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THE UNITED KINGDOM
HYDROGRAPHIC OFFICE



THE UNITED KINGDOM HYDROGRAPHIC OFFICE
Annual Report and Accounts 2006/2007
HC507



THE UNITED KINGDOM
HYDROGRAPHIC OFFICE

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Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID5570724 07/07

Printed on Paper containing 75% recycled fibre content minimum



THE UNITED KINGDOM
HYDROGRAPHIC OFFICE

**ANNUAL REPORT AND ACCOUNTS
2006/2007**

Ordered by the House of Commons to be printed 03 July 2007

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

HC 507

LONDON: THE STATIONERY OFFICE

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CHAIRMAN'S STATEMENT

The past year has been a period of major change at the United Kingdom Hydrographic Office. We have emerged from it with a new Chief Executive, a new Management Team, and a new strategic direction.

During this period of change, our core business in paper charts and publications has continued to flourish and to grow. As a result, we are reporting another record year of sales – up 12.8% to £86.1M; a healthy profit of £7.5M; and operating cash flow of £13.0M.

Last July, we bid farewell to Dr Wyn Williams, who had led the organisation through an unparalleled period of growth in revenues, in profits and in world wide stature. The Hydrographic Office he left behind him is prosperous, and the Admiralty Brand sets a standard for excellence, quality, and reliability throughout the world.

At the same time we welcomed Mike Robinson as our new Chief Executive. Mike came to us from the world of financial services, where he had been a Chief Executive for 10 years. The financial services environment is fiercely competitive, heavily dependent on the imagination and expertise of the IT departments, and is a world of constant product renewal, where the average product lifecycle is 2 years.

The future for nautical charts is digital, indeed our digital sales increased by 49% over the year. The great challenge that the UKHO faces over the next few years is to take itself from a business which is predominantly paper and to use our knowledge and experience to create the best digital navigational service in the world to the ship's master on the bridge.

To bring about this change of product and corporate culture, Mike Robinson has been putting together a new Management Team. Rear-Admiral Ian Moncrieff is the new National Hydrographer, with a heavy international travel schedule, as he negotiates new agreements with our fellow Hydrographic Offices around the world. Michael Cauter, Head of Finance, Strategy and Technology, comes to us from KPMG, via the Shareholder Executive and the Directorate of Business Delivery at the MoD. Mike Hollin, Head of Change, Development and HR, joined us after a 26 year career in the Royal Air Force, the last six in the MoD centre. David Loosley, Head of Operations and Production, began his career in the Navy, and more recently has been involved in leading outsourced management functions for Williams Lea. We are in the process of recruiting both a Sales and Marketing Director and a new non-executive Director with a specialist IT background.

I am fully confident that this new team can move us towards a successful digital future. In the meantime, demand for paper from our two core markets, the Royal Navy and the Merchant Marine, remains buoyant, and will continue to do so for some years to come.

However, we are anticipating an acceleration in the move towards digital among our customers. We are also anticipating significant changes in the regulatory environment.

Against this background of rapid change and market uncertainty, I welcome the decision by Derek Twigg MP, Under Secretary of State for Defence and Minister for Veterans, to conduct a review of our status. Nearly 90% of our revenues come from sales into the commercial market, against increasingly fierce international competition.

We must be able to offer our prime customer, the Royal Navy, a digital product portfolio that is fully competitive in the international market place. We need to develop a range of products and services that makes us the supplier of choice for the Royal Navy, for other Navies around the world, and for the international Merchant Marine.

With so much change in the air, this has been a taxing year for our loyal and hardworking staff. The historical success of our business owes everything to their experience, expertise and dedication. Those qualities will be invaluable in the future.



David Palmer
Chairman

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FOREWORD BY THE CHIEF EXECUTIVE

The UKHO is a remarkable organisation. Though sited in Somerset we touch every corner of the globe. The Royal Navy remains our principle customer but we also support the Maritime and Coastguard Agency's (MCA) Safety of Life at Sea (SOLAS) obligations and provide navigational products and services, which help protect the safety of literally millions of mariners all over the world every day.

This is the first Annual Report I have had the pleasure to present since joining the UKHO in July 2006 and I am delighted to report another successful year. Full details are available later in the report but the highlights are: increased Turnover; solid profitability despite providing for loan write-offs, continued high investment in our infrastructure; and a continuation of our commitment to pay dividends to MoD. A dividend of £4.9M has been provided this year, bringing the total to £47.0M since the Trading Fund was formed in 1996.

Since I joined the UKHO, I have been highly impressed with the commitment of our people to deepen our understanding of the environment within which we operate. Our brand symbolises quality and carriage compliance in all ports in the world. In the last twelve months, we have learnt a great deal about the dynamics of our markets and I believe that we are at a point of unprecedented change. Our response is to build a clear strategy and delivery plans leveraging our existing success and to utilise technology and culture change to make us more adaptable. I have therefore structured the business to focus on our two main markets of Defence and Merchant Marine, where our main strengths and opportunities lie. Another example of this focus in action, is the recent disposal of our 49% share in ACSAB, a non-core joint venture focused on aerial surveying.

In order to ensure our continued success, in February, Derek Twigg, the Under Secretary of State for Defence and the Minister responsible for the UKHO ordered that a study be carried out to investigate the optimum trading status to secure the UKHO a healthy and viable future. The study is being led by the Directorate of Business Delivery (DBD), working closely with the UKHO. It will consider two 'core' options. These are the retention of the UKHO's current Trading Fund status or a move to a 100% Government-Owned Company (GovCo).

Between these two principal options, alternative structural arrangements may also be identified and considered where they provide a better solution. For example, transitioning less than the whole of the UKHO to a GovCo, or identifying alternative sources of funding.

Progress on the Production Systems Programme (PSP) has reached a critical stage. The initial phase, Source Data Receipt and Assessment, was introduced at the end of 2005/06 and, after some early difficulties, is now bedding in. Further improvements to processes are being worked on and all expected benefits should be fully delivered within the next twelve months. The largest component of the programme, the Hydrographic Database, is underway following a successful demonstration phase and selection of the preferred solution. Work has also started on the Production Tools phase and some tools have already been delivered. Finally, a research project has been initiated which will enable greater use of GPS measurements in the processing of bathymetric surveys.

Key Target One, the Safety Index, is an indicator of the efficiency of our data handling processes. During the year we missed the overall target due to unforeseen complications of introducing new technology. This is an excellent reminder that we cannot afford to become complacent and I have personally ensured that additional resource is in place to avoid any repetition. We have also adopted an improved set of measurements to give early warning of any future problems. I am confident that our below target performance did not affect the ultimate safety of our products and that subsequent improvements will only serve to improve this aspect of our work.

I am delighted to welcome some key new individuals to my top team; Rear Admiral Ian Moncrieff joins us as our new National Hydrographer and Deputy Chief Executive (Hydrography). We also welcome Mike Hollin who joins us as Head of Change, Development and HR. David Loosley joins as our new Head of Operations and Production and Michael Cauter officially takes the post as Head of Finance, Strategy and Technology.

It is with this incredibly strong top team and the commitment of our people that we will continue to pursue the success in the digital markets of which we are more than capable.



Mike Robinson
Chief Executive

23. LOSSES

During the year there were no significant losses or write offs.

24. RELATED PARTY TRANSACTIONS

During the year, no Board member, key manager or other related party has undertaken any material transaction with the UKHO or AHL or any of its subsidiaries. The Ministry of Defence as the UKHO's parent Department is regarded as a related party. During the year, the UKHO has 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 Procurement Agency – sale of hydrographic products.

Meteorological Office – purchase of services.

Pay and Pensions Agency – purchase of services.

Civilian Management – purchase of occupational welfare services.

Defence Business Learning Centre – 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 GmbH – purchase of products and services.

SeaZone Solutions Ltd – 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 which were recharged.

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

25. POST BALANCE SHEET EVENTS

On the 30 May 2007, AHL sold its 49% share in ACSAB, a non-core joint venture business for cash consideration of £0.15M giving a loss on disposal (inclusive of unrecovered accrued interest) of £1.67M. At the accounts date, the total of £1.7M, which had been invested in ACSAB, had been fully provided against.

26. 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 or House of Lords for laying before Parliament.) on 3rd of July 2007.

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

	2006/07	2005/06
	£K	£K
(Decrease) / increase in cash in year	259	976
Cash outflow from movement in debt	388	357
Cash used to increase liquid resources	2,100	(4,200)
Change in net funds	2,747	(2,867)
Net Funds at 1 April	11,402	14,269
Net Funds at 31 March	14,149	11,402

21. RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2006/07	2005/06
	£K	£K
At 1 April	60,201	54,457
Profit for the year before dividend	8,065	11,166
Revaluation reserve movement in year	1,813	1,218
Repayment of long term loan	(388)	(357)
Proposed dividend and special dividend paid	(4,889)	(6,283)
At 31 March	64,802	60,201

22. KEY FINANCIAL TARGETS

These are:

- To break even taking one year with another.
- To achieve a return on capital employed of 9% in the financial year 2006/07.

Achievement of (a) is confirmed with a net profit after interest of £7.5M. The return on capital employed (b) was as follows:

	2006/07	2005/06
	£K	£K
Profit on ordinary activities before interest	7,841	9,876
Share of joint venture operating profit/(loss)	(509)	(319)
Return	7,332	9,557
Total assets less current liabilities	65,904	62,059
Less: Long term liabilities and charges	(3,984)	(4,199)
Capital employed - end of year	61,920	57,860
Capital employed - beginning of year	57,860	53,440
Average Capital Employed	59,890	55,650
Return on Capital Employed	12.2%	17.2%

VISION, MISSION AND AIMS

Vision

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.

Aims

- To provide hydrographic services for waters of UK national responsibility required by the UN Safety of Life at Sea (SOLAS) Convention.
- To maintain and improve hydrographic capability and flexibility to meet MoD operational requirements in peace, crisis or war.
- To extract maximum value from UKHO capabilities by providing customers with readily accessible hydrographic information and services.

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 uses data from Royal Navy and Maritime and Coastguard Agency (MCA) surveys, from foreign hydrographic offices and from sources, such as ports and shipping, around the world. All of these organisations are key stakeholders of the organisation. The UKHO's products include paper charts and publications and, increasingly, digital charts and publications.

The MoD is the UKHO's most important customer – receiving not only charts and publications but also a number of specialist services. Income from the MoD represents 14.2% of the UKHO's turnover.

The UKHO also discharges the UK's navigational related responsibility under the UN Convention for the Safety of Life at Sea (SOLAS) on behalf of the MCA. This includes providing 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 Organisation (IHO).

The UKHO's commercial sales are mostly made through independent distributors around the world who service the merchant shipping market.

The regulatory and market environment

Commercial shipping falling within the SOLAS regulations is obliged to use official navigation information. This includes both charts and publications and can be in either paper or digital form. Where the ship operator wishes to rely on digital charts, they must be official and displayed using approved equipment. Official information is defined as that published by a national hydrographic office, such as the UKHO. This market will eventually move to digital products, although the speed of transition is not yet clear and will depend, in part, on the extent to which it becomes mandatory for vessels to use digital charts. Such regulation is likely to be introduced gradually over several years and phased in terms of both type of vessel and geographic area.

The IHO has adopted a principle that official digital 'vector' charts (electronic navigational charts, or ENCs) should only be produced by or on behalf of the relevant nation. This presents a challenge for the international hydrographic community in general, and the UKHO in particular. It is apparent that marine navigators are calling for a more coherent and simple digital solution than is currently available.

Objectives and strategies

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

- Operational support to UK Defence
- Support to SOLAS Treaty Obligations
- Developing profitable business streams
- Organisational Excellence

The UKHO offers a single source for global coverage of paper charts and publications. As the marine navigator makes the transition to digital, the UKHO is presented with a particularly difficult challenge.

The UKHO has responded to this challenge by further developing its market-orientated strategy including increased focus on customer requirements in its core marine navigation market and extending defence services to foreign navies. This strategy was underpinned in 2005 by the acquisition of SevenCs by UKHO's holding company Admiralty Holdings Limited (AHL). SevenCs is a German company, which produces key software for the display of ENCs on board ship and thus enables the UKHO to gain a greater appreciation of the needs of the mariner.

UKHO will continue to address the needs of other users of its data and capabilities, such as leisure and non-navigational customers.

A significant facilitator of all future products will be the development of improved production systems. The Production Systems Programme continues to progress with the bedding in of the Source Data Receipt module, introduced earlier this year, and continuing development of the integrated hydrographic database and production tools. The Programme as a whole will enhance the UKHO's ability to turn data into useful information and to do so in a cost-effective manner.

17. CAPITAL COMMITMENTS

	31 March 2007 Consolidated £K	31 March 2007 Trading Fund £K	31 March 2006 Consolidated £K	31 March 2006 Trading Fund £K
Contracted for but not provided for in the accounts:	4,245	4,245	264	264
Capital	4,245	4,245	264	264

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

	31 March 2007 £K	31 March 2006 £K
Consolidated profit on ordinary activities before interest	7,841	9,876
Depreciation	3,810	2,820
Impairment adjustment	206	67
Loss / (Profit) on sale and disposal of tangible fixed assets	53	49
Decrease / (increase) in stocks	18	(16)
(Increase) in debtors	(2,866)	(2,849)
(Decrease) / increase in creditors	4,101	2,943
Increase / (decrease) in provisions	(215)	655
Consolidated net cash inflow from operating activities	12,948	13,545

19. ANALYSIS OF CHANGES IN CONSOLIDATED NET FUNDS

	At 1 April 2006 Restated £K	Cash Flow in Year £K	Other changes in year £K	At 31 March 2007 £K
Cash in hand and at bank *	1,895	259	0	2,154
	1,895	259	0	2,154
Debt due within 1 year	(388)	388	(421)	(421)
Debt due after 1 year	(10,605)	0	421	(10,184)
	(10,993)	388	0	(10,605)
National Loans Fund Deposit	20,500	2,100	0	22,600
	11,402	2,747	0	14,149

The debt analysis has been restated specifying the correct analysis between debt within 1 year and after 1 year.

*All bank balances are held in commercial accounts.

14. LONG TERM LOAN

	31 March 2007	31 March 2007	31 March 2006	31 March 2006
	Consolidated	Trading Fund	Consolidated	Trading Fund
Analysis of repayments	£K	£K	£K	£K
Within 1 year	421	421	388	388
Between 1 and 2 years	457	457	421	421
Between 2 and 5 years	1,619	1,619	1,492	1,492
After 5 years	8,108	8,108	8,692	8,692
	10,605	10,605	10,993	10,993

15. RESERVES

Consolidated	Revaluation Reserves	Restated Profit and Loss Account	Total
	£K	£K	£K
At 1 April 2006 (Note a)	11,170	22,431	33,601
Profit for the year	0	2,634	2,634
Revaluation of fixed assets	1,813	0	1,813
Downward revaluation	0	0	0
Realisation of revaluation surplus	(591)	591	0
At 31 March 2007	12,392	25,656	38,048

a. Consolidated profit and loss has been restated due to an adjustment that was lost in the roundings in the previous year

16. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

FRS 13, 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 13 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 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

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

Interest-rate risk

All UKHO financial assets and liabilities that are subject to interest are assessed at fixed rates. The UKHO is not therefore exposed to significant interest-rate risk.

Foreign currency risk

The UKHO's trading exposure to foreign currency risk is not significant. Both foreign currency income and expenditure is negligible. Of a £7.1M investment in AHL, approximately £1.7M has been re-invested in a Swedish joint venture company and £5.1M in the acquisition of SevenCs. Both the capital and interest payments are exposed to foreign currency fluctuations.

Fair values

The fair value of loans provided to the UKHO is assessed at £7.1M as at 31 March 2007, discounted applying the National Loans Fund rate for equivalent term annuity loans as at that date of 5.0%.

Part of the UKHO strategy was to seek alternative uses for both its extensive data holdings and for its capabilities and expertise. As part of this strategy, UKHO embarked on ventures with third parties via AHL. These include the exploitation of data for non-navigational use (SeaZone) and of in-house surveying expertise (Admiralty Coastal Surveys AB). Both ventures were created within AHL during 2004 as minority share investments. SeaZone became a wholly owned subsidiary of AHL in 2005.

ACSAB has demonstrated disappointing commercial performance and a provision against the loans of £1.7M was made at the balance sheet date. As detailed in Note 25, AHL's shares in ACSAB were sold on 30 May 2007.

Risks and uncertainties

The UKHO faces a wide range of risks and uncertainties that 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 the navigator, who relies on the UKHO's products, is vitally important to everyone and there is constant work to ensure that the organisation's focus on the quality of its existing and new products is maintained.

Our understanding of uncertainties associated with the market environment and, in particular, the timing of certain developments such as the mandation of ENC's is developing with our increased focus on the core market factors. This continues to assist the UKHO to respond effectively to such developments.

A complaint against the UKHO has been lodged with the European Competition Commission by the Chart and Nautical Instrument Trade Association (CNITA, which represents some UKHO Distributors), principally alleging abuse of a dominant position in contravention of Article 82, EC. The proceedings are at a relatively informal preliminary stage and the Commission has invited the UKHO to respond to the complaint. Its response is in the process of being drafted and should be ready for submission in early to mid-June 2007.

Resources

The UKHO is uniquely placed to meet the needs of the navigator in the digital environment. Not only does it have a particularly strong reputation and existing market position in the paper market but it also has, through its employees, an extensive cartographic capability.

The acquisition of SevenCs gives the UKHO the ability to produce the software required for ENC's to be used by the mariner on board ship, thus assisting in its objective of becoming more responsive to the market.

Other significant resources include the ability to print charts in an efficient and cost-effective manner, utilising both lithographic and inkjet methods as required.

The UKHO site at Taunton is a significant resource and options for its optimal exploitation are being investigated alongside the review of UKHO status. This may include relocation. Some preliminary site development costs have been incurred in the year.

Development and performance in 2006/07; trends and factors

During 2006/07, the sales of paper charts and publications continued to grow in line with previous trends. However, digital product sales have risen significantly albeit from a small base.

The UKHO is moving ahead to implement its more market-orientated strategy. It has rearranged its top team to enable more rapid decision-making. What has resulted is a much tighter, smaller top team, designed to empower the organisation to focus on the current business priorities.

Work continues to safeguard data sources. Major steps forward have been taken with the signing of new agreements with other hydrographic offices for the wider use of their data.

Financial Performance

Turnover increased in year by 12.8%, from £76.3M in 2005/06 to £86.1M. Approximately £3.6M was from AHL companies up from £1.1M last year mostly due to the full year effect of SevenCs. The growth in UKHO sales continued to be mostly generated from commercial customers, a rise of £6.5M to £70.8M. Sales to the MoD were up £0.8M to £11.7M; most of the increase was in digital products. MoD sales as a percentage of total UKHO turnover represented 14.2% of the annual turnover, similar to 2005/06 but significantly lower than the 25% in 1996/97 when the UKHO became a Trading Fund. Sales of digital products overall rose by 49.0% in year reaching £7.6M. Analogue chart sales rose by 7.3% to £42.7M and publications by 2.8% to £18.1M.

Expenditure in 2006/07, excluding depreciation, was £74.1M, an increase of £10.6M (16.7%) compared with 2005/06. Employee costs increased by £5.3M as a direct consequence of increased average employee numbers from 1015 to 1062. 49 staff were within SeaZone and SevenCs which was included for a full year. In UKHO, the main employee growth was a continuation of the policy to recruit trainee compilers to meet planned future retirements. Employee numbers include a reduction of 15 due to Flexible Early Retirees approved at the end of 2005/06. This was slightly more than anticipated resulting in a further £1M exceptional in-year cost. Other cost increases arose due to royalty charges (an increase of £0.7M) because of the continued drive to secure data from foreign Hydrographic Offices. R&D expenditure was similar to last year's high figure at £5.0M, principally due to continued work on the Production Systems Programme. The principle reason for the increase in Materials and Services was work on the development of the Taunton site together with other infrastructure and marketing activities. The balance of extra costs was mainly due to increased direct cost of sales.

Although the profit on ordinary activities before interest was £7.5M, this total includes the provision against outstanding loans to ACSAB.

A Return on Capital Employed (ROCE) of 12.2% was achieved. The result is above the 9% target set by the Owner.

Operating cashflow generated in 2006/07 was £13.0M, a decrease of £0.5M compared with 2005/06. Debtors at the year end of £18.6M compares with £15.7M in the previous year. This essentially mirrors the increase in trading activity during the final quarter of 2006/07 compared with the corresponding period in 2005/06. Creditors and accruals were up £4.2M compared with 2005/06 mostly due to accrued stage payments for PSP and the new printing press. Capital expenditure in 2006/07 was £5.3M, slightly above that of 2005/06 again due to continued investment in PSP and the press.

Cash balances and short-term investments totalled £24.8M at the end of March 2007, an increase of £2.4M. This primarily arose due to high levels of accrued expenditure mentioned above. Cash is expected to reduce over the next two years as the major change programme projects and associated capital expenditure reach their peak.

Dividends and capital

Dividends have been paid to the MoD every year since 1998/99 and £4.9M has been provided this year, bringing the total to £47.0M for all years to date.

The level of Government Funds increased in 2006/07 by £4.6M to £64.8M.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2007		Restated 31 March 2006	
	Consolidated £K	Trading Fund £K	Consolidated £K	Trading Fund £K
Bank overdraft	0	0	0	0
VAT	0	0	0	0
Trade creditors	2,076	1,953	3,212	2,945
Other taxes and social security (Note a)	793	749	666	636
Other creditors	75	0	202	0
JV loans payable to third parties (Note a)	100	0	100	0
Accruals and other deferred income (Note a)	13,646	12,699	9,015	8,606
Proposed dividend	4,889	4,889	4,283	4,283
	21,579	20,290	17,478	16,470

Analysis of Total Creditors

Other Central Government bodies	6,430	6,386	4,990	4,960
Local Authorities	0	0	0	0
NHS Bodies	0	0	0	0
Public Corporations and Trading Funds	154	154	0	0
Intra-government balances	6,584	6,540	4,990	4,960
Bodies External to Government	14,995	13,750	12,488	11,510
	21,579	20,290	17,478	16,470

- a. Re-alignment of a prior year subsidiary tax liability from accruals and other deferred income to other taxes and social security together with a correction for the omission of a joint venture loan liability that should of been reflected in the prior year balance.

13. PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated	Balance at 1 April 2006 £K	Charged to Profit and Loss £K	Unwinding of discount £K	Applied £K	Balance at 31 March 2007 £K
Provision for sales credits	2,415	1,914	0	(2,048)	2,281
Provision for early retirement	1,784	1,142	42	(1,265)	1,703
	4,199	3,056	42	(3,313)	3,984

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 2007/08.

Provision for Early Retirement

This reflects the outstanding liability for early retirements arising from a variety of restructuring exercises undertaken in previous years. Further early retirements have occurred during the current year and these have been provided for in full. The provision has been discounted at 2.2%. The provision will be fully applied by 2014/15.

10. STOCK

	31 March 2007 Consolidated £K	31 March 2007 Trading Fund £K	31 March 2006 Consolidated £K	31 March 2006 Trading Fund £K
Materials	394	394	384	384
Work in Progress	44	44	29	29
Finished stocks	1,394	1,394	1,437	1,437
	1,832	1,832	1,850	1,850

11. DEBTORS

	31 March 2007 Consolidated £K	31 March 2007 Trading Fund £K	Restated 31 March 2006 Consolidated £K	Restated 31 March 2006 Trading Fund £K
Falling due within one year				
Trade Debtors (Note a)	16,183	15,969	13,263	12,712
Other Debtors	705	528	934	633
Prepayments and Accrued Income (Note a)	1,545	1,645	1,314	1,151
Net Investments and Finance Leases	132	132	101	101
	18,565	18,274	15,612	14,597

Falling due after more than one year

Net Investments and Finance Leases	60	60	147	147
	60	60	147	147
	18,625	18,334	15,759	14,744

Analysis of Total Debtors

Other Central Government bodies	2,690	2,566	1,415	1,415
Local Authorities	0	0	0	0
NHS Bodies	0	0	0	0
Public Corporations and Trading Funds	640	525	22	22
Intra-government balances	3,330	3,091	1,437	1,437
Bodies External to Government	15,295	15,243	14,322	13,307
	18,625	18,334	15,759	14,744

a. Re-alignment of prior year prepayments and accrued income items from Trade debtors.

PERFORMANCE INDICATORS

RESULTS 2006/07

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 exceeding 95, with all Radio Navigational Warnings issued to timescale.

Status: Not Achieved

Performance:		2006/07	2005/06
Safety Index	Target	95	95
	Actual	92	97
Radio Navigational Warnings	Target	100	100
	Actual	100	100

The Safety Index is a composite indicator, which measures the timeliness and quality of the data handling processes, together with the safety risk associated with the worldwide chart series.

The major factor affecting the Safety Index during 2006/07 was the change of processes brought about by the introduction of the source data receipt and assessment element of the Production Systems Programme at the end of last year. This had a number of implications, particularly for the timeliness element of the Index.

Key target 2

To achieve an Index rating of more than 95 for the Defence Programme as set out in the Tasking Authorisation Forms.

Status: Achieved

Performance:		2006/07	2005/06
Index rating	Target	95	95
	Actual	97	95

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 is agreed with customers before work commences. Performance averaged around 97 during the year (in 2005/06 it was 95.5).

Key target 3

Customer and End User satisfaction to exceed a scale rating of 87 by the end of financial year 2006/07.

Status: Achieved

Performance:		2006/07	2005/06
Customer Satisfaction	Target	87.0	87.0
	Actual	87.6	87.4

Satisfaction is determined through a structured survey programme interviewing 250 customers and 100 end users each quarter. Performance against this key target is quoted as the weighted average of scores from the Q4 survey. Since both end user satisfaction and that of customers (shipping companies) have remained at a broadly consistent level since the survey started in June 2003, customer satisfaction will not be reported as a key target in 2007/08.

Key target 4

To earn revenue of £5.8M from products and services other than the existing core ones.

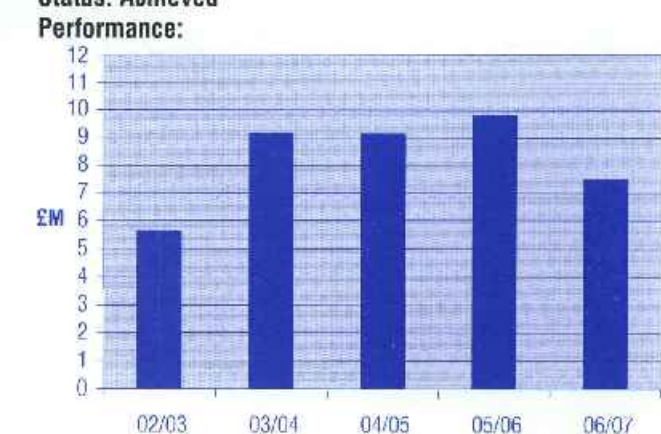
Status: Not Achieved

Performance:
The outturn for the year was £5.4M (of which £0.5M came from AHL ventures); this was slightly lower than the target.

The non-achievement of this target arose due to a change in focus during the year onto the core merchant marine business.

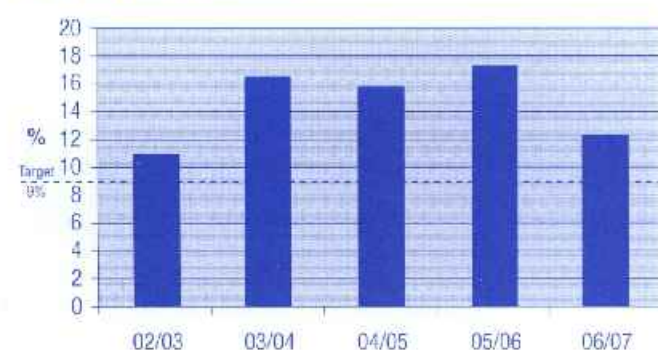
Key target 5

To break even taking one year with another, and to achieve a Return on Capital Employed of 9% in the financial year 2006/07.

Status: Achieved

The Net Profit for the year of £7.5M exceeded target. Sales were strong for the year, with growth both in paper and digital.

Key target 5 (continued)



The Return on Capital Employed of 12.2% was above the target of 9%.

Key target 6

Mark-Up to be reduced to 200% for 2006/07

Status: Not Achieved

Performance:		2006/07	2005/06
		%	%
Mark-up	Target	200	210
	Actual	203	213

This is a measure of productivity – the difference between salary cost per paid hour and the fully loaded average charge rate per hour – the lower the mark-up the less overhead absorbed by direct workers and therefore the more productive the organisation. The performance for the year was 203%, a reduction from the 2005/06 outturn of 213%. However, it misses the target of 200% as a result of lower than forecast direct utilisation.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ON THE UKHO'S STATEMENT OF PERFORMANCE AGAINST 2006/07 KEY PERFORMANCE TARGETS

The Chief Executive of the UKHO has asked me to validate performance against the 2006/07 Key Targets.

Respective responsibility of UKHO, the Chief Executive and the Auditor

UKHO and the Chief Executive are responsible for the measurement and reporting of the Trading Fund's performance against the Key Targets.

I examine and conclude on whether the Trading Fund has:

- provided full details of performance against all the UKHO's Key Targets;
- 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 UKHO and the Chief Executive in the Statement's preparation.

Conclusion

The Statement of Performance above includes all the UKHO's 2006/07 Key Targets and it reliably and fairly presents the Agency's performance against the Key Targets. I have no observations to make on this Statement.

John Bourn
Comptroller and Auditor General
1 June 2007

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

Admiralty Coastal Surveys AB is a shallow water coastal surveying joint venture with Airborne Hydrography AB and Blom ASA who hold 30% and 21% of the ordinary shares respectively. The Admiralty Coastal Surveys AB registered office is Klubbhusgatan 15, SE553 03, Jonkoping, Sweden. Managing offices are N11 Tamar Science Park, Derriford, Plymouth, PL6 8BX. The joint venture is managed by a board of 6 directors, 2 directors being appointed in respect of each partner. AHL provides the Chairman.

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital £'000	Profit/(loss) £'000
Admiralty Holdings Ltd	2,863	(514)
SeaZone Solutions Limited	(346)	(111)
Admiralty Deutschland GmbH	4,917	(38)
Admiralty Ltd	1	-
Admiralty Charts Ltd	1	-
Admiralty Consultancy Ltd	1	-
Admiralty Digital Ltd	1	-
Admiralty Marine Ltd	1	-
Admiralty Overseas Ltd	1	-
Admiralty Sea Law Ltd	1	-
Admiralty Services Ltd	1	-
Admiralty Ventures Ltd	1	-
Admiralty Coastal Surveys AB	30	(1,053)

AHL provided loans to Admiralty Coastal Surveys AB during the year amounting to 5,390K SEK or £401K in total. These loans were unsecured and carry an interest rate of 6% per annum.

The accounting reference date for Admiralty Coastal Surveys AB is 31 August of each year. The following information has been extracted from management accounts for the period ended 31 March 2007.

The company's share of the results of Admiralty Coastal Surveys AB for the year ended 31 March 2007 includes:

	SEK	£K
Share of turnover	1,042	76
Share of losses on ordinary activities before taxation	7,091	516
Share of taxation	-	-
Share of retained losses	13,189	959

The company's share of the net liabilities of Admiralty Coastal Surveys AB for the year ended 31 March 2007 comprises:

	SEK	£K
Share of fixed assets	11,857	863
Share of current assets	382	28
Share of current liabilities	12,037	876
Share of long term liabilities	0	0
Share of net liabilities	202	15

9. INVESTMENT

	Consolidated	Trading Fund (Note a)
	£K	£K
Analysis of Loans		
1 April 2006 (Note b)	755	8,213
Movement in year (Note c)	(755)	(733)
Net Book Value 31 March 2007	0	7,480

Notes

- 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, SeaZone and Admiralty Coastal Surveys joint venture company.
- Opening balances include provision against loan capital for SeaZone.
- For ACSAB, £0.4M was converted to equity in year and £0.4M was provided against.

Admiralty Coastal Surveys is behind its sales targets and its long-term future is being reviewed by all the joint venture partners. Accordingly, it is considered prudent to make provision for the non-repayment of the balance of loans outstanding valued at around £1.7M.

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 the trading fund holds more than 20% of the share capital of the following companies:

Company	Country (Note *)	Shares held	
		Class	%
Subsidiary undertakings			
Admiralty Holdings Ltd	England	Ordinary	100
Admiralty Deutschland GmbH	Germany	Ordinary	100
SevenCs AG & Co. KG	Germany	Ordinary	100
ChartWorld GmbH & Co. KG	Germany	Ordinary	100
SeaZone Solutions Limited	England	Ordinary 'A'	100
		Ordinary 'B'	100
Admiralty Ltd	England	Ordinary	100
Admiralty Charts Ltd	England	Ordinary	100
Admiralty Consultancy Ltd	England	Ordinary	100
Admiralty Digital Ltd	England	Ordinary	100
Admiralty Marine Ltd	England	Ordinary	100
Admiralty Overseas Ltd	England	Ordinary	100
Admiralty Sea Law Ltd	England	Ordinary	100
Admiralty Services Ltd	England	Ordinary	100
Admiralty Ventures Ltd	England	Ordinary	100
Participating interests			
Admiralty Coastal Surveys AB	Sweden	Restricted equity	49

* Note: Country of registration or incorporation

KEY TARGETS FOR 2007/2008

In light of the revision to the strategy over the last twelve months, and our ability to better measure performance in a number of areas, we have refined and built on the existing Key Target measures for the coming year. The Key Targets remain aligned with our Top Level Objectives and the key changes are outlined below.

Key target 1 – Safety

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

Change from prior year is the introduction of a revised basis of calculation, which is a better measure of safety.

Key target 2 – Defence

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

and

Establish a Customer Service Agreement and Service Delivery Annexes by 31st March 2008 with the assistance of the Defence Customer.

Change from prior year is the inclusion of a specific event to change the tasking arrangements to an over-arching service agreement. This is in addition to the existing delivery-based measure.

Key target 3 – Finance

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

and

To earn Operating Net Profit in line with the Corporate Plan of £6.7M in the financial year 07/08.

Changes from prior year are:-

The basis of calculation is changed to a 3 year rolling average to reflect the period over which benefits from planned investments will accrue.

The aim of "breaking even taking one year with another" is changed to meeting planned results.

Key target 4 – Efficiency

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

Change from prior year is a change in measure of efficiency to increase transparency of measurement (with the benefit of aligning performance within the Business) and to increase consistency with other MoD Trading Funds.

Other changes from prior year's key targets

Customer Satisfaction - No longer applicable, as monitoring customer satisfaction is now a core part of 'business as usual'. Customer satisfaction is ultimately expressed through financial results.

Wider Markets - No longer applicable as the UKHO strategy is now focusing on core business and not currently seeking to grow profits from wider market opportunities.

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 2006 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 2002/03 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. A separate AHL Board is made up of employees of the UKHO, including in particular Mike Robinson, Chief Executive, who took over from, Wyn Williams, from 21 July 2006.

AHL acquired full control of SeaZone (one of its initial joint ventures) with effect from 1 September 2005. AHL Deutschland GmbH was established during 2005 and acquired SevenCs with effect from 1 December 2005. AHL continued to hold all shares in these subsidiaries and a minority share of Admiralty Coastal Surveys.

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 is not permitted to trade in financial instruments.

The UKHO has no material risks arising from its financial instruments. Liquidity is strong. Its loan capital is repayable at a fixed rate of interest. It has made a £5.1M investment, comprising equity capital, in the acquisition of SevenCs of Hamburg, Germany and a £1.7M investment, comprising primarily loan and equity capital, in a joint venture with a Swedish partner. These are not considered to provide an exchange rate risk. The majority of normal 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, the UKHO Board was streamlined in line with changes to the internal management structure of UKHO.

Changes were also made to the governance of AHL in line with agreed MoD policy. These included the appointment of an independent Chairman of AHL and independent representation on the boards of individual companies.

Membership of the various governance structures is as follows:

8B 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 2006	29,430	3,460	1,179	11,678	2,269	48,016
Additions	29	120	121	1,274	1,869	3,413
Reclassification	0	0	0	(2,215)	0	(2,215)
Disposals	0	(131)	0	(3,351)	0	(3,482)
Revaluation	1,726	87	0	0	0	1,813
Downward revaluations	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
At 31 March 2007	31,185	3,536	1,300	7,386	4,138	47,545

Depreciation:	£K	£K	£K	£K	£K	£K
At 1 April 2006	4,228	1,571	259	8,558	0	14,616
Charged	1,017	469	201	1,250	0	2,937
Reclassification	0	0	0	(2,095)	0	(2,095)
Disposals	0	(124)	0	(3,285)	0	(3,409)
At 31 March 2007	5,245	1,916	460	4,428	0	12,049

Net Book Value:	£K	£K	£K	£K	£K	£K
At 31 March 2007	25,940	1,620	840	2,958	4,138	35,496
At 31 March 2006	25,202	1,889	920	3,120	2,269	33,400

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 2006	29,430	3,460	1,179	11,346	2,269	47,684
Additions	29	120	121	1,345	1,869	3,484
Reclassification	0	0	0	(2,215)	0	(2,215)
Disposals	0	(131)	0	(3,351)	0	(3,482)
Revaluation	1,726	87	0	0	0	1,813
Downward revaluations	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
At 31 March 2007	31,185	3,536	1,300	7,125	4,138	47,284

Depreciation:	£K	£K	£K	£K	£K	£K
At 1 April 2006	4,228	1,571	259	8,409	0	14,467
Charged	1,017	469	201	1,157	0	2,844
Reclassification	0	0	0	(2,095)	0	(2,095)
Disposals	0	(124)	0	(3,285)	0	(3,409)
At 31 March 2007	5,245	1,916	460	4,186	0	11,807

Net Book Value:	£K	£K	£K	£K	£K	£K
At 31 March 2007	25,940	1,620	840	2,939	4,138	35,477
At 31 March 2006	25,202	1,889	920	2,937	2,269	33,217

8A INTANGIBLE FIXED ASSETS

Consolidated	Software Licences	Goodwill SeaZone	Goodwill SevenCs	Total
Cost or Valuation:	£K	£K	£K	£K
At 1 April 2006	2,683	214	4,384	7,281
Additions (Note a)	1,941	0	427	2,368
Reclassification	2,215	0	0	2,215
Disposals	(16)	0	0	(16)
Revaluation	0	0	0	0
Impairment	0	(206)	0	(206)
At 31 March 2007	6,823	8	4,811	11,642
Amortisation:				
At 1 April 2006	1,815	8	97	1,920
Charged	578	0	295	873
Reclassification	2,095	0	0	2,095
Disposals	(8)	0	0	(8)
At 31 March 2007	4,480	8	392	4,880
Net Book Value:				
At 31 March 2007	2,343	0	4,419	6,762
At 31 March 2006	868	206	4,287	5,361

a. The addition for goodwill reflects a balance payable for trade tax in the acquisition of SevenCs

Trading Fund	Software Licences	Goodwill SeaZone	Goodwill SevenCs	Total
Cost or Valuation:	£K	£K	£K	£K
At 1 April 2006	2,617	0	0	2,617
Additions	1,912	0	0	1,912
Reclassification	2,215	0	0	2,215
Disposals	(16)	0	0	(16)
Revaluation	0	0	0	0
Impairment	0	0	0	0
At 31 March 2007	6,728	0	0	6,728
Amortisation:				
At 1 April 2006	1,778	0	0	1,778
Charged	564	0	0	564
Reclassification	2,095	0	0	2,095
Disposals	(8)	0	0	(8)
At 31 March 2007	4,429	0	0	4,429
Net Book Value:				
At 31 March 2007	2,299	0	0	2,299
At 31 March 2006	839	0	0	839

UKHO Owner's Council

Derek Twigg MP – Chairman
Parliamentary Under Secretary of State for Defence and Minister for Veterans
(from 6 Sep 2006)

Tom Watson MP – Chairman
Parliamentary Under Secretary of State for Defence and Minister for Veterans
(from 5 May 2006 to 6 Sep 2006)

Don Touhig MP – Chairman
Parliamentary Under Secretary of State for Defence and Minister for Veterans
(to 5 May 2006)

David Palmer CBE
Chairman of the UKHO Board

Mike Robinson
Chief Executive
(from 18 Jul 2006)

Wyn Williams
Chief Executive UKHO and National Hydrographer
(to 18 Jul 2006)

Trevor Woolley
MoD Finance Director

Michael Cauter
MoD Directorate of Business Delivery (DBD)
(to 5 Dec 2006)

Tim Johnson
MoD DBD (from 5 Dec 2006)

Vice Admiral Sir Tim McClement OBE
Deputy Commander in Chief Fleet
(to 31 Oct 2006)

Vice Admiral R P Boissier CB
Deputy Commander in Chief Fleet
(from 31 Oct 2006)

Major General John Rose MBE
Director General Intelligence Collection

Peter Schofield
Director, Shareholder Executive

Paul Jackson
Director Maritime and Coastguard Agency

Michael Everard CBE
External Advisor
Business/Shipping

UKHO Board (from 5 Dec 2006)

David Palmer CBE
Chairman

Mike Robinson
Chief Executive

Barry Wootton
Non-Executive Director

Sandra Rogers
Non-Executive Director

Captain Ian Turner OBE 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
(Interim) Head of Finance, Strategy and Technology and
Deputy Chief Executive - Corporate

Peter Cox
Head of Operations and Production

Chris Reynolds
(Interim) Head of Sales, Marketing and Customer Services
(from 15 Feb 2007)

Jonathan Ward
Head of Sales, Marketing and Customer Services
(to 13 Feb 2007)

Mike Hollin MBE
Head of Change, Development and Human Resources

Tim Johnson
MoD DBD

In attendance:

Gert Büttgenbach
MD of SevenCs and Future Digital Services Advisor

Philippa Childs
Trade Union Representative

UKHO Board (to 5 Dec 2006)**David Palmer CBE**

Chairman

Mike Robinson

Chief Executive (from 18 Jul 2006)

Wyn WilliamsChief Executive and National Hydrographer
(to 18 Jul 2006)**Barry Wootton**

Non-Executive Director (from 30 Jun 2006)

Michael Gates

Non-Executive Director (to 30 Jun 2006)

Sandra Rogers

Non-Executive Director

Captain Ian Turner OBE RNCaptain HM and Hydrographer of the Navy
Non-Executive Director**Tim Squire**

Technical Director and Deputy Chief Executive

Peter CoxDirector Safety and Quality (to 1 Aug 2006)
Director of Operations (from 2 Aug 2006)**Mark Townley**

Director Operations (to 1 Aug 2006)

Mike Hollin MBE

Director of Strategy Implementation (from 24 Apr 2006)

Jonathan Ward

Director Marketing (from 3 Apr 2006)

Paul Stevin

Acting Director Marketing (to 4 Apr 2006)

Barrie Bussey

Finance Director

Stephen ParnellDirector Service Delivery (to 1 Aug 2006)
Director of Safety and Quality and Service Delivery
(from 2 Aug 2006)

In attendance:

Michael Cauter

MoD DBD

Jim Cooper

Trade Union Representative

**UKHO Board Participation as Directors of
AHL and Subsidiaries****AHL** **David Palmer CBE**, Chairman
(from 27 Apr 2006)**Wyn Williams**
(to 19 Jul 2006)**Mike Robinson**
(from 21 Jul 2006)**Barrie Bussey**
(to 23 Nov 2006)**Mark Townley**
(to 27 Apr 2006)**Michael Gates**
(from 27 Apr to 30 Jun 2006)**Barry Wootton**
(from 21 Sep 2006)**Sandra Rogers**
(from 23 Nov 2006)**Captain Ian Turner OBE RN**
(from 23 Nov 2006)**Tim Johnson**
(from 23 Nov 2006)**Rear Admiral Ian Moncrieff**
(from 23 Nov 2006)**ACSAB** **Wyn Williams**
(to 21 Jul 2006)**Mike Robinson**
(from 21 Jul 2006)N.B. Captain V Nail RN UKHO, has also been a member of
the ACSAB board since 24 March 2006 although he is not a
member of the UKHO board.**SeaZone** **Michael Gates**
(from 27 Apr 2006 to 31 Dec 2006)**Barry Wootton**
(from 31 Dec 2006)**Jonathan Ward**
(from 27 Apr 2006 to 13 Feb 2007)**Barrie Bussey**
(to 27 Apr 2006)N.B. Robert Moss UKHO, was re-appointed to the SeaZone
board from 16 February 2007 (he previously left the board
on 27 April 2006) although he is not a member of the UKHO
board.**5. 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.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Note	31 March 2007	31 March 2006
		£K	£K
a) Interest paid to the MoD in respect of the long-term loan		913	964
b) Unwinding of the discount on provision for early retirements	13	42	88
		955	1,052

7. 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.

3. TURNOVER ANALYSIS

	2006/07	2005/06
	£K	£K
Sales to the Ministry of Defence	11,656	10,889
Commercial sales	70,886	64,285
SeaZone	515	343
SevenCs	2,990	746
Share of JV turnover	76	49
Total turnover	86,123	76,312

Note:- Turnover now includes items classed as Other Income in previous years. In 2006/07 this was £1,920K (£1,538K in 2005/06).

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.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

Profit on ordinary activities before interest and Joint Venture of £7.5M (2005/06 - £9.9M) is stated after charging:

	31 March 2007	31 March 2006
	£K	£K
Depreciation/amortisation - owned assets	3,810	2,820
Loss on disposal of fixed assets	53	49
Impairment adjustments	206	67
	4a	4,069
Operating leases: Office machinery (Note a)	13	17
Professional fees	1,696	615
Research and development	5,029	5,143
Auditor's remuneration (Note b)	174	95
Travel, training and entertainment expenses	3,221	2,863
Materials and services	5,851	3,809
Utilities and other estates operating costs	3,355	2,865
Computing and office machines	2,537	2,066
Royalties payable	4,882	4,169
	4b	26,758
		21,642

a. All operating leases expire after five years. Future commitments amount to £13K per annum.

b. Auditor's remuneration includes fees for both UKHO and AHL companies.

In addition to a general increase in activity the main reasons for increases compared with last year were:

- Professional fees include preliminary work on site development of around £1M.
- Materials and Services includes the effect of providing for the ACSAB loan at £1.7M, additional provision for early retirement £0.3M and other increases in activity such as extra contracted MoD support £0.3M, consultancy £0.3M and marketing exhibitions £0.2M.
- Utilities and other estates operating costs for 2005/06 include a £0.6M refund of maintenance costs which has not been repeated in 2006/07.

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. Michael Causer has been employed by the UKHO on secondment from KPMG. KPMG have, through open competition, been appointed to advise UKHO on business planning activities.

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 £75K for performance of the statutory audit and £5.5K for validation of key targets. No other audit services were provided by the Comptroller and Auditor General during the financial year. All audit findings are reviewed by the Audit Committee.

Statement on Disclosure to Auditors

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



Mike Robinson
Chief Executive
31 May 2007

REMUNERATION REPORT

Remuneration Policy

Mike Robinson was appointed as Chief Executive (Designate) on 3 July 2006, although he did not assume his duties until 18 July 2006 after his predecessor's retirement. He is employed on an initial three-year fixed-term contract with the option for this to be extended by mutual agreement. Compensation for early termination, other than for misconduct, would be in accordance with the Civil Service Compensation Scheme.

Mark Townley was appointed as Director of Operations on 3 May 2005 on a five-year fixed-term contract. He resigned from his position as Director of Operations with effect from 1 August 2006 and completed his required period of notice on 5 November 2006.

Mike Hollin MBE, was appointed as Director of Strategy Implementation on a contract for services with Nilloh Ltd on 24 April 2006 for a period of 12 months. He assumed the role of Head of Change Development and Human Resources with effect from 1 November 2006 and was confirmed in that capacity as a permanent member of staff from 29 March 2007 following his successful application in an open recruitment competition.

Paul Slevin was appointed as Director of Marketing on a contract for services with Solutions Delivered Ltd on 9 June 2005 for a period of nine months, which was extended to 7 April 2006. This was a part-time appointment. His final day of service was 4 April 2006.

Jonathan Ward was appointed as Director of Sales and Marketing on 3 April 2006 on a three year fixed term contract. He resigned from his position on 13 February 2007. Compensation comprising 5 weeks salary in lieu of notice plus further compensation equivalent to 5 months salary was paid.

Chris Reynolds was appointed as Interim Head of Sales Marketing and Customer Services with effect from 15 February 2007 on a contract for services with The Reynolds Corporation Limited, for a period of 100 days.

Michael Gauter was appointed Head of Finance, Strategy and Technology on 5 December 2006 on secondment from the Department of Trade and Industry where he is employed under contract from KPMG.

The outgoing Chief Executive and Deputy Chief Executive (Wyn Williams and Tim Squire) were senior civil servants. 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 2006/07, performance-related pay amounted to just over 3.1% of salary.

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, which requires appointment to be on merit and based on fair and open competition but also includes the circumstances when appointments may otherwise be made.

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

Further information about the work of the Civil Service Commissioners can be found at:

www.civilservicecommissioners.gov.uk.

2. STAFF COSTS AND NUMBERS

Staff Numbers

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

	2006/07	2005/06
Operations	506	531
Print and supply	148	157
Marketing	55	59
Support	304	255
Sub total UKHO	1013	1002
SeaZone	8	3
SevenCs	41	10
	1062	1015
Permanent	957	952
Agency Staff	51	47
Service Personnel	5	3
Subsidiaries	49	13
	1062	1015

SevenCs staff numbers are shown for a full year in 2006/07 compared with only four months in the previous year.

Salary

Total employee costs for the year were as follows:

	2006/07	2005/06
	£K	£K
Salaries, wages etc.	30,750	27,220
Social security costs	2,385	2,031
Pension costs	5,276	4,643
Agency staff costs	2,173	1,637
Service personnel loan costs	614	372
	41,198	35,903

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 2006/07, the applicable pension rates were as follows:

Scheme and Annual Salary Bands to which rates apply	%
PCSPS - Band 1 - £18,500 and under	17.1
PCSPS - Band 2 - £18,501 to £38,000	19.5
PCSPS - Band 3 - £38,001 to £65,000	23.2
PCSPS - Band 4 - £65,001 and over	25.5

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The UKHO is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006/07, employers' contributions of £5.3M were payable to the PCSPS (2005/06 £4.6M) at the appropriate rate (see above) applied to pensionable pay. The rates in 2005/06 were between 16% and 24% for equivalent bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/08, the salary bands will be revised although the rates will remain as for 2006/07.

The contribution rates are set to meet the cost of the benefits accruing during 2006/07 and payable 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 £25.2K 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 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. Employer contributions of £1.9K, 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 £2.5K.

There have been no retirements on ill health grounds during the year.

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 £1M 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.

The duration of contracts, notice periods and termination payments will be determined by the Chief Executive with the exception of the appointment of the non-executive directors. The durations of Fixed-Term Appointments are determined by UKHO line managers. Standard notice periods apply and there are no terminal payment clauses.

Details are as follows:

Remuneration Committee

The Remuneration Committee was re-established in year to work within MoD and other HMG 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 at least three of the non-executive directors; one of whom is the Shareholder's representative. Other individuals may be invited to attend as appropriate. The Committee meets at least twice a year and has 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 and regularly review performance schemes especially sales related incentives
- 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 Chairman of the Committee reports to the Board on its proceedings following each meeting.

Salary and pension entitlements

The following tables provide details of the salary and pension interests of the executive members of the Hydrographic Office Board. They cover both the existing Board structure and the management arrangements that were in place prior to 5 December 2006. Details are based on actual payments made by the UKHO and thus recorded in these accounts.

Remuneration Details

	Notes	2006-07 Salary Band £K	2005-06 Salary Band £K
Mike Hollin MBE (from 24 Apr 2006)	1	150-155 (160-165 full year equivalent)	-
Johnathan Ward (from 3 Apr 2006 to 13 Feb 2007)		120-125 (135-140 full year equivalent)	-
Mike Robinson (from 3 Jul 2006)	2	115-120 (155-160 full year equivalent)	-
Barrie Bussey (to 5 Dec 2006)		70-75 (100-105 full year equivalent)	95-100
Peter Cox		65-70	60-65
Tim Squire (to 5 Dec 2006)		55-60 (85-90 full year equivalent)	75-80
Michael Cauter (from 5 Dec 2006)	3	45-50 (135-140 full year equivalent)	-
Steve Parnell (to 5 Dec 2006)		45-50 (65-70 full year equivalent)	60-65
Mark Townley (to 1 Aug 2006)		30-35 (95-100 full year equivalent)	65-70 (75-80 full year equivalent)
Rear Admiral Ian Moncrieff (from 5 Dec 2006)	4	30-35 (90-95 full year equivalent)	-
Wyn Williams (to 18 Jul 2006)		30-35 (110-115 full year equivalent)	90-95
Chris Reynolds (from 15 Feb 2007)	5	25-30 (175-180 full year equivalent)	-
Paul Slevin (to 4 Apr 2006)	6	1-5 (120-125 full year equivalent)	120-125

Notes

1. Mike Hollin was employed on a contract for services with Nilloh Ltd until 29 March 2007 when he became a UKHO employee. The full year equivalent salary reflects earnings during 2006-07. However, as an employee of UKHO, his annual equivalent will be £115-120K.
2. Neither the salary nor the equivalent annual salary for Mike Robinson include any provision for bonus. A sum up to 40% of annual salary is contractually payable subject to meeting required performance targets.
3. Michael Cauter was employed on secondment from the Department of Trade and Industry on contract rates.
4. Rear Admiral Moncrieff is a serving Royal Navy Officer on loan to the UKHO. Whilst MoD levy capitation based loan charges for his services, the figures recorded above are an assessment of his actual salary.
5. Chris Reynolds was employed on a contract for services with the Reynolds Corporation Ltd.
6. Paul Slevin was employed through Solutions Delivered Ltd and the sum represents payment made to that company for his services.

Tangible Assets

Land, Buildings and a specific selection of significant items of plant and machinery were professionally valued at 1 October 2004 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. Plant and Machinery were assessed at the Value of Plant and Machinery to the Business (VPMB). All assets, with the exception of the wholly owned subsidiaries, have been revalued as at 31 March 2007 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 over their estimated useful lives taking account of any residual second-hand or scrap value. 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). 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.

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 2006, 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.

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, with the exception of Admiralty Coastal Surveys AB, a partly owned subsidiary whose financial years end on 31 August. Management information has been obtained for Admiralty Coastal Surveys AB for the period ended 31 March 2007 and this has been verified by external audit opinion that it represents a true and fair view of the financial position at that date. 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.

AHL acquired full control of SeaZone Solutions Ltd (one of its initial subsidiary undertakings) with effect from 1 September 2005. Admiralty Deutschland GmbH was established in 2005 and acquired SevenCs with effect from 1 December 2005.

C. Turnover

Turnover represents the value of invoiced sales, net of VAT, at the point of physical delivery or at commencement of service agreement. 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 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.

Salary

'Salary' includes gross salary, performance 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. There were no benefits in kind.

Pension Benefits

	Accrued benefits*		Real increase in benefits		CETV at 31/03/07	CETV at 31/03/06	CETV Real increase
	Pension Note a	Lump sum Note a	Pension Note a	Lump sum Note a			
	£K	£K	£K	£K	£K	£K	£K
Wyn Williams	35-40	115-120	0-2.5	0-2.5	Note d	933	0
Tim Squire	15-20	Note c	0-2.5	Note c	234	215	6
Barrie Bussey	10-15	40-45	0-2.5	0-2.5	341	311	18
Mark Townley	0-2.5 Note b	Note c	0-2.5 Note b	Note c	24	17	5
Mike Robinson	0-2.5 Note b	Note c	0-2.5 Note b	Note c	16	0	12
Johnathan Ward	0-2.5 Note b	Note c	0-2.5 Note b	Note c	15	0	12
Steve Parnell	25-30	75-80	0-2.5	0-2.5	615	574	13
Peter Cox	40-45	Note c	0-2.5	Note c	825	754	27

* as at 31st March 2007

Notes

- Pension and lump sums are as at age 60.
- 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.
- No closing CETV for Wyn Williams as he retired in year.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement 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 and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary 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 but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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. The employee does not have to contribute but where they do contribute, 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 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement, which the individual has transferred to the Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively 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.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2007

	2006/07 £M	2005/06 £M
	Operations	Operations
Profit for the financial year	7.5	9.9
Unrealised current cost revaluation surplus	1.8	1.2
Total recognised gains and losses relating to the year	9.3	11.1

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006/07 £M	2005/06 £M
Net cash inflow from operating activities	18	13.0	13.5
Investments		(0.4)	(0.5)
Returns on investments and servicing of finance			
Interest received	5	1.1	1.2
Interest paid	6a	(0.9)	(1.0)
Dividend paid on public dividend capital		(4.3)	(6.3)
		(4.1)	(6.1)
Capital Expenditure			
Payments to acquire tangible fixed assets		(5.3)	(5.2)
Purchase of subsidiary undertakings		(0.4)	(4.6)
Receipts from sales of tangible fixed assets		0.0	0.0
		(5.7)	(9.8)
Net cash inflow before use of liquid resources and financing		2.8	(2.9)
Management of liquid resources			
Increase in short term deposits		(2.1)	4.2
Financing			
Repayment of long term loan		(0.4)	(0.4)
(Decrease) / Increase in cash and bank balance		0.3	0.9

The notes on pages 36 to 51 form part of these accounts.

TRADING FUND BALANCE SHEET AS AT 31 MARCH 2007

	Note	31 March 2007 £M	31 March 2006 £M
Fixed Assets			
Intangible Assets	8a	2.3	0.9
Tangible Assets	8b	35.5	33.2
		37.8	34.1
Investment			
	9	7.5	8.2
Current Assets			
Stock	10	1.8	1.8
Debtors	11	18.3	14.8
National Loans Fund		22.6	20.5
Cash in hand		1.1	1.5
		43.8	38.6
Current Liabilities			
Creditors amount falling due within one year	12	(20.3)	(16.5)
Net current assets		23.5	22.1
Total assets less current liabilities		68.8	64.4
Provisions for liabilities and charges	13	(4.0)	(4.2)
Net Assets		64.8	60.2
Financed by:			
Public dividend capital		13.3	13.3
Long term loans	14	10.6	11.0
Revaluation reserve	15	12.4	11.1
Profit and loss account	15	28.5	24.8
Total government funding	21	64.8	60.2

The notes on pages 36 to 51 form part of these accounts.



Mike Robinson
Chief Executive
31 May 2007

Fees Paid to Non-Executive Directors

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 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 2007 were as follows:

- a. David Palmer CBE was appointed Chairman of the Hydrographic Board on a three-year contract commencing 6 June 2005.

- b. Michael Gates was re-appointed on a one-year contract extension, which expired on 30 June 2006.
- c. Barry Wootton was appointed on a three-year contract commencing 3 July 2006.
- d. Sandra Rogers was re-appointed on a three-year contract extension commencing 15 July 2005.
- e. Captain Ian Turner OBE RN was appointed 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	2006-07 £K	2005-06 £K	Partnership Pension £K
David Palmer CBE		35-40	30-35 (35-40 full year equivalent)	-
Sandra Rogers	1	15-20	15-20	3.8
Barry Wootton (from 3 Jul 2006)		10-15 (15-20 full year equivalent)	10-15	-
Michael Gates (to 30 Jun 2006)	1	0-5 (15-20 full year equivalent)	15-20	1.7
Captain Ian Turner OBE RN	2	-	-	-

Notes

- In these instances, UKHO contributes to a partnership pension in the amounts shown.
- Captain Ian Turner OBE 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
31 May 2007

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 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 since October 2006 in the business planning process to address significant risks to the future viability of the UKHO. This has resulted in the strategy articulated within the 2007/08 Corporate Plan.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than 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 these 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 2007 and up to the date of approval of the annual report and accounts, accords with Treasury guidance. Management continue to review the system of internal control to ensure it is fit for purpose.

Capacity to handle risk

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

Members of the Executive Committee 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.

All employees have on-line access to guidance in the identification and mitigation of risk. Senior management have also been provided with Corporate Governance and other training in recognition of their responsibility for the management 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 Charting Review and Standards branch.

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 Board undertakes quarterly reviews based on total financial performance against budgets and forecasts. I undertake formal quarterly performance reviews with members of the Executive Committee and agree changes with my Head of Finance.

Change management control, covering the development of new products and investments in new processes and infrastructure, is subject to professional project management, investment appraisal, risk assessment and formal review by the UKHO Programme Board. Major programmes of work are endorsed by the UKHO Board. Project closure reports and Post Project Evaluations are undertaken.

A Scorecard approach provides monthly reports on key business targets, linked to aims and objectives.

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.

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2007

	Note	31 March 2007 £M	31 March 2006 £M
Fixed Assets			
Intangible Assets	8a	6.8	5.4
Tangible Assets	8b	35.5	33.4
		42.3	38.8
Investments in joint venture:			
Loans	9	0.0	0.8
Share of gross assets		0.9	1.0
Share of gross liabilities		(0.9)	(1.0)
		0.0	0.8
Current Assets			
Stock	10	1.8	1.8
Debtors	11	18.6	15.7
National Loans Fund		22.6	20.5
Cash in hand		2.2	1.9
		45.2	39.9
Current Liabilities			
Creditors amount falling due within one year	12	(21.6)	(17.4)
Net current assets		23.6	22.5
Total assets less current liabilities		65.9	62.1
Provisions for liabilities and charges	13	(4.0)	(4.2)
Net Assets		61.9	57.9
Financed by:			
Trading Fund			
Public dividend capital		13.3	13.3
Long term loans	14	10.6	11.0
Revaluation reserve	15	12.4	11.1
Profit and loss account	15	28.5	24.8
Total government funding	21	64.8	60.2
Admiralty Holdings Limited Profit and loss account	15	(2.9)	(2.3)
Total Funding		61.9	57.9

The notes on pages 36 to 51 form part of these accounts.



Mike Robinson
Chief Executive
31 May 2007

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006/07 £M Continuing Operations	2005/06 £M Continuing Operations
Turnover:			
Group and share of joint venture		86.1	76.3
Less: share of joint ventures turnover		(0.1)	0.0
Group turnover	3	86.0	76.3
Change in stocks of finished goods and WIP		0.0	0.0
Materials and other external charges		(6.1)	(5.9)
Staff costs	2	(41.2)	(35.9)
Depreciation and impairment	4a	(4.1)	(2.9)
Other operating charges	4b	(26.8)	(21.7)
Profit on ordinary activities before interest and joint venture	4	7.8	9.9
Share of operating profit in joint venture		(0.5)	(0.3)
Interest receivable and similar income (Group)	5	1.2	1.3
Interest payable and similar charges:	6		
Group		(1.0)	
Joint venture		0.0	
		(1.0)	(1.0)
Profit on ordinary activity before tax		7.5	9.9
Taxation		0.0	0.0
Net Profit		7.5	9.9
Dividend		(4.9)	(6.3)
Retained profit/(loss) for the financial year		2.6	3.6

The notes on pages 36 to 51 form part of these accounts.

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.

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 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 and the Audit Committee; plans exist to address weaknesses and ensure continuous improvement of the system.

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 and a representative from the MoD with input from External Audit, Internal Audit and executive managers as necessary.

Internal Audit for 2006/07 was contracted out to PKF (UK) LLP, Chartered Accountants, 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 and totals monitored monthly by the Executive Committee and reviewed periodically by the Audit Committee and the UKHO Board.

I have reviewed all Business Continuity arrangements and managers have adopted a risk-based approach with regard to both Business Continuity Management and the overarching disaster resumption plans. All essential activities have been identified and fully tested to provide assurance of business continuity of these areas. Business Continuity arrangements are subject to continuous refinement. They comprise business resumption plans to recover onsite operational incidents; offsite storage of critical data; arrangements for incident control and for the most critical functions to be accommodated elsewhere together with a site-wide business continuity strategy that assumes loss of the whole site. Events in year have allowed the site evacuation process and resumption plans to be fully tested and subjected to thorough review and improvement. In particular, the plans for our most time critical function (Radio Navigation Warnings Service) was invoked for real in December 2006, with complete success.



Mike Robinson
Accounting Officer and Chief Executive
31 May 2007

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

The UKHO's general policy is to pay suppliers within 30 days of receipt of a valid invoice or delivery date whichever is later, unless more specific terms are agreed.

In the year ended 31 March 2007, 98.4% (2005/06 – 98.8%) of undisputed invoices were paid within the stipulated timeframe. The principles of the "Better Payment Procedure Code" have been observed. A summary of these are contained in "Government Accounting".

Euro Conversion Preparation

No additional expenditure has been incurred during 2006/07 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 multi-currency 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 improving the quality of 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 daily 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 has an active environmental policy. It is still increasing the recycling facilities on site and seeks to make sure that the disposal of waste material is carried out legally and in an environmentally friendly fashion. It encourages cycling to work and has introduced an employee purchase bicycle scheme.

The UKHO has strong links with the Taunton Deane Borough Council and with the local community, maintaining the environment surrounding the site. The UKHO is very involved with local education, including employees helping at schools in Taunton. It also hosts the local Sea Cadet unit.

Environment and Community – World-wide

UKHO staff members make a major contribution to the efforts of the International Maritime Organization and the International Hydrographic Organization (IHO) to encourage all coastal states to implement appropriate arrangements to promote safety of life at sea and protection of the environment. UKHO has taken a leading role in the development of technical standards and the provision of capacity building assistance. During the year such help has been given to 26 small island and coastal developing states in areas of high risk to cruise liners and other modern shipping, in the Caribbean, Southern Africa, Indian Ocean and Red Sea. These efforts have been supplemented by a bilateral programme of training, particularly focussed on Commonwealth countries and other key partners. The UKHO is also a major supporter of IHO efforts to coordinate surveying and charting in Antarctica.

THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds Act 1973 the Treasury has directed the United Kingdom Hydrographic Office to prepare a statement of accounts for each financial year in the form and on the basis set out in their Accounts Direction issued on 18th December 2006. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the UKHO 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. His relevant responsibilities in this role, including his responsibility for propriety and regularity of the public finances for which he is answerable and for keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

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 United Kingdom Hydrographic Office for the year ended 31st March 2007 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow 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 United Kingdom 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 UKHO's and Chief Executive's Responsibilities.

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, certain information given in the Annual Report, which comprises the "Management Commentary"; "Governance, Structure and Policies" and the "Remuneration 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 UKHO 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 UKHO'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 UKHO'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. 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 UKHO and Chief Executive as Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the UKHO'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 Fund Act 1973 and directions made thereunder by HM Treasury, of the state of UKHO's affairs as at 31st March 2007 and of its profit 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 Fund Act 1973 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises the "Management Commentary"; "Governance, Structure and Policies" and the "Remuneration Report" is consistent with the financial statements.

Audit 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.



John Bourn
Comptroller and
Auditor General
1 June 2007

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