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The United Kingdom Hydrographic Office Annual Report and Accounts 2011/12

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THE UNITED KINGDOM
HYDROGRAPHIC OFFICE

ANNUAL REPORT AND ACCOUNTS
2011/2012

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CHAIRMAN'S MESSAGE

Driving a sustainable business
Last year we set out our plans for continuing the UKHO's success, pursuing our digital vision and supporting the creation of real value for all our customers, including Defence - our most significant customer. This year has been one of progress against these plans but it has not been without challenges.

Reliable and continuously updated global navigational products are critical to the safety of mariners and their passengers at sea. The UKHO's renowned and trusted paper Admiralty chart series continues to be the mainstay of our business with digital charts becoming more important as the shipping industry prepares itself for the new SOLAS (Safety of Life at Sea) regulations coming into effect from 2012. The UKHO aspires to remain the best provider of hydrographic products in the world and is doing a great deal to maintain or advantage this position. This year we extended our in country presence to Singapore to better support our customers in Asia. This office is proving invaluable in building excellent relationships with our customers and has contributed to an increase in digital sales in this region.

We also invested significantly in the e-Navigator programme which provides a one-stop access to all that Admiralty digital navigation offers. It is an integrated digital catalogue, holding management and updating service, product viewer and passage planning tool. It makes every stage of navigation and fleet management smarter, simpler and safer for the mariner, giving mariners, shipping companies and distributors the ability to order, download and maintain Admiralty products.

The UKHO validates and verifies incoming data and has recently launched the Admiralty Information Overlay (AIO); a unique free service providing mariners with a digital database that is designed to be displayed as an overlay to Electronic Navigational Charts (ENCs) in the Electronic Chart Display & Information System (ECDIS) and other back of bridge systems. It provides additional planning and decision making information to the navigator. The overlay contains two types of information:

- Information about unresolved differences between ENCs and Admiralty paper charts, published as ENC Preliminary Notice to Mariners (EPNMs).
- All Admiralty Temporary & Preliminary Notices to Mariners (TPNMs).

We have delivered or exceeded our promises, improving both profitability and cash generation. The board is committed to progressive dividends back to the tax payer while balancing the need to invest in the business to maintain our future. Taking these considerations into account, the board has paid a dividend of £18.6m for the year.

In November 2011, we sold Admiralty Deutschland GmbH as the board deemed this business was no longer core to the UKHO business.

UKHO's contribution to society
For the first time, we've included a Sustainability Report in our Report & Account, as we place considerable importance on reducing our impact on the environment. This year we further reduced our office waste and recycled over 90% of our production waste.

We supported the South West Children's Hospice, with over £9,000 of fundraising by our people. Through our volunteering programme we sent 10 of our people weekly to a local school to support 'the Right to Read Scheme' to assist children in developing their reading skills. We were also pleased to support the local community by printing the 'Link Partnership' community newsletter.

Governance
The Audit Committee has confirmed a sound underlying control environment and well established processes for identifying and managing clearly identified risks. The higher pace of organisational and product related change over the last few years has elevated the UKHO's risk profile and underlined the need for strong controls, which have been strengthened this year by increased audits and reviews and increased control input on product development.

The Safety of Navigation Assurance Committee monitors safety and reports to the board. The primary concern has been to track and provide advice on issues relating to the safety of Electronic Navigation Charts. This committee has provided a useful forum for independent experts to advise the UKHO.

The UKHO continues to make a significant contribution in developing new standards for digital navigation by supporting the International Hydrographic Organisation. We chair two Regional Commissions and a number of committees and working groups. We also support the UK Maritime and Coastguard Agency to raise awareness of, and resolve, problems associated with the transition to digital navigation.

The board
One of the key attributes of a sustainable business is a strong, challenging board that really knows the interests of its customers, shareholder and wider stakeholders. A good board must evolve over time with excellent people sometimes leaving and others joining. Three departures and three arrivals amongst our non-executives have put us in a strong position for the next phase of development, both in the UK and internationally. I'd like to thank those departing for their service and support and to welcome Gareth Lewis, Captain Steve Malcolm Royal Navy and Peter Shortt to the board. Our CEO moved on in October 2011 and I am delighted with the sterling job performed by Ian Moncrieff and his executive team.

Our future
I am convinced that the focus and determination of the board, the executive team, our line managers and our people will enable us to deliver our plans to make the UKHO a better business with a strong future.

Finally, I'd like to thank you all for your continued support.

S G Rogers

Sandra Rogers
Chairman

FOREWORD BY THE CHIEF EXECUTIVE

Our financial performance has remained strong and our strategic direction set by the board is unchanged. We met our Key Performance Measures focussing this year on building sustainability for the longer term digital future and the coming year will reflect the same theme. As mandatory carriage of ECDIS now starts progressively for the majority of shipping, we have focused on ENC quality assurance and supporting our customers in navigating through the new legislative requirements and helping them prepare for this change. This includes the critical element of training in the use of ENCs. The mariner will always come first as we seek to solve the problems he faces and to create the value he requires from new technology.

We have delivered our objective to support the Royal Navy and other Defence interests. Highlights this year saw operational support move from high tempo military operations in Libya to the upsurge in activity in the Middle East as well as a new anti-piracy planning chart for all mariners in the Gulf of Aden. Increased burden and data sharing with allies have reaped dividends in areas with specific operational benefit and our Defence team worked with other Government agencies to produce services for the security requirements at the London and Weymouth Olympic venues.

Safety and quality remain the cornerstones of our corporate ethos and brand and as digital services grow, we will continue to differentiate our Admiralty services with our ability to provide assurance to our global users.

During the past year, by listening to the needs of mariners and applying our in-depth master mariner knowledge, we have produced practical guidance in the use of ENCs. In the early part of 2012/13, we will launch a train the trainer package that includes a new Nautical Publication and a computer-based training product. The adoption of our Admiralty Information Overlay (AIO), as the Admiralty Vector Chart Service (AVCS) quality assurance layer, has continued to grow as display systems have become available in the market. We introduced the Admiralty e-Navigator Planning Station in December 2011 which aims to assure safe and early decision making in passage planning. Uniquely in the market it includes the full benefit of our validation and verification checks along with updates of temporary and preliminary notices in force. Several more ECDIS manufacturers will implement the AIO in 2012.

The introduction of Admiralty e-Navigator has reduced the complexity and inefficiency in ordering, voyage planning and outfit maintenance for the mariner and shipping companies. Take up of e-Navigator has been strong and in line with expectations. Over 70% of distributors are now using the service with 93% of digital orders being placed through e-Navigator. Digital permits are available to the user within an average of 2 minutes. AVCS offers unique ENC coverage and quality assurance to Admiralty standards (via use of the AIO) and we have seen significant growth in both AVCS sales and user numbers. AVCS is still the most comprehensive ENC service available.

We opened an office in Singapore under Admiralty Holdings Limited (AHL) which is successfully engaging with local distributors and the maritime community in one of the world's most concentrated areas of shipping.

Financially, we have had a strong year with turnover of £135m and with a tight control on costs we have delivered a net operating profit of £32m.

We are making better use of our existing buildings and have refurbished a significant number of internal working spaces and facilities including a major reorganisation of our warehouse and despatch area. This has created a better open plan and more efficient environment for our people with improved workflow. This cost-effective programme will continue in the remainder of our estate next year.

Employee engagement, which measures employee motivation and satisfaction through personal survey, has increased over the last few months to 68%. I should like to thank all my colleagues at the UKHO for their stalwart support and steadfast dedication to our shared purpose in serving the mariner. They are, without doubt, our critical success factor. They continue to deliver our products to the high standard that our customers expect from us along with supporting our very challenging change plans. In recognition of this value, we will continue to invest in the future development of our people.

Ian Moncrieff, CBE
Chief Executive

MANAGEMENT COMMENTARY

History

The 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

Our strength traditionally lies in its universally trusted portfolio of charts and publications and the unrivalled global coverage of the Admiralty brand. The Admiralty portfolio includes over 3,300 Standard Navigational Charts, over 150 Navigational Publications and a growing number of digital products and services. The latter includes the Admiralty Vector Chart Service, the Admiralty Raster Chart Service and e-Navigator.

We use data from Royal Navy and Maritime and Coastguard Agency (MCA) surveys, from foreign hydrographic offices and from other sources, such as ports and shipping companies around the world. These organisations are key stakeholders.

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

We play a significant part in meeting those UK Government responsibilities in terms of safety of navigation (the International Maritime Organisation's (IMO) Safety of Life at Sea (SOLAS)) including charting obligations and the provision of a 24/7 Radio Navigational Warnings service. As the Government's centre of expertise in hydrographic matters, we provide advice on policy formulation and represent the UK at international fora, including the International Hydrographic Organisation (IHO).

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

The regulatory environment

Aside from meeting the navigational needs of our Defence customers, our major target sector comprises vessels operating internationally which are subject to inspection for carriage of official nautical chart and publications compliance as mandated in Chapter V of the SOLAS Regulations. The regulatory regime mandates the use of official (carriage compliant) charts and publications for primary navigation for certain vessels that make up the majority of the commercial fleets. Official information is defined as that published by a government authority, normally a hydrographic office, such as ourselves.

The IMO has approved the progressive introduction of a mandatory carriage requirement for Electronic Chart Display and Information Systems (ECDIS). Many vessels subject to SOLAS regulations will now be required to fit ECDIS in a rolling timetable beginning in July 2012. It will be phased by vessel type and size and will eventually apply to most large merchant vessels and passenger ships by July 2018. Currently, general cargo vessels below 10,000 gross registered tons are exempt and some vessels due to be taken out of service within 2 years of their implementation date may be exempted by their flag states. In all, around 40,000 vessels will be covered by the regulations. It is expected that this change in practice will start a major shift in navigation as mariners, through training and experience, derive benefit from the numerous advantages that electronic navigation, in combination with paper products, will bring; these include enhanced safety and situational awareness, improved efficiency and greater operational effectiveness.

The market environment

The global economy remains volatile. Growth has continued in Asia and South America, though at lower rates, but it is almost stagnant in Europe. Low demand combined with an over capacity in most sectors has pushed freight rates back down to their lowest levels. Oil prices remain near their peak so much of the industry is now operating at a loss. They have been addressing over-capacity by slow steaming, taking capacity out of the market and by delaying or cancelling new vessels. Despite these factors, we have not seen any measurable impact on our sales since carriage compliant products are still required for those afloat.

Our support to Defence and Security

The MoD is our owner and our most important customer – receiving not only standard products but also a number of specialist tailored navigational services. In addition to these, the Defence customer receives a range of non-navigational products to improve situational awareness and increase operational effectiveness. These range from bespoke mission specific services to environmental data that support operational freedom of manoeuvre and information superiority. Because of specialist staff and unique data holdings we are able to react swiftly to emerging crises and once again last year provided direct support to the MoD to assist in the planning and execution of short notice operations around the world.

Our people

The delivery of our vision is dependent on our people. They are our most important asset and a critical success factor in our transformation plans.

The focus of our People Plan is to build a highly engaged workforce with the sustainable capability to deliver our plans by ensuring they have the skills, confidence and flexibility to successfully embrace change.

To this end we will continue to implement improvements for our people focussing on:

- Making sure that individuals with the talent and potential are given full development opportunities. In support of this our technical training is undergoing a complete refresh and our high potential development scheme has been re-launched. This is a bespoke programme designed to deliver senior leadership capabilities and succession choices for our future success.
- Supporting, recognising and developing our technical experts to fulfil their career aspirations and meet our longer-term skills profile. To this end, a Career Level Framework was introduced for approximately 650 of our staff during the year. This seeks to recognise and accredit cartographic and allied skills, knowledge and behaviours. It gives individuals clear steps for their development and advancement. We also ran our first Technical Conference in January 2012 to celebrate excellence and share knowledge amongst our technical staff.
- Developing leaders and managers who are competent and confident to provide direction, support, challenge and inspire their people. A new framework to deliver this has been developed in consultation with the business and Trade Unions. The professional status of our managers is being developed through accreditation of our programme with the Institute of Leadership and Management and an executive development programme was introduced during March 2012.

Our People Plan has made good progress in improving engagement over the past year. This is reflected in our monthly engagement scores and sees us already recognised by a Bronze Investors in People award and Top Performer status in the Civil Service Survey. We have a professional organisational development team in place working with the business. Their aim is to support the delivery and embed all the enabling skills, knowledge and behaviours that people will need to support our digital transformation.

The average number of days lost through sickness in the year was 7.5 (2010/11: 8.9). Excluding those off with long term illness (defined as more than 3 months) reduces this to 5.5 (2010/11: 6.0).

Admiralty Holdings Limited

Admiralty Holdings Limited (AHL) is a private limited company, managed by us on behalf of the Secretary of State for Defence who owns 100% of the company. It was established for the purpose of exploiting the commercial activities of the UKHO through greater private sector involvement. AHL acquired Admiralty Deutchland GmbH (ADG) in 2005 which in turn owned 100% of the shares in SevenCs GmbH; a producer of key software for the display of ENCs on board ship. On 7th November 2011, AHL sold their share in ADG to Dutch-Belgian Trading GmbH as this business was no longer considered to be core to our business. The new company ChartWorld Europe GmbH, will continue to be an Admiralty distributor and supplier of software tools. The profit on sale of Admiralty Deutschland GmbH was £1,056k

In May 2011, a new wholly owned subsidiary of AHL was established in Singapore, Admiralty Hydrographic Asia Pacific Pte. This company was established to provide regional sales and marketing services to the UKHO and serves local distributors and the maritime community in one of the world's most concentrated areas of shipping.

Financial performance

Income increased in year by 4.6% to £135.4m.

Sales to the MoD totalled £11.7m and MoD sales as a percentage of our total income represented 8.8%, (2010/11: £11.7m, 9.4%)

Expenditure in 2011/12, excluding depreciation and the impairment of goodwill was £95.7m, an increase of £12.2m compared with 2010/11. This reflects the increase in resources required to develop products, services and systems to support the new digital business.

Operating cashflow generated in 2011/12 was £43.7m, a decrease of £0.9m compared with 2010/11. Trade and other receivables at the year end of £25.5m compared with £26.3m in the previous year. Trade and other payables < 1 Year were £40.0m, up 15.6% compared with 2010/11 due to increases in proposed dividends and royalties payable.

Capital expenditure in 2011/12 was £4.9m, £2.3m above that of 2010/11. Cash and cash equivalents totalled £90.5m at the end of March 2012, an increase of £22.5m. Cash is expected to reduce over the next few years as the major change programme projects and associated expenditure reach their peak.

The level of Government funds increased in 2011/12 by £17.2m to £121.2m.

Dividends and capital

Dividends have been paid to the MoD every year since 1998/99. In the current year the UKHO declared dividend was £18.6m (2010/11: £18.5m) of which £8.0m (2010/11:£10.0m) was paid by year end and the remainder will be paid in July 2012

Scope of responsibility

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

Statutory background

We operate as a Trading Fund within the Ministry of Defence in accordance with statutory instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 20th December 2011 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 the AHL subsidiary undertakings. All the entities are consolidated using the acquisition method and their results are incorporated from/ to the date that control passes. All accounts are drawn up to 31 March each year.

AHL was incorporated during 2002/03 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.

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

Financial structure

Investment in the UKHO has been provided by the Secretary of State for Defence by way of Public Dividend capital, which is the equivalent of equity funds on which dividends are paid and an originating 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 receivables, trade payables etc. that arise directly from its operations. The main purpose of these financial instruments is to raise finance for our operations.

We do not enter into derivative transactions such as interest rate swaps or forward foreign currency exchange contracts.

At 31 March 2012, the UKHO had no material risks arising from its financial instruments that arise in the course of normal business operational activities. Liquidity is strong. Loan capital is repayable at a fixed rate of interest. The majority of sales are made in sterling thus minimising the risk from foreign currency exchange fluctuations.

VISION, MISSION AND OBJECTIVES

Vision

Our vision is to be the world leader in the supply of hydrographic information and services.

Mission

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

Objectives

The UKHO has agreed with our owner a balanced scorecard of top-level objectives with associated key performance measures relating to:

- **Objective 1 – Operational support to the Royal Navy and other Defence customers**

  We provide value to Defence by delivering the hydrographic services which enable the Royal Navy and other Defence and National Security customers to meet current and future operational tasks.

- **Objective 2 – Support to "Safety of Life at Sea" treaty obligations**

  We provide wider value to the Government, in support of the Maritime and Coastguard Agency (MCA), which is the responsible authority for the UK's Treaty obligations; and whose role is to discharge efficiently and effectively those actions required to support the obligations under SOLAS 1974 (as amended and including its protocol of 1998) and to promote hydrographic services.

- **Objective 3 – Developing profitable business streams**

  Subject to maintaining the capability to deliver against the two objectives above, we are required to extract maximum value from assets and capabilities by generating profitable revenue from customers outside Government. In doing this, the Government expects us to develop a robust strategy for exploiting the changing commercial market for hydrographic and related geo-spatial products and services, in particular the increasing demand for digital products.

- **Objective 4 – Organisational excellence**

  In delivering the above objectives, the Government requires us to demonstrate organisational excellence.

CORPORATE SOCIAL RESPONSIBILITY

As well as meeting our obligations as a national hydrographic office, we have continued to extend our discretionary commitments to help maintain, manage and improve our global economic, social, and environmental impact.

Our commitment to our people

We have continued to invest in our most valuable asset, our people. This investment includes providing an average of over 50 hours of learning opportunities per person during the year, creating new modern working areas and refurbishing many offices and communal areas, introducing a Career Level Framework to provide a technical development path; refreshed the "Embark" programme to develop management potential from within; and launched a Leadership and Management Framework that values, recognises and rewards good management behaviours and actions. Further details of how we have developed our staff is provided in the Management Commentary on page 7.

Local community

In the local community, our people assisted local school children to develop their reading skills through the Right to Read Scheme. They raised over £9,000 for Children's Hospice South West and chose 'Go Commando' as their charity of the year for 2012/13. They also undertook voluntary work for important organisations such as the RNLI. We continue to host a thriving Sea Cadet unit which provides opportunities for young people in the Taunton area. We provide work experience placements for local school children and support the East Taunton Link Partnership with a range of services, projects and initiatives such as printing their community newsletter.

Environment

To minimise our impact on the environment, we have increased recycling facilities on site, reduced the amount of waste going to landfill, and taken great care to ensure that the disposal of waste material is carried out in an environmentally sound way. Over 70% of office waste was sent for recycling and over 90% of Production Waste was recycled; some of the highest rates in the public sector. We continue to encourage cycling to work through membership of the Cycle Scheme Incentive and by providing regular bicycle servicing sessions at no cost to staff. Car sharing continues to be encouraged and new initiatives such as dedicated bus services and increased access for cyclists and pedestrians are being explored by the Green Travel Policy Committee. Energy saving measures such as double-glazed windows and low-energy light bulbs make the most of our older buildings, while the newer ones have received Energy Performance Certificates. Further information on how we are reducing our impact on the environment are contained within the Sustainability Report which appears on page 12.

UK Defence

Our commercial success funds our service to the Royal Navy (RN), making it a zero cost to the UK tax payer. Our service to the RN helps it to protect not just British, but also other nations' interests abroad, including peace-keeping efforts and anti-piracy support which benefit the entire commercial fleet and global economy. The UKHO releases staff to serve as reserves within her Majesty's Armed Forces and this year we have also worked with other Government agencies to produce services that will support the national security arrangements at the London and Weymouth Olympic venues.

International hydrographic community

We play an influential role within the international community, supporting a wide range of international organisations; primarily for safety of navigation, but also in support of other marine activities such as security, defence and environmental protection. We support the International Maritime Organisation (IMO) and the International Hydrographic Organisation (IHO) in these endeavours, by encouraging all coastal states to implement their Treaty obligations to promote safety of life at sea, through provision of adequate and timely hydrographic data, products and services.

We take a leading role in the development of international technical standards and the provision of capacity building assistance under the auspices of the IHO. This year we trained 111 students from 39 countries in hydrographic data processing and marine cartography and ENC production. In addition our International Hydrographic Projects Manager provides coastal states with advice and management of hydrographic surveys.

We liaise with partners within the UK Location Programme to establish our obligations under the EU INSPIRE Directive and UK INSPIRE Regulations 2009, to make relevant data sets discoverable, viewable and downloadable via both a UK national portal (www.data.gov.uk) and in the longer term through an EU 'geoportal'. The technical solution for this requirement is being provided through the use of the DEFRA Network Initiative, 'Datashare', which supports cross-government spatial data planning.

Our Bathymetric Survey Data Archive Centre (which is accredited by the Marine Environmental Data and Information Network; MEDIN) will also use the DEFRA solution and www.data.gov.uk to facilitate free public and commercial access to, and use of, bathymetric survey data.

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Customers

Our portfolio of Admiralty products and services far exceeds just the UK's SOLAS treaty obligations for charting national waters. It provides mariners with easy access to assured, harmonised hydrographic data from port to port worldwide. This is available globally, has a consistent look and feel and our products provide the range of carriage compliant material needed for planning and the conduct of safe navigation. To help our customers make the transition from analogue to digital products, as well as selling them SOLAS-compliant fit-for-purpose products, we also supply a wide range of complementary services. These include training packages, 24/7 customer support, tools to aid ordering and passage planning, the results of our unique validation and verification checks to provide them with data quality assurance (via the Admiralty Information Overlay) and free updates to keep products up to date and safe for use at all times.

The future

We are actively pursuing 'print-on-demand' technology to reduce the distribution, maintenance and storage costs associated with the distribution of physical products; as well as to ensure equitable competition within our Distributor network and reduce the associated environmental impact.

To help shipping companies combat the increasing environmental, political and financial pressures upon them and create further value from technology, we are developing enhanced passage-planning tools that will help mariners to optimise vessel-routes; increasing fuel-efficiency and reduce harmful emissions.

In order to encourage recruitment and investment in the local community, we will shortly be launching a cartographic apprenticeship scheme that will source, train and offer development opportunities to local workers.

SUSTAINABILITY REPORT FOR 2011/12

This report is produced in line with the latest public sector reporting requirements on sustainability, as detailed in the Financial Reporting Manual (FReM).

The UKHO has made significant progress in meeting its sustainability targets in recent years, making significant reductions on baseline years in all areas below: emissions, waste, water and energy.

We are actively looking at undertaking a range of green commuter travel initiatives, these should take affect during 2012/13.

The following provides a breakdown of performance in key environmental areas:

Emissions

	Notes	**2011/12** **tCO^2e**	**2010/11** **tCO^2e**	**2009/10** **tCO^2e**
Gross emissions for scopes 1 & 2 (energy)				
Electric		3,741	3,782	3,786
Gas		625	812	828
Total Gross emissions for Scopes 1 & 2 (energy)		*4,366*	*4,594*	*4,614*
Emissions from organisation owned fleet vehicles		18	20	20
Total Gross emissions for Scopes 1 & 2		**4,384**	**4,614**	**4,634**
Gross emissions scope 3 (business travel)	a & b	34	18	N/A
Total gross emissions for scopes 1,2 & 3		**4,418**	**4,632**	**4,634**
Net emissions for scopes 1 & 2		4,384	4,614	4,634
Net emissions for scope 3 (business travel)		34	18	N/A
		£K	**£K**	**£K**
Expenditure on energy		687	622	619
Expenditure on official business travel		1,072	1,087	943
Total expenditure on energy and business travel		**1,759**	**1,709**	**1,562**

tCO^2e: Tonnes of CO^2 equivalent.

a. For comparative purposes in 2009/10 and 2010/11, we were limited with the information available to extract gross emissions scope 3 data for business travel. The data was not collected or reported in this method during these years. We have processes in place to ensure these are reported on a regular basis.

b. Gross emissions scope 3 (business travel) for rail only includes UK travel.

Targets and commentary

We had a target to reduce carbon emissions by March 2012 from our 2009/10 baseline levels. In 2011/12, we achieved a 25% reduction from our baseline year. Much of this was achieved due to a milder than normal winter.

Direct impacts commentary

The main impacts for us in terms of carbon emissions are our electricity and fuel consumption. Strategies have been prepared to reduce these direct impacts through efficiency programmes.

Overview of direct impacts

We are able to influence the emissions of our supply chain significantly through procurement specifications.

Waste

		2011/12 tonnes	2010/11 tonnes	2009/10 tonnes
Hazardous waste	Reused/Recycled	12	0	0
Non hazardous waste	Landfill	0	40	57
	Reused/Recycled Incinerated/energy from waste	335	180	151
Total waste		347	220	208

Targets and commentary

The UKHO has a target of reducing waste to landfill by 50% by 2012/13 and for 75% of the office waste we do produce to be recycled. In 2011/12, we generated approximately 335 tonnes of residual office waste. We recycled 89% of this waste. This does not include the Chart Paper which is 100% recycled and accounts for an additional 519 tonnes.

Direct impacts commentary

We undertake regular waste audits and visits to the waste contractors, as well as providing opportunities to recycle up to 23 different waste streams from our offices. We have also implemented a range of additional local initiatives that include a “waste to energy” scheme.

Overview of indirect impacts

We are able to place certain quality objectives on our suppliers in terms of their waste disposal performance. We are currently working alongside them to improve both the culture and actual performance in relation to waste management and disposal.

Water

	2011/12 M^3	2010/11 M^3	2009/10 M^3
Water consumption	8,410	11,991	10,189
	£K	£K	£K
Water supply costs	34	43	36

M^3 : Cubic meters

Targets and commentary

Our target is to reduce the establishment consumption from a baseline of the 2009/10 levels. This year we have met the target by reducing consumption by 18% compared with the baseline.

Direct impacts and commentary

Our print production consumes water during the washing process. Procurement of more efficient machinery has helped us to reduce consumption. Most water on site is consumed in washrooms & kitchens. All washrooms have been fitted with point of use water heaters and urinal flush regulators.

Overview of indirect impacts

The UKHO procures its water supply in accordance with government sustainability guidelines.

Energy

		2011/12 M KWh	2010/11 M KWh	2009/10 M KWh
Energy consumption	Renewable electricity	7.06	7.14	7.14
	Gas	3.29	4.28	4.36
		£K	**£K**	**£K**
Total energy expenditure		687	622	619

M KWh: Million kilowatt-hour

Targets and commentary

This year we have used 10 million kWh in our buildings, a reduction of 1 million on the base year.

Direct impacts commentary

Our main areas for energy consumption are running the printing presses, powering the server rooms and lighting, heating and cooling our offices. Our overall energy consumption is highly dependant upon the weather. We are working to ensure that operational equipment we use and our usage of it, is as energy efficient as possible.

Overview of direct impacts

We have reduced our own energy consumption and through our sustainable procurement activities, we work to encourage our suppliers to reduce their energy and consumption.

Biodiversity & adaption action plans

Biodiversity and climate adaption planning is very much in its infancy. Discussion documents are being drafted and will be agreed by management by the end of 2012/13.

Sustainability procurement commentary

The UKHO has implemented a number of measures in order to embed sustainability into our supplier selection process and seeks evidence and innovation from the market place in order to procure sustainably. Contract specifications and terms and conditions include environmental factors which reflect the consumption of our large print production facility, as well as social considerations such as equality and diversity.

Whole-life cost analysis is undertaken for relevant contracts and targets are agreed and reviewed with suppliers as part of our supplier review agenda. We have also adopted simple incentive initiatives where appropriate. Training forms part of our induction process and success is measured as part of our own internal performance appraisal process. We believe we are proactively supporting the sustainability agenda.

Notes:-

1. The above report has been prepared in accordance with guidance laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial-reporting.gov.uk. These requirements are fully consistent with non-financial information requirements laid down under the Greening Government commitments (GGC) (including the transparency requirements).
2. Emissions accounting includes all Scope 1 and 2 emissions along with separately identified emissions related to official travel (scope 3). Department for the Environment, Food and Rural affairs (DEFRA) conversion rates have been used to account for carbon.
3. There were no changes to accounting policies or boundaries that impacted prior year or year-on-year carbon reporting.

KEY PERFORMANCE MEASURES

RESULTS 2011/12

In assessing our performance the Owner (advised by the Owner's Council) uses a number of key measures which are reviewed annually and amended as required. The results against these key measures are as follows:

Key performance measure 1 - Defence

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

Status: Achieved

Performance		2011/12	2010/11
Safety Index	Target	**95.0**	95.0
	Actual	**99.0**	99.5

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

Key performance measure 2 - Safety

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

Status: Achieved

Performance		2011/12	2010/11
Index rating	Target	**95.0**	95.0
	Actual	**98.6**	98.6

The safety Index indicates the timeliness and quality of the process for identifying navigationally significant changes in incoming hydrographic source material and issuing product updates through Notices to Mariners and Electronic Navigational Chart (ENC) updates. The index tracks all delays in this process compared to set performance indicators, together with errors that required the publication of a correction.

Key performance measure 3 - Finance

To achieve a Return on Capital Employed of 9% on a 3-year rolling basis ending 2011/12.

Status: Achieved

Return on Capital Employed

Performance:		2011/12	2010/11
ROCE	Target	**9.0%**	**9.0%**
	Actual	**32.8%**	**32.5%**

Key performance measure 4 - Organisational Excellence

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

Status: Achieved

Performance:		2011/12	2010/11
Organisational Excellence	Target	**75.0**	**75.0**
	Actual	**85.0**	**77.5**

Organisational Excellence is assessed across 10 separate measures with each scoring 10 for full achievement and 5 for partial achievement and 0 for failure.

KEY PERFORMANCE MEASURES FOR 2012/13

As in previous years, our Key Performance Measures will remain aligned with our Top Level Objectives. These objectives are approved by the Owner's Council. We are no longer required by Government to publish these measures, however in the interests of maintaining transparency the board believes it important that our stakeholders have visibility of our key performance measures.

To succeed in a more competitive digital business marketplace that we will face in the future we need, as an organisation, to become a lot more customer focussed. To support this and to stress this imperative to our staff, this year there will be a fifth measure focusing on improving customer satisfaction. Where other changes have been made, these are indicated below.

Key Performance Measure 1 – Defence

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

Change from prior year: Unchanged

Key Performance Measure 2 – Safety

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

Change from prior year: The Safety Index consists of three parts; the safety index, the delays index and the errors index. From this year, for the measure to be achieved, each of the three parts must each be achieved.

Key Performance Measure 3 – Finance

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

Change from prior year: Previously the measure was based on a 3-year average. However, this target was set by Treasury in October 2009 to be based on a 5-year average but due to the introduction of International Financial Reporting Standards it has not been, until this year, that we have had 5 years of comparable data upon which to base this measure.

Key Performance Measure 4 – Organisational Excellence

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

Change from prior year: Some of the outcomes have been changed to reflect current priorities and this year there are only 7 measures compared with 10 last year as some have been moved into KPM5.

Key Performance Measure 5 – Customer Satisfaction

To achieve at least 35 out of 50 against 5 outcomes which together reflect a measure of increased Customer Satisfaction

Change from prior year: New measure

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 Government has made a commitment to speed up the payments process of Public Sector Organisations with the aim to pay at least an average 80% of suppliers within 5 days. 89.7% (2010/11: 87.7%) of undisputed invoices were paid within the target. The principles of the "Better Payment Procedure Code" have been observed. A summary of these are contained in "Managing Public Money".

Policy on the employment of the disabled

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

Employee involvement

We are committed to quality communication with employees and encouraging their commitment to our 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 internal newspaper, presentations by the Chief Executive to all employees and other ad hoc bulletins. Our intranet includes a weekly blog by the Chief Executive or other members of the executive committee and an employees' forum in which employees are free to raise any issues of general concern or of topical interest. A bi-annual staff survey is supplemented by a monthly 'staff barometer', results of which are reported to the board. Formal consultations over a wide range of issues are conducted through the Whitley Committee, chaired by the Chief Executive, who meet several times a year. Trades Unions are actively encouraged to contribute to studies and other reviews and are represented on the UKHO board.

REMUNERATION REPORT

In accordance with the Financial Reporting Manual we are required to prepare a Remuneration Report containing certain information about directors' remuneration. "Directors" is interpreted to mean persons in senior positions having authority or responsibility for directing or controlling the major activities of the UKHO. In the UKHO's opinion the CEO supported by the board are responsible for directing and controlling the major activities of the organisation. As additional disclosure, the details of the emoluments and pension of the Chief Financial Officer are also disclosed. While he is not formally a board member he participates in board meetings and exercises influence on the decisions made by the board. The Executive Committee have not been disclosed; while they have influence over operational decisions they are not involved in strategic decisions which are the responsibility of the board.

Remuneration policy

Ian Moncrieff was appointed Interim Chief Executive on 18 October 2011.

Mike Robinson, Chief Executive was appointed on 3 July 2006. He resigned on 31 October 2011.

Michael Cauter was appointed on 25 June 2007 He resigned on 31 October 2011.

Andrew Millard joined the board as an attendee from 1 November 2011.

David Loosley was appointed Head of Operations and Production on 16 April 2007. He resigned on 31 October 2011.

Rear Admiral Nick Lambert was appointed as National Hydrographer with effect 19 August 2010.

Richard Brooks was appointed as Head of Corporate Services from 1 April 2011 and resigned on 2 April 2012 when he left the UKHO following promotion to MoD DSTL.

Paul James was appointed Chief Information Officer with effect 26 April 2010. He resigned on 4 March 2012.

Richard Brooks and Paul James were both members of the senior civil service whilst in post.

The methods of reviewing the remuneration of the above executives are shown below.

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 other than senior civil service appointments. 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 our 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 performance 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 2011/12, performance-related pay amounted to 4.4% of salary (2010/11: 4.3%). All pay awards are subject to satisfactory performance. This includes consolidated base pay and non-consolidated bonuses.

Service contracts

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

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

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

The Chief Executive holds a delegation from the MoD for recruitment within the UKHO up to but not including Senior Civil Service grade. The duration of contracts and notice periods are in accordance with the Civil Service Management Code. The duration of contracts are determined by business need and include some fixed term appointments. Compensation on termination of all appointments is in accordance with the Civil Service Compensation Scheme.

The appointments of non-executive directors are in accordance with MoD guidelines and the Office of the Commissioner for Public Appointments Code of Practice.

Salary and pension entitlements

(This section has been subject to audit)

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

Salary

'Salary' includes gross salary, 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 HMRC as a taxable emolument.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Unless otherwise stated, bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2011/12 relate to performance in 2010/11 and the comparative bonuses reported for 2010/11 relate to the performance in 2009/10.

Remuneration of the highest paid director and the median remuneration of the organisation's workforce

The UKHO is required to disclose the relationship between the remuneration of the highest paid director in the organisation and the median remuneration of the organisations workforce.

The banded remuneration of the current highest paid director in the UKHO in 2011/12 was £110-£115K (2010/11 £170-£175K). This was 4.0 times (2010/11 6.2) the median remuneration of the workforce, which was £27.8k (2010/11 £27.8k).

In 2011/12, there were no employees that received remuneration in excess of the highest paid director.

The change in highest paid director is due to a change of Chief Executive in 2011.

The workforce median has not changed in 2011/12 and 2010/11 due to the civil service pay freeze.

The figures above include only UKHO employees. Agency costs are not included as we do not report actual remuneration paid to the employee separate from the total agency fee.

Total remuneration includes salary, non-consolidated performance related pay, benefits in kind as well as severance payments. Total remuneration does not include employer pension contributions and the cash equivalent transfer value of pensions.

Remuneration Details

	Notes	2011/12 Salary Band £K	2011/12 Bonus Payments £K	2011/12 Benefits in Kind (to the nearest £100) (Note 6)	2010/11 Salary Band £K	2010/11 Bonus Payments £K	2010/11 Benefits in kind (to the nearest £100) (Note 6)
Ian Moncrieff CBE	1 & 3	110 – 115	–	–	35 – 40 (105 – 110*)	–	–
Rear Admiral Nick Lambert	4	105 – 110	–	–	65 – 70 (105 – 110*)	–	100
Mike Robinson (Up to 31 Oct 2011)	1	90 – 95 (160 – 165*)	95 – 100	24,200	170 – 175	20 – 25	20,800
Michael Cauter (Up to 31 Oct 2011)	1	75 – 80 (130 – 135*)	25 – 30	–	120 – 125	25 – 30	100
Andrew Millard		70 – 75	0 – 5	–	–	–	–
David Loosley (Up to 31 Oct 2011)	1	60 – 65 (100 – 105*)	30 – 35	–	100 – 105	15 – 20	–
Richard Brooks	2	75 – 80	0 – 5	4,200	65 – 70	5 – 10	3,600
Paul James (up to 4 Mar 2012)	2 & 5	85 – 90 (95 – 95*)	–	10,000	60 – 65 (65 – 70*)	–	10,000
Jennifer Peart (up to 30 Sep 2010)	1	–	–	–	45 – 50 (115 – 120*)	10 – 15	9,000

* denotes full time equivalent

	2011/12 £K	2010/11 £K
Band of highest paid directors	**110 – 115**	170 – 175
Median of all UKHO employees	**27.8**	27.8
Ratio	**4.0**	6.2

	Bonus relating to 2010/11	**Bonus relating to 2011/12**	**Deferred Bonus paid on departure**	**Total**
Mike Robinson	30 – 35	30 – 40	25 – 30	95 – 100
Michael Cauter	15 – 20	–	10 – 15	25 – 30
Andrew Millard	–	0 – 5	–	0 – 5
David Loosley	15 – 20	–	10 – 15	30 – 35
Richard Brooks	–	0 – 5	–	0 – 5

Notes

1. Salaries are reviewed annually on 1 April in line with provisions applying to special appointments outside the standard Civil Service performance related pay scheme. The Office of Public Service centrally determines the annual increases for these special appointments.
2. The Prime Minister following independent advice from the Review Body on Senior Salaries sets the remuneration of senior civil servants. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

3. Ian Moncrieff was holding the role of Chief Operating Officer on a 3 year FTA when he was appointed Interim Chief Executive with effect 18 October 2011.

4. Rear Admiral Nick Lambert is a serving Royal Navy Officer on loan to the UKHO. Whilst MoD charges for his services based on loan capitation rates, the figures above reflect his actual salary. He is remunerated in line with his parent service.

5. Paul James' salary payment includes a contractual payment in lieu of notice.

6. Benefits in kind primarily reflect payments for the provision of temporary accommodation in Taunton and weekend travel home. Meals provided in the pursuance of official business activities are also reflected. These figures represent gross taxable values. The tax liability is met by the UKHO.

Pension Benefits

(This section has been subject to audit)

	Note	**Accrued benefits***		**Real increase in benefits**		**CETV**	**CETV**	**CETV**
		Pension Note a	Lump sum Note a	Pension Note a	Lump sum	31/03/2012	31/03/2011 Note e	Real increase
		£K	£K	£K	£K	£K	£K	£K
Mike Robinson (Up to 31 Oct 2011)		10 – 15	Note c	0 – 2.5	Note c	156	129	10
Michael Cauter (Up to 31 Oct 2011)		5 – 10	Note c	0 – 2.5	Note c	108	87	14
Andrew Millard		5 – 10	Note c	0 – 2.5	Note c	94	71	14
David Loosley (Up to 31 Oct 2011)		5 – 10	Note c	0 – 2.5	Note c	93	79	11
Richard Brooks		25 – 30	80 - 85	0 – 2.5	5 – 10	416	354	29
Jennifer Peart (Up to 30 Sept 10)		0	Note c	0	Note c	0	0	0
Paul James (up to 04 Mar 2012)	g	10 – 15	35 – 40	0 – 2.5	0 – 2.5	243	226	5
Ian Moncrieff CBE		0 – 5	Note c	2.5 – 5.0	Note c	53	13	35

* As at 31 March 2012

Notes

a. Pension and lump sums are as at pension age.

b. Notional pension figures – member does not have two years service to qualify for a pension.

c. No automatic lump sum payable as member is in the Premium/Nuvos scheme.

d. None of the above are members of partnership pension schemes.

e. The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations.

f. The actuarial factors used in the calculation of Cash Equivalent Transfer Values (CETVs) were changed during 2011. The new factors mean that the CETV value shown in 2011 will not be the same as the corresponding figure shown in 2010.

g. Paul James received a Compensation Lump Sum award of £86k which was within the terms of the pension scheme.

Civil Service Pensions

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

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

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

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

Further details about the Civil Service pension arrangements can be found on their website at:
www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Fees Paid to Non-Executive Directors

(This section has been subject to audit)

Non-executive directors are not appointed as Civil Servants. Contracts may be terminated at one month's notice by either party or on dissolution of the board unless found guilty of gross misconduct when termination will be immediate. They may be exceptionally extended by mutual agreement at the end of the period normally for one further period only. There are no compensation entitlements for early termination. Current contractual arrangements applying to the non-executive directors as at 31 March 2012 were as follows:

a. Sandra Rogers was appointed as Chair for an initial term of 3 years ending on 30 April 2014. She was interim chair prior to this.

b. Philip Langsdale was appointed on a three-year contract commencing 11 July 2007. This was extended for a year in 2010. He resigned from the board on the 11 July 2011.

c. Gareth Lewis was appointed on a three-year contract commencing 20 October 2011.

d. Captain Bob Stewart RN was appointed with effect from 1 August 2007 in his capacity as Hydrographer of the Navy. Captain Bob Stewart retired on 23 May 2010.

e. Captain Vaughan Nail RN was appointed with effect from 24 May 2010 in his capacity as Hydrographer of the Navy and will retain his position whilst in that post.

Fees paid to non-executive directors were as follows:

	Notes	**2011/12** £K	2010/11 £K	**Partnership Pension 2011/12 £K**	Partnership Pension 2010/11 £K
Sandra Rogers	1	**35 – 40**	35 – 40	0.5	6.2
Barry Wootton		**15 – 20**	15 – 20	–	–
Phillip Langsdale (up to 31 Aug 2011)		**5 – 10** (15 – 20*)	15 – 20	–	–
Gareth Lewis (From 20 Oct 2011)		**5 – 10** (15 – 20*)	–	–	–
Jan Smith (up to 29 Jul 2010)		**–**	5 – 10 (15 – 20*)	–	–
Captain Bob Stewart RN	2	**–**	–	–	–
Captain Vaughan Nail	2	**–**	–	–	–
Emma Davies	2	**–**	–	–	–

*denotes full time equivalent

1. Partnership pension contributions are no longer payable since appointment as Chair.

2. Captain Bob Stewart RN was a serving Royal Navy Officer retiring on 23 May 2010. Captain Vaughan Nail is a serving Royal Navy Officer. His appointment on 24 May 2010 is made in conjunction with his responsibilities as Hydrographer of the Navy. Emma Davies represents MoD BSG. They do not receive separate remuneration in undertaking these duties.

Ian Moncrieff, CBE
Chief Executive
19 June 2012

STATEMENT OF UNITED KINGDOM HYDROGRAPHIC OFFICE AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 4(6)(a) of the Government Trading Funds Act 1973 HM Treasury has directed the United Kingdom Hydrographic Office to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction issued on 20th December 2011. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trading Fund and of its income and expenditure, changes in taxpayers equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- ensure that the UKHO has in place appropriate and reliable systems and procedures to carry out the consolidation process.
- 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 and
- prepare the accounts on a going concern basis.

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

GOVERNANCE STATEMENT

Governance

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. Each year I obtain approval from the responsible Minister for my 5-year Corporate Plan and financial projections covering a rolling five year period. Considerable effort has been engaged in the business planning process to address the challenges faced by the business as the market it serves moves from largely paper based products to digital products

UKHO Owner's Council

The Minister is advised by an Owner's Council; through the Owner's Council the Minister reviews performance against the first year of the plan and reviews and gives approval of specific major investments.

UKHO Board

Plans are formulated by a board of UKHO executives and non-executives. This board also routinely monitors progress and endorses investment business cases.

The last self assessment was held in October 2010. A further review is planned during 2012/13. During 2011/12 the board met 6 times and the average attendance was 94%. The attendance of individual members (during their tenure in office) was:

	Attendance
Sandra Rogers	6/6
Richard Brooks	6/6
Emma Davies	6/6
Barry Wooton	6/6
Mike Robinson	3/3
Paul James	3/3
David Loosley	3/3
Gareth Lewis	3/3
Ian Moncrieff	5/6
Nick Lambert	5/6
Michael Cauter	2/3
Vaughan Nail	4/6
Philip Langsdale	1/2

Audit Committee

The Audit Committee (AC) is a sub-committee of the Hydrographic Office board. The Audit Committee provides the Chief Executive with guidance and independent assurance on the effectiveness of the system of internal control. Meeting four times a year, its membership consists of three non-executive directors, one of whom chairs the committee. Other senior executives attend depending on topic.

It is charged with monitoring and overseeing the effectiveness of our internal controls and risk management procedures and managing the internal audit programme. The chairman has a finance background and its quarterly meetings are attended by the Head of Internal Audit and invited members of the UKHO Executive Committee, DIA and NAO.

The UKHO has a sound underlying control environment and has well established processes identifying and managing a portfolio of clearly identified risks. However, the higher pace of organisational and product related change over the last few years has elevated the UKHO's risk profile and underlined the need for strong controls.

This situation is being managed by a continued high tempo of audits (external auditors, internal audit and a number of other internal and external audit arrangements); regular review at the audit committee, Executive Committee and board. These bodies consider material audit findings, the organisation's risk profile and planned correction/ management programmes; and increased internal audit and control input at the inception of developments.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee works within MoD and other Government guidelines to advise the Chief Executive and UKHO board on remuneration and reward for the executive board directors and the next most senior UKHO staff.

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

For the selected staff, the committee will:

- recommend the regular review of performance schemes
- review and endorse objectives and bonus drivers including stretch targets
- 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 Chair of the Committee reports to the Chair of the board on its proceedings.

Safety of Navigation Assurance Committee

The Safety of Navigation Assurance Committee monitors safety within the portfolio of our products. The committee is chaired by one of the board's non-executive directors; Captain Vaughan Nail, Hydrographer to the Navy and draws from a wide range of independent experts including the Royal Navy, Maritime and Coastguard Agency, Royal National Lifeboat Institution, Trinity House, Associated British Ports, Marine Accident Investigation Branch, Chamber of Shipping, Committee International Radio-Maritime and Royal Yachting Association.

Auditor

Our accounts are audited by the Comptroller and Auditor General of the National Audit Office in accordance with section 4(6) of the Government Trading Funds Act 1973. The cost was £69k for performance of the statutory audit. 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 our auditors are unaware, and I have taken all appropriate steps to make myself aware of any relevant audit information and to establish that our auditors are aware of that information.

Compliance with the Corporate Governance Code

The board has carried out a self assessment using the NAO code of good practice compliance checklist and considers that it has complied with all aspects of the Corporate Governance Code to the extent that it is deemed relevant and practical.

AHL

The same governance arrangements apply to AHL, which (for legal reasons) has a separate board structure but many members are the same. Governance of AHL accords with agreed MoD policy. The AHL board has a non-executive chairman; there is also independent representation on the boards of individual companies.

The accounts of AHL and its subsidiaries are audited by Baker Tilly, where an audit is required.

Membership of the various governance structures is as follows:

Executives


Ian Moncrieff CBE
Chief Executive


RAdm Nick Lambert
National Hydrographer and
Deputy Chief Executive (Hydrography)


Richard Brooks
Chief Operating Officer and
Deputy Chief Executive (Corporate)


Andrew Millard
Chief Finance Officer

Non-Executives


Sandra Rogers
Chairman


Capt Vaughan Nail
RN Hydrographer of the Navy


Philippa Childs


Gareth Lewis


Barry Wootton


Emma Davies

UKHO Owner's Council	UKHO Board	Audit Committee	Remuneration Committee	AHL	Membership at 31 March 2012
●	●	*		●	Mike Robinson (Chief Executive) to October 2011
*	●	*		●	Michael Cauter (Commercial & Finance Director & Deputy Chief Executive-Corporate) to October 2011
*	●	*		●	Rear Admiral Nick Lambert (UKHO National Hydrographer & Deputy Chief Executive-Hydrography)
	●	*	*	●	Richard Brooks (Head of Corporate Services)
	●	*		●	David Loosley (Head of Operations & Production) to October 2011
●	●	*		●	Ian Moncrieff CBE (Chief Executive) from October 2011
	●	*		●	Paul James (Chief Information Officer) to December 2011
	*	*			Andrew Millard (Chief Financial Officer) from November 2011
●	●			●	Sandra Rogers (Chairman)
	●		●	●	Philip Langsdale (Non-Executive Director) to July 2011
	●		●	●	Gareth Lewis (Non Executive Director) from October 2011
	●	●	●	●	Barry Wootton (Non-Executive Director)
	●	●		● +	Captain Vaughan Nail RN (Captain HM & Hydrographer of the Navy, Non-Executive Director)
●	●	●	●	●	Emma Davies (Director of MoD Business Strategy & Governance, Non-Executive Director) to April 2012
	*				Phillippa Childs (Trade Union Representative)
●					Rt Hon Andrew Robathan MP (Chairman) Parliamentary Under Secretary of State & Minister for Defence Personnel, Welfare & Veterans
●					Jon Thompson (MoD Finance Director)
●					Vice Admiral George Zambellas DSC (Deputy Commander in Chief Fleet)
●					Major General Jerry Thomas (Assistant Chief of Defence Staff Intelligence Capability)
●	●	●	●		Peter Shortt (Director, Shareholder Executive) UKHO board from April 2012
●					Sir Alan Massey (Chief Executive, Maritime & Coastguard Agency)
●					Michael Everard CBE (External Advisor Commercial Shipping)
●					Air Vice Marshal Johnathan Rigby (Assistant Chief of Defence Staff - Intelligence Capability) from March 2012

* Invited Attendees

Company secretary for AHL: QuaySeco Ltd appointed 28 Apr 2011

Conflicts of interest

There were no reported conflicts of interest between board members and their activities at the UKHO. There were some related party transactions with one member of the UKHO board and this is reported under note *27 Related Party Transactions* within this report. The board are happy that this member had no involvement with the placing of the contracts concerned.

We maintain a register of interests which is available for inspection at our offices in Taunton upon request of the Chief Financial Officer

UKHO Internal Control

The Governance Structures outlined above support a system of internal control which is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the UKHO for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts and accords with Treasury guidance

Capacity to handle risk

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

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

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

Risk management is a fundamental part of our business activity and an essential component of its planning process. To keep risk management at the heart of the executive agenda, it is embedded into the everyday management of the business. We ensure that we have the functional capacity to manage existing and emerging risks throughout our business. At a strategic level our risk management objectives are:

- To identify material risks and ensure that they are visible, fully debated and rigorously challenged
- To help the business improve the control and co-ordination of risk taking across the business

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

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

We have invested in a computerised risk management system that facilitates nested risk registers across all divisions, including transformation programmes and projects. Corporate risks are owned by divisional heads and are subject to robust and effective review and challenge.

Responsibility for risk management resides at all levels within UKHO from the executive down through the organisation to each business manager. Risks are co-ordinated by a dedicated risk manager who maintains an oversight and scrutiny role, facilitates risk workshops and oversees and administers the computerised system.

At each meeting of the UKHO board and the Audit Committee risk reports are reviewed that provide a summary of risk management, including all risks identified to be high and the status of their treatment plans, visibility of the current risk profile and changes in that risk profile during the year.

The risk management function is subject to internal review by independent internal auditors appointed by the Audit Committee.

The risk and control framework

The most significant risk is the safety of our core products. This is managed via:-

- Prioritisation of updating via a risk index
- Risk assessment for all new products
- Independent oversight of professional standards and operating processes by the Safety of Navigation Assurance Committee (made up mainly of non UKHO personnel) and the Audit Committee (comprising 3 Non-executive directors which runs an active internal audit and risk evaluation programme)
- Sample quality checks by the Nautical Products Committee
- A nominated head of profession focussed on maintaining and improving key skills and active involvement with the IHO to raise standards
- The publication of the AIO to ensure UKHO sourced ENC's meet the same standards as paper charts

The organisation is implementing significant technical change as marine navigation moves into the digital age. These include:-

- implementing enhanced assurance procedures, quality control of ENC's, conversion of manual production methods to digital, workforce training, maintaining ISO 9001/2008 accreditation and attaining level 3 of the Information Assurance Maturity Model.

Control

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

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

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

Our IT security procedures conform to Cabinet Office and MoD instructions and mandatory safeguards regarding personal and personnel data.

We are bound to operate our commercial function in accordance with relevant administrative, policy and regulatory requirements. Management regularly reviews its commercial strategy and ensures procurement accountabilities are clearly defined.

The principles of ISO9001:2008 continue to be applied to our internal control framework, with focus on monitoring the effectiveness of controls measured and tested against business objectives rather than simply addressing compliance.

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

UKHO board members and members of my Executive Committee are also required to declare any personal interests that they have with current or potential UKHO customers or vendors.

The role of internal audit

The Audit Committee considers and approves the coverage of the Internal Audit programme and this is flexed to address risks arising during the year. The UKHO board and the Audit Committee are aware of the major challenge of maintaining a consistent and improving internal control framework in a period of major change. The activities of the Internal Audit programme take into account challenges and ensure focus is given where there is the greatest perceived risk. Internal Audit for 2011/12 was contracted out to PriceWaterhouseCoopers, who as part of their duties, carried out independent checks on the control process on my behalf. Operating to standards defined in the Government Internal Audit Standards they have carried out a programme of risk based audits. They submitted regular reports which include their independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement which, when accepted by senior managers, form improvement actions. Outstanding improvement actions, which arise from both internal and external audit recommendations, are reported to, and monitored by, the Executive Committee and are reviewed periodically by the Audit Committee and the UKHO board.

The opinion given by internal audit based on the work they completed during 2011/12 was that they believe that there is some risk that management's objectives may not be fully achieved. Factors contributing to this opinion are referred to on page 31 under "the risk and control framwork". Improvements are in train to address these issues

Report of protected personal data related incidents

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

During 2011/12 there was one incident where personal data was or could have been put at risk. This related to an individual e-mailing personal data; the e-mail was removed from inboxes within hours of the incident occurring.

Ian Moncrieff CBE
Accounting Officer and Chief Executive
19 June 2012

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

I certify that I have audited the financial statements of the UK Hydrographic Office for the year ended 31 March 2012 under the Government Trading Funds Act 1973. The financial statements comprise the consolidated and Trading Fund statements of Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the United Kingdom Hydrographic Office, Chief Executive and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the UK Hydrographic Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by UK Hydrographic Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of UK Hydrographic Office Group and Trading Fund's affairs as at 31 March 2012 and the Group and Trading Funds profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Chairman's Message, Foreword by the Chief Executive, Vision, Mission and Objectives, Management Statement, Governance Statement and the unaudited part of the Remuneration Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse	**National Audit Office**
Comptroller and	157-197 Buckingham Palace Road
Auditor General	Victoria
25 June 2012	London SW1W 9SP

THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

Group	Note	2011/12 £K	2011/12 £K Discontinued Operation (Note a)	2011/12 £K Total	2010/11 £K	2010/11 £K Discontinued Operation (Note a)	2010/11 £K Total
Group income	4	**133,127**	**2,294**	**135,421**	124,922	4,583	129,505
Change in inventories of finished goods and WIP		**(82)**	**0**	**(82)**	(67)	0	(67)
Materials and other external charges		**(6,373)**	**(948)**	**(7,321)**	(5,610)	(1,702)	(7,312)
Staff costs	2	**(49,484)**	**(1,150)**	**(50,634)**	(44,187)	(2,011)	(46,198)
Depreciation and impairment	6a	**(7,319)**	**(41)**	**(7,360)**	(6,993)	(62)	(7,055)
Other operating charges	6b	**(37,616)**	**0**	**(37,616)**	(29,888)	0	(29,888)
Profit on ordinary activities before interest		**32,253**	**155**	**32,408**	38,177	808	38,985
Trading Fund rationalisation	7	**(106)**	**0**	**(106)**	(316)	0	(316)
Profit on ordinary activities before interest and after exceptionals		**32,147**	**155**	**32,302**	37,861	808	38,669
Gain on sale of discontinued operation	8	**1,056**	**0**	**1,056**	0	0	0
Interest receivable and similar income	9	**162**	**3**	**165**	142	2	144
Interest payable and similar charges	10	**(755)**	**0**	**(755)**	(938)	0	(938)
Profit on ordinary activity before tax		**32,610**	**158**	**32,768**	37,065	810	37,875
Taxation	11	**(4)**	**2**	**(2)**	0	1	1
Net Profit		**32,606**	**160**	**32,766**	37,065	811	37,876
Dividend	12	**(18,628)**	**0**	**(18,628)**	(18,498)	0	(18,498)
Retained profit for the financial year		**13,978**	**160**	**14,138**	18,567	811	19,378
Other Comprehensive Income							
Revaluation of non-current assets		**4,982**	**0**	**4,982**	2,620	0	2,620
Foreign Exchange Changes		**0**	**0**	**0**	(8)	0	(8)
		4,982	**0**	**4,982**	2,612	0	2,612
Total Comprehensive Income		**18,960**	**160**	**19,120**	21,179	811	21,990

a. The discontinued operation relates to Admiralty Deutschland GmbH (ADG). AHL sold its shares in ADG to Dutch-Belgian Trading GmbH on 7 November 2011.

The notes on pages 44 to 69 form part of these accounts.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

Trading Fund	Note	2011/12 £K	2010/11 £K
Income		**133,308**	125,339
Change in inventories of finished goods and WIP		**(82)**	(68)
Materials and other external charges		**(6,963)**	(5,725)
Staff costs		**(49,480)**	(44,187)
Depreciation and impairment		**(7,319)**	(6,992)
Other operating charges		**(38,161)**	(29,854)
Profit on ordinary activities before interest		**31,303**	38,513
Trading Fund rationalisation	7	**(106)**	(316)
Profit on ordinary activities before interest and after exceptionals		**31,197**	38,197
Interest receivable and similar income		**390**	371
Interest payable and similar charges:	10	**(755)**	(938)
Net Profit		**30,832**	37,630
Dividend	12	**(18,628)**	(18,498)
Retained profit for the financial year		**12,204**	19,132
Other Comprehensive Income			
Revaluation of non-current assets		**4,982**	2,620
		4,982	2,620
Total Comprehensive Income		**17,186**	21,752

The notes on pages 44 to 69 form part of these accounts.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2012

Group	Note		2011/12 £K	2010/11 £K
Non-current assets:				
Intangible assets	13A	**21,857**		23,373
Property, plant & equipment	13D	**34,025**		29,991
Total non-current assets			**55,882**	53,364
Current assets:				
Assets held for sale	1H2	**0**		745
Inventories	15	**2,274**		1,971
Trade and other receivables	16	**25,537**		26,255
Cash and cash equivalents (Note a)	17	**90,548**		68,556
Total current assets			**118,359**	97,527
Total assets			**174,241**	150,891
Current liabilities:				
Liabilities of assets held for sale	1H2		**0**	(829)
Trade and other payables < 1 Year	18		**(40,030)**	(33,794)
Long term borrowings	20		**(635)**	(742)
Provisions	19		**(3,261)**	(3,168)
Total current liabilities			**(43,926)**	(38,533)
Non current assets plus net current assets			**130,315**	112,358
Non-current liabilities:				
Provisions	19		**(1,721)**	(2,249)
Long term borrowings	20		**(7,473)**	(8,108)
Total non-current liabilities			**(9,194)**	(10,357)
Assets less liabilities			**121,121**	102,001
Taxpayers' equity:				
Trading Fund				
Public dividend capital			**13,267**	13,267
Revaluation reserve			**19,821**	15,474
Profit and loss account			**88,081**	75,242
Total government taxpayers' equity			**121,169**	103,983
Admiralty Holdings Limited				
Profit and loss account			**(48)**	(1,982)
Total taxpayers' equity			**121,121**	102,001

a. 2010/11 includes the cash and cash equivalents figure for Admiralty Deutschland GmbH of £1.1m (£0 during 2011/12)

The notes on pages 44 to 69 form part of these accounts.

Ian Moncrieff

Ian Moncrieff CBE
Chief Executive
19 June 2012

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

Trading Fund	Note		2011/12 £K	2010/11 £K
Non-current assets:				
Intangible assets	13B	**21,857**		23,373
Property, plant & equipment	13E	**34,025**		29,991
Total non-current assets			**55,882**	53,364
Investment	14		**130**	3,387
Current assets:				
Inventories	15	**2,274**		1,971
Trade and other receivables	16	**25,676**		26,332
Cash and cash equivalents	17	**90,402**		66,976
Total current assets			**118,352**	95,279
Total assets			**174,364**	152,030
Current liabilities:				
Trade and other payables < 1 Year	18		**(40,105)**	(33,780)
Long term borrowings	20		**(635)**	(742)
Provisions	19		**(3,261)**	(3,168)
Total current liabilities			**(44,001)**	(37,690)
Non current assets plus net current assets			**130,363**	114,340
Non-current liabilities:				
Provisions	19		**(1,721)**	(2,249)
Long term borrowings	20		**(7,473)**	(8,108)
Total non-current liabilities			**(9,194)**	(10,357)
Assets less liabilities			**121,169**	103,983
Taxpayers' equity:				
Public dividend capital			**13,267**	13,267
Revaluation reserve			**19,821**	15,474
Profit and loss account			**88,081**	75,242
Total taxpayers' equity			**121,169**	103,983

The notes on pages 44 to 69 form part of these accounts.

Ian Moncrieff CBE
Chief Executive
19 June 2012

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2012

Group	Note	Profit and Loss Reserve £K	Revaluation Reserve £K	Public Dividend Capital £K	Total Reserves £K
Balance at 1/4/11		**73,260**	**15,474**	**13,267**	**102,001**
Changes in equity for 2011/12:					
Other Comprehensive Income					
Revaluation of non-current assets	13A&D		4,982		4,982
Transfer between reserves, realisation of revaluation surplus		602	(602)		0
Reclassification adjustment		33	(33)		0
		635	4,347		4,982
Net income for the period		32,766			32,766
Total recognised income and expense for the period		33,401	4,347		37,748
Dividend	12	(18,628)			(18,628)
Balance at 31/3/12		**88,033**	**19,821**	**13,267**	**121,121**

The notes on pages 44 to 69 form part of these accounts.

STATEMENT OF CHANGES IN TAXPAYERS EQUITY FOR THE YEAR ENDED 31 MARCH 2012

Trading Fund	Note	Profit and Loss Reserve £K	Revaluation Reserve £K	Public Dividend Capital £K	Total Reserves £K
Balance at 1/4/11		**75,242**	**15,474**	**13,267**	**103,983**
Changes in equity for 2011/12:					
Other Comprehensive Income					
Revaluation of non-current assets	13B&E		4,982		4,982
Transfer between reserves, realisation of revaluation surplus		602	(602)		0
Reclassification adjustment		33	(33)		0
		635	4,347		4,982
Net income for the period		30,832			30,832
Total recognised income and expense for the period		31,467	4,347		35,814
Dividend	12	(18,628)			(18,628)
Balance at 31/3/12		**88,081**	**19,821**	**13,267**	**121,169**

The notes on pages 44 to 69 form part of these accounts.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

Group	Note	2011/12 £K	2011/12 £K Discontinued Operation	2011/12 £K Total	2010/11 £K	2010/11 £K Discontinued Operation	2010/11 £K Total
Net cash flow from operating activities	24	**43,748**	**0**	**43,748**	44,637	296	44,933
Cash flows from investing activities							
Interest received		**203**	**0**	**203**	135	3	138
Purchase of property, plant and equipment	13D	**(1,050)**	**0**	**(1,050)**	(1,389)	57	(1,332)
Purchase of intangible assets	13A	**(3,803)**	**0**	**(3,803)**	(1,191)	0	(1,191)
Receipts from sale of subsidiary	8	**2,455**	**(1,566)**	**889**	0	0	0
Net cash outflow from investing activities		**(2,195)**	**(1,566)**	**(3,761)**	(2,445)	60	(2,385)
Cash flows from financing activities							
Repayment of long term loan	20	**(742)**	**0**	**(742)**	(381)	0	(381)
Dividend paid	12	**(16,498)**	**0**	**(16,498)**	(21,158)	0	(21,158)
Interest paid	10	**(755)**	**0**	**(755)**	(938)	0	(938)
Net cash outflow from financing activities		**(17,995)**	**0**	**(17,995)**	(22,477)	0	(22,477)
Net financing							
Net increase in cash and cash equivalents in the period		**23,558**	**(1,566)**	**21,992**	19,715	356	20,071
Cash and cash equivalents at beginning of year	17	**66,990**	**1,566**	**68,556**	47,274	1,211	48,485
Cash and cash equivalents at end of year	17	**90,548**	**0**	**90,548**	66,990	1,566	68,556

The notes on pages 44 to 69 form part of these accounts.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012

Trading Fund	Note	2011/12 £K	2010/11 £K
Net cash flow from operating activities		**42,631**	44,757
Cash flows from investing activities			
Investments		**3,257**	0
Interest received		**383**	135
Purchase of property, plant and equipment	13E	**(1,047)**	(1,295)
Purchase of intangible assets	13B	**(3,803)**	(1,368)
Net cash outflow from investing activities		**(1,210)**	(2,528)
Cash flows from financing activities			
Repayment of long term loan	20	**(742)**	(381)
Dividend paid	12	**(16,498)**	(21,158)
Interest paid	10	**(755)**	(938)
Net cash outflow from financing activities		**(17,995)**	(22,477)
Net financing			
Net increase in cash and cash equivalents in the period		**23,426**	19,752
Cash and cash equivalents at beginning of year	17	**66,976**	47,224
Cash and cash equivalents at end of year	17	**90,402**	66,976

The notes on pages 44 to 69 form part of these accounts.

1. ACCOUNTING POLICIES

A. Basis of accounting

The financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the UKHO for the purpose of giving a true and fair view has been selected. The particular policies adopted by the UKHO are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Unless otherwise stated, the accompanying notes to the finacial statements show only the group figures.

The UKHO operates as a Trading Fund within the Ministry of Defence in accordance with statutory instrument SI 1996/773. The accounts have been prepared in accordance with the direction given by HM Treasury on 20th December 2011 in pursuance of section 4(6) (a) of the Government Trading Funds Act 1973.

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

B. Accounting convention

The accounts have been prepared on the current cost basis, modified for revaluation and fair value where appropriate.

C. Basis of consolidation

The Group accounts incorporate those of the trading fund together with those of AHL and its subsidiary undertaking. 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 subject to an annual impairment review.

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

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

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

IC-ENC

IC-ENC (International Centre for Electronic Navigational Charts) was established in 2002 to provide a RENC (Regional ENC Co-ordinating Centre) service for the supply of ENCs provided by a community of co-operating Hydrographic Offices to Value Added Resellers (VAR) and other defence suppliers as designated by the co-operating HOs. IC-ENC provides a service to HOs validating their ENC data to ensure that it complies with the S57 standard and gives feedback on the quality of their data. IC-ENC supplies VARs with up-to-date ENC data that is fully compliant to the S57 standard.

UKHO operates IC-ENC on behalf of the 27 member Hydrographic Offices and it is operated on a not-for-profit basis. The UKHO accounts recognise all the income and expenditure relating to IC-ENC.

D. Estimation techniques

There have been no revisions of estimation techniques. Accruals are estimated with reference to available documentation, advice from management and from information gained from similar previous events, and are the best estimate at the date of these financial statements.

Staff holiday is recorded on the management information system and therefore the holiday pay accrual calculation is an accurate assessment.

Our portfolio of assets are subject to a rolling 5 year programme of revaluation by an independent, professional valuer. An addition to this, indexation is used on a monthly basis as a proxy for valuation of our assets.

Useful economic lives are reviewed at least annually. The bases for estimating useful economic life include experience of previous similar assets, the condition and performance of the asset, and knowledge of technological advances and obsolescence.

Where appropriate, a business-in-use valuation based on discounted projected cash flows has been adopted for development expenditure assets to test for impairment.

Measurement of provisions is based on third-party estimates.

E. Exceptional items

Exceptional items are those significant items which individually, or if of a similar type in aggregate, are separately disclosed by virtue of their size or incidence to enable a full understanding of the UK Hydrographic Office's financial performance. Items which may be considered exceptional in nature include business restructurings and non-current assets write downs.

F. Income

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

G. Provision for sales credits

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

H. Non current assets valuation

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

Intangible assets

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

Development expenditure

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

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

The following factors are considered in estimating useful lives:

Expected use of the asset;

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

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

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

All development expenditure has been revalued as at 31 March 2012 through the application of appropriate indices:

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

Goodwill

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

Property, plant & equipment

Land and Buildings were professionally valued at 1 April 2009 by the Valuation Office Agency in accordance with Statement of Assets Valuation Practice No 4 and the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards 5th edition. Land and Buildings were valued at Depreciated Replacement Cost of the Estate with the exception of a small area of land adjoining the main site, which is let to the owners of an adjacent commercial property for which a Market Value has been provided. Due to the current economic downturn and the condition of a number of the buildings on the UKHO site, the land valuation of £4.6m was taken but the buildings valuation was not in 2008/09. In the light of experience and market data, management have decided to recognise the building valuation of £3.7m in 2011/12. All assets, with the exception of the wholly owned subsidiaries, have been revalued as at 31 March 2012 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 and Furniture and Fittings) – are retained at historic cost due to their short-term economic life.

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

H1. Depreciation and amortisation

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

Buildings	Not exceeding 50 years
Plant and Equipment	Between 1 and 20 years
Computers	Between 2 and 5 years

(including capitalised software and licences)

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

H2. Non current assets held for sale

IFRS 5 Non current Assets held for Sale and Discontinued Operations sets out the requirements for the classification, measurement and presentation of non-current assets held for sale.

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

Admiralty Deutschland GmbH (ADG) was held for sale at 31 March 2011 as it was considered the activities of this business were not core to the UKHO’s future strategy. On 7th November 2011, AHL sold their 100% share in ADG to Dutch-Belgian Trading GmbH.

I. Inventories and work in progress

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

J. Hydrographic data

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

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

K. Pensions

United Kingdom Hydrographic office staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which 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. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. Contributions are paid at rates determined from time to time by the scheme's Actuary.

Details of rates and amounts of contributions during the year are given in Note 2.

United Kingdom Hydrographic office staff may be in one of four statutory based defined benefit schemes; (classic, Premium, Classic plus and Nuvos. Classic, Premium and Classic Plus are now closed to new members.

New entrants after 30 July 2007 may choose between membership of Nuvos or joining a "money purchase" stakeholder pension agreement with a significant employer contribution (partnership pension account).

L. Insurance

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

M. Research and development

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

N. Foreign currencies

Assets and liabilities denominated in a foreign currency are translated into sterling at the rate(s) of exchange ruling as at 31 March 2012. Transactions are recorded at the rate(s) ruling at the time of the transaction. Exchange differences are taken to the Statement of Comprehensive Income. Assets, liabilities, and results of overseas subsidiaries are translated at the rate(s) ruling at 31 March 2012. Exchange differences arising are recognised in reserves.

O. Going concern

The accounts have been prepared on the basis that the group is a going concern.

P. Investments

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

Q. 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.

R. Treatment of leases

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

S. Provisions

Provisions for liabilities and charges have been established under the criteria of IAS 37-Provisions, Contingent Liabilities and Contingent Assets and are based on realistic estimates of the expenditure required to settle legal or constructive obligations that exist at the reporting period date.

The rate advised by HM Treasury is used to discount provisions to current prices – the rate for financial year 2011-12 being 2.2% (2010/11: 2.2%). The discount is unwound over the remaining life of the provision and shown as an interest charge in the Statement of Comprehensive Income.

Early retirement costs

The UKHO provides in full for the cost of meeting pensions up to the normal retirement age in respect of early retirement programmes. Early departure provisions under pension scheme rules are discounted at the pensions' discount rate, issued annually by HM Treasury, 2.8% as at 31 March 2012 (1.8% as at 31 March 2011). Pensions payable after the normal retirement age are met by the Civil Service pension arrangement, however any additional element payable beyond normal retirement age, which derives from the enhancement of reckonable service, continues to be met by the UKHO. Redundancies are provided for in full.

T. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand together with short term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

U. Reserves

The revaluation reserve reflects the unrealised and realised elements of the cumulative balance of revaluation and indexation adjustments on non-current assets.

The profit and loss reserve represents the balance of the Taxpayers Equity.

V. Taxation

V1. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at 31 March 2012 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 31 March 2012. 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 31 March 2012, 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 31 March 2012. Deferred tax is measured on a non-discounted basis.

V2. Corporation tax

The Trading Fund is exempt from corporation tax under Section 829(2) of the Income and Corporation Taxes Act 1988 and consequently the requirements to account for current tax and deferred tax are not relevant. Admiralty Holdings Limited is liable to pay corporation tax in the UK on its taxable profits.

V3. VAT

The United Kingdom Hydrographic Office is VAT registered and all business VAT is recoverable.

W. Treatment of finance leases as a lessor

The UKHO is participating in the cycle purchase scheme which is a salary sacrifice scheme through which employees are provided with equipment purchased by the UKHO and leased to employees over a three-year term with an option to purchase at the end. The purchase cost is accounted for as "Net Investments in Finance Leases" and included within the statement of financial position "Current Assets – Trade and other receivables" total. Recovery of the cost is made through fixed monthly deductions from salaries (on which the employee receives tax and national insurance contribution relief) and credited to the account. Monthly charges also include a financing element. This is included under "Interest receivable and similar income (Group)" in the Statement of Comprehensive Income.

X. Financial instruments

UKHO accounts for financial instruments within IFRS 7 and IAS39.

Trade and other receivables

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

Our loan investments to AHL are classed as financial assets and were impaired in 2008/09 for the investment in Seven Cs (£3.8m). During the year the UKHO provided a loan to AHL to fund the professional fees relating to the sale of ADG. The loans and accumulated interest totalled £0.6m. The directors of UKHO do not anticipate that AHL will generate sufficient funds in the foreseeable future to repay this and have elected to write this debt off.

Trade and other payables

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

Cash and cash equivalents

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

Y. IFRSs, amendments and interpretations in issue but not yet affective or adopted

IAS8, Accounting Policies, Changes in Accounting Estimates and Errors, require disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board (IASB) that are effective for financial statements after this reporting period.

The following have not been adopted early by the United Kingdom Hydrographic Office.

IFRS 9 Financial instruments

A new standard intended to replace all of the requirements of IAS39. This is aimed to improve the usefulness for users of financial statements by simplifying the classification and measurement for financial instruments. In December 2011, the IASB issued mandatory effective date of IFRS 9 and Transition disclosures which defers the date to 1 January 2015.

IFRS 10 Consolidated financial statements

The proposal is to clarify the transition guidance in IFRS 10. The effective date is for accounting periods beginning on, or after 1 January 2013

IAS 17 Leases

Amendments to the existing standard to develop a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised in the statement of financial position. The effective date has yet to be confirmed.

IAS 18 Revenue recognition

A new Standard is to be published to clarify the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The effective date has yet to be confirmed.

In addition, the following are changes to the FReM, which will be applicable for accounting periods beginning on 1 April 2012:

Accounting for loans, Public Dividend Capital (PDC) and investments

Seeks to align the FReM with the requirements of IAS39. It will maintain the FReM measurement interpretation to IAS39 for PDC, so that PDC continues to be measured at cost less impairment and IAS39 is applied in full to loans and investments in entities outside the boundary.

None of these changes to the FReM are anticipated to have a future material impact on the financial statements of the group.

2. STAFF NUMBERS AND RELATED COSTS

Staff Numbers

The average number of staff (including agency staff) during the year was made up as follows:

	2011/12	2010/11
Operations	**392**	423
Print and supply	**118**	120
Marketing	**110**	73
Support	**471**	419
Sub total UKHO	**1,091**	1,035
Admiralty Deutschland GmbH (Note a)	**19**	39
Admiralty Hydrographic Asia Pacific Pte	**3**	0
Total staff numbers	**1,113**	1,074
Civil servants	**966**	945
Agency staff	**119**	84
Service personnel	**6**	6
Subsidiaries	**22**	39
Total staff numbers	**1,113**	1,074

a. Admiralty Holdings Ltd sold its share in Admiralty Deutschland GmbH on 7 November 2011.

Of these staff, 21 full time equivalent (FTE) permanent staff and 7 FTE agency staff were engaged on capital projects during the year. (33 and 15 respectively for 2010/11)

Salary

Total staff costs (including agency staff) for the year were as follows:

	2011/12 £K	2010/11 £K
Salaries, wages etc.	**31,740**	30,414
Social security costs	**2,712**	2,831
Pension costs	**5,781**	5,604
Agency staff costs	**9,532**	6,399
Service personnel costs	**869**	950
Total staff costs	**50,634**	46,198

£1,428k was capitalised as staff costs that were engaged in capital projects during the year. (2010/11: £2,584k)

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 2011/12, the applicable pension rates were as follows:

Scheme and Annual Salary Bands to which rates apply	%
PCSPS - Band 1 - £21,000 and under	16.7
PCSPS - Band 2 - £21,001 to £43,500	18.8
PCSPS - Band 3 - £43,501 to £74,000	21.8
PCSPS - Band 4 - £74,001 and over	24.3

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the UKHO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2011/12, employers' contributions of £5,747k were payable to the PCSPS (2010/11 £5,604k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (2010/11: 16.7% to 24.3%) . The scheme's Actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011/12 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, (a stakeholder pension with an employer contribution). Employers' contributions of £34.3k were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2.5k representing 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2012 were £4.9k There were no prepaid contributions at that date.

3. CIVIL SERVICE EXIT PACKAGES

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme – a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. These costs include lump sums and annual compensation payments which are paid each year until they retire. Where the UKHO has agreed early retirements, the additional costs are met by the UKHO and not by the PCSPS. Ill health retirement costs are met by the pension scheme and not included in the table.

The figures below do not include ex-gratia costs.

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2011/12	2010/11	**2011/12**	2010/11	**2011/12**	2010/11
< £10,000	**0**	0	**0**	0	**0**	0
£10,000 - £25,000	**0**	0	**2**	(1)	**2**	(1)
£25,000 - £50,000	**0**	0	**1**	(4)	**1**	(4)
£50,000 - £100,000	**0**	0	**1**	(2)	**1**	(2)
£100,000 - £150,000	**0**	0	**1**	(2)	**1**	(2)
£150,000 - £200,000	**0**	0	**0**	0	**0**	0
Total number of exit packages	**0**	0	**5**	**(9)**	**5**	**(9)**
Total cost (£K)	**0**	0	**316**	510	**316**	510

4. INCOME

	2011/12 £K	2010/11 £K
Sales to the Ministry of Defence	**11,723**	11,746
Commercial sales	**121,404**	113,176
Admiralty Deutschland GmbH (Note a)	**2,294**	4,583
Total Income	**135,421**	**129,505**

a. Admiralty Holdings Ltd sold its subsidiary company, Admiralty Deutschland GmbH on 7 November 2011

5. OPERATING SEGMENTS

All of the Group's business reporting segments are disclosed to enable users of these financial statements to evaluate the financial effects of the Group's business activities.

All operating segments have been derived from the monthly Performance Report that the board use to run the business. Overhead costs, assets and liabilities are not routinely allocated to segments within this Report and are therefore not used to aid users' understanding of these financial statements.

Furthermore, the board does not review the business on a geographical basis. None of our non current assets exceed the 10% reportable segment and as such would all be classified as UK based.

Group	Commercial 2011/12 £K	Defence 2011/12 £K	**Total 2011/12 £K**	Commercial 2010/11 £K	Defence 2010/11 £K	**Total 2010/11 £K**
Revenue	126,254	9,348	**135,602**	120,200	9,305	**129,505**
Cost of sales	(31,195)	(1,300)	**(32,495)**	(24,649)	(1,593)	**(26,242)**
Gross profit	95,059	8,048	**103,107**	95,551	7,712	**103,263**
Margin %	75%	86%	**76%**	79%	83%	**80%**
Overheads			**(70,699)**			**(64,278)**
Profit on ordinary activities before interest			**32,408**			**38,985**
Gain on sale of discontinued operation			**1056**			**0**
Trading fund rationalisation			**(106)**			**(316)**
Interest expense			**(755)**			**(938)**
Interest income			**165**			**144**
Taxation			**(2)**			**1**
Net profit			**32,766**			**37,876**
Dividend			**(18,628)**			**(18,498)**
Retained profit for the financial year			**14,138**			**19,378**

Sales revenue by geographical market

There are no specific country that exceeds the 10% reportable segment below and therefore is reported as an aggregate total as other countries.

	2011/12 £K	2010/11 £K
United Kingdom	**47,322**	43,997
Other countries	**88,280**	85,508
Total revenue	**135,602**	**129,505**

Information about major customers

Revenues from two customers each exceeded 10% of the UKHO's total revenues. The geographical location of these are UK based.

	Commercial 2011/12 £K	Defence 2011/12 £K	**Total 2011/12 £K**	Commercial 2010/11 £K	Defence 2010/11 £K	Total 2010/11 £K
Customer 1	15,409	0	**15,409**	14,827	0	14,827
Customer 2	15,333	0	**15,333**	13,645	0	13,645

6. PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST

Profit on ordinary activities before interest of £32.4m (2010/11: £39.0m) is stated after charging:

	2011/12	2010/11
	£K	£K
Depreciation/amortisation - owned assets	**7,292**	6,898
Depreciation discontinued operation	**41**	0
Loss on disposal of non-current assets	**4**	147
Impairment	**23**	10
a Depreciation and impairment	**7,360**	7,055
Operating leases: office machinery	**7**	9
Professional fees	**175**	73
Development & transformation activities	**6,685**	814
External auditor's remuneration (Note a)	**236**	102
Travel, training and entertainment expenses	**1,557**	2,670
Materials and services	**4,389**	6,916
Utilities and other estates operating costs	**6,702**	5,740
Computing and office machines	**5,096**	3,697
Royalties payable	**12,769**	9,867
b Other operating charges	**37,616**	29,888

(a) Auditor's remuneration includes fees for both UKHO and AHL companies. The NAO audit fee is £69k (2010/11: £70k).

7. TRADING FUND RATIONALISATION

On 5 December 2007, the Under Secretary of State for Defence announced in the House of Commons UKHO's proposals for the rationalisation of the Trading Fund. These included plans for a net reduction in posts of between 200 and 250 over a five year period commencing 2007/08. Since this announcement these plans have been adjusted to reflect the growing requirement to invest efficiency savings back into the business to support a range of evolving requirements not initially planned for, these include supporting our growing digital business by 24/7 support to our customers, expanding the capability of our sales force and assessing all electronic navigational charts to ensure the same standard as our paper based series and improving the currency of our products. It is expected that the planned savings will ultimately be made but over a longer period and this in turn means that the reductions can be managed through natural staff turnover and retirement. The provision as at 31 March 2012 is £1,296k to cover committed early release costs. The remaining provision has been discounted at 2.8% and will be fully applied by 2025/26. Full details of the provision is shown in Note 19.

8. SALE OF DISCONTINUED OPERATION

	£K
Proceeds from sale	**4,211**
Directly attributable selling costs	**(513)**
Cost of investment in Admiralty Deutschland GmbH	**(1,000)**
Net book value at 7/11/2011	**(1,642)**
Profit on sale	**1,056**

9. INTEREST RECEIVABLE AND SIMILAR INCOME

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

10. INTEREST PAYABLE AND SIMILAR CHARGES

	Note	**2011/12 £K**	2010/11 £K
a. Interest paid to the MoD in respect of the long-term loan		**716**	762
b. Unwinding of the discount and movement on provision for early retirements and rationalisation	19	**39**	176
Total interest payable and similar charges		**755**	938

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

11. TAXATION

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

Tax Reconciliation

2010/11

	£K	**£K**
Profit on ordinary activities before tax		**37,875**
Less UKHO profit	(37,630)	
Add AHL loss	36	
AHL investment	229	
		(37,365)
		510
Write back of goodwill	(478)	
Losses carried back	(3)	
Other tax adjustments	(32)	
		(513)
Taxable profit		**(3)**
Tax rate %		32.275%
Taxable expense 2010-11		**(1)**

2011/12

	£K	£K	£K ADUT	£K AHAPP	£K Total
Profit on ordinary activities before tax		**32,768**			
Less UKHO profit	(30,832)				
Less AHL profit	(1,536)				
		(32,368)			
		400	352	48	
Write back of goodwill			(354)		
Other tax adjustments			(4)		
			(358)		
Taxable profit			**(6)**	**48**	
Tax rate %			32.275%	17%	
			(2)	8	
Singapore statutory stepped income exemption				(4)	
Taxable expense 2011-12			**(2)**	**4**	**2**

AHAPP: Admiralty Hydrographic Asia Pacific Pte

ADUT: Admiralty Deutschland GmbH

12. DIVIDENDS

	2011/12 £K	2010/11 £K
Ordinary dividend	10,628	8,498
Special dividend	8,000	10,000
Total dividend	**18,628**	**18,498**

The ordinary dividend shows what has been declared for that corresponding year, the cash outflow is paid in the year following declaration. Special dividends are declared and paid in the same year.

13A. INTANGIBLE NON-CURRENT ASSETS

Group	Software licences	Development software	Assets under construction	Goodwill SevenCs	Total
Cost or valuation:	**£K**	**£K**	**£K**	**£K**	**£K**
At 1 April 2010	14,651	15,607	8,296	1,038	39,592
Additions	498	877	448	0	1,823
Reclassification	(109)	0	0	(1,038)	(1,147)
Disposals	0	(308)	0	0	(308)
Revaluation	0	472	0	0	472
At 31 March 2011	**15,040**	**16,648**	**8,744**	**0**	**40,432**
At 1 April 2011	15,040	16,648	8,744	0	40,432
Additions	684	3,029	89	0	3,802
Reclassification	0	8,743	(8,743)	0	0
Revaluation	0	(237)	0	0	(237)
Impairment	0	(23)	0	0	(23)
At 31 March 2012	**15,724**	**28,160**	**90**	**0**	**43,974**
Amortisation:					
At 1 April 2010	8,490	4,542	0	1,038	14,070
Charged	1,993	2,295	0	0	4,288
Reclassification	(85)	0	0	(1,038)	(1,123)
Disposals	0	(176)	0	0	(176)
At 31 March 2011	**10,398**	**6,661**	**0**	**0**	**17,059**
At 1 April 2011	10,398	6,661	0	0	17,059
Charged	2,000	3,058	0	0	5,058
At 31 March 2012	**12,398**	**9,719**	**0**	**0**	**22,117**
Net book value:					
At 31 March 2012	**3,326**	**18,441**	**90**	**0**	**21,857**
At 31 March 2011	4,642	9,987	8,744	0	23,373

All intangible assets are owned by the UKHO

13B. INTANGIBLE NON-CURRENT ASSETS

Trading Fund	Software licences	Development software	Assets under construction	Total
Cost or Valuation:	**£K**	**£K**	**£K**	**£K**
At 1 April 2010	14,547	15,608	8,296	38,451
Additions	493	876	448	1,817
Disposals	0	(308)	0	(308)
Revaluation	0	472	0	472
At 31 March 2011	**15,040**	**16,648**	**8,744**	**40,432**
At 1 April 2011	15,040	16,648	8,744	40,432
Additions	685	3,028	89	3,802
Reclassification	0	8,743	(8,743)	0
Revaluation	0	(237)	0	(237)
Impairment	0	(23)	0	(23)
At 31 March 2012	**15,725**	**28,159**	**90**	**43,974**
Amortisation:				
At 1 April 2010	8,416	4,542	0	12,958
Charged	1,982	2,295	0	4,277
Disposals	0	(176)	0	(176)
At 31 March 2011	**10,398**	**6,661**	**0**	**17,059**
At 1 April 2011	10,398	6,661	0	17,059
Charged	2,000	3,058	0	5,058
At 31 March 2012	**12,398**	**9,719**	**0**	**22,117**
Net book value:				
At 31 March 2012	**3,327**	**18,440**	**90**	**21,857**
At 31 March 2011	4,642	9,987	8,744	23,373

Under the cost model, the opening book value of development software as at 1 April 2011 was £9,952k (1 April 2010 £11,763k) and the carrying value at 31March 2012 was £18,509k (31 March 2011 £9,952k).

All intangible assets are owned by the UKHO

13C. ANALYSIS OF INTANGIBLE NON-CURRENT ASSETS

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

Project	Description	Carrying Value 31/03/2012 £K	Remaining Amortisation Period (Months)
Development software			
Hydrographic database (HDB)/chart production tools (CPT)	A structured store of vector hydrographic data from which a variety of products may be drawn	1,710	21
Maritime data project	The development of global, digital, vector based data and service capability	3,033	72
Digital Licensing Project	Replacement licensing and permit creation system to manage ENC order processing	118	9
Admiralty Vector Chart Service (AVCS)	AVCS brings together Electronic Navigational Charts (ENCs) from national hydrographic offices around the world and new ENC coverage produced by UKHO in co-operation with foreign governments to provide comprehensive, official, worldwide coverage.	1,754	72
e-Navigator	Admiralty e-Navigator is the UKHO's new integrated digital catalogue, product viewer and passage planning aid for organising, updating and consolidating all paper and digital information needed for planning safe voyages while simplifying essential tasks.	11,028	57
		17,643	
Software licences			
HDB software	A structured store of vector hydrographic data from which a variety of products may be drawn	1,784	21
CPT software	Products production software	561	21
		2,345	

13D. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land	Buildings	Plant & machinery	Furniture & fittings	Information technology	Assets under construction	Total
Cost or valuation:	**£K**	**£K**	**£K**	**£K**	**£K**	**£K**	**£K**
At 1 April 2010	9,670	22,719	7,367	950	8,591	707	50,004
Additions	0	0	498	0	667	(265)	900
Disposals	0	0	(659)	(453)	(413)	0	(1,525)
Revaluation	272	1,909	(33)	0	0	0	2,148
Impairment	0	(10)	0	0	0	0	(10)
Reclassification-held for sale	0	0	83	0	(423)	0	(340)
At 31 March 2011	**9,942**	**24,618**	**7,256**	**497**	**8,422**	**442**	**51,177**
At 1 April 2011	9,942	24,618	7,256	497	8,422	442	51,177
Additions	0	0	13	0	856	184	1,053
Reclassification	0	0	0	0	385	(385)	0
Disposals	0	0	(83)	(122)	(548)	0	(753)
Revaluation	284	4,873	62	0	0	0	5,219
Reclassification-held for sale	0	0	(5)	0	0	0	(5)
At 31 March 2012	**10,226**	**29,491**	**7,243**	**375**	**9,115**	**241**	**56,691**
Depreciation:							
At 1 April 2010	0	8,070	4,918	586	6,765	0	20,339
Charged	0	924	718	121	847	0	2,610
Disposals	0	0	(646)	(453)	(411)	0	(1,510)
Reclassification-held for sale	0	0	81	0	(334)	0	(253)
At 31 March 2011	**0**	**8,994**	**5,071**	**254**	**6,867**	**0**	**21,186**
At 1 April 2011	0	8,994	5,071	254	6,867	0	21,186
Charged	0	991	539	47	657	0	2,234
Disposals	0	0	(83)	(122)	(544)	0	(749)
Reclassification-held for sale	0	0	(5)	0	0	0	(5)
At 31 March 2012	**0**	**9,985**	**5,522**	**179**	**6,980**	**0**	**22,666**
Net book value:							
At 31 March 2012	**10,226**	**19,506**	**1,721**	**196**	**2,135**	**241**	**34,025**
At 31 March 2011	9,942	15,624	2,185	243	1,555	442	29,991

13E. PROPERTY, PLANT AND EQUIPMENT

Trading Fund	Freehold land	Buildings	Plant & machinery	Furniture & fittings	Information technology	Assets under construction	Total
Cost or valuation:	**£K**	**£K**	**£K**	**£K**	**£K**	**£K**	**£K**
At 1 April 2010	9,670	22,719	7,365	949	8,213	706	49,622
Additions	0	0	498	0	624	(264)	858
Disposals	0	0	(659)	(453)	(413)	0	(1,525)
Revaluation	272	1,909	(33)	0	0	0	2,148
Impairment	0	(10)	0	0	0	0	(10)
Reclassification-held for sale	0	0	83	0	0	0	83
At 31 March 2011	**9,942**	**24,618**	**7,254**	**496**	**8,424**	**442**	**51,176**
At 1 April 2011	9,942	24,618	7,254	496	8,424	442	51,176
Additions	0	0	14	0	855	184	1,053
Reclassification	0	0	0	0	385	(385)	0
Disposals	0	0	(83)	(122)	(548)	0	(753)
Revaluation	284	4,873	62	0	0	0	5,219
Reclassification-held for sale	0	0	(5)	0	0	0	(5)
At 31 March 2012	**10,226**	**29,491**	**7,242**	**374**	**9,116**	**241**	**56,690**
Depreciation:							
At 1 April 2010	0	8,070	4,918	585	6,482	0	20,055
Charged	0	924	718	121	795	0	2,558
Disposals	0	0	(645)	(453)	(411)	0	(1,509)
Reclassification-held for sale	0	0	81	0	0	0	81
At 31 March 2011	**0**	**8,994**	**5,072**	**253**	**6,866**	**0**	**21,185**
At 1 April 2011	0	8,994	5,072	253	6,866	0	21,185
Charged	0	991	539	47	657	0	2,234
Disposals	0	0	(83)	(122)	(544)	0	(749)
Reclassification-held for sale	0	0	(5)	0	0	0	(5)
At 31 March 2012	**0**	**9,985**	**5,523**	**178**	**6,979**	**0**	**22,665**
Net book value:							
At 31 March 2012	**10,226**	**19,506**	**1,719**	**196**	**2,137**	**241**	**34,025**
At 31 March 2011	9,942	15,624	2,182	243	1,558	442	29,991

All tangible assets are owned by the UKHO

14. INVESTMENTS

	Group	Trading Fund (Note a)
	£K	£K
Analysis of loans		
1 April 2011	0	3,387
Movement in year	0	(2,666)
Write off	0	(591)
Net book value 31 March 2012	**0**	**130**

(a) Trading Fund investments include the capitalisation of long term trading debts owed to the UKHO.

Holdings of more than 20%

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

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

Company	Country	Shares held		Capital and reserves	Profit / (loss)
		Class	%	£K	£K
Subsidiary undertakings					
Admiralty Holdings Ltd	England	Ordinary			
Subsidiaries of AHL					
Admiralty Hydrogaphic Asia Pacific Pte Ltd	Singapore	Ordinary	100	1	0
Admiralty Ltd	England	Ordinary	100	1	0
Admiralty Charts Ltd	England	Ordinary	100	1	0
Admiralty Consultancy Ltd	England	Ordinary	100	1	0
Admiralty Digital Ltd	England	Ordinary	100	1	0
Admiralty Marine Ltd	England	Ordinary	100	1	0
Admiralty Overseas Ltd	England	Ordinary	100	1	0
Admiralty Sea Law Ltd	England	Ordinary	100	1	0
Admiralty Services Ltd	England	Ordinary	100	1	0
Admiralty Ventures Ltd	England	Ordinary	100	1	0

Admiralty Deutschland GmbH (ADG) was held for sale at 31 March 2011 as it was considered the activities of this business were not core to the UKHO's future strategy. On 7th November 2011, AHL sold their 100% share in ADG to Dutch-Belgian Trading GmbH.

15. INVENTORIES

	2011/12 £K Group	2011/12 £K Trading Fund	2010/11 £K Group	2010/11 £K Trading Fund
Materials	**477**	**477**	445	445
Work in progress	**57**	**57**	138	138
Finished inventories	**1,740**	**1,740**	1,388	1,388
Total inventories	**2,274**	**2,274**	1,971	1,971

16. TRADE AND OTHER RECEIVABLES

	2011/12 £K Group	2011/12 £K Trading Fund	2010/11 £K Group	2010/11 £K Trading Fund
Falling due within one year				
Trade receivables	**19,286**	**19,303**	20,166	20,166
Other receivables	**32**	**222**	289	446
Prepayments & accrued income	**6,193**	**6,124**	5,787	5,707
Net investments & finance leases	**10**	**10**	13	13
Due within one year	**25,521**	**25,659**	26,255	26,332
Falling due after more than one year				
Deposits and advances	**16**	**17**	0	0
Due after more than one year	**16**	**17**	0	0
Total receivables	**25,537**	**25,676**	26,255	26,332
Analysis of total receivables				
Other central government bodies (Note a)	**1,970**	**1,970**	3,074	2,258
Local Authorities	**28**	**28**	0	0
Public corporations and Trading Funds	**0**	**0**	34	0
Intra-government balances	**1,998**	**1,998**	3,108	2,258
Bodies external to government (Note a)	**23,539**	**23,678**	23,147	24,074
Total receivables	**25,537**	**25,676**	26,255	26,332

a. The 2010/11 figures have been re-categorised from bodies external to government to other central government bodies.

17. CASH AND CASH EQUIVALENTS

	2011/12 Group £K	2011/12 Trading Fund £K	2010/11 Group £K	2010/11 Trading Fund £K
Commercial banks and cash in hand	**1,548**	**1,402**	2,856	1,276
Short-term deposits	**89,000**	**89,000**	65,700	65,700
Net cash and cash equivalents	**90,548**	**90,402**	68,556	66,976

The carrying amounts of cash and cash equivalents approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at 31 March 2012 exchange rates.

18. TRADE AND OTHER PAYABLES < 1 YEAR

	2011/12 Group £K	2011/12 Trading Fund £K	2010/11 Group £K	2010/11 Trading Fund £K
Trade payables	**6,819**	**6,815**	2,023	2,023
Other taxation and social security	**815**	**815**	767	767
Other payables	**0**	**0**	4	4
Accruals and other deferred income	**21,768**	**21,847**	22,502	22,488
Proposed dividend	**10,628**	**10,628**	8,498	8,498
Total payables	**40,030**	**40,105**	33,794	33,780
Analysis of Total Payables				
Other central government bodies (Note a)	**13,182**	**13,182**	11,222	11,222
Local authorities	**27**	**27**	0	0
Intra-government balances	**13,209**	**13,209**	11,222	11,222
Bodies external to government (Note a)	**26,821**	**26,896**	22,572	22,558
Total payables	**40,030**	**40,105**	33,794	33,780

a. For 2010/11 Group and Trading Fund, there is a re-alignment from bodies external to government to other central government bodies.

19. PROVISIONS

Group	Balance at 1 April 2010	Charged to operating cost	Unwinding of discount	Applied	Reclassification	Balance at 31 March 2011
	£K	£K	£K	£K	£K	£K
Current liabilities						
Provision for sales credits	**2,531**	4,445	0	(3,855)	0	**3,121**
Provision for legal	**0**	47	0	0	0	**47**
Total current liabilities	**2,531**	4,492	0	(3,855)	0	**3,168**
Non-current liabilities						
Provision for early retirement	**524**	9	17	(226)	0	**324**
Provision for rationalisation	**2,533**	225	81	(1,063)	0	**1,776**
Provision for royalties	**164**	(4)	5	(29)	13	**149**
Provision for pension	**174**	0	0	0	(174)	**0**
Total non-current liabilities	**3,395**	230	103	(1,318)	(161)	**2,249**

	Balance at 1 April 2011	Charged to operating cost	Unwinding of discount	Applied	Reclassification	Balance at 31 March 2012
	£K	£K	£K	£K	£K	£K
Current liabilities						
Provision for sales credits	**3,121**	2,529	0	(2,389)	0	**3,261**
Provision for legal	**47**	(25)	0	(22)	0	**0**
Total current liabilities	**3,168**	2,504	0	(2,411)	0	**3,261**
Non-current liabilities						
Provision for early retirement	**324**	63	6	(130)	0	**263**
Provision for rationalisation	**1,776**	(3)	32	(509)	0	**1,296**
Provision for royalties	**149**	0	4	9	0	**162**
Total non-current liabilities	**2,249**	60	42	(630)	0	**1,721**

Provision for sales credits

A provision is made against current sales in respect of future credits for superseded inventories held by Admiralty chart distributors. The provision represents a moving average of credits allowed over the last three years, expressed as a percentage of sales after discounts. It is anticipated that the provision will be fully applied during 2012/13.

Provision for legal

This reflected the provision for a personal injury claim that has been brought against the UKHO during 2010/11. The provision has been fully applied during 2011/12.

Provision for early retirement

This reflects the outstanding liability for early retirements arising from a variety of restructuring exercises undertaken in previous years. The provision has been discounted at 2.8%. The provision will be fully applied by 2015/16.

Provision for rationalisation

See Note 7

Provision for royalties

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

20. LONG-TERM BORROWINGS

	2011/12 Group £K	2011/12 Trading Fund £K	2010/11 Group £K	2010/11 Trading Fund £K
Balance brought forward	**8,850**	**8,850**	9,231	9,231
Repayment of loan	**(742)**	**(742)**	(381)	(381)
Balance carried forward	**8,108**	**8,108**	8,850	8,850

A £13.5m loan was received from MoD in April 1996 and is repayable by instalments until 31 March 2021. Interest is charged at 8.375% per annum and the interest rate is fixed for the duration of the loan.

Analysis of repayments	2011/12 Group £K	2011/12 Trading Fund £K	2010/11 Group £K	2010/11 Trading Fund £K
Current liabilities				
Within 1 year	**635**	**635**	742	742
	635	**635**	742	742
Non-current liabilities				
Between 1 and 2 years	**689**	**689**	635	635
Between 2 and 5 years	**2,440**	**2,440**	2,248	2,248
After 5 years	**4,344**	**4,344**	5,225	5,225
	7,473	**7,473**	8,108	8,108
Total Long-Term Borrowings	**8,108**	**8,108**	8,850	8,850

21. FINANCIAL INSTRUMENTS

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

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

The UKHO's trading exposure to foreign currency risk is not significant. Both the capital and interest payments are exposed to foreign currency fluctuations. A sensitivity analysis is not disclosed as assets and liabilities at the statement of financial position date expressed in foreign currency are not deemed to be material.

Fair values

The fair value of borrowings provided to the UKHO is assessed at £6,838k as at 31 March 2012, discounted applying the National Loans Fund rate for equivalent term annuity loans as at that date of 4.26%. The current value of all our financial instruments are considered to equate to fair value at the 31March 2012.

Financial instruments

IFRS 7, Financial instruments – disclosures, requires the UKHO to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the credit risks to which the UKHO is exposed and how these risks are managed. For each type of credit risk arising from financial instruments, the UKHO is also required to provide summary quantitative data about its exposure to the credit risk at the reporting date. At 31 March 2012, the UKHO had no material risks arising from its financial instruments that arise in the course of normal business operational activities.

The UKHO is subject to some credit risk. The carrying amount of receivables, which is net of impairment losses (bad debt provision), represents the maximum exposure to credit risk which also includes cash. Trade and other receivables consist of a large number of diverse customers spread over a diverse geographical area. Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. All outstanding financial assets which remain within their credit terms at 31 March 2012 primarily relate to established customers whose credit worthiness has been subject to regular review and gives no cause for concern regarding full future settlement. The table below provides details of receivables beyond the due date and impairments made:

Significant accounting policies

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

Receivables beyond the due date

2010/11	0 - 3 months £K	3 - 6 months £K	6-12 months £K	Over 12 months £K (Note a)	Total £K
Receivables beyond the due date - not impaired	19,380	46	10	232	19,668
Receivables beyond the due date - impaired	0	0	0	107	107
Gross receivables total	19,380	46	10	339	19,775
Bad debt provision	0	0	0	(107)	(107)
Net total receivables beyond the due date	**19,380**	**46**	**10**	**232**	**19,668**

2011/12	0 - 3 months £K	3 - 6 months £K	6-12 months £K	Over 12 months £K	Total £K
Receivables beyond the due date - not impaired	19,038	32	38	43	19,151
Receivables beyond the due date - impaired	0	0	0	25	25
Gross receivables total	19,038	32	38	68	19,176
Bad debt provision	0	0	0	(25)	(25)
Net total receivables beyond the due date	**19,038**	**32**	**38**	**43**	**19,151**

a. For 2010/11, the receivables impaired and not impaired analysed over 12 months were presented incorrectly. Re-allignment of these figures are shown above.

Categories of financial instruments

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

	Carrying value 31 March 2012 £K	Carrying value 31 March 2011 £K
Financial assets		
Loans and receivables (including cash and cash equivalents)	**111,893**	93,520
	111,893	93,520
Financial liabilities		
Other financial liabilities	**48,880**	42,644
	48,880	42,644

The UKHO has no exposure to the following classes of financial instruments: collateral-financial assets pledged as security for financial liability, compound financial instruments, loan defaults & breaches and hedge accounting.

22. COMMITMENTS UNDER LEASES

Operating leases

Commitments under operating leases to pay rentals after 31 March are analysed as follows:

The UKHO has three building leases:-

An office in Reading which expires in 2013/14, additional office space at the UKHO site which expires in 2013/14 and an office within AHL in Singapore, which expires in March 2013.

Vehicles are leased under the Babcock International Group Plc contract, a four-year contract which expires in 2016. All other equipment is leased from commercial suppliers on two-three year contracts.

	2011/12 Group £K	2011/12 Trading Fund £K	2010/11 Group £K	2010/11 Trading Fund £K
Property				
Due within one year	**230**	**162**	100	0
Due after one year but within 5 years	**130**	**130**	0	0
Total	**360**	**292**	100	0
Plant and equipment				
Due within one year	**20**	**20**	18	18
Due after one year but within 5 years	**36**	**36**	2	2
Total	**56**	**56**	20	20
Vehicles				
Due within one year	**11**	**11**	10	10
Due after one year but within 5 years	**42**	**42**	39	39
Due beyond 5 years	**0**	**0**	49	49
Total	**53**	**53**	98	98

23. CAPITAL COMMITMENTS

	2011/12 Group £K	2011/12 Trading Fund £K	2010/11 Group £K	2010/11 Trading Fund £K
Capital expenditure that has been contracted for, but has not been provided in these accounts				
Property, plant & equipment	**0**	**0**	653	653
Intangible assets	**1,427**	**1,427**	2,869	2,869
Total capital commitments	**1,427**	**1,427**	3,522	3,522

24. RECONCILIATION OF PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST TO GROUP NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011/12 £K	2010/11 £K
Group profit on ordinary activities before interest and and after exceptionals	**32,302**	38,669
Depreciation & amortisation	**7,292**	6,898
Depreciation discontinued operation	**41**	0
Impairment	**23**	10
Loss on sale and disposal of non-current assets	**4**	147
(Increase) in inventories	**(303)**	(64)
Decrease/(Increase) in receivables	**718**	(883)
Increase in payables	**4,106**	665
(Decrease) in provisions	**(435)**	(509)
Consolidated net cash inflow from operating activities	**43,748**	44,933

25. CONTINGENT LIABILITIES

A contingent liability exists in relation to a personal injury claim that has been brought against the UKHO. The maximum liability should we fail in our defence has been estimated as no more than £30,000.

26. LOSSES AND SPECIAL PAYMENTS

During the year there were unrecoverable trade receivables of £17,288 (2010/11: £14,757). There have been no write-offs in respect of fruitless payments and unrecoverable overpayments to staff (2010/11: none for both) together with no special severance payments in year (2010/11: £0).

27. RELATED PARTY TRANSACTIONS

United Kingdom Hydrographic Office is a Trading Fund owned by MoD.

The Ministry of Defence as the UKHO's parent department is regarded as a related party. During the year, the UKHO has also entered into material transactions with the department and with other entities for which the department is regarded as the parent department viz. All these transactions were carried out under contract terms and subject to the normal course of internal and external audit.

Other related parties:-

In addition, the UKHO has had various material transactions with other government departments and other central government bodies. Most of these transactions have been with the Cabinet Office, PCSPS and HMRC: employer's and employee's income tax and national insurance.

All transactions are carried out on standard contract terms and are subject to the normal course of internal and external audit.

AHL – The group accounts incorporate those of the Trading Fund together with those of AHL and its subsidiary undertakings.

During the year the following related party transactions are noted, where a qualifying association existed between the supplying company and a UKHO and AHL board member: The wife of an executive member of the UKHO board was an employee of KPMG during the year. The executive member of the UKHO and AHL board was excluded from all related competitions. During 2011/12 payments made to KPMG totalled £372,198 (2010/11: £99,415).

The spouse of a senior manager is the UK representative of the IIC Technologies Group with whom the UKHO contract various outsourced production activities. Some of the officers' managers are responsible for the day to day operation of this relationship. The manager concerned does not approve any payments to the company and has not been involved in any contract negotiations or commitments with the company. During 2011/12 payments made to IIC Technologies totalled £835,426 (2010/11: £923,480).

All figures reported exclude VAT.

28. EVENTS AFTER THE REPORTING PERIOD

There have been no events after the reporting period requiring adjustment to the financial statements.

29. AUTHORISATION OF ACCOUNTS

The accounts were authorised for issue on the date of certification by the Comptroller and Auditor General.

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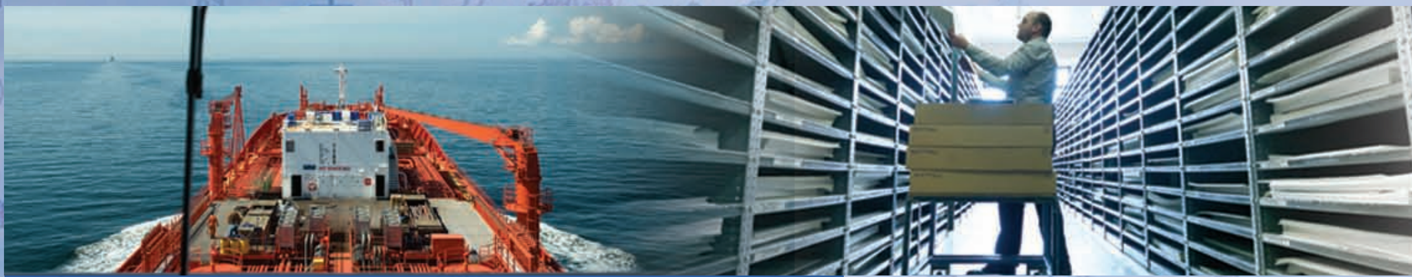

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