisor
Business/Shipping

UKHO Board

David Palmer CBE

Chairman

Mike Robinson

Chief Executive

Barry Wootton

Non-Executive Director

Sandra Rogers

Non-Executive Director

Philip Langsdale

Non-Executive Director

Captain Bob Stewart RN

Captain HM and Hydrographer of the Navy
Non-Executive Director

Rear Admiral Ian Moncrieff

UKHO National Hydrographer and
Deputy Chief Executive – Hydrography

Michael Cauter

Chief Operating Officer and
Deputy Chief Executive - Corporate

David Loosley

Head of Operations and Production

Richard Brooks

Head of Transformation, Change and Human Resources

John Humphrey

Head of Sales, Marketing & Customer Services
(to 30 Apr 2008)

Jennifer Peart

Head of Admiralty Nautical Products and Services
(Interim appointed from 5 Jan 2009;
permanent from 27 Jan 2009)

Huw Walters

MoD DBD
(to 25 Mar 2009)

Ian Johnson

Chief Information Officer
(from 1 Jul 2008)

In attendance:

Jennifer Peart

Interim Product Development Manager
(attended from 26 Jun 2008 to 4 Jan 2009)

Philippa Childs

Trade Union Representative

UKHO Board Participation as Directors of AHL and Subsidiaries

AHL **David Palmer CBE**, Chairman

Mike Robinson

Barry Wootton

Sandra Rogers

Captain Bob Stewart RN

Rear Admiral Ian Moncrieff

Michael Cauter

Philip Langsdale

David Loosley

John Humphrey
(to 12 May 2008)

Huw Walters
MoD BSG
(to 25 Mar 2009)

Richard Brooks

Ian Johnson
(from 1 July 2008)

SeaZone **Barry Wootton**

John Humphrey
(to 2 May 2008)

Michael Cauter is Company Secretary.

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.

International Financial Reporting Standards

The 2007 Budget announced that; from 2008/09 the accounts of central government departments and entities in the wider public sector were to be produced using International reporting standards (IFRS). Firm plans had been established by the UKHO to meet the requirement. The subsequent announcement in the 2008 Budget that the implementation had been deferred to 2009/10 means that the UKHO is well placed to effect the change.

Audit Committee

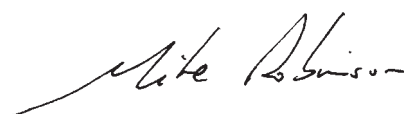
The Audit Committee provides the Chief Executive with guidance and independent assurance on the effectiveness of the system of internal control. Meeting four times a year, its membership consists of the three non-executive directors, one of whom chairs the committee, and other senior executives depending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

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, £4k for validation of key targets and £5k for International Financial Reporting Standard (IFRS) work. 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

2 June 2009

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 Causer 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. He is employed on an initial three year fixed-term contract with the option for this to be extended by mutual agreement.

John Humphrey, was appointed as Head of Sales, Marketing and Customer Service on 2 July 2007 and resigned on 30 April 2008 following which he was appointed as Managing Director of SevenCs group.

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 with the option for this to be extended by mutual agreement.

Ian Johnson was appointed to the post of Chief Information Officer on 1 July 2008. He is employed on an initial five year fixed-term contract with the option for this to be extended by mutual agreement.

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 annual increases for these special appointments is centrally determined by the Office of Public Service.

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

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. 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.

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 2008/09, performance-related pay amounted to just over 3.8% of salary (3.8% in 2007/08). 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 on the basis of 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.

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 UKHO Board on remuneration and reward for the Board itself, the Executive Directors and the next most senior UKHO staff. The Committee comprises;

Sandra Rogers

Chair (to 25 June 2008)
Non executive director

Barry Wootton

Chair (from 26 June 2008)
Non executive director

Huw Walters

MoD BSG
(to 25 Mar 2009)

Invited UKHO attendees

Richard Brooks – Head of Transformation Change and HR
Ellen Davis – Change and 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. In the case of members of the Senior Civil Service, the committee recommends the basis of any awards to the appropriate Reporting Officers to provide consistency with other UKHO Board members.

For the selected staff, the committee will:

- recommend the regular review 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	2008-09 Salary Band £K	2008-09 Benefits in Kind (to the nearest £100)**	2007-08 Salary Band £K	2007-08 Benefits in Kind (to the nearest £100)**
Mike Robinson	1	250 – 255	£4,300	210 – 215	£11,700
Michael Cauter (from 25 Jun 2007)	2	145 – 150	£600	120 – 125	£700
Rear Admiral Ian Moncrieff	3	95 – 100	£600	95 – 100	£800
David Loosley (from 16 Apr 2007)	4	120 – 125	£800	95 – 100 (95 - 100*)	£1,500
Richard Brooks (from 12 Nov 2007)		75 – 80	-	25 – 30 (65 - 70*)	£200
John Humphrey (to 30 Apr 2008)	5	20 – 25 (95 - 100*)	-	70 – 75 (95 - 100*)	£11,900
Ian Johnson (from 1 Jul 2008)	6	85 – 90 (110 - 115*)	£200	-	-
Jennifer Peart (from 29 Jan 2009)	7	40 – 45 (215 - 220*)	-	-	-

* denotes full time equivalent

** Figures represent gross taxable values. Tax liability met by the UKHO.

Notes

1. The 2008/09 salary total for Mike Robinson includes payment of his bonus for 2007/08. 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. However, as a new extended contract was agreed during 2007/08 payment of the accumulated balances from 2006/07 and full bonus for 2007/08 became payable. The same bonus arrangements apply to the new contract. Benefits in kind primarily reflect payments for the provision of temporary accommodation in Taunton and weekend travel home. Originally, payments were categorised as part of a tax approved relocation package provided on appointment. During 2008/09 these payments became taxable retrospectively due to a change in personal circumstances and disclosure is provided accordingly. Meals provided in the pursuance of official business activities are also reflected.
2. The 2008/09 salary total for Michael Cauter includes payment of his bonus for 2007/08. A sum up to 25% of annual salary was contractually payable subject to meeting required performance targets. This increased to 30% for 2008/09. Benefits in kind primarily reflect the cost of meals provided in the pursuance of official business activities.
3. Rear Admiral Moncrieff 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. Benefits in kind primarily reflect the cost of meals and local transport provided in the pursuance of official business activities.
4. The 2008/09 salary total for David Loosley includes payment of his bonus for 2007/08. A sum up to 20% of annual salary is contractually payable subject to meeting required performance targets. Benefits in kind primarily reflect the cost of meals and local hotel accommodation provided in the pursuance of official business activities.
5. John Humphrey resigned on 30 April 2008. The 2008/09 salary total includes payment of his bonus for 2007/08. Benefits in Kind primarily reflect payments for the provision of temporary accommodation in Taunton and weekend travel home. Payment was made as part of a tax approved relocation package provided on appointment. Owing to the short period of service relocation was not effected resulting in all payments becoming taxable retrospectively.

6. Neither the actual nor the equivalent annual salary for Ian Johnson include any provision for bonus. A sum up to 30% of annual salary is contractually payable for 2008/09 (pro rate) subject to meeting required performance targets. Benefits in kind primarily reflect the cost of meals and local hotel accommodation provided in the pursuance of official business activities.
7. Jennifer Peart was employed on a contract for services until 31 March 2009 and formally joined the Board as Head of Admiralty Nautical Products and Services at their meeting of 29 January 2009. She became a permanent member of staff from 1 April 2009. As she was paid on a daily basis the equivalent annual salary calculation has been assessed on an assumed net days worked per annum of 220. This is considered to provide a more accurate estimation of her equivalent annual rate. From 1 April 2009 her basic annual salary is in the range £110 -£115K. 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.

Pension Benefits

(This section has been subject to audit)

	Accrued benefits*		Real increase in benefits		CETV at 31/03/09	CETV at 31/03/08 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
Mike Robinson	5-10	Note c	0-2.5	Note c	68	40	19
Michael Cauter	0-5 Note b	Note c	0-2.5 Note b	Note c	35	14	15
David Loosley	0-5 Note b	Note c	0-2.5 Note b	Note c	35	16	13
Richard Brooks	25-30	70-80	(0-2.5)	(0-2.5)	370	343	-5
John Humphrey (to 30 April 2008)	0-5 Note b	Note c	0-2.5 Note b	Note c	23	20	14
Ian Johnson (from 1 Jul 2008)	5-10 Note b	Note c	7.5-10 Note b	Note c	103	0	100

* as at 31st March 2009

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

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 2009 were as follows:

- a. David Palmer CBE was appointed Chairman of the Hydrographic Board on a three-year contract commencing 6 June 2005. This has been extended for a further three years from 6 June 2008.

- b. 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.
- c. Sandra Rogers was originally appointed 8 August 2002, she was reappointed on a three-year contract commencing 15 July 2005. This has been subsequently extended to 9 July 2010.
- d. Philip Langsdale was appointed on a three year contract commencing 11 July 2007.
- e. 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.

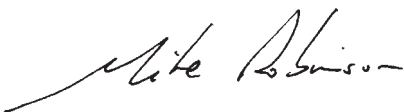
Fees paid to non-executive directors were as follows:

	Notes	2008-09 £K	2007-08 £K	Partnership Pension £K
David Palmer CBE		35-40	35-40	-
Sandra Rogers	1	15-20	15-20	3.1
Barry Wootton		15-20	15-20	-
Philip Langsdale		15-20	10-15 (15-20*)	-
Captain Bob Stewart RN	2	-	-	-

* denotes full time equivalent

Notes

1. In this instance, UKHO contributes to a partnership pension by the amount shown. This is in addition to the fees paid.
2. Captain Bob Stewart RN is a serving Royal Navy Officer. His appointment is made in conjunction with his responsibilities as Hydrographer of the Navy. He is not entitled to receive separate remuneration in undertaking these duties.



Mike Robinson
Chief Executive
2 June 2009

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 on my appointment by HM Treasury.

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 2009 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 Group Executive Board, and their senior managers provide written assurance at the end of the year 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.

All employees have on-line access to guidance in the identification and mitigation of risk.

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, 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 Group Executive Board undertakes monthly reviews based on total financial performance against budgets and forecasts. 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 ISO9001:2000 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.

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.

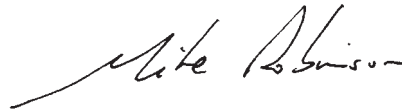
Review of effectiveness

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 to provide assurance to Permanent Under-Secretary of State (PUS) that adequate audit arrangements, compliant with Government Internal Audit Standards, are in place.

Internal Audit for 2008/09 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 are reported to, and monitored by, the Executive Committee and are reviewed periodically by the Audit Committee and the UKHO Board.



Mike Robinson

Accounting Officer and Chief Executive
2 June 2009

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 2009, 94.7% of undisputed invoices were paid with the revised target. Performance against the previous target of 30 days for the whole year was 98.8% (2007/08 – 98.9%) of undisputed invoices that were paid within the stipulated timeframe. 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 2008/09 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 also provides a vehicle for rapid and accessible communication. The latter 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. 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. In 2008 over 70% of office waste was sent for recycling (up from 50% in 2007) and over 90% of Production Waste was recycled. In June 2008, to co-incide with World Environment Day, the UKHO held a week of Environmental events and activities designed to raise awareness among staff about sustainability issues at work and at home, including partnering with the Somerset County Gazette in a re-usable bag promotion. In June 2009 to commemorate World Environment Day two copses of 10 trees each will be planted on the UKHO site. The UKHO continues to encourage cycling to work, providing regular bicycle servicing sessions at no cost to staff, and operates an employee purchase bicycle scheme. Car sharing will continue to be encouraged. 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, 2008 seeing in excess of £9,000 being raised for St Margaret's Somerset Hospice. The UKHO charity for 2009 is Open Door which supports homeless and vulnerable people in the Taunton area.

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 18th December 2008. 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 the Accounting Officer for the Hydrographic Office Trading Fund. The responsibilities of an Accounting Officer, including responsibility for propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping of 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 for the year ended 31 March 2009 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses 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, the Chief Executive and auditor

The UK Hydrographic Office and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Responsibilities of the Chief Executive and the UK Hydrographic Office.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the “Management Commentary”; “Governance and Structure” and the “Remuneration Report”, included in the Annual Report, is consistent with the financial statements. I also report whether, 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.

In addition, I report to you if the UK Hydrographic Office has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the UK Hydrographic Office’s compliance with HM Treasury’s guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the UK Hydrographic Office’s corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the “Management Commentary”; “Governance and Structure” and the “Remuneration Report” and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the UK Hydrographic Office and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the UK Hydrographic office’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the UK Hydrographic Office's affairs as at 31 March 2009 and of its profit, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information, which comprises the "Management Commentary"; "Governance and Structure" and the "Remuneration Report", included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and
Auditor General
5 June 2009

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

The maintenance and integrity of the UKHO's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

**THE ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2009**

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

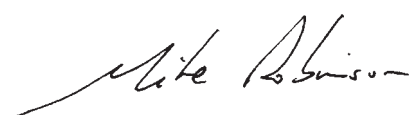
	Note	2008/09 £K	2007/08 £K
Turnover:			
Group and share of joint venture	3	108,309	94,322
Less: share of joint venture turnover		<u>0</u>	(27)
Group turnover		108,309	94,295
Change in stocks of finished goods and WIP		126	21
Materials and other external charges		(5,936)	(6,156)
Staff costs	2	(48,331)	(46,019)
Depreciation and impairment	4a	(5,081)	(4,597)
Goodwill Impairment	4a & 24	(3,799)	0
Other operating charges	4b	(32,398)	(29,577)
Profit on ordinary activities before interest and joint venture	4	12,890	7,967
Trading Fund Rationalisation	5	(5,124)	(7,927)
Profit on ordinary activities before interest and joint venture after exceptionals		7,766	40
Share of operating loss in joint ventures			(91)
Interest receivable and similar income (Group)	6	1,145	1,484
Interest payable and similar charges:	7		
Group		<u>(1,272)</u>	
		(1,272)	(906)
Profit on ordinary activity before tax		7,639	527
Taxation	8	(28)	0
Net Profit		7,611	527
Dividend		(4,363)	(7,854)
Retained profit/(loss) for the financial year		3,248	(7,327)

The notes on pages 34 to 51 form part of these accounts.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2009

	Note	31 March 2009 £K	31 March 2008 £K
Fixed Assets			
Intangible Assets	9a	8,031	6,041
Tangible Assets	9b	36,307	39,061
		44,338	45,102
Investments in joint venture:			
Loans	10	0	0
		0	0
Current Assets			
Stock	11	2,027	1,871
Debtors	12	22,859	18,370
National Loans Fund		33,100	25,600
Cash in hand		1,785	2,152
		59,771	47,993
Current Liabilities			
Creditors amount falling due within one year	13	(32,468)	(28,714)
Net current assets		27,303	19,279
Total assets less current liabilities		71,641	64,381
Provisions for liabilities and charges	14	(14,859)	(11,904)
Net Assets		56,782	52,477
Financed by:			
Trading Fund			
Public dividend capital		13,267	13,267
Long term loans	15	9,727	10,184
Revaluation reserve	16	14,082	13,560
Profit and loss account	16	22,443	17,982
Total government funding	22	59,519	54,993
Admiralty Holdings Limited Profit and loss account	16	(2,737)	(2,516)
Total Funding		56,782	52,477

The notes on pages 34 to 51 form part of these accounts.

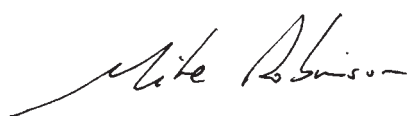


Mike Robinson
Chief Executive
2 June 2009

TRADING FUND BALANCE SHEET AS AT 31 MARCH 2009

	Note	31 March 2009 £K	31 March 2008 £K
Fixed Assets			
Intangible Assets	9a	7,929	1,832
Tangible Assets	9b	<u>36,142</u>	38,917
		44,071	40,749
Investment	10	3,039	7,114
Current Assets			
Stock	11	2,027	1,871
Debtors	12	21,872	17,721
National Loans Fund		33,100	25,600
Cash in hand		<u>415</u>	431
		57,414	45,623
Current Liabilities			
Creditors amount falling due within one year	13	(30,146)	(26,589)
Net current assets		27,268	19,034
Total assets less current liabilities		74,378	66,897
Provisions for liabilities and charges	14	(14,859)	(11,904)
Net Assets		59,519	54,993
Financed by:			
Public dividend capital		13,267	13,267
Long term loans	15	9,727	10,184
Revaluation reserve	16	14,082	13,560
Profit and loss account	16	22,443	17,982
Total government funding	22	59,519	54,993

The notes on pages 34 to 51 form part of these accounts.



Mike Robinson
Chief Executive
2 June 2009

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2009

		2008/09 £K	2007/08 £K
		Operations	Operations
Profit for the financial year (note a)		11,438	527
Goodwill Impairment	24	(3,799)	
Unrealised current cost revaluation surplus		1,011	1,660
Prior Year Adjustment			937
Royalty adjustment (note b)		502	
Total recognised gains and losses recognised since last annual report		9,152	3,124

(a) The figures may differ from 2007-08 accounts, this is due to changes in reporting from £m to £k (see note 1-accounting policies)

(b) The royalty adjustment relates to accruals that are now not going to result in an obligation to pay.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009

	Note	2008/09 £K	2007/08 £K
Net cash inflow from operating activities	19	19,212	16,552
Investments		0	0
Returns on investments and servicing of finance			
Interest received		1,312	1,363
Interest paid	7a	(876)	(880)
Dividend paid on public dividend capital		(4,854)	(7,906)
		(4,418)	(7,423)
Capital Expenditure			
Payments to acquire tangible fixed assets		(7,204)	(5,839)
Purchase of subsidiary Undertakings		0	(26)
Receipts from Sales of Joint venture		0	150
Receipts from sales of tangible fixed assets		0	5
		(7,204)	(5,710)
Net cash inflow before use of liquid resources and financing		7,590	3,419
Management of liquid resources			
Increase in short term deposits		(7,500)	(3,000)
Financing			
Repayment of long term loan		(457)	(421)
(Decrease) in cash and bank balance		(367)	(2)

The notes on pages 34 to 51 form part of these accounts.

1. ACCOUNTING POLICIES

A. Basis of Accounting

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 18th December 2008, pursuant to section 4(6) of the Government Trading Funds Act 1973. They follow the accruals concept of accounting and the historical cost convention, modified to include revaluation of Fixed Assets as set out in Note E below. They comply with the accounting and disclosure requirements of the Companies Act 1985, generally accepted accounting practice in the United Kingdom (UK GAAP), accounting standards issued by the Accounting Standards Board, and HM Treasury guidance, insofar as they are appropriate.

Under the guidance provided in Financial Reporting Standard FRS 2 - Accounting for Subsidiary Undertakings, the UKHO is preparing consolidated accounts on the basis that it 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.

From 2008-09, all statements are now shown to £k as opposed to £m.

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. Turnover

Turnover 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 3). Exceptionally, they may be accrued where work is complete and there is certainty of future payment. They are not analysed by market segment because UKHO is broadly a unitary business providing navigational products to a single market segment.

D. Provision for Sales Credits

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

E. Fixed Assets Valuation

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 useful lives of between 2 and 5 years.

Goodwill

External goodwill is determined following a fair value assessment of net assets acquired on the acquisition of a business. Amortisation is provided over the estimated useful economic life. Impairment reviews are performed at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable. Goodwill is currently being amortised over 15 years.

Tangible Assets

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 of £4,464k and of buildings of £3,747k. 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 by the full £4,464k. 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 tangible and intangible assets are capitalised by the UKHO at cost where the value of discrete items exceeds £1,000 excluding VAT. 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 whilst SeaZone applies a general threshold of £500.

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. Stocks and Work in Progress

Raw material stock is valued at the lower of cost or net current replacement cost. Finished goods stock 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 stocks.

H. Hydrographic Database

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 are of limited value to the UKHO.

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

I. 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.

J. 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.

K. Insurance

UKHO carries commercial insurance for professional indemnity in line with HM Treasury guidelines which allows for this if cost effective. It carries its own risks in respect of damage to buildings and their contents, business interruption, employers' liability, public liability etc. 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.

L. 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 SSAP 13 "Accounting for Research and Development" 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.

M. Foreign Currencies

Assets and liabilities denominated in a foreign currency are translated at the rate(s) of exchange ruling at the balance sheet date. Transactions are recorded at the rate(s) ruling at the time of the transaction. Exchange differences are taken to the Income and Expenditure account. Assets, liabilities, and results of overseas subsidiaries are translated at the rate(s) ruling at the balance sheet date. Exchange differences arising are dealt with through reserves.

N. Investments

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

O. 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.

P. Treatment of Operating 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.

Q. Treasury Discount Rate

The Treasury discount rate of 2.2% has been used in calculating any discounted figures.

R. Liquid Resources

For the purposes of the Cash Flow Statement, all amounts deposited with the National Loans Fund have been treated as liquid resources in line with FRS 1 "Cash Flow Statements".

S. Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date 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 balance sheet date. 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 balance sheet date, 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 balance sheet date. Deferred tax is measured on a non-discounted basis.

T. Treatment of Finance Leases as a Lessor

The UKHO is participating in the Home Computer Initiative which is a salary sacrifice scheme through which employees are provided with equipment for personal home use. The cycle purchase scheme is similar to a salary sacrifice scheme. The equipment has been 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 Balance Sheet "Current Assets – Debtors" 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 and Expenditure Account.

U. Financial Instruments

This is the first year that the UKHO has accounted for financial instruments, implementing FRS 25, 26 and 29.

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 debtors, including trade and VAT debtors, staff loans and advances are classified as Loans and Receivables and are initially recognised at fair value (plus/net of transaction cost) and subsequently at amortised cost. Discounting is relevant to those debtors and loans which carry no rate of interest or a subsidised rate. However, the UKHO's debtors 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 the current year for the investment in SevenCs.

Trade and other payables

Liabilities covering trade creditors, accruals, VAT, tax, PFI creditors and loans are classified as other liabilities and are initially recognised at fair value (plus/net of transaction cost) 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. STAFF COSTS AND NUMBERS

Staff Numbers

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

	2008/09	2007/08
Operations	443	558
Print and supply	131	132
Marketing	58	50
Support	404	315
Sub total UKHO	1036	1055
SeaZone	20	10
SevenCs	51	46
	1107	1111
Civil Servants	979	1007
Agency Staff	52	42
Service Personnel	5	6
Subsidiaries	71	56
	1107	1111

Salary

Total employee costs for the year were as follows:

	2008/09	2007/08
	£K	£K
Salaries, wages etc.	33,946	34,002
Social security costs	2,814	2,472
Pension costs	5,774	5,778
Agency staff costs	5,101	3,047
Service personnel costs	696	720
	48,331	46,019

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 2008/09, the applicable pension rates were as follows:

Scheme and Annual Salary Bands to which rates apply	%
PCSPS - Band 1 - £19,500 and under	17.1
PCSPS - Band 2 - £19,501 to £40,500	19.5
PCSPS - Band 3 - £40,501 to £69,000	23.2
PCSPS - Band 4 - £69,001 and over	25.5

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 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2008-09, employers' contributions of £5,745k were payable to the PCSPS (2007/08 £5,765k) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%.

The contribution rates are set to meet the cost of the benefits accruing during 2008/09 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 £27.3k 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 £2.1k, 0.8 per cent 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 balance sheet date were £2.8k. There were no prepaid contributions at that date.

There has been one early retirement on ill health grounds; the total additional accrued pension liability in the year amounted to £2,474 (£1,169 for 2007/08).

3. TURNOVER ANALYSIS

	2008/09	2007/08
	£K	£K
Sales to the Ministry of Defence	12,413	11,823
Commercial sales	90,904	78,230
AHL	21	
SeaZone	850	794
SevenCs	4,121	3,448
Share of JV turnover (note a)	-	27
Total turnover	108,309	94,322

The UKHO is principally a unitary business and for the most part serves a single market segment. Further segmentation analysis would therefore require arbitrary apportionment of costs and could potentially be misleading.

- a. Admiralty Holdings Ltd sold its share in the joint venture, Admiralty Coastal Surveys AB on 30 May 2007.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

Profit on ordinary activities before interest and Joint Venture of £12,890k (2007/08 - £7,967k) is stated after charging:

		31 March 2009	31 March 2008
		£K	£K
Depreciation/amortisation - owned assets	4a	5,019	4,566
Loss on disposal of fixed assets	4a	62	31
Impairment adjustments (note a)	24	3,799	0
		8,880	4,597
Operating leases: Office machinery (note b)		19	10
Professional fees		3,078	3,418
Research and development		6,899	4,598
External Auditor's remuneration (note c)		136	99
Travel, training and entertainment expenses		3,600	3,277
Materials and services		3,135	5,087
Utilities and other estates operating costs		3,955	3,631
Computing and office machines		3,685	3,424
Royalties payable		7,891	6,033
	4b	32,398	29,577

- a. The Impairment relates to the impairment of the Goodwill acquired on the acquisition of SevenCs.

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
Vehicles	10	10	0
Photocopiers	11	11	0
Water Coolers	8	0	0
	29	21	0

c. Auditor's remuneration includes fees for both UKHO and AHL companies of which the total for UKHO levied by the NAO is £83k which includes £4k for audit of the Key Targets (£83k 2007/08). A further £5k was incurred in respect of NAO professional fees in relation to UKHO IFRS preparations.

5. 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 a net reduction in posts over a five year period commencing 2007/08. Between 200 and 250 departures are expected to be on severance terms e.g. early retirement or redundancy or natural turnover. A provision of £5,124K has been included for the second tranche of posts identified as savings. The provision has been discounted at 2.2%.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

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

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Note	31 March 2009 £K	31 March 2008 £K
a) Interest paid to the MoD in respect of the long-term loan		876	880
b) Unwinding of the discount and movement on provision for early retirements and rationalisation	14	396	26
		1,272	906

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

8. 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 and its subsidiaries 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.

9A INTANGIBLE FIXED ASSETS

Consolidated	Note	Software Licences	Goodwill SeaZone	Goodwill SevenCs	Total
Cost or Valuation:		£K	£K	£K	£K
At 1 April 2008		7,209	8	4,837	12,054
Additions		7,307	0	0	7,307
Reclassification		(30)	0	0	(30)
Disposals		1	0	0	1
Impairment	24	0	0	(3,799)	(3,799)
At 31 March 2009		14,487	8	1,038	15,533
Amortisation:					
At 1 April 2008		5,291	8	714	6,013
Charged		1,166	0	324	1,490
Reclassification		(1)	0	0	(1)
At 31 March 2009		6,456	8	1,038	7,502
Net Book Value:					
At 31 March 2009		8,031	0	0	8,031
At 31 March 2008		1,918	0	4,123	6,041

Trading Fund	Software Licences	Total
Cost or Valuation:	£K	£K
At 1 April 2008	7,044	7,044
Additions	7,234	7,234
Reclassification	(30)	(30)
Disposals	1	1
At 31 March 2009	14,249	14,249
Amortisation:		
At 1 April 2008	5,212	5,212
Charged	1,109	1,109
Reclassification	(1)	(1)
At 31 March 2009	6,320	6,320
Net Book Value:		
At 31 March 2009	7,929	7,929
At 31 March 2008	1,832	1,832

9B TANGIBLE FIXED ASSETS

Consolidated	Freehold Land and Buildings	Plant and Equipment	Furniture	Information Technology	Assets under Construction	Total
Cost or Valuation:	£K	£K	£K	£K	£K	£K
At 1 April 2008	32,855	7,474	1,402	7,669	4,840	54,240
Additions	0	92	34	908	(1,238)	(204)
Reclassification	0	0	0	30	0	30
Disposals	0	(124)	(159)	(116)	0	(399)
Revaluation	1,081	(70)	0	0	0	(1,011)
At 31 March 2009	33,936	7,372	1,277	8,491	3,602	54,678

Depreciation:

At 1 April 2008	6,336	2,898	682	5,263	0	15,179
Charged	916	1,213	222	1,178	0	3,529
Reclassification	0	0	0	1	0	1
Disposals	0	(87)	(159)	(92)	0	(338)
At 31 March 2009	7,252	4,024	745	6,350	0	18,371

Net Book Value:

At 31 March 2009	26,684	3,348	532	2,141	3,602	36,307
At 31 March 2008	26,519	4,576	720	2,406	4,840	39,061

Trading Fund	Freehold Land and Buildings	Plant and Equipment	Furniture	Information Technology	Assets under Construction	Total
Cost or Valuation:	£K	£K	£K	£K	£K	£K
At 1 April 2008	32,855	7,474	1,401	7,278	4,840	53,848
Additions	0	92	33	773	(1,238)	(340)
Reclassification	0	0	0	30	0	30
Disposals	0	(124)	(159)	(77)	0	(360)
Revaluation	1,081	(70)	0	0	0	1,011
At 31 March 2009	33,936	7,372	1,275	8,004	3,602	54,189

Depreciation:

At 1 April 2008	6,336	2,898	681	5,016	0	14,931
Charged	916	1,213	221	1,064	0	3,414
Reclassification	0	0	0	1	0	1
Disposals	0	(87)	(159)	(53)	0	(299)
At 31 March 2009	7,252	4,024	743	6,028	0	18,047

Net Book Value:

At 31 March 2009	26,684	3,348	532	1,976	3,602	36,142
At 31 March 2008	26,519	4,576	720	2,262	4,840	38,917

10. INVESTMENTS

	Consolidated	Trading Fund
		(Note a)
	£K	£K
Analysis of Loans		
1 April 2008	0	7,114
Movement in year	0	(4,075)
Net Book Value 31 March 2009	0	3,039

- 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. The UKHO has made an impairment against its investment in AHL of £4,075k. This is a consequential adjustment following the impairment of goodwill arising from AHL's shareholding in Admiralty Deutschland GmbH. This leaves a value in use of £1,000k in the UKHO's accounts.

Holdings of more than 20%

UKHO prepares consolidated accounts under the guidance provided in FRS 2: Accounting for Subsidiary Undertakings. 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	%		
Subsidiary undertakings					
Admiralty Holdings Ltd	England	Ordinary	100	1273	(255)
Admiralty Deutschland GmbH	Germany	Ordinary	100	2572	(5,107)
SeaZone Solutions Limited	England	Ordinary 'A'	100	(424)	(14)
		Ordinary 'B'	100		
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	-

AHL sold its 49% share in Admiralty Coastal Surveys, AB, a non-core joint venture business, on 30 May 2007.

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

11. STOCK

	31 March 2009	31 March 2009	31 March 2008	31 March 2008
	Consolidated	Trading Fund	Consolidated	Trading Fund
	£K	£K	£K	£K
Materials	482	482	454	454
Work in Progress	138	138	100	100
Finished stocks	1,407	1,407	1,317	1,317
	2,027	2,027	1,871	1,871

12. DEBTORS

	31 March 2009	31 March 2009	31 March 2008	31 March 2008
	Consolidated	Trading Fund	Consolidated	Trading Fund
	£K	£K	£K	£K
<i>Falling due within one year</i>				
Trade Debtors	18,121	17,362	14,571	14,001
Other Debtors	587	480	712	751
Prepayments & Accrued Income	4,135	4,014	3,006	2,888
Net Investments & Finance Leases	14	14	81	81
	22,857	21,870	18,370	17,721

Falling due after more than one year

Net Investments & Finance Leases	2	2	0	0
	2	2	0	0
	22,859	21,872	18,370	17,721

Analysis of Total Debtors

Other Central Government bodies	2,841	2,841	1,845	2,030
Public Corporations & Trading Funds	0	0	49	15
Intra-government balances	2,841	2,841	1,894	2,045
Bodies External to Government	20,018	19,031	16,476	15,676
	22,859	21,872	18,370	17,721

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2009	31 March 2009	31 March 2008	31 March 2008
	Consolidated	Trading Fund	Consolidated	Trading Fund
	£K	£K	£K	£K
Trade creditors	1,051	608	1,927	1,606
Other taxes and social security	797	779	824	823
Other creditors	144	14	161	4
Accruals and other deferred income	26,113	24,382	20,948	19,302
Proposed dividend	4,363	4,363	4,854	4,854
	32,468	30,146	28,714	26,589

Analysis of Total Creditors

Other Central Government bodies	5,884	5,863	6,352	6,351
Public Corporations and Trading Funds	17	17	154	154
Intra-government balances	5,901	5,880	6,506	6,505
Bodies External to Government	26,567	24,266	22,208	20,084
	32,468	30,146	28,714	26,589

14. PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated	Balance at 1 April 2008	Charged to Profit and Loss	Unwinding of discount	Applied	Reclassification	Balance at 31 March 2009
	£K	£K	£K	£K		£K
Provision for sales credits	2,752	1,639	0	(2,144)	0	2,247
Provision for early retirement	1,225	226	27	(604)	0	874
Provision for Rationalisation	7,927	5,124	174	(1,622)	0	11,603
Provision for Royalties	0	0	0	0	135	135
	11,904	6,989	201	(4,370)	135	14,859

Provision for Sales Credits

A provision is made against current sales in respect of future credits for superseded stocks 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 2.2%. The provision will be fully applied by 2014/15.

Provision for Rationalisation

See note 5.

Provision for Royalties

These royalties have been reclassified from an accrual into a provision.

15. LONG TERM LOAN

	31 March 2009	31 March 2009	31 March 2008	31 March 2008
	Consolidated	Trading Fund	Consolidated	Trading Fund
Analysis of repayments	£K	£K	£K	£K
Within 1 year	496	496	457	457
Between 1 and 2 years	538	538	496	496
Between 2 and 5 years	1,908	1,908	1,758	1,758
After 5 years	6,785	6,785	7,473	7,473
	9,727	9,727	10,184	10,184

16. RESERVES

Consolidated	Revaluation Reserves	Profit and Loss Account	Total
	£K	£K	£K
At 1 April 2008	13,560	15,467	29,027
Profit for the year	0	3,248	3,248
Revaluation of fixed assets	1,011	0	1,011
Realisation of revaluation surplus	(489)	489	0
Royalty adjustment (note a)	0	502	502
At 31 March 2009	14,082	19,706	33,788

a. The royalty adjustment relates to accruals that are now not going to result in an obligation to pay.

17. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

FRS 29, 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 FRS 26, Financial Instruments; Recognition and Measurement 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 department in undertaking its activities.

As permitted by FRS 26, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile only 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. All outstanding financial assets which remain within their credit

terms at 31 Mar 2009 primarily relate to established customers whose credit worthiness has been subject to regular review and gives no cause for concern regarding forward future settlement.

Interest-rate risk

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

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. From the opening balance, £3.7M was impaired in year with the remaining balance 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 balance sheet date expressed in foreign currency are not deemed to be material.

Fair values

The fair value of loans provided to the UKHO is assessed at £7,468k as at 31 March 2008, discounted applying the National Loans Fund rate for equivalent term annuity loans as at that date of 3.85%. The current value of all our financial instruments are considered to equate to fair value at 31 March 2009.

Financial Instruments

FRS 29 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 debtors, which is net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other debtors consist of a large number of diverse customers spread over a diverse geographical area. Debtors

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. The table below provides details of debtors 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.

Debtors Beyond the Due Date	0-3 months £K	3-6 months £K	6-12 months £K	Over 12 months £K	Total £K
Debtors beyond the due date - not impaired	17,285	82	1	0	17,368
Debtors beyond the due date - impaired	0	0	0	16	16
Gross debtors total	17,285	82	1	16	17,384
Bad debt provision	0	0	0	(16)	(16)
Net total Debtors Beyond the Due Date	17,285	82	1	0	17,368

Catagories of Financial Instruments

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

	Carrying Value 31 March 2009 £K	Carrying Value 31 March 2008 £K
Financial Assets		
Loans and receivables (including cash and cash equivalents)	65,035	57,756
	65,035	57,756
Financial Liabilities		
Other financial liabilities	32,593	28,714
	32,593	28,714

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 and breaches and Hedge Accounting.

18. CAPITAL COMMITMENTS

	31 March 2009 Consolidated £K	31 March 2009 Trading Fund £K	31 March 2008 Consolidated £K	31 March 2008 Trading Fund £K
Contracted for but not provided for in the accounts:	250	250	2,780	2,780
Capital	250	250	2,780	2,780

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

	31 March 2009 £K	31 March 2008 £K
Consolidated profit on ordinary activities before interest and joint venture and after exceptionals	7,766	40
Royalty adjustment (note a)	502	0
Depreciation & Amortisation	5,019	4,566
Impairment adjustment	3,799	0
Loss on sale and disposal of tangible fixed assets	62	31
(Increase) in stocks	(156)	(39)
(Increase) / Decrease in debtors	(4,489)	1,553
Increase in creditors	3,754	2,481
Increase in provisions	2,995	7,920
Consolidated net cash inflow from operating activities	19,212	16,552

- 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.

20. ANALYSIS OF CHANGES IN CONSOLIDATED NET FUNDS

	At 1 April 2008 £K	Cash Flow in Year £K	Other changes in year £K	At 31 March 2009 £K
Cash in hand and at bank *	2,152	(367)	0	1,785
	2,152	(367)	0	1,785
Debt due within 1 year	(457)	457	(496)	(496)
Debt due after 1 year	(9,727)	0	496	(9,231)
	(10,184)	457	0	(9,727)
National Loans Fund Deposit	25,600	7,500	0	33,100
	17,568	7,590	0	25,158

*All bank balances are held in commercial accounts.

21. RECONCILIATION OF CONSOLIDATED NET CASH FLOW TO MOVEMENT IN CONSOLIDATED NET FUNDS

	2008/09	2007/08
	£K	£K
Decrease in cash in year	(367)	(2)
Cash outflow from movement in debt	457	421
Cash used to increase liquid resources	7,500	3,000
Change in net funds	7,590	3,419
Net Funds at 1 April	17,568	14,149
Net Funds at 31 March	25,158	17,568

22. RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2008/09	2007/08
	£K	£K
At 1 April	54,993	61,447
Profit for the year before dividend	7,833	161
Revaluation reserve movement in year	1,011	1,660
Repayment of long term loan	(457)	(421)
Proposed dividend and special dividend paid	(4,363)	(7,854)
Royalty adjustment (note a)	502	0
At 31 March	59,519	54,993

- 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.

23. LOSSES AND SPECIAL PAYMENTS

During the year there were unrecoverable trade debtors of £191 (£209,483 for 2007/08); there have been no write-offs in respect of fruitless payments (£239,109 for 2007/08); There were stock count discrepancies of £6,104 (£13,037 in 2007/08), unrecoverable overpayments to staff of £12,818 (£1,885 in 2007/08) and no special severance payments in year (£23,458 for 2007/08).

24. GOODWILL IMPAIRMENT

Following a review of the carrying value against the recoverable amount of AHL's investment in Admiralty Deutschland GmbH, an impairment of goodwill of £3,799k has been made. This was a result of a change in circumstances, including the negative impact of a deep recession on the shipping industry and the business starting to make a loss.

25. 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 and their appointment was personally approved by the Chief Executive. During 2008/09 payments made to KPMG totalled £1,881,844k (£2,648,146k in 2007/08).

The spouse of a senior manager, who was a member of the Executive Committee during the year, is the UK representative of the IIC Technologies Group with whom the UKHO contract various outsourced production activities. Some of the officer's 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 2008/09 payments made to IIC Technologies totalled £1,379,731k (£762,265k in 2007/08).

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.

26. POST BALANCE SHEET EVENTS

Land and buildings were professionally valued at 1st 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. The valuation suggested an increase in the carrying value of land of £4,464k and of buildings of £3,747k. 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 by the full £4,464k. This is reflected in the balance sheets as an adjusting post balance sheet event.

27. 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 15 June 2009.



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