The Royal Mint

The Royal Mint Annual Report | 2008-09

Making Money For Everyone

The Royal Mint
Annual Report and Accounts 2008-09

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

Ordered by the House of Commons to be printed on
18 June 2009

HC 570 LONDON: The Stationery Office £14.35

ISBN: 9780102958966

Annual Report 2008-09
The Royal Mint Board of Directors
(At 31 March 2009)

Mike Davies*
Chairman

Andrew Stafford
Chief Executive

Adam Lawrence
Director of Finance
(Appointed 16 June 2008)

Anne Jessopp
Director of Human Resources
(Appointed 14 July 2008)

Phil Carpenter
Director of Production

Keith Cottrell
Director of Circulating Coin

Dave Knight
Director of Commemorative Coin
(Appointed 19 November 2008)

Colin Balmer CB*
Chairman of the Audit Committee

Mary Chapman*
Chairman of the Remuneration Committee

David Harding*

* Non-Executive Directors

Richard Thomas
Board Secretary

The Royal Mint, Llantrisant CF72 8YT
Telephone: 01443 623058
E-mail: informationoffice@royalmint.gov.uk
Website: www.royalmint.com

Banker
Barclays plc

External Auditor
Comptroller and Auditor General

Internal Auditor
KPMG LLP, Chartered Accountants

The Accounts of the Royal Mint Trading Fund as of the 31 March 2009, together with the Certificate and Report of the Comptroller and Auditor General thereon, are prepared pursuant to section 4 (6) of the Government Trading Funds Act 1973. (In continuation of House of Commons Paper No 570 of 2007-08.) Presented pursuant to Act 1973, c.63, s.4 (6).

HC 570
Ordered by the House of Commons to be printed on 18 June 2009

Contents

Chairman's Statement

It is pleasing to report that the Royal Mint achieved four Ministerial targets for the year ended 31 March 2009. These results were achieved despite the serious short-term consequences of a major fire at the manufacturing plant in March 2008, and deteriorating economic conditions in the second half of the year.

Operating profit before exceptional items and interest was £8.2 million (2007-08: £9.6 million) on sales of £159 million (2007-08: £131.8 million). Profit after exceptional items and interest was £4.3 million compared to £7.2 million for the previous year. This performance was ahead of target and reflects the sustained return to profitability demonstrated in the past three years.

The Return on Average Capital Employed (ROACE), which has been agreed as the appropriate measure of balance sheet efficiency, was also ahead of target at 7.1%. This is a particularly pleasing result as it reflects the increased focus on cash management within the business.

Standards of delivery service for UK circulating coins were in line with Ministerial targets.

The Board is pleased to recommend a dividend payment of £4 million, which is a slight increase on the previous year. Although profits were below 2007-08, the cash generation in the business continues to be strong, thus enabling the Board to maintain positive progress in the dividend payments.

At the end of January Martin Cragg, Board Secretary, retired after 33 years of service at the Royal Mint. On behalf of the Board, and his colleagues, I would express appreciation of his contribution over the years and wish him well in retirement. The new financial year will see the retirement of Keith Cottrell as Director of Circulating Coin. Keith has given 19 years of service to the Royal Mint and has played a key role in the improved performance of the business. Our best wishes go with him into retirement.

Following the completion of the executive and non-executive recruitment process, the Board has evolved to a two-tier structure. The first level is a Supervisory Board consisting of four non-executives plus the Chief Executive and Finance Director. This is essentially a Board of oversight and responsible for the strategic direction of the Royal Mint. The second level is an Executive Board consisting of all of the Executive Directors and chaired by the Chief Executive. This Board is responsible for the delivery of the agreed strategy and operating plans.

Major commercial initiatives were rewarded with the development of the London 2012 Olympic Coin Programme, in partnership with the London Organising Committee of the Olympic Games (LOCOG), and the winning of two major export contracts. More detail is set out in the Chief Executive's Report.

As we look forward, the future has many opportunities, and also some challenges.

The Royal Mint has a major opportunity to renew its consumer franchise, building on the added interest created by the London 2012 Olympic Coin Programme. The Royal Mint already has a significant presence in export markets but now has the potential, working in co-operation with others, to establish exports as a major part of its future business.

It must never be forgotten that the primary function of the Royal Mint is the manufacture of UK circulating coins. The outlook for 2009-10 is uncertain as demand levels may be significantly lower than in recent years. The general consumer downturn may also have a negative impact on Commemorative Coin demand.

Notwithstanding these challenges, the Royal Mint faces the future with confidence and a renewed energy to develop and implement a growth strategy. The hard work and willingness to embrace change by all of our employees has been a critical factor in our success and an essential feature in building our future. The announcement by the Chancellor of the Exchequer that the Royal Mint will vest as a government-owned company, but outside of the Civil Service, marks an important stage in the commercial development of the Royal Mint and will enhance the ability of the Royal Mint to build on its recent success.

Mike Davies

The refurbished visitors' entrance was opened by the Rt Hon Rhodri Morgan AM, First Minister for Wales, on 3 April 2009.

Celebrating the past, embracing the future

In the year that I completed my first full year as Chief Executive, the Royal Mint marked a significant milestone in its history - the 40th anniversary of our relocation to Llantrisant. We held a series of events for employees, during which we celebrated the pride and commitment of the workforce over the last 40 years. Whilst we have many employees who have given tremendous service to the Royal Mint, two deserve special mention, having been here since the beginning of our time in Llantrisant. Graham Dyer OBE of Historical Services has achieved 48 years of service, having originally joined the Royal Mint in London, whilst Mike Hazell of the Coin Press Room, is the only remaining member of the new production team recruited in 1968.

The 40th anniversary celebrations were also an opportunity for us to focus on embracing the challenges that lie ahead. Our achievements over the last two years are the result of a clear vision for the future, well defined strategies with quantified targets and milestones to measure our success, combined with a unity of purpose amongst our workforce. Our approach has many parallels with outstanding achievement in the world of sport, so we were particularly delighted to welcome Welsh rugby legend Gerald Davies to our 40th anniversary celebrations to give an insight into how to achieve the pinnacle of sporting success, as he sets out to manage the Lions tour of South Africa this summer.

Our vision

We have started to turn our vision of Making Money for Everyone into reality, as we expand our international Circulating Coin business, whilst maintaining the highest level of service for HM Treasury, and reinvigorate our Commemorative Coin business, as we plan for the London 2012 Olympic Coin Programme. We continue to transform our manufacturing operations, increasing our capacity and flexibility by the deployment of Lean Manufacturing principles. We are also building the capability of our people through the recruitment of high calibre individuals, and increased training, whilst creating a culture which rewards performance. I am therefore delighted to report that, as a consequence, we have, for the second year running, exceeded our financial targets and paid a profit share to our employees.

Our results

For the third year running, the Royal Mint has produced sustainable profitable performance, and is now poised for future growth in the coming years, despite the challenging business conditions in the UK and across the globe. Full details are contained in the Management Commentary on pages 08 to 18.

Strategic initiatives

Our strategy of building long-term profitable growth in Circulating and Commemorative Coin has started to come to fruition, as we secured major contracts in both business areas, which will provide the platform for sustained performance improvement. In Circulating Coin, the most important development was the awarding of a five-year contract to supply plated blanks to the Russian mints, whilst continuing to supply the Egyptian Mint with coins and blanks for the nation's recoinage.

The awarding of the contract to be the exclusive supplier of official Commemorative Coins for the London 2012 Olympic and Paralympic Games will be the catalyst for the transformation of the Commemorative Coin business, providing both a significant revenue stream for the next four years, and the focus for the new strategic direction of the business, as we aim to build brand awareness, appeal to new gift purchasers, establish a retail presence and expand internationally.

We have initiated a programme to introduce Lean Manufacturing principles to our Commemorative Coin operations, working closely with the Lean Enterprise Academy, to create the capacity and flexibility necessary to meet the forecast increases in demand resulting from the London 2012 Olympic Coin Programme. We have also made further capital investment in nickel plating capacity for Circulating Coin to address the increasing global demand.

We have continued to innovate in our production processes in order to further improve quality, output and efficiency. Process improvements and enhancements have primarily been in the areas of copper, nickel and brass plating, solution chemistry and high-energy finishing. Process changes and modifications were incorporated into the rebuilding of Nickel-Plating Plant 2.

We have improved our environmental management performance, with progress made in acid and soap recycling, waste treatment disposal and the chemistry associated with our effluent stream. This has also resulted in a reduction in our waste disposal costs. Throughout the year, we undertook two Quality Management Systems audits ISO9001 2000, jointly with BSI, and we are now at a point where we have implemented a three year strategic review. Our commitment to continuous improvement in safety, health and the environment has been an ongoing theme throughout the year, with the development of a new vision and a five-year strategy to ensure that we not only comply with all the appropriate audit and legislative requirements, but that we also apply the best available practice in our daily activities and processes.

Celebrating London 2012, a series of four coins will be released in turn during the countdown years. The first, dated 2009, depicts the sport of swimming with the figure 3 overlaid to denote the first year of the countdown. Both the Gold and Silver series will feature the London 2012 logo in full colour.

The successful implementation of our strategy requires that management have access to critical information relating to key performance indicators in a timely manner. The launch of a new Executive Information System in February has significantly enhanced our ability to measure our business performance.

London 2012 Olympic Coin Programme

We are extremely proud to be the exclusive provider of official UK Commemorative and Circulating coins for the London 2012 Olympic and Paralympic Games. Working in partnership with LOCOG, we have developed the most comprehensive programme of Olympic coins ever – including a number of firsts for the Olympic movement, the Royal Mint and the worldwide coin industry.

In August 2008, we launched the first ever Olympic Handover coin in Beijing, which was extremely well received, and in February 2009, we launched the entire programme to International Distributors at the British Embassy in Berlin, to coincide with the annual World Money Fair, with a personal message of support from the Prime Minister. We launched three public competitions in early 2009 to design the 50p Sporting Series, featuring the 29 Olympic and Paralympic sports. The first, featuring athletics, run in conjunction with Blue Peter, was incredibly successful with over 17,000 entries received from young children. The second, featuring cycling, was a competition for Secondary Schools, with the remaining 27 coin designs being the subject of a national competition, giving everyone the chance to be a part of the London 2012 legacy by seeing their design on a 50p piece.

New designs

The contemporary new reverse designs for UK coinage, designed by Welsh artist Matthew Dent and launched last April, have been well received, resulting in a sell-out of some of the Commemorative Coin versions issued to coincide with the launch.

This year, our Commemorative Coin programme celebrates a number of significant British events, including the 500th anniversary of the accession of Henry VIII, for which the Royal Mint is producing a £5 coin based on the classic Holbein portrait of the Tudor monarch. 2009 is the 250th anniversary of the birth of one of Scotland's favourite sons, and one of Britain's greatest literary figures, Robert Burns. The £2 coin, launched in his honour at the Scotland Office, features an extract from *Auld Lang Syne*, in Burns' own handwriting. Also launched this year is a £2 coin celebrating the 200th anniversary of Charles Darwin's birth, and the 150th anniversary of the publication of *On the Origin of Species*. The coin features a portrait of Darwin facing that of a chimpanzee. This year's programme also includes a 50p coin designed for the 250th anniversary of the foundation of the Royal Botanic Gardens at Kew, featuring the famous Chinese Pagoda. However, the centre piece of this year's collection is undoubtedly the gold proof collection comprising five coins of the sovereign family - the £5 coin, double-sovereign, sovereign, half-sovereign and, for the very first time, the new quarter-sovereign – all featuring the original designs of St George and the dragon by Benedetto Pistrucci and for the first time in the modern production era, dies were created using unmodified nineteenth-century tools.

Our employees

Our performance this year would not have been possible without the dedication and support of all of our employees. Our skills and resources have also been strengthened as a result of a significant number of recruitments which have taken place over the last 12 months.

Three new Executive Directors were appointed during the year. Adam Lawrence joined as Director of Finance, IT & Procurement; Anne Jessopp was appointed as Director of Human Resources, and Dave Knight was appointed as Director of Commemorative Coin. Since the end of the financial year, Keith Cottrell has announced his retirement as Director of Circulating Coin, and Andrew Mills has been appointed as his successor. I would like to put on record my personal thanks to Keith for the tremendous contribution he has made to the success of the business over his 19 years with the Royal Mint.

In addition, the year has seen the implementation of a planned recruitment drive for new skills, particularly in the areas of sales, marketing and human resources. A key strand of our five-year strategy is to increase the involvement of employees in developing the business, and to reward those who contribute to our improved performance. Work on revisions to the pay structure of our non-industrial staff started during the year and will continue to be built on in the future. I am delighted that everyone's efforts were recognised by the awarding of a profit share payment for the second consecutive year. I very much hope that we will be in a similar position next year as we continue to build on the strong platform that has been laid by all our hard work over the last year.

Our future

In April 2009, the Chancellor of the Exchequer announced his decision to vest the Royal Mint into a company structure. The announcement follows the Government's review of the Royal Mint's operating model, and brings the long period of discussion about our status to an end, providing a clear way forward for the business. I believe that vesting will facilitate further growth, and better secure the future sustainable success of the business for all our staff and customers. There is now a strong case for the introduction of private risk capital into the business. This will allow us to pursue new commercial opportunities and expand more rapidly, taking advantage of the freedom and flexibility that comes from a move to company status, thus confirming our position as a high quality British manufacturer, and the world's leading exporting mint.

Andrew Stafford

Activities and structure

The Royal Mint's activities consist of:

- the manufacture and distribution of UK circulating coins under a contract with HM Treasury;
- the manufacture and supply of circulating coins and blanks for overseas central banks, issuing authorities and mints;
- the manufacture, marketing and distribution of UK and overseas commemorative coins and medals;
- the manufacture and supply of official medals, seals and dies; and
- the marketing of technical services and advice related to the manufacturing of coins and blanks.

The manufacture, marketing and distribution activities are all based at the Royal Mint's site in Llantrisant, South Wales.

The Royal Mint has been operating as a Trading Fund since 1 April 1975 in accordance with the Royal Mint Trading Fund Order 1975 (S.I. 1975 No. 501) and, since 1 April 2002, the Royal Mint Trading Fund (Extension and Variation) Order 2002, both made under the Government Trading Funds Act 1973. As a Trading Fund, the Royal Mint operates on commercial lines and is required under Section 4(i) of the Government Trading Funds Act 1973 to 'manage the funded operations so that the turnover of the fund is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to turnover'. In practice this statutory requirement is generally taken to mean that whilst the Royal Mint is permitted to record an operating loss in any one financial year, this loss should be made good in subsequent years so that financial break-even is achieved. On 1 April 1990 the Royal Mint became an Executive Agency under the initiative announced by the then Prime Minister in February 1988.

The Master of the Royal Mint is the Chancellor of the Exchequer. The Chief Executive and Accounting Officer of the Royal Mint is the Deputy Master and Comptroller.

The employees of the Royal Mint are Civil Servants and are subject to conditions of service prescribed for the Civil Service. Remuneration and performance-related pay structures are specific to the Royal Mint.

On 21 April 2009 the Chancellor of the Exchequer announced that the Royal Mint would be vested into a Government-owned company, and that this transition was expected to be completed by 31 December 2009.

Objectives and strategy

The Royal Mint is also required under the 1973 Act to 'achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with HM Treasury concurrence) to be desirable of achievement'.

The Royal Mint's target of Return on Average Capital Employed (ROACE) as determined by the Chancellor of the Exchequer for 2008-09 was 5.1%. The return in 2008-09 was 7.1% (2007-08: 9.2%). For this purpose the annual rate of return is calculated using profit or loss for the year before interest as a percentage of the average of the opening and monthly closing capital employed, a 13-month average. The Royal Mint achieved its main objective on ROACE in 2008-09 for the third year running. The performance compared with other key ministerial targets is set out on page 20.

The Royal Mint delivered another outstanding result this year returning operating profit before interest and exceptional costs of £8.2 million (2007-08: £9.6 million) and proposed a dividend payable of £4 million (2007-08: £3.9 million). For the second year running the Royal Mint has produced sustainable profitable performance, and is now poised for future growth in the coming years, despite the challenging business conditions in the UK and across the globe.

Our presence at the World Money Fair in Berlin in February was a great success. It began with a reception for our key customers held at the British Embassy where, in splendid surroundings, they could look over our London 2012 Olympic Coin Programme.

The primary responsibility of the Royal Mint is the provision and maintenance of the UK coinage. In practice, therefore, the Royal Mint must produce sufficient quantities of each denomination to meet public demand and in conjunction with HM Treasury, it must maintain stocks at a level that ensures demand can be met satisfactorily. In all these respects, the Royal Mint fulfilled its objectives.

The Circulating Coin business strategic objectives are to:

– increase operational flexibility to be able to react quickly to variations in demand;
– continue to improve the Royal Mint's competitive cost position;
– create differentiation through the quality of the Royal Mint's products and services; and
– improve productivity and reduce costs.

The Commemorative Coin business strategic objectives are to:

– achieve consistent growth in sales and profitability through building the Royal Mint brand, product development and the growth of the customer database;
– reduce its reliance on major event-driven products;
– reduce its dependence on the UK market through international development;
– maintain a high level of customer service; and
– improve productivity and reduce costs.

To create the gold sovereigns of 2009 our team of skilled engravers used original nineteenth-century tools from the Royal Mint collection. The decision to use these tools was not taken lightly but has ensured that, on its reverse, this year's sovereign family accurately reflects Pistrucci's celebrated masterpiece.

Issues of United Kingdom circulating coins 2008-09

Denomination	Number of Pieces Millions	Face Value £m
£2	24.590	49.180
£1	43.997	43.997
50 pence	28.847	14.424
20 pence	136.022	27.204
10 pence	80.447	8.045
5 pence	221.092	11.055
2 pence	200.279	4.006
1 penny	561.752	5.618
Total	1,297.026	163.529

Estimated value and number of coins in circulation 31 March 2009

Denomination	Number of Pieces Millions	Face Value £m
£2	333	666
£1	1,483	1,483
50 pence	842	421
20 pence	2,399	480
10 pence	1,640	164
5 pence	3,794	190
2 pence	6,658	133
1 penny	11,085	111
Total	28,234	3,648

Operating and Financial Review

The Royal Mint, for the second consecutive year, enjoyed outstanding financial results. Turnover increased by 20.7% to £159.0 million (2007-08: £131.8 million), sales growth coming from both the Circulating Coin market area which achieved sales of £93.2 million, up on the previous year by £8.2 million, driven by an increase in overseas sales, partly offset by reductions in UK sales, and Commemorative Coin which achieved sales of £65.8 million, well in excess of the £46.8 million achieved in the prior year. The increase in Commemorative Coin sales was driven by higher commodity prices for gold, more effective marketing and trade relations, but also by the increased demand for bullion products that was seen particularly in the second half of the year, as the broader economic picture deteriorated and customers sought more gold-based bullion products.

We referred in the 2007-08 Annual Report to a serious fire in one of the plating plants just prior to the commencement of this fiscal year. This adversely affected Circulating Coin production and sales for the first half of the year, however the vast majority of production was caught up in the second half, once the plant was returned to full operation. The production team should be commended on the fine job in returning this plant to production in a more efficient position than before the fire, with an increase in its overall capacity.

The management team have focused on cash flow, and we are pleased to report we enjoyed a positive operating cash flow of £9.4 million in the year, before financing charges, capital expenditure and dividends paid to HM Treasury of £3.9 million. Inventory was a particular focus during the year and we were able to achieve a reduction of £13.6 million on the previous period. This impact was partly offset by the reduction of our creditors balance. Debtors increased significantly at the year end due to the combination of production at full capacity since the reintroduction of the nickel-plated capacity, a full order book, and a rising demand for bullion products in our Commemorative Coin business. In addition, March was a record sales month for the Royal Mint, and as a consequence, debtors at the end of the year reached £21.6 million.

Capital expenditure was £4.2 million (2007-08: £1.5 million), which was slightly below the planned level, but in keeping with the Royal Mint's strategy of increasing the level of capital investment to support its growth strategy. Over the coming years it is anticipated capital expenditure will increase as we ramp up Commemorative Coin production in support of our Olympic Programme, and increase the investment in plating facilities in Circulating Coin.

	2008-09 £m	2007-08 £m
Turnover:		
Circulating coin		
UK	31.6	39.8
Overseas	61.6	45.2
Total Circulating coin	**93.2**	**85.0**
Commemorative coin	**65.8**	**46.8**
Total	**159.0**	**131.8**
Operating profit/(loss)		
Circulating Coin	10.7	7.4
Commemorative Coin	7.8	10.5
Central overheads	(10.3)	(8.3)
Exceptional items	(3.6)	(1.3)
Total operating profit/(loss)	**4.6**	**8.3**

The new nickel-plating plant, rebuilt after a damaging fire, is a world-class facility of which we are justifiably proud.

Central overheads in 2008-09 reflect higher salaries and further investment in staff training and recruitment.

Circulating Coin

The Circulating Coin business delivered its third year of increased profitability with contribution to central costs of £10.7 million (2007-08; £7.4m), an increase of £3.3 million over the previous year, due to increased diversification away from UK circulating coin. Overseas coin and blanks now contribute over two-thirds of the production activity in Circulating Coin and a higher proportion of contribution to central overheads.

UK coinage issued to the cash centres totalled 1,297 million coins (2007-08: 1,319 million). Working closely with the Association for Payment Clearing Services (APACS) the Royal Mint achieved 100% against its Ministerial target of delivering 99% of coin availability for shipment to banks and post offices within 11 days.

Counterfeit coins

During the year, two routine surveys were conducted to monitor the level of £1 counterfeit coins. The survey conducted in October 2008 indicated a counterfeit rate of around 2.58% (October 2007: 2.06%). The most recent study conducted in May 2009 indicates that the level of counterfeits has not increased above that of the October 2008 result, which reflects the positive actions taken by all parties involved.

Provisions for various offences connected with the counterfeiting of coins are included in the Forgery and Counterfeiting Act 1981. Enforcement of these provisions is entirely a matter for law enforcement agencies, such as the police and the Crown Prosecution Service. The Royal Mint continues to work with these agencies to reduce the incidence of counterfeit £1 coins.

Commemorative Coin

As expected, 2008-09 was a year of transition for the Commemorative Coin business. Contribution to central overheads was £7.8 million compared to £10.5 million in 2007-08. Despite the challenging market conditions, especially in the second half of the year, the Commemorative Coin business came in close to its planned profitability of £8.1 million. Increases in sales were driven largely by higher metal prices, particularly for gold, and an increase in higher value, lower margin gold bullion products.

Key achievements during the period included the launch of the London 2012 Olympic Coin Programme with the Handover Coin, marking the start of the countdown to the London 2012 Games. Christmas 2008 also saw the introduction of our gift range which was highly successful, and resulted in several products selling out. We have also recruited a number of high calibre sales and marketing staff who will drive the growth of the brand and business over the next few years.

Two of the four Commemorative Coin Ministerial targets were achieved. We were unsuccessful in exceeding the Ministerial targets for fulfilment of UK Commemorative Coin orders within 14 days to individual customers in the UK largely due to the unrivalled success of the new reverses which created unprecedented demand. We also improved our performance against the quality target of 99.7% for products accepted by individual customers, achieving 99.6%, compared with the previous period, when we achieved 99% acceptance. We exceeded the targets for both deliveries within seven days and deliveries of medals by agreed dates.

Exceptional items

During the year the Royal Mint incurred £3.6 million in exceptional items. Of these costs £0.8 million related to restructuring charges while £0.8 million related to costs incurred in support of the Government's Operational Efficiency Programme Review (OEP Review) which led to the Chancellor's announcement on vesting. A further £0.6 million relates to future anticipated legal costs in respect of a dispute with Birmingham Mint Limited (see Note 19).

During this period the Royal Mint adopted the Financial Reporting Standards FRS 25, 26 and 29, the result of which created new reporting requirements for the Royal Mint. In 2008-09, the year-end impact on the profit and loss account totalled £1.4 million. The Royal Mint has taken the view that these adjustments should be separately reported as an exceptional item to aid the reading of the accounts. These adjustments have no cash flow implications.

Dividends

The Board declared a dividend for the year of £4 million.

Vesting

On 21 April 2009, as part of the OEP Review, the Chancellor of the Exchequer announced that the Royal Mint would be vested into a Government owned company. The vesting process is not expected to have any significant impact on the trading of the Royal Mint or the value of assets and liabilities of the business as assets will be transferred at net book value. It is expected that this process will lead to further costs being incurred during 2009-10.

Derivative financial instruments

The Royal Mint operates a prudent hedging policy and uses various types of financial instruments to manage its exposure to market risks that arise from its business operations. The main risks, as in the past, are from movements in commodity metal prices and foreign currency.

Metal prices

A significant proportion of the Royal Mint's raw materials consist of non-ferrous metals which are traded on the London Metal Exchange (LME), and whose prices are therefore volatile. Volatility in non-ferrous metals, notably nickel and copper, is largely avoided by the Royal Mint through its hedging programme. Where possible the non-ferrous metal element of selling prices is determined on the basis of the market prices at the date a contract or order is accepted. The Royal Mint seeks to hedge its exposure to subsequent movements in metal prices by securing forward contracts to acquire the metal at the committed selling price.

However, with the introduction of the Financial Reporting Standards FRS 25, 26 and 29 this can lead to volatility in reporting. Although there is no significant impact on cash flow or contract profitability they do introduce financial reporting volatility through mark-to-market adjustments and ineffectiveness of hedge relationships. These reporting adjustments should reverse in the next period and do not significantly impact cashflow or the profitability of each individual contract, and have therefore been reported separately to aid the reading of the accounts. Metal price inflation does, however, affect working capital, loan funding and interest charges. Due to the hedging policy of the Royal Mint, the full impact of these LME metal price changes takes several months to be realised. Commemorative Coin stock is primarily held in precious metals and valued based on the purchase price.

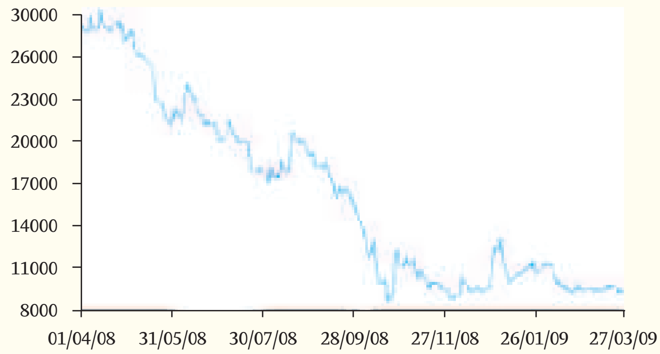
Commemorative coins are manufactured for sale through the Royal Mint's marketing and promotional activities. Metal costs are secured using precious metal loans and buying of quarterly commitments, with the objective of minimising the impact of fluctuations in metal prices on future transactions and cash flows. The level of cover taken is determined by Executive Directors and the risk is managed in order to achieve the Royal Mint's objective that, as far as possible, its financial performance is not exposed to market fluctuations in metal prices.

Metal prices were extremely volatile during the year. The average price of gold increased 34% over the year which came on the back of a similar size increase the previous year.

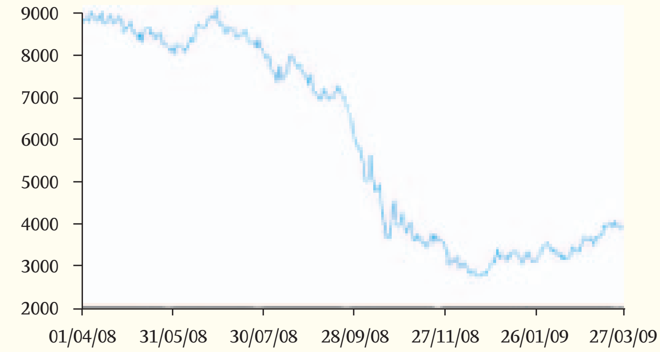
The Royal Mint's metal stocks include a level of copper and nickel stock required to keep operations active as opposed to metal procured for a specific contract. Stock is accounted for on a first in first out (FIFO) cost basis and these stocks are effectively unhedged. As a result, these stocks are subject to variations in market prices over time. We have estimated the adverse impact on our Operating Profit was £1.5 million and was due to the massive correction in prices particularly of copper and nickel in the second half of the fiscal year.

In addition, precious metal overdrafts are used to finance the Royal Mint's working capital of platinum, gold and silver. The stocks secured against the overdraft are reflected in stock and the corresponding liability is included in creditors due within one year.

All other metal stocks are held in respect of sales commitments.



Nickel price



Copper price

Foreign exchange

The Royal Mint reduces exposure to exchange rate fluctuations in its expected future trading cash flows using forward contracts. The objective of this policy is to minimise the effect of fluctuations in exchange rates on future transactions and cash flows. During the year the Royal Mint was able to begin procuring its metal contracts in £ Sterling which has the effect of reducing volatility in profitability through exchange rate movements.

Credit payment policy

The Royal Mint always seeks to comply with agreed terms. A total of 91% (2007-08: 87%) of invoices was paid within either 30 days or to the agreed period.

Assay

In accordance with the Royal Mint's responsibilities, as detailed in the Hallmarking Act 1973, a quality assessment was carried out by the Royal Mint of the four Assay Offices in London, Birmingham, Sheffield and Edinburgh. As a result of this year's assessment it was established that the metal analysis methods (assaying) and procedures of the four offices were satisfactory.

People

The Royal Mint believes that all employees have an important contribution to make to the working and development of the organisation. The aim is to create an environment in which everyone's abilities are recognised and one where all are encouraged to develop and use their talents to the full. It is our wish to create a culture which encourages and rewards excellence in performance. To this end a new Performance Review system was implemented for all non-industrial staff during the year and this is expected to be extended to industrial staff in 2009-10. We regularly consult with our employees and during the year we also retained our Investors in People status.

The number of people employed (permanent and casual staff) at 31 March 2009 was 861 (2008: 765). The increase is as a result of the growth in production activity over the past 12 months.

Disabled Employees

The Royal Mint is committed to having a diverse workforce with a culture that values the benefits that diversity brings. In terms of disability, the Royal Mint has been successful in employing people with a disability and making the required changes to the working environment and during the year has worked with Remploy, an expert in this field.

Sickness Absence

The annual sickness absence for 2008-09 was 6% (2007-08: 6.4%).

Directors

Details of the Directors are set out on page 32. None of the Directors has interests that conflict with his/her responsibilities.

Auditor

The Trading Fund's statutory auditor is the Comptroller and Auditor General. The external audit costs are set out in Note 4 to the Accounts.

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

Safety, Health and Environment

The Royal Mint continues to seek to achieve high standards of business ethics and is fully committed to meeting its safety, health and environment requirements and responsibilities. Our safety, health and environment management systems aim for continuous improvement beyond basic legal compliance, which involves placing strong emphasis on working with and looking after our workforce, as well as being responsible in matters of safety, health and the environment.

The following performance measures indicate our continuing progress towards these goals:

– the results of external safety, health and environment audits demonstrate that we are achieving continuous improvement in all aspects of safety, health and environment performance;
– there has been a decrease in both the total and reportable number of accidents recorded within the year, with reportable accidents remaining below the Health and Safety Executive's (HSE) national incident rate for manufacturing industry; and
– the Royal Mint continues to work to the stringent controls of its Pollution, Prevention and Control (PPC) Permit which is regulated by the Environment Agency and the COMAH (Control of Major Accident Hazards) regulations which is overseen by both the Environment Agency and the HSE.

The Royal Mint has a commitment to sustainable development. The Royal Mint's new Environmental Policy is backed by the following vision statement that reads:

'The Royal Mint is committed to ensuring we are at the forefront of employing sustainable business practices in order to minimise our environmental footprint.

In order to achieve this vision we have a robust strategic improvement plan in place with clear specific objectives and achievable targets which are measurable, realistic and time based.'

To implement the Royal Mint's vision, key strands of strategy have been developed:

– ensure there is a comprehensive environmental framework that is legally compliant and is recognised as best practice and leads to zero environmental incidents;
– ensure all employees and contractors understand their environmental roles, are fully trained to carry out these roles and are committed to managing the environmental issues;
– ensure that we understand the environmental impact of the suppliers we use and only select suppliers that use environmentally balanced practices;
– ensure that we are knowledgeable in the emerging methods and techniques that will minimise our environmental footprint by identifying ways to conserve natural resources;
– implement a strategy to manage and recycle waste products cost effectively to minimise the impact on the environment; and
– fully understand and manage the environmental concerns and impacts of the local communities.

The Royal Mint is committed to delivering the key strands of the strategy over a five-year period.

Outlook

On 2 April 2008 we had a successful major launch of the new reverses for the UK coins – 1p to £1 inclusive; this is the biggest change to UK coinage since decimalisation almost 40 years ago. The launch was extremely well received and as a result, sales of the 'last of the old' were also popular. The relative strength of our themes for 2009-10 is weaker than the previous two years. This over-dependency on event-driven product development has already been highlighted as a key business risk and the challenge going forward is to broaden the appeal of Commemorative Coin products generally, both within the UK and overseas. Commemorative Coin outlook for 2009-10 is also adversely affected by the current challenging economic climate.

The sharp rises in precious metal prices are a concern, but sales have been robust and margins will remain under close scrutiny. The more recent increase in gold prices, combined with the weakness in sterling, has had a marked effect and may continue to impact our working capital levels during the year as we expect our sales of bullion products to increase over the current year.

The Commemorative Coin Programme for the London 2012 Olympic and Paralympic Games commenced in August 2008 with the launch of the Beijing Handover Coin. The programme accelerates in 2009-10 with the launch of the Countdown and Silver Continuity series celebrating Britain under the themes of mind, body and spirit.

The coming year, 2009-10, will be one of continual transition as the Commemorative Coin business strengthens its foundations and exploits the substantial opportunities that lie ahead. An investment in the recruitment of new skills has commenced in 2008-09 and is expected to continue in 2009-10, together with a significant investment in promotional expenditure.

Circulating Coin is being negatively impacted by the global economic downturn. However, the Royal Mint has secured several large overseas contracts which provide greater resilience to the business and this is expected to provide the foundation for another successful year in this area. Nickel-plating capacity added during 2008-09 is expected to be fully utilised throughout the year.

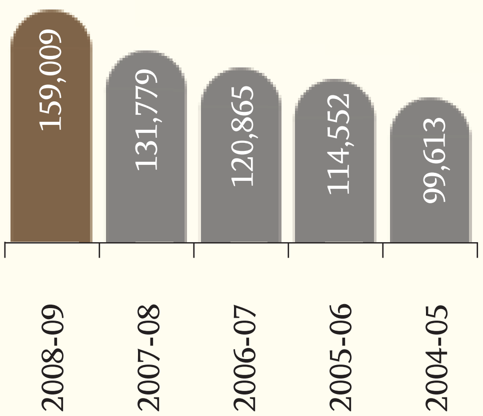
Metal prices continue to be volatile and may drive working capital levels higher. Management remain focused on specific planned actions to continue to drive working capital levels lower and mitigate any adverse metal price fluctuations.

The planned 2009-10 targets are to deliver a sustainable retained profit and a positive return on capital employed at least equivalent to the Ministerial target. For the financial year 2009-10 the key Ministerial Target (Target 1) is to be calculated on a revised method that better reflects management control of both profit and balance sheet. This revised target is the Return on Average Capital Employed (ROACE); profit (operating profit after exceptional costs before interest and dividend) is expressed as a percentage of the 13-month average of each period end capital employed (fixed and current assets less liabilities excluding all long-term loans and cash). This differs from the previous method by including Bullion overdrafts within the calculation. In addition, the improvements in operational performance over the past two years have resulted in an increased Ministerial Target 1 for 2009-10 of 10.0%.

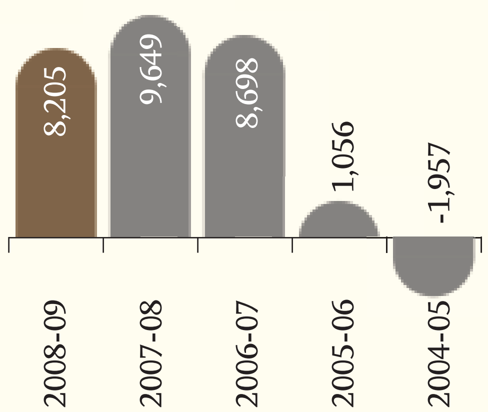
Andrew Stafford
Accounting Officer
9 June 2009

	2008-09 £'000	2007-08 £'000	2006-07 £'000	2005-06 £'000	2004-05 £'000
UK sales	76,787	75,441	73,165	59,323	55,311
Overseas sales	82,222	56,338	47,700	55,229	44,302
Total sales	159,009	131,779	120,865	114,552	99,613
Operating profit/(loss) before exceptional items	8,205	9,649	8,698	1,056	(1,957)
Exceptional items	(3,617)	(1,325)	(6,385)	(1,344)	-
Net interest	(322)	(1,150)	(1,075)	(1,312)	(1,288)
Dividend	(4,000)	(3,940)	-	-	-
Retained profit/(loss) for the year	266	3,234	1,238	(1,600)	(3,245)
Total assets less current liabilities at 31 March	64,377	67,052	65,580	59,887	59,564
Operating profit/(loss) before exceptional items as a percentage of sales	5.2%	7.3%	7.2%	1.0%	(2.0%)
Operating profit/(loss) as a percentage of sales	2.9%	6.3%	1.9%	-	(2.0%)

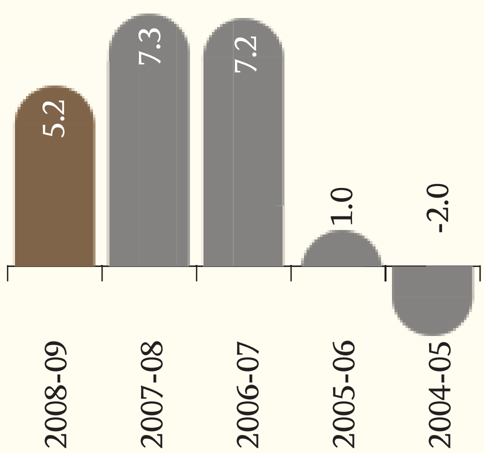
Total Sales £'000



Operating Profit/(Loss) Before Exceptional Items £'000



Operating Profit/(Loss) Before Exceptional Items as a Percentage of Sales



Key Ministerial Targets

		2009-10	2008-09	2007-08	2006-07	2005-06
Target 1 *						
To achieve an average rate of return on average capital employed	Target	10.0%	5.1%	6.8%	(0.3)%	3.0%
	Outturn		7.1%	9.2%	2.7%	(0.3)%
Target 2						
UK Circulating Coin						
Delivery of accepted orders from UK banks and post offices within 11 days	Target	99.0%	99.0%	99.0%	99.0%	99.0%
	Outturn		100.0%	99.3%	99.3%	99.2%
Target 3 **						
UK Commemorative Coin						
Delivery of orders to individual UK customers within three days, measured from receipt of order or published due date	Target	80%	n/a	n/a	n/a	n/a
	Outturn					
Delivery of orders to individual UK customers within 14 days, measured from receipt of order or published due date	Target		85.0%	85.0%	85.0%	85.0%
	Outturn		81.9%	86.9%	81.0%	87.0%
Delivery of orders to individual UK customers within seven days, measured from receipt of order or published due date	Target		65.0%	65.0%	65.0%	65.0%
	Outturn		74.6%	77.9%	72.0%	67.0%
Target 4						
Medals						
Orders delivered by agreed delivery date	Target	98.0%	98.0%	98.0%	98.0%	98.0%
	Outturn		99.1%	98.3%	99.6%	99.6%
Target 5						
Quality						
Commemorative Coin products accepted by individual UK customers	Target	99.7%	99.7%	99.7%	99.7%	99.7%
	Outturn		99.6%	99.0%	99.6%	99.6%

* The average rate of return on average capital employed is calculated by expressing profit as a percentage of average capital employed. Profit for this calculation will be taken as the retained profit plus interest and dividend. Average capital employed will be taken as the average of the monthly balance sheet capital employed plus loans and cash.

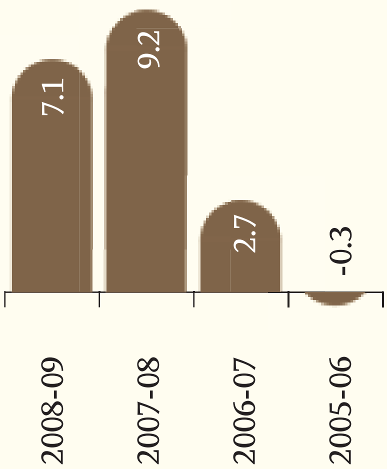
The basis for Target 1 was amended in 2007-08. The previous years' figures have been restated on the new basis described above. The historic targets and outturns were calculated as the average rate of return on net assets by expressing profit as a percentage of average net assets. Profit for this calculation is taken as the retained profit plus long-term loan interest. Net assets are taken as the average of the opening and closing balance sheet capital employed plus long-term loans outstanding and are shown in the table below.

Historic Targets and Outturns		2007-08	2006-07	2005-06
The average rate	Target	7.2%	2.9%	2.9%
of return on net assets	Outturn	11.5%	3.0%	(1.7%)

For 2009-10 the calculation has been amended to include Bullion overdrafts within the definition of Average Capital Employed. Measured on a consistent basis this would result in the 2008-09 target increasing from 5.1% to 10.0%. Historical targets and outturns have not been amended to reflect this change.

**The measure for Commemorative Coin deliveries has been changed in 2009-10 to measure the benefits expected to be obtained by implementing a Lean Manufacturing environment within this area.

Financial Objective Ratio (Target 1)



The Committee, which operates independently of the Royal Mint and whose full title is the Royal Mint Advisory Committee on the Design of Coins, Medals, Seals and Decorations, was established in 1922 with the personal approval of King George V.

Its original purpose was to raise the standard of numismatic art and this remains its primary concern, being charged, on behalf of the Chancellor of the Exchequer as Master of the Mint with the recommendation of all new designs for UK coins and official medals.

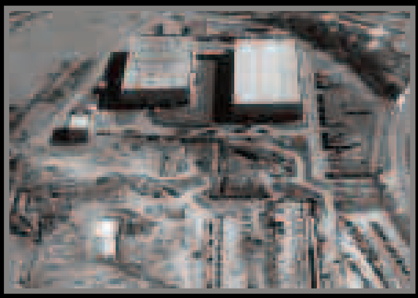
There were five meetings in the last year, four at Cutlers' Hall and one at Buckingham Palace. An important feature of last year's report on the work of the Committee was the launch on 2 April at the Tower of London of the new definitive designs by Matthew Dent. It has since been fascinating to witness the response to these designs after their release and to see how popular they have become. It was a defining project for the Committee and its significance has impacted on a number of other related activities in which members have been involved and to which reference will be made later in this report.

Most of the designs for the 2009 programme of UK coins had already been determined by the spring of 2008 and the designers involved cover an eclectic range of backgrounds. John Bergdahl's arresting portrait of Henry VIII for this year's commemorative crown was based on the painting by Holbein and has made a very attractive Commemorative coin. For the Charles Darwin £2 coin, sculptor Suzie Zamit created a powerful composition of Darwin and an ape confronting one another, while for the Kew Gardens 50p the painter Christopher Le Brun RA prepared a beautifully balanced and elegantly proportioned design focusing on the Pagoda at Kew.

Work on the 2010 programme has occupied the greater part of the Committee's time during the year but, in addition, attention in the autumn turned to resolving designs for a new official medal. Approval has been granted for a Queen's Ambulance Service Medal to be instituted to recognise distinguished service, outstanding contribution to the development of the Ambulance Service and a commitment beyond the call of duty. In collaboration with the Service a design has been developed and official approval is now being sought. A new medal for the Prison Service has also been approved and in February the Committee examined ideas submitted by three artists. Further work will be required before a final recommendation can be made but Prison Service officials are very pleased with the progress that has been made so far.

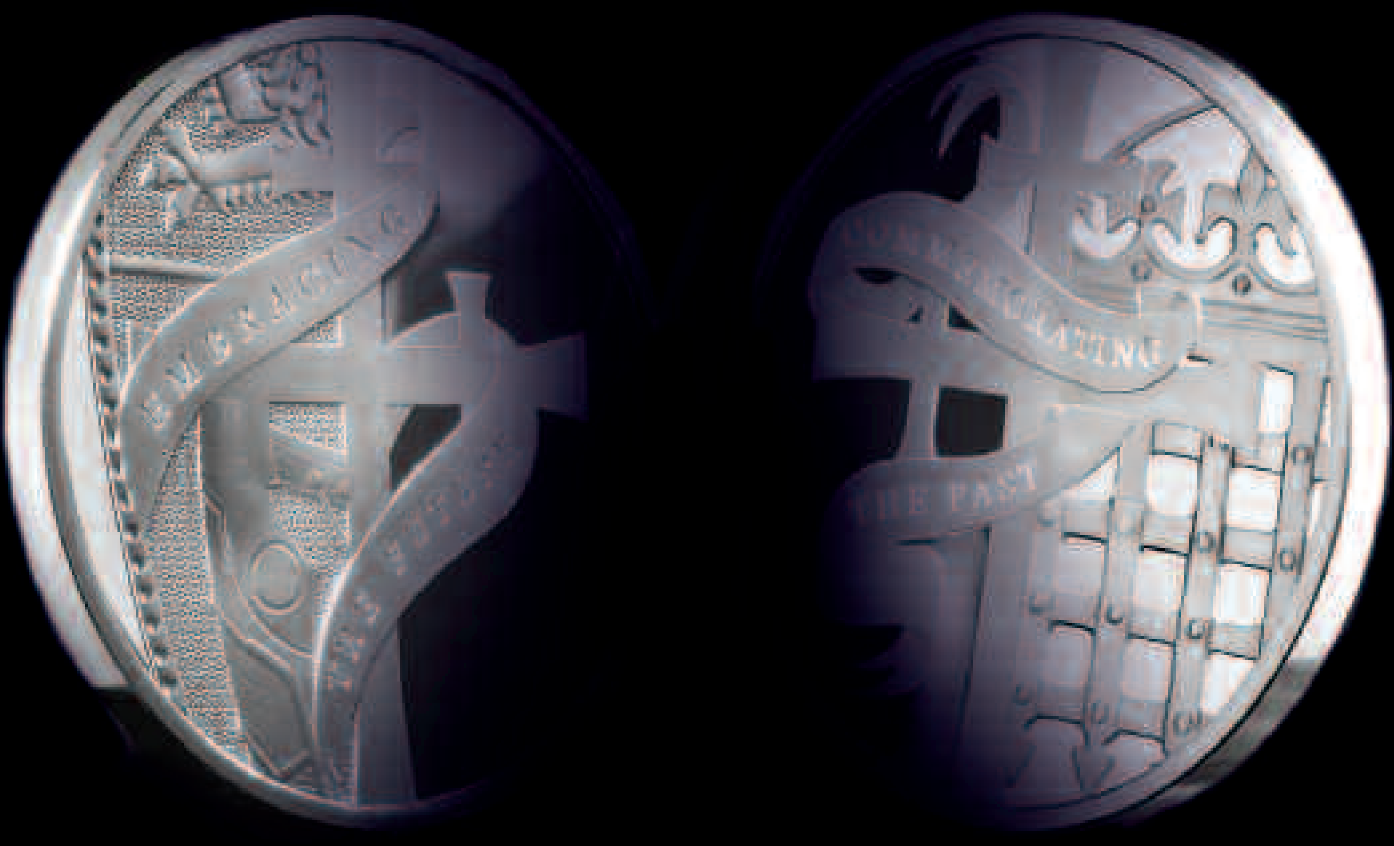
As with last year, the working group on the design of coins and medals for the London 2012 Olympic and Paralympic Games had a very busy schedule. It met on nine occasions and the commitment of time and energy from Stephen Raw, MaryAnne Stevens and Sir Christopher Frayling has been very much appreciated. The involvement of officials from LOCOG and the IOC has also been extremely useful and the Advisory Committee has been very happy to approve the excellent work so far undertaken. A design for the Beijing to London Handover coin was finalised in the spring of 2008 and work on a series of four coins tracking the countdown to 2012 to be issued over the course of the next few years was also completed. The first coin in the Countdown series, designed by Royal Mint Engraver Claire Aldridge, was unveiled at the Berlin Coin Show in February and received an extremely positive reception. A series of 18 silver coins, the focus of which will be a celebration of Britain in the context of London 2012, is also being developed and the first three were unveiled in Berlin. Responding to a challenging brief, graphic designer Shane Greeves, in association with the Royal Mint Engraving Team, has laid the foundations for what has every prospect of being a fascinating and engaging series, celebrating the English language, British achievements, the natural world, as well as British culture and identity.

40TH ANNIVERSARY OF THE ROYAL MINT



'The 40th anniversary celebrations were an opportunity for us to focus on embracing the challenges that lie ahead. Our achievements over the last two years are the result of a clear vision for the future, well defined strategies with quantified targets and milestones to measure our success, combined with a unity of purpose amongst our workforce'

Andrew Stafford



Launched on air on 13 January, the Blue Peter competition to design an Athletics coin attracted more than 17,000 entries, the biggest response to a competition that Blue Peter has had in over a decade.

Another key aspect of the programme of coins for the London 2012 Olympic and Paralympic Games will be the series of 29 fifty pence pieces celebrating each sport that will form part of the Games. Three competitions were launched in January and the response has been overwhelming. Viewers of Blue Peter were invited to prepare designs for the Athletics coin, schoolchildren between 13 and 18 were asked to design the Cycling coin and the opportunity to design coins for all the other 27 sports was thrown open to the general public. By the closing date of 2 March the Blue Peter competition had attracted over 17,000 designs and in a marathon session for the design committee on 16 March the field was whittled down to a manageable short list. At another meeting a couple of days later the number was further reduced and it is hoped that a winner will be announced in September. It has been a hugely encouraging response, the largest by far for any competition to design a UK coin. The deadline for the other two competitions falls outside the period of this report but the response so far has been extremely positive.

In May 2008 the Chairman delivered a thoroughly researched and insightful lecture to the British Numismatic Society (BNS) on the history of the Committee as well as on some of the more memorable incidents and design successes of his time as Chairman.

The story of the development of the definitive designs inevitably featured prominently in what he had to say and through the historical context he presented it was possible to see one or two illuminating parallels with the past. Another member of the Committee, Stephen Raw, the lettering artist, gave a lecture at the Summer Meeting of the BNS in Cambridge on the role of lettering within the context of numismatic design. The day of lectures took as its theme the art of coinage and Mr Raw was joined on the programme by John Porteous, the numismatic consultant to the Committee, who delivered an authoritative lecture about the aesthetics of coin design from the ancient world to the twenty-first century.

A book was published in September by the Royal Mint, *Designing Change: The Art of Coin Design*, partly to coincide with the opening of the exhibition at the British Museum of the same name. Consisting of a collection of essays by a number of authors, including Sir Christopher Frayling and Stephen Raw, its purpose was to reveal how coins are designed, celebrating the skill and originality of the artists and designers who have been involved in the creation of coins. Again the new reverse designs was an important theme for the book and the publication now provides a permanent record of how such a major undertaking was approached. It was particularly pleasing that His Royal Highness The Duke of Edinburgh, the former President of the Committee, prepared the Foreword to the book, re-establishing the link he has had with the design of British coins.

There were no new appointments to the Committee during the year but the membership of MaryAnne Stevens was extended in April 2008 for a further three years. She has been an extremely supportive and hard-working member and her insight and knowledge of artistic and design communities have been invaluable. Approval was also received in January 2009 for Sir Christopher Frayling's chairmanship to be extended for a further two years. His commitment to the ideals of good design with respect to coinage remains as strong as it was when he joined the Committee eight years ago. Other membership news includes the announcement of a Knighthood for Professor David Cannadine in the Queen's New Year's Honours List. He will receive the honour at Buckingham Palace in the summer and appropriately enough the actual award he receives will have been made at the Royal Mint.

As was noted at the start of this report, the Committee was established in 1922 and since then there have been over 250 meetings. The 250th meeting, indeed, was held on 3 June 2008 and the occasion was marked by a small reception at Cutlers' Hall. As a further way of commemorating this milestone a complete list was prepared of all the dates and locations of meetings and all the members who have served on the Committee. The list of former members, including Eric Gill, Sir John Betjeman and Lord Clark, includes many of the key figures in the cultural history of Britain over the last 80 years.

Membership of the Committee at 31 March 2009 (with dates of appointments)

Professor Sir Christopher Frayling
Chairman
(January 2001, re-appointed January 2009)

Mr Andrew Stafford
Chief Executive of the Royal Mint and
ex officio Deputy Chairman
(October 2007)

Mr Peter Gwynn-Jones CVO
(January 1996, re-appointed January 2003)

Miss MaryAnne Stevens
(April 2001, re-appointed April 2008)

Professor Sir David Cannadine
(September 2004)

Mr John Maine RA
(September 2004)

Mr Stephen Raw
(January 2005)

The Rt Hon. The Earl Peel GCVO DL
(March 2007)

Mrs Jana Khayat
(February 2008)

Mr Tim Knox
(February 2008)

Mr John Porteous OBE
(Numismatic Consultant to the Committee)

Kevin Clancy
Secretary to the Committee


ANNIVERSA
THE ACCESSIO

Statement of the Royal Mint's and Accounting Officer's Responsibilities

Under section 4(6) of the Government Trading Funds Act 1973 HM Treasury has directed the Royal Mint to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The Accounts are prepared on an accruals basis and must give a true and fair view of the Royal Mint's state of affairs at the year end and of its profit or loss, total recognised gains and losses and cash flows for the financial year.

In preparing the Accounts the Royal Mint is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and to disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Royal Mint will continue in operation.

HM Treasury has appointed the Chief Executive of the Royal Mint as the Accounting Officer for the Royal Mint. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and for safeguarding the Royal Mint's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money.

Corporate Governance – Statement on Internal Control

Scope of responsibility

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Mint's policies, aims and objectives, to evaluate the likelihood of those risks being realised, 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 Royal Mint for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts. It accords with HM Treasury guidance.

Capacity to handle risk

Under the guidance of the Supervisory Board the Royal Mint's risk management process is undertaken by the Executive Board comprising Executive Directors who meet formally on a regular basis and not fewer than ten times a year. The Executive Board focuses on the identification and management of the key risks which could impact on the achievement of the Royal Mint's policies, aims and objectives, and the control strategy for each of the significant risks. As part of its oversight process, the Supervisory Board undertakes a review of risk management at least twice a year and has input into the broader risk management of the Royal Mint.

The Risk Management Committee is responsible for overseeing the effective establishment and maintenance in operation of a management framework within which risk is evaluated and managed. The Committee's membership comprises the Chief Executive, the Director of Finance and the Head of Safety, Health and Environment. The Head of Internal Audit also attends all meetings.

The Risk Management Committee meets at least twice a year and reports to the Supervisory Board as appropriate and at least annually.

The Executive Directors involve the senior management team in their respective areas in the identification and assessment of risk. The risk management and governance processes are included in the annual internal audit plan.

Guidance in relation to risk awareness and risk management is provided to staff as part of their ongoing development and training, and appropriate risk management requirements are embedded in staff objectives and responsibilities.

The Royal Mint's risk management framework and practice conform to guidance issued by HM Treasury.

The risk and control framework

Risk management is embedded in the ongoing planning and strategy process and focuses on the identification of the key risks which could impact on the achievement of the Royal Mint's strategic objectives. A register of key corporate risks is maintained together with a series of operational risk registers covering each of the areas of responsibility of the Executive Board. These registers are updated regularly and evolve as new risks are identified and formally elevated to the risk register. During the year the Cabinet Office introduced a new Security Policy Framework setting out universal mandatory standards for physical, personnel and information/data security across Government. This included a mandatory requirement to report on any significant control weaknesses in the annual Statement on Internal Control. The Royal Mint has undertaken a review of all the mandatory requirements and is either compliant or well under way to be compliant. There are no significant control weaknesses, nor were there any breaches of information that were required to be notified to the Information Commissioner during the year.

The Risk Management Committee is responsible for ensuring that:
– the process for risk identification and management meets the business needs;
– the Royal Mint has an appropriate mechanism for the assessment of risk;
– a consistent approach is adopted to risk management throughout the Royal Mint;
– there is a clear structure to the risk management process;
– there are appropriate reporting protocols in place; and
– the Supervisory Board and Audit Committee are made aware of material control weaknesses when identified.

The Committee also:
– ensures that the Royal Mint has a risk management policy and framework which accords with best practice and meets business needs;
– considers periodically all of the operations and activities of the Royal Mint in relation to its objectives and identifies the associated risks, including potential new risks;

– evaluates significance of risks;
– reviews the progress of action plans;
– assigns ownership (allocating to an appropriate Executive Director/Senior Manager) of all key risks;
– challenges the management of risk and monitors the effectiveness of the responses to risks;
– receives presentations from risk and control owners on significant risks; and
– reviews the annual Statement on Internal Control for recommendation to the Accounting Officer.

Governance

Although there is currently no requirement for the Royal Mint to comply with the Combined Code on Corporate Governance, the Directors support high standards of governance and, in so far as is practicable given its size and status, have together with HM Treasury and the Shareholder Executive, continued to develop the governance of the business in accordance with best practice guidelines.

In June 2008, the Royal Mint established a new two tier Board structure, consisting of a Supervisory Board, and Executive Board.

The Supervisory Board

The new Supervisory Board is comprised of the Non-Executive Chairman, the three Non-Executive Directors and two Executive Directors (the Chief Executive and the Director of Finance). The Supervisory Board is a board of oversight. In the terms of the Combined Code its role is:

'To provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure the financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met.'

The new Supervisory Board replaced the old Board of Directors which was comprised of all Non-Executive Directors and Executive Directors.

The roles and responsibilities of the Supervisory Board are:
– interaction with the Executive Board in development of strategy;
– compliance with statutory requirements and combined code guidelines;
– scrutiny of financial accounts through the audit committee of the Board;
– approval of annual plans;
– oversight of corporate risk register;
– approval of capital expenditure;
– oversight of operating performance;
– development of remuneration systems for Executive Directors, including performance-related pay;
– performance appraisal of executive management plus succession planning;
– approval of senior executive appointments or, where appropriate, recommendation of appointments to Shareholder Executive/Minister; and
– approval of all profit related pay schemes below director level.

The Supervisory Board (or the old Board of Directors) met five times in 2008-09 (2007-08: five times).

Director	Meetings Attended
Mike Davies (Non Executive Chairman)	5
Colin Balmer (Non Executive)	5
David Harding (Non Executive)	5
Mary Chapman (Non Executive)	4
Andrew Stafford (Chief Executive)	5
Adam Lawrence (Director of Finance)*	4
Peter Allred (Director of Finance) **	1

* Adam Lawrence was appointed 16 June 2008
** Peter Allred's contract ended 20 June 2008

Information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Royal Mint's expense, if required.

The Executive Board

The previous Management Team was re-titled the Executive Board. It has primary responsibility for the day-to-day management of the business and its membership comprises the Chief Executive and the Executive Directors.

The roles and responsibilities of the Executive Board are:
– development of long term strategy in conjunction with Supervisory Board;
– development of annual corporate plan, for submission to Supervisory Board;
– approval of all capital expenditure and major contracts not requiring Supervisory Board approval;
– oversight of pay remit submissions;
– development of remuneration systems for middle management, including performance related pay;
– development of performance appraisal systems;
– compliance with established operating procedures;
– preparation of risk register and subsequent reviews and mitigating actions; and
– development of performance improvement programmes.

The Executive Board meets formally monthly and informally on a far more regular basis.

Review of effectiveness

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

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability.

In particular, it includes:
– comprehensive budgeting systems with an annual operating plan and budget which is reviewed and agreed by the Board;
– regular reviews by the Board of periodic and annual reports, which indicate performance against the forecast;
– setting targets and key performance indicators to measure financial and other performance;
– clearly defined capital investment control guidelines; and
– formal security arrangements.

Executive Directors within the Royal Mint provide me with written confirmation in relation to the effectiveness of the system of internal control in their area of responsibility.

The Royal Mint's risk priorities in 2008-09 were in the following areas:
– safety, health and the environment;
– demand for and delivery of circulating coin;
– demand for and delivery (customer service) of commemorative coin;
– security; and
– volatility of raw material prices (commodity metals both traded and non traded commodities on the LME).

Key risk and performance indicators are reported, monitored and reviewed on a regular basis and changes in the risk profile of the organisation are addressed by the Executive Directors.

The Royal Mint operates internal audit arrangements to standards defined in the Government Internal Audit Standards. The internal audit function during 2008-09 was undertaken by KPMG LLP. Their annual audit plan, the results of their audit, including recommendations for improvement, are reported to the Director of Finance and myself, and presented to the Audit Committee. They also provide an independent opinion on the adequacy of the Royal Mint's system of internal control.

During 2008-09 further improvements were made in internal controls and processes. The major project relating to accounting for metal and derivatives internally referred to as project Alchemy was completed during the year. An independent review of the effectiveness of this new system was also completed during the year to provide assurance that the expected outcomes have been achieved.

Andrew Stafford
Accounting Officer
9 June 2009

Remuneration Report

Remuneration Committee

The Committee is made up of no fewer than three Non-Executive Directors. The Committee's primary role is to determine, in consultation with the Shareholder Executive, the remuneration of Executive Directors. The terms and conditions of employment for the Chief Executive are established by the HM Treasury Minister responsible for the Royal Mint. The Committee makes recommendations to the Shareholder Executive regarding any performance-related incentive schemes.

The Committee for the financial year 2008-09 was comprised of Colin Balmer, Mary Chapman (Chairman), Mike Davies and David Harding. Executive Directors may be invited to attend meetings of the Committee, but do not take part in any decision affecting their own remuneration. The Director of Human Resources is Secretary to the Committee. The Committee meets as necessary during the year, and met six times in 2008-09 (2007-08: once). The meetings were attended by all members of the Committee.

Committee remit

The remit is normally reviewed annually; it was last updated in January 2009. The remit can be accessed on the Royal Mint website.

Remuneration policy

The Royal Mint's policy is to maintain levels of remuneration so as to attract, motivate and retain Executive Directors of a high calibre who can effectively contribute to the successful development of the business. During the year an overall review of executive remuneration policy took place, involving the Shareholder Executive and Cabinet Office. The review established remuneration packages appropriate to recruit and retain a high calibre Executive team.

Supervisory Board of Directors

The Supervisory Board currently comprises a Non-Executive Director Chairman, three independent Non-Executive Directors and two Executive Directors, the Chief Executive and Director of Finance. Mary Chapman and David Harding were appointed as Non-Executive Directors in April 2008. Colin Balmer was re-appointed as a Non-Executive Director in May 2008 following an initial one-year appointment. Adam Lawrence was appointed as Director of Finance in June 2008 following Peter Allred's departure.

Executive Board of Directors

The team is made up of 6 people. Adam Lawrence was appointed as Director of Finance in June 2008 following Peter Allred's departure. Anne Jessopp joined as Director of HR in July 2008, to replace Caroline Roberts who had left in May 2008. Following a reorganisation Clare Janczewski, Director of Collector Coin Sales, left in December 2008 and Dave Knight was appointed as Director of Commemorative Coin.

Executive Board Directors' terms, conditions and remuneration

The remuneration package for the Executive Board of Directors consists of basic salary, a Short-Term Incentive Plan in the form of a performance-linked annual cash bonus, Civil Service Pension (CSP) and a discretionary benefits allowance. The Supervisory Executive Board Directors also participate in a Long-Term Incentive plan.

i. Basic salary

The basic starting salary of Executive Directors is determined as part of their recruitment and selection process. Thereafter it is subject to regular review. During 2008-09 the Remuneration Committee agreed to an increase in the basic salary of Andrew Stafford, Phil Carpenter and Keith Cottrell.

ii. ## Short-Term Incentive Plan (STIP)

The Remuneration Committee agreed a STIP for 2008-09, the purpose of which was to recognise and reward outstanding performance against planned business targets. The maximum bonus, if 120% performance against all targets is achieved, is 25% of basic pay for Adam Lawrence and £60,000 for Andrew Stafford.

iii. ## Long-Term Incentive Plan (LTIP)

The Long-Term Incentive Plan (LTIP) is in place to reward and recognise achievement of the strategic and sustainable development of the business. The bonus is set over a three-year timescale and payments against achievement of strategic objectives will be paid at the end of the three year period. The maximum bonus payable per year is £60,000 for Andrew Stafford and 25% of basic salary for Adam Lawrence.

iv. ## Civil Service Pension

Clare Janczewski, Phil Carpenter and Keith Cottrell are members of the Classic Pension Scheme. Andrew Stafford is a member of the Nuvos Pension Scheme. Adam Lawrence is a member of the Partnership Scheme. See Note 15 for details.

v. ## Discretionary benefits allowance (included in remuneration in the table opposite)

As part of the review of remuneration packages, referred to above, a discretionary benefits allowance was introduced. The allowance is non-consolidated, non-pensionable and is not used for the basis of bonus calculations.

The following table is subject to audit.

Directors	Remuneration 2008-09 (2007-08) £'000	Bonus payments Made in 2008-2009 for 2007-08 performance £'000	Real increase in pension and related lump sum at pension age £'000	Total accrued pension at retirement age at 31 March 2009 and related lump sum £'000	CETV 31 March 2008 £'000 *	CETV 31 March 2009 £'000	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Andrew Stafford (SB) (EB) (1) Chief Executive Actual remuneration 2007-08 Full year equivalent 2007-08	195-200 (85-90) (180-185)	30	10-12.5 Lump sum n/a	10-15 Lump sum n/a	25	160	126
Adam Lawrence (SB) (EB) (2) (Appointed on 16 June 2008) Director of Finance Full year equivalent for 2008-09	105-110 130-135	-	-	-	-	-	-
Phil Carpenter (EB) Director of Production	90-95 (70-75)	18	2.5-5 Lump sum 10-12.5	15-20 Plus 50-55 Lump sum	173	235	45
Keith R Cottrell (EB) Director of Circulating Coin	80-85 (70-75)	18	2.5-5 Lump sum 7.5-10	20-25 Plus 60-65 Lump sum	380	475	71
Clare Janczewski (EB) (3) Director of Collector Coin Sales Left on 30 November 2008	35-40 (65-70)	16	0-2.5 Lump sum 2.5-5	10-15 Plus 30-35 Lump sum	100	115	11
Dave Knight (EB) (Appointed on 19 November 2008) Director of Commemorative Coin Full year equivalent for 2008-09	45-50 125-130	-	0-2.5 Lump sum n/a	0-5 Lump sum n/a	0	11	10
Caroline Roberts (EB) (Resigned 16 May 2008) Director of Human Resources Actual remuneration 2007-08 Full year equivalent 2007-08	10-15 (15-20) (75-80)	5	0-2.5 Lump sum n/a	0-5 Lump sum n/a	8	11	3
Anne Jessopp (EB) Director of Human Resources Appointed 14 July 2008 Full year Equivalent for 2008-09	80-85 115-120	-	0-2.5 Lump sum n/a	0-5 Lump sum n/a	0	19	16

(SB) Supervisory Board Member
(EB) Executive Board Member

*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 2008.

(1) Andrew Stafford was appointed on a fixed-term three-year contract ending 14th October 2010.

(2) The Royal Mint's contribution to Adam Lawrence's Partnership Pension was £12,000 for 2008-09.

(3) Under a confidentiality agreement Clare Janczewski's early termination payment is not disclosed. The payment was made in accordance with the applicable terms and conditions of employment and civil service rules.

Bonuses are disclosed in the year they are paid; bonuses paid in 2008-09 for performance in 2007-08 are outlined in the table. Bonuses payable for 2008-09 performance have not been finalised and will be fully disclosed when paid in 2009-10.

The above table shows the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and end of the reporting period and the increase in CETV effectively funded by the employer. It takes account of 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. The real increase in CETV is after adjustment for inflation and changes in market investment factors.

CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefit to another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities and for which the Civil Service include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Employment agreements

All Executive Directors were employed as Civil Servants with the exception of the following interim appointments whose external charges are shown in the table below:

Executive Director	2008-09	2007-08
Dave Knight	105,198	40,206
Peter Allred (Former Director of Finance)	104,883	244,766

Each of the Directors above was appointed under a contract through a service provider.

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code which requires appointments to be on merit on the basis of fair and open competition, but also includes the circumstances when appointments may otherwise be made. Unless stated elsewhere, the officials covered by this Annual Report hold appointments which are open-ended until they reach retirement age. Early termination, other than for misconduct and persistent poor performance, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Non-Executive Directors' terms, conditions and fees

The Non-Executive Directors are engaged for either a one, two or three-year term under letters of appointment from HM Treasury. Either party can terminate their engagement upon three-month's notice.

The Non-Executive Directors receive an annual fee established by HM Treasury.

The following information is subject to audit.

	2008-09	2007-08
	£'000	£'000
Mike Davies	45	50
Colin Balmer	23	21
Mary Chapman	17	-
David Harding	17	-
Jan Smith	-	19

In addition Non-Executive Directors are reimbursed for reasonable travel and subsistence expenses incurred in the performance of their duties and the total amount paid to the Non-Executive Directors was £7,972 (2007-08: £5,874).

Andrew Stafford
Accounting Officer
9 June 2009

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 Royal Mint for the year ended 31 March 2009 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Royal Mint, Accounting Officer and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises only the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises the Chairman's Statement, Chief Executive's Report, Management Commentary, Financial Summary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

In my opinion:

– the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Royal Mint's affairs as at 31 March 2009 and of its profit, recognised gains and losses and cashflows for the year then ended;

– the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and

– information, which comprises the Management Commentary and the unaudited part of the Remuneration Report included in the annual report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
12 June 2009

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

Profit and Loss Account
For the year ended 31 March 2009

	Notes	Before Exceptional Items 2008-09 £'000	Exceptional Items 2008-09 £'000	Total 2008-09 £'000	Before Exceptional Items 2007-08 £'000	Exceptional Items 2007-08 £'000	Total 2007-08 £'000
TURNOVER - Continuing	2, 3	159,009	-	159,009	131,779	-	131,779
Cost of sales		(127,976)	(1,413)	(129,389)	(100,881)	-	(100,881)
Gross profit		31,033	(1,413)	29,620	30,898	-	30,898
Administrative expenses		(10,285)	(2,204)	(12,489)	(8,273)	(1,325)	(9,598)
Selling and distribution expenses		(12,543)	-	(12,543)	(12,976)	-	(12,976)
Operating profit	3, 4	8,205	(3,617)	4,588	9,649	(1,325)	8,324
Interest receivable and similar income		383	-	383	280	-	280
Interest payable and similar charges	7	(705)	-	(705)	(1,430)	-	(1,430)
Profit for the financial year		7,883	(3,617)	4,266	8,499	(1,325)	7,174
Dividends		(4,000)	-	(4,000)	(3,940)	-	(3,940)
Retained Profit		3,883	(3,617)	266	4,559	(1,325)	3,234

No activities have been acquired or discontinued during the year.
The Notes on pages 44 to 67 form part of the Accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2008-09 £'000	2007-08 £'000
Profit for the year	4,266	7,174
(Deficit)/ surplus on revaluation of plant and machinery	(930)	23
Deficit on revaluation of uncommitted metal	-	(567)
Total recognised gains and losses relating to the year	3,336	6,630

MOVEMENTS IN CAPITAL AND RESERVES (Government Funds)

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
At 1 April 2008	5,500	12,360	40,347	-	58,207
Movements in the year:					
Fixed assets revaluation	-	(930)	-	-	(930)
Net fair value movement on hedges	-	-	-	(1,623)	(1,623)
Transfers	-	(8,004)	8,004	-	-
Profit for the year	-	-	4,266	-	4,266
Dividend	-	-	(4,000)	-	(4,000)
At 31 March 2009	5,500	3,426	48,617	(1,623)	55,920

The Notes on pages 44 to 67 form part of the Accounts.

Balance Sheet
At 31 March 2009

	Notes	2009 £'000	2008 £'000
FIXED ASSETS			
Tangible Assets	8	32,467	33,131
Intangible Assets	9	677	523
		33,144	33,654
CURRENT ASSETS			
Stocks	10	34,856	48,471
Financial Assets			
Derivative financial instruments	21	350	-
Trade and other debtors	11	21,556	12,492
Cash at bank and in hand		11,893	11,932
		68,655	72,895
CREDITORS: Amounts falling due within one year	12	(37,422)	(39,497)
NET CURRENT ASSETS		31,233	33,398
TOTAL ASSETS LESS CURRENT LIABILITIES		64,377	67,052
CREDITORS: Amounts falling due after more than one year	13	(6,634)	(7,427)
PROVISION FOR LIABILITIES AND CHARGES	14	(1,823)	(1,418)
NET ASSETS		55,920	58,207
FINANCED BY:			
CAPITAL AND RESERVES			
Public dividend capital		5,500	5,500
Revaluation reserve		3,426	12,360
Profit and loss account		48,617	40,347
Hedging Reserve		(1,623)	-
CAPITAL EMPLOYED		55,920	58,207

The Notes on pages 44 to 67 form part of the Accounts.

Andrew Stafford
Accounting Officer
9 June 2009

Cash Flow Statement
for the year ended 31 March 2009

	Notes	2008-09	2007-08
		£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	9,380	23,288
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		412	257
Interest paid		(703)	(1,437)
		(291)	(1,180)
CAPITAL EXPENDITURE			
Acquisition of tangible fixed assets		(3,820)	(1,296)
Acquisition of intangible fixed assets		(347)	(171)
		(4,167)	(1,467)
CASH FLOW BEFORE FINANCING		4,922	20,641
FINANCING			
Dividend paid		(3,940)	-
Movement in Bullion Overdraft		(276)	(6,193)
Long-term loan principal repaid		(745)	(700)
Movement in short-term loans		-	(6,000)
NET CASH FLOW FROM FINANCING		(4,961)	(12,893)
(DECREASE)/INCREASE IN CASH IN THE YEAR	(b)	(39)	7,748

(a) RECONCILIATION OF OPERATING PROFIT/(LOSS) WITH THE NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

		2008-09	2007-08
OPERATING ACTIVITIES		£'000	£'000
Operating profit		4,588	8,324
Depreciation charge		3,689	4,241
Amortisation charge		194	198
Movements in:			
Stock		13,615	8,674
Debtors		(9,093)	(1,336)
Creditors (excluding dividend)		(2,498)	3,660
Cashflow hedges		(1,520)	-
Provisions		405	(473)
		9,380	23,288

b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	2008-09	2007-08
TO MOVEMENT IN NET DEBT		£'000	£'000
(Decrease)/Increase in cash in the year		(39)	7,748
Cash flow from movements in borrowings		1,021	12,893
Movement in net funds		982	20,641
Net debt at start of year		(7,357)	(27,998)
Net debt at end of year	20	(6,375)	(7,357)

The Notes on pages 44 to 67 form part of the Accounts.

Notes to the Accounts

Note 1

PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements for the year ended 31 March 2009 have been prepared under the historical cost convention modified by the revaluation of plant and equipment and mark-to-market as regards derivatives in accordance with the Government Financial Reporting Manual. They conform to the accounting and disclosure requirements of the Companies Act 1985 and applicable accounting standards issued or adopted by the Accounting Standards Board as far as those requirements are appropriate.

New accounting standards

The Royal Mint adopted Financial Reporting Standard 25: Presentation, Financial Reporting Standard 26: Recognition and Measurement, and Financial Reporting Standard 29: Disclosures during the year. The comparative financial statements have not been restated in accordance with the exemption in the Government Financial Reporting Manual.

Presentation of the Profit and Loss Account

The Royal Mint has reviewed the format of its profit and loss account and decided to adopt Format 1 (rather than Format 2 adopted previously) as permitted in Schedule 4 of the Companies Act 1985. As a result, the comparative profit and loss account has been restated.

Turnover

Turnover is recognised on delivery of the goods and services supplied during the year, excluding royalties, other licence payments and value added tax except in the case of "bill and hold" arrangements, where turnover is recognised when the following requirements are satisfied:

– the goods are complete and ready for delivery;
– the seller has not retained any significant performance obligations;
– subject to any right of return, the seller has obtained the right to consideration, regardless of whether the goods are shipped;
– the goods are separately identified from the seller's other stock; and
– the terms of the bill and hold sale are in accordance with the customer's commercial objectives and not those of the seller.

Foreign currency translation

Foreign currency transactions are translated into sterling at the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Intangible assets

Computer software

Computer software that is not integral to an item of plant and equipment is recognised separately as an intangible asset. Amortisation is charged on a straight line basis so as to charge the cost of software to the profit and loss account over its expected useful life which is between three and eight years. Internal costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

The comparative for fixed assets has been revised to separately identify intangible fixed assets, with a net book value of £523,000, from other fixed assets.

Note 1 continued

Property, plant and equipment

Property, plant and equipment are included at their value to the business by reference to current cost.

The valuation is based upon the following:

i) land and buildings are stated at the open market current use valuation or, in the case of specialist buildings, depreciated replacement cost; and

ii) plant and machinery are stated at their cost uprated by indices published by the Office for National Statistics.

No account is taken of the Royal Mint collection of coins and medals which is of inestimable value.

Depreciation is calculated on a straight-line basis so as to charge the depreciable amount of the respective asset to the profit and loss account over its expected useful life. The useful lives of assets are as follows:

	Years
Buildings	50
Delicate and electrical plant and machinery	10
Robust mechanical plant	15-25
IT hardware and motor vehicles	3-8

No depreciation is provided in respect of land.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Where appropriate, impairment of fixed assets is calculated as the difference between the carrying values (based on the valuations referred to above) of the assets and the estimated value in use of the assets as an income-generating unit at the date any impairment loss is recognised. Value in use represents the present value of expected future cash flows. Impairment loss is recognised in the statement of total recognised gains and losses until the carrying amount of the fixed assets reaches depreciated historical cost. Thereafter, the balance of the impairment is recognised in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Note 1 continued

Insurance

No outside insurance is effected against fire, explosion, common law, third party, theft and similar risks. The Royal Mint accounts for such claims as and when they arise.

Stock

Stocks are stated at the lower of cost and estimated net realisable value, after due allowance for obsolete or slow moving items. Cost includes all direct expenditure and attributable overhead expenditure incurred in bringing goods to their current state under normal operating conditions. The first in, first out (FIFO) or an average method of valuation is used. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

The Royal Mint has reviewed its method of accounting for metal stocks. A standard costing system of valuing metal stocks has been introduced and all metal stocks are valued on a FIFO basis. The change in method has not had a material impact on the financial statements.

Financial assets

Financial assets are recognised when the Royal Mint becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the profit and loss account or loans and debtors, as appropriate. Financial assets are classified at initial recognition and, where allowed and appropriate, this designation is re-evaluated at each financial year-end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through the profit and loss account, directly attributable transaction costs.

All standard purchases and sales of financial assets are recognised on the trade date, being the date a commitment is made to purchase or sell the asset. Standard transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place.

The subsequent measurement of financial assets depends on their classification, as follows:

(i) Financial assets at fair value through the profit and loss account – financial assets classified as held for trading and other assets designated as such on inception are included in this category. Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses recognised in the profit and loss account.

ii) Loans and receivables – loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They are initially measured at fair value and subsequently held at amortised cost.

Impairment of financial assets

An assessment is carried out at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost – if there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future

Note 1 continued

cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Impaired debts are derecognised when they are assessed as irrecoverable.

Trade debtors

Trade debtors are recognised at the original invoice amount and carried at amortised cost less an allowance for any identified impairment. The impairment allowance is established when there is objective evidence that amounts due under the original terms of the transaction will not be collected. The impairment is charged to the profit and loss account and represents the difference between the carrying amount and the recoverable amount. Balances are written off when the probability of recovery is assessed as remote. Impaired debts are derecognised when they are assessed as irrecoverable.

Financial liabilities

a) Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised at commencement of the related contracts and are measured initially at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost. Borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

b) Financial liabilities at fair value through the profit and loss account

Financial liabilities at fair value through the profit and loss account includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit and loss account.

Derivative financial instruments

Derivative financial instruments are used to reduce exposure to risks associated with movements in foreign currency rates and metal prices. Since 1 April 2008, such derivative financial instruments have been initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Note 1 continued

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of forward metal contracts is determined by reference to current forward metal contracts with similar maturity profiles.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and its effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the profit and loss account. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects the profit and loss account, such as when a forecast sale or purchase occurs.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the profit and loss account. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the profit and loss account or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to the profit and loss account.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the profit and loss account.

Contracts are reviewed at initiation to assess if they contain an embedded derivative and then accounted for where relevant.

Provisions

Provisions are recognised when a present legal or constructive obligation arises as a result of past events; and it is more likely than not that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Where the Royal Mint expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Costs related to ongoing activities are not provided in advance.

Note 1 continued

Pension scheme

Employees are either members of one of the Principal Civil Service Pension Scheme defined-benefit schemes that are unfunded or have a stakeholder pension. Both schemes are accounted for as defined contribution schemes. The amount recognised as an expense in the profit and loss account is the contribution payable.

Dividends

Dividends are recognised as a liability in the financial statements in the period to which they relate.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of turnover and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying value of the Royal Mint's assets or liabilities in the future.

The key sources of estimation uncertainty that have a potential risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a) Impairment of non-financial assets
The Royal Mint assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or income-generating unit and choose a suitable discount rate in order to calculate the net present value of those cash flows.

b) Trade Debtors
An appropriate allowance for estimated irrecoverable trade debtors is derived where there is an identified event which, based on previous experience, is evidence of a potential reduction in the recoverability of future cash flows. This estimation is based on assumed collection rates which, although based on the Royal Mint's historical experience of customer repayment patterns, remains inherently uncertain.

c) Stock
Provision is made for those items of stock where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding future selling values, and is consequently a source of estimation uncertainty.

d) Birmingham Mint Limited Legal Claim
The Royal Mint is subject to a legal claim details of which are set out in Note 19.

Note 2
TURNOVER

Turnover is attributable to the manufacture and supply of coins and similar articles.

All turnover originated in the UK. Analysis of turnover by destination is set out in the table below:

	2008-09 £'000	2007-08 £'000
UK	76,787	75,441
Africa	25,223	15,539
Europe	25,585	17,712
Americas	15,540	10,859
Rest of the World	15,874	12,228
	159,009	131,779

Analysis of Turnover by Business Segment	2008-09 £'000	2007-08 £'000
Circulating Coin	93,169	84,989
Commemorative Coin	65,840	46,790
Total	159,009	131,779

Note 3
SEGMENTAL REPORTING

ANALYSIS BY CLASS OF BUSINESS	2008-09 £'000	2007-08 £'000
Operating profit/(loss)		
Circulating Coin	10,704	7,364
Commemorative Coin	7,786	10,557
Central overheads	(10,285)	(8,272)
Exceptional items	(3,617)	(1,325)
Total operating profit/(loss)	4,588	8,324
Net operating assets		
Circulating Coin	41,860	46,104
Commemorative Coin	16,472	14,961
Unallocated net assets/(liabilities)	6,045	5,987
Total assets less current liabilities	64,377	67,052

Note 3 continued

The unallocated net assets comprise cash at bank and in hand, National Loans Fund (NLF) loans, and debtor and creditor balances which are not specifically attributed to either segment. The 2007-08 comparatives have been adjusted to better reflect the segmental split and to be consistent with 2008-09.

No further segmental information is included in these Accounts as, in the opinion of the Board and the Accounting Officer, its disclosure would be seriously prejudicial to the Royal Mint's commercial interests.

Note 4

OPERATING PROFIT

	2008-09 £'000	2007-08 £'000
Operating profit is stated after charging:		
Sub-contracted work and semi-processed material	2,705	3,428
Hire of plant and machinery	71	86
Travel and subsistence	529	462
Foreign exchange (gains)/loss	(1,088)	298
Ineffectiveness of hedges	1,413	-
Fair value gains and losses of hedges	135	-
Loss on disposal of assets as a result of fire	-	440
Auditors Remuneration		
Audit of these financial statements	69	60
Fees for non-audit work	20	-

Note 5

REMUNERATION AND EMPLOYMENT

Details of the salary and pension entitlements of Executive Directors are included in the Remuneration Report, pages 33 to 37.

	£'000	2008-09 £'000	£'000	2007-08 £'000
TOTAL STAFF COSTS				
Wages and salaries				
Staff with a permanent contract	21,259		18,837	
Other staff	1,491		838	
		22,750		19,675
Social Security costs				
Staff with a permanent contract	1,373		1,334	
Other staff	126		70	
		1,499		1,404
Other pension costs				
Staff with a permanent contract	3,485		3,081	
Other staff	2		3	
		3,487		3,084
		27,736		24,163

AVERAGE NUMBER EMPLOYED		2008-09		2007-08
Production				
Staff with a permanent contract	541		477	
Other staff	72		50	
		613		527
Sales and Marketing				
Staff with a permanent contract	103		113	
Other staff	2		3	
		105		116
Administration				
Staff with a permanent contract	107		100	
Other staff	5		11	
		112		111
		830		754

Note 6

EXCEPTIONAL ITEMS

	2008-09 £'000	2007-08 £'000
Redundancy costs (See Note 14)	147	-
Early retirement costs (See Note 14)	554	83
Costs associated with Operational Efficiency Review	818	-
Costs of staff involved in implementing business improvement programme	-	154
Non-staff business improvement programme implementation costs	49	1,088
Ineffectiveness of hedges	1,413	-
Legal Costs (See Notes 14 and 19)	636	-
	3,617	1,325

Of the 2008-09 items, the following cash payments were made in 2008-09:
Redundancy costs £143,691
Early retirement costs £210,052 (the balance to be paid over the next nine years)
Operational Efficiency Review £330,942

Note 7

INTEREST PAYABLE AND SIMILAR CHARGES

	2008-09 £'000	2007-08 £'000
On loans repayable within five years	178	785
On loans payable by instalments over more than five years	507	548
Unwinding of discount on provision for early retirement (See Note 14)	20	97
	705	1430

Note 8

TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Payments on account and assets in the course of construction £'000	Plant and machinery £'000	Total £'000
Valuation				
At 1 April 2008	14,583	644	75,540	90,767
Additions	-	3,955	-	3,955
Transfers	59	(2,775)	2,716	-
Disposals	-	-	(606)	(606)
Revaluation	-	-	(2,074)	(2,074)
At 31 March 2009	14,642	1,824	75,576	92,042
Depreciation				
At 1 April 2008	394	-	57,242	57,636
Charge for year	405	-	3,284	3,689
Disposals	-	-	(606)	(606)
Revaluation	-	-	(1,144)	(1,144)
At 31 March 2009	799	-	58,776	59,575
Net book value at 31 March 2009	13,843	1,824	16,800	32,467
Net book value at 1 April 2008	14,189	644	18,298	33,131

Land and buildings are stated at open market current use valuation at 31 March 2007 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation which totalled £18.42 million was provided by Atisreal Ltd in accordance with the guidelines set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Land and buildings are revalued every three years.

The valuation has been reduced by the impairment provision made in the year ended 31 March 2002. There has been no change in the impairment provision between the years ending 31 March 2003 and 31 March 2009.

Note 9

INTANGIBLE ASSETS (Software Licences)

	Payments on account and assets in the course of construction £'000	Software Licences £'000	Total £'000
Cost			
At 1 April 2008	17	2,359	2,376
Additions	348	-	348
Transfers	(71)	71	-
Disposals	-	(5)	(5)
At 31 March 2009	294	2,425	2,719
Amortisation			
At 1 April 2008	-	1,853	1,853
Amortisation for year	-	194	194
Disposals	-	(5)	(5)
At 31 March 2009	-	2,042	2,042
Net book value at 31 March 2009	294	383	677
Net book value at 1 April 2008	17	506	523

Note 10

STOCKS

	2009 £'000	2008 £'000
Metal stocks	25,210	30,104
Work in progress (excluding metal)	3,952	4,664
Stores and packing materials	2,627	2,574
Finished goods	3,067	11,129
	34,856	48,471

Note 11

DEBTORS

	2009 £'000	2008 £'000
Trade debtors	19,978	12,809
Less Provision for impairment of debtors	(457)	(526)
VAT	593	-
Other debtors	6	27
Prepayments and accrued income	1,436	182
	21,556	12,492

Note 11 continued

Included within the Debtors are the following:	2009	2008
	£'000	£'000
Balances with other Government bodies		
Other central Government bodies	319	1,516
Local Authorities	3	1
NHS Trusts	-	5
Public Corporations and Trading Funds	1,750	113
	2,072	1,635

The carrying value of the Royal Mint's trade and other debtors are denominated in the following currencies:

	2009	2008
	£'000	£'000
Pounds sterling	19,478	11,472
Euros	343	574
US Dollar	1,395	607
Other currencies	340	156
	21,556	12,809

Provision is made for Commemorative Coin Business to Consumer debtors that become overdue for payment.

Movement in provision for impairment in Debtors

	2009	2008
	£'000	£'000
At 1st April	(526)	(411)
Provision made in year	(234)	(183)
Debts written off in year as uncollectable	303	68
At 31st March	(457)	(526)

Note 12

CREDITORS: amounts falling due within one year	2009 £'000	2008 £'000
Long-term NLF loans (See Note 13)	793	745
Trade creditors	9,299	9,495
Bullion overdraft	10,841	11,117
Other creditors	1,746	2,077
Derivative financial instruments (See Note 21)	453	-
Payments received on account	8,591	10,352
VAT	-	376
Taxation and Social Security	578	561
Proposed dividend	4,000	3,940
Accruals and deferred income	1,121	834
	37,422	39,497

Included in other creditors in relation to early retirement and redundancy:

Early retirement (See Note 14)	585	734
Redundancy (See Note 14)	3	67

Included within the creditors are the following:
Balances with other Government bodies not shown separately above

Other central Government bodies	407	182

Note 13

CREDITORS: amounts falling due after more than one year	2009 £'000	2008 £'000
Loans repayable:		
Between one and two years	844	793
Between two and five years	2,873	2,699
After five years	2,917	3,935
	6,634	7,427

The above loans comprise two 15-year fixed-rate loans from the NLF as follows:

Loan £'000	Interest rate %	Date drawn	Amount due within 12 months (see Note 12) £'000	Amount due after 12 months (above) £'000
10,500	6.347	20 September 2001	697	5,762
1,500	6.305	2 October 2001	96	872
			793	6,634

Note 14

PROVISION FOR LIABILITIES AND CHARGES

HM Treasury guidance requires that the full cost of early retirement and severance schemes should be recognised on the Accounts when early departure decisions are made. The Operating Account is charged with the full liability of new decisions taken and a Balance Sheet provision made, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2009 and 2019. The provision has been assessed at current prices at the Balance Sheet date, and in accordance with Financial Reporting Standard 12, has been discounted at a real rate of 2.2%, with the unwinding of the discount treated as an interest charge on the Operating Account.

	Legal Costs (See Note 19) £'000	Redundancy £'000	Early Retirement £'000	Total £'000
At 1 April 2008	-	67	2,152	2,219
Provision made in year	636	147	554	1,337
Unwinding of discount on provision	-	-	20	20
Payments offset against the provision	(53)	(211)	(901)	(1,165)
At 31 March 2009	583	3	1,825	2,411
Less amount payable within one year (included in creditors - see Note 12)	-	(3)	(585)	(588)
Amount payable after one year	583	-	1,240	1,823

Note 15

PENSION COSTS

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 worked out 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 uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

Note 15 continued

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 at the website www.civilservice-pensions.gov.uk.

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

For 2008-09, employers' contributions of £3.520 million were paid to the PCSPS (2007-08 £3.078 million) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £25,242 were paid to one or more of the 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 £1,497, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the Balance Sheet date were £2,798. Contributions prepaid at that date were £nil.

Note 16

CAPITAL COMMITMENTS	2009	2008
	£'000	£'000
Commitments in respect of contracts	1,002	478

Note 17

OPERATING LEASE COMMITMENTS

	2009	2008
	£'000	£'000
Operating lease rentals due within the next year	104	56
Leases expiring:		
Between one and five years	4	61
After five years	-	-

Note 18

RELATED-PARTY TRANSACTIONS

The Royal Mint is an Executive Agency and Trading Fund.

HM Treasury is regarded as a related party. It has both an ownership and a customer role. The Royal Mint is a Government Trading Fund effectively owned by the Crown, with the Chancellor of the Exchequer holding the title of Master of the Mint. In practice, the Financial Secretary to the Treasury, reporting to Parliament, acts as owner on a day-to-day basis. The operation of the shareholding interest has been delegated to the Shareholder Executive, which is responsible for oversight of the Royal Mint's objective of delivering a commercial return on capital employed and provision of relevant advice to the Financial Secretary. HM Treasury also contracts with the Royal Mint as a customer, under a SLA, for the manufacture and distribution of UK circulating coin.

In addition the Royal Mint has had a number of material transactions with other Government Departments. Most of these transactions have been with the Ministry of Defence and Home Office. During the year none of the Board members, members of the key management staff or other related parties has undertaken any material transactions with the Royal Mint.

Note 19

CONTINGENT LIABILITIES

In June 2002 the Birmingham Mint Limited issued a claim in the High Court against HM Treasury seeking damages in excess of £5.4 million in respect of an alleged breach of contract by the Royal Mint. Recently the Royal Mint has been notified that the claim has been assigned to a former Director of Birmingham Mint Limited. The Royal Mint considers that there is no basis to this claim, and have provided in full for all unavoidable costs up to and including any trial.

Note 20

ANALYSIS OF CHANGE IN NET (DEBT)/FUNDS

	At 1 April 2008	Cash Flow	Other Movements	At 31 March 2009
	£'000	£'000	£'000	£'000
Cash at bank and in hand	11,932	(39)	-	11,893
Bullion Overdraft	(11,117)	276	-	(10,841)
Short-term loans	-	-	-	-
Long-term loans due within one year	(745)	745	(793)	(793)
Long-term loans due after more than one year	(7,427)	-	793	(6,634)
	(7,357)	982	-	(6,375)

Note 21

FINANCIAL INSTRUMENTS

	2009
Derivative Asset	£'000
Foreign Currency Fair Value	165
Commodity Fair Value	185
	350
Derivative Liability	
Foreign Currency Fair Value	280
Commodity Fair Value	173
	453

Risk Management

The main risk exposures arising from The Royal Mint's activities are currency risk, commodity price risk, interest price risk, credit risk and liquidity risk. These risks arise in the normal course of business and are managed by the Royal Mint's treasury section through a combination of derivative and other financial instruments.

Currency risk

The Royal Mint publishes its financial statements in sterling and conducts business internationally resulting in exposure to foreign currency risk, primarily with respect to the Euro and US Dollar.

The Royal Mint's treasury department's risk management policy is to enter into forward contracts for all of anticipated foreign currency cash flows (mainly in relation to sales contracts, purchases of stock and commodity hedges), where the future settlement date is the forecasted payment date. Hedge accounting is not followed for foreign currency forward contracts.

	Contract amount	Average forward rate	Fair value
	2009	2009	2009
	£'000	£'000	£'000
Forward contracts – sell £/buy US$			
Maturing in less than 1 year	2,670	1.5134	147
	2,670	1.5134	147
Forward contracts – sell £/buy EUR			
Maturing in less than 1 year	167	1.0718	(1)
	167	1.0718	(1)
Forward contracts – sell NZ$/buy £			
Maturing in less than 1 year	119	2.6132	5
	119	2.6132	5
Forward contracts – buy £/sell US$			
Maturing in less than 1 year	7,623	1.4759	(222)
	7,623	1.4759	(222)
Forward contracts – buy £/sell EUR			
Maturing in less than 1 year	1,504	1.0764	4
	1,504	1.0764	4
Forward contracts – buy £/sell NZ$			
Maturing in less than 1 year	419	2.8116	(49)
	419	2.8116	(49)

Note 21 continued

Sensitivity analysis

The movements shown below largely result from foreign exchange gains/losses on translation of US Dollar/Euro denominated trade creditors and debtors. The table shows the impact of a 10% decrease in sterling and the impact of a 10% increase in sterling against other currencies on the balances of financial assets and liabilities as at 31st March 2009.

	Closing exchange rate 2009 £	Effect on net earnings of a 10% decrease 2009 £'000	Effect on net earnings of a 10% increase 2009 £'000
Euro	343	38	(31)
US Dollars	1,395	155	(126)
New Zealand Dollars	340	38	(31)
Total	2,078	231	(188)

Commodity price risk

The Royal Mint by the nature of its business is exposed to movements in the prices of the following commodities – nickel, copper, zinc, gold, silver and platinum.

In regard to base metals (nickel, copper and zinc) the Royal Mint uses commodity futures to hedge against price risk movements. All commodity futures contracts hedge a projected future purchase of raw materials, which are then closed out at the time the raw material is purchased. Commodity hedges are held in the balance sheet at fair value to the extent they are deemed to be effective under FRS 26, ineffective portion of hedges are recognised in the profit and loss account. The open commodity hedges as at 31 March 2009 are as follows:

	Tonnes 2009	Value at average price 2009 £'000	Fair value 2009 £'000
Cash flow hedges:			
Copper forwards – USD denominated contracts:			
Maturing in less than 1 year	375	907	155
	375	907	155
Nickel forwards – USD denominated contracts:			
Maturing in less than 1 year	204	1,509	(151)
	204	1,509	(151)
Zinc forwards – USD denominated contracts:			
Maturing in less than 1 year	50	40	7
	50	40	7

Note 21 continued

In accordance with FRS 29, sensitivity analysis is performed to determine the impact commodity prices have on the balances of financial assets and liabilities at 31 March 2009. This does not represent the profit and loss account impact that would be expected from movements in commodity prices.

	Closing price/tonne 2009 £	Effect on net earnings of a 10% decrease 2009 £'000	Effect on equity of a 10% decrease 2009 £'000
Copper	2,418	25	87
Nickel	7,396	31	122
Zinc	797	2	4
Total		58	213

	Closing price/tonne 2009 £	Effect on net earnings of a 10% increase 2009 £'000	Effect on equity of a 10% increase 2009 £'000
Copper	2,418	(20)	(79)
Nickel	7,396	(33)	(81)
Zinc	797	0	(3)
Total		(53)	(163)

In regard to precious metals (gold, silver and platinum) the Royal Mint has an overdraft agreement with two banks, referred to as bullion overdrafts. The overdraft facility allows The Royal Mint to borrow bullion when transferring precious metal to suppliers. The Royal Mint does not pay for the bullion until a purchase is made. A purchase is made in two ways:

i) For a specific order;
ii) Based on forecasted sales demand over a specified period.

The banks have the ability to recall the overdraft facility with 28 days notice.

The table below shows the effect a 10% change in market prices would have on the interest payable.

	Closing price/oz 2009 £	Effect on net earnings of a 10% change 2009 £'000
Gold	640.91	9
Silver	9.15	2
Platinum	785.75	1
Total		12

Note 21 continued

Interest rate risk

The Royal Mint has exposure to interest rate risk, arising principally in relation to cash held at bank, long-term borrowings and bullion overdrafts.

Cash held at bank is subject to interest rate risk where the risk is primarily in relation to movements in interest rates set by the Bank of England.

The Royal Mint has two long term loans each at a fixed rate (6.347% and 6.305%) this results in exposure to fair value cash flow interest rate risk.

Bullion overdrafts as referred to above are subject to interest payments on the outstanding overdraft balance. The bullion overdraft facilities have floating rates of interest which gives exposure to interest rate risk.

The interest rate risk which arises from the above is deemed not to have a significant effect on income and operating cash flows, so no financial instruments are utilised to manage this risk.

FRS 29 requires interest rate sensitivity analysis that shows the effects of changes in market interest rates on the profit and loss account and equity. The effect of interest on the bullion overdrafts is shown above. Regarding our other financial instruments if market rates had been 50 basis points higher (lower) at 31 March 2009 income would have been approximately £57,000 higher (lower), there would be no effect on equity other than those relating directly to movements in the profit and loss account.

Credit risk

Exposures to credit risks are as a result of transactions in the Royal Mint's ordinary course of business, the major risks are in respect of:

i) Trade debtors

ii) Counter parties
- a) Cash and cash equivalents
- b) Bullion overdraft
- c) Financial Instruments

These risks are managed through policies issued by the Board of Directors.

Circulating Coin Debtors

Circulating Coin Debtors are in general governments, central banks and monetary authorities. Credit risk is minimised by aiming to have down-payments upon contract signature with remaining balances secured against letters of credit. Overdue balances are as follows:

	Between 31 and 60 days £'000	Between 61 and 90 days £'000	Between 91 and 120 days £'000
Circulating debtors:			
2009	1,381	123	8
2008	518	30	43

Note 21 continued

Commemorative Coin Wholesale

Wholesale customers purchasing non-bullion products are set credit limits based on available financial information, if no information is available a zero credit limit is set and goods must be paid for in advance of despatch. Credit limits are regularly monitored and reviewed. If the wholesale customer purchases bullion products the bullion is purchased specifically for the customer's order and is payable within 48 hours, coins are only despatched when payment is received. The table below shows overdue outstanding balances as at 31 March 2009.

	Between 31 and 60 days £'000	Between 61 and 90 days £'000	Between 91 and 120 days £'000
Wholesale trade debtors:			
2009	518	33	95
2008	299	53	11

Commemorative Coin Business to Consumer

Orders taken via the internet are paid for prior to despatch using major credit/debit cards. Orders taken via the call centre for new customers are payable in advance, existing customers are given credit limits based on their purchasing history. Overdue balances are monitored by reference to their statement status, the table below shows outstanding overdue balances as at 31 March 2009.

	Balance overdue statement 1 status £'000	Balance overdue statement 2 status £'000	Balance overdue statement 3 status £'000
Business to Consumer debtors:			
2009	60	-	307
2008	387	312	164

Counter-party risk

The Royal Mint purchases and sells derivative financial instruments from/to Aa rated banks, bullion overdrafts are held with Aa rated banks.

The maximum exposure to credit risk is limited to the carrying value of financial assets on the balance sheet as at the reporting date, for 2009 the amount is £21.6 million.

Liquidity risk

Liquidity risk is the risk that the Royal Mint may not be able to settle or meet its obligations on time or at a reasonable price. The Royal Mint's treasury section is responsible for management of liquidity risk, which includes funding, settlements, related processes and policies. The Royal Mint manages its liquidity risk by maintaining adequate reserves and monitoring actual cash flow against forecasted cash flow. The table below analyses The Royal Mint's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at 31 March 2009 to the contractual maturity date.

Note 21 continued

At 31st March 2009	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	793	844	2,873	2,917
Derivative financial instruments	453	-	-	-
Bullion overdraft	10,841	-	-	-
Trade and other creditors	25,335	-	-	-
Provision for Liabilities and Charges	-	641	890	292

Capital Risk

The management of the Royal Mint does not have any responsibility as regards capital risk or with regard to capital structure.

Fair values

Set out below is a comparison by category of fair values of the Royal Mint's financial instruments recognised in the financial statements at 31 March.

Fair value of cash and cash equivalents, trade debtors and creditors are deemed to be approximately their book value due to their short-term maturity.

Fair value of commodity hedges is calculated as the present value of the estimated future cash flows. The fair value of foreign exchange forward contracts is determined using forward exchange rates at the Balance Sheet date.

Fair value of long-term fixed interest rate loans are determined by utilising the zero coupon yield curve and adjusting for timing and actual loan rates. This has been agreed with HM Treasury (the lender).

Categories of financial instruments

The table below identifies the carrying values and fair values at 31 March for each category of financial assets and liabilities:

	Carrying value 2009 £'000	Fair value 2009 £'000
Financial assets:		
Loans and receivables	21,556	21,556
Derivatives used for hedging	350	350
Financial liabilities:		
Loans and Payables	45,426	46,229
Derivatives used for hedging	453	453

Note 22
POST BALANCE SHEET EVENTS

On the 21 April 2009, as part of the OEP Review, the Chancellor of the Exchequer announced that the Royal Mint would be vested into a Government-owned company. The vesting process is not expected to have any significant impact on the trading of the Royal Mint or the value of assets and liabilities of the business as assets will be transferred at net book value. It is expected that this process will lead to further costs being incurred during 2009-10.

There have been no changes to the Accounts between the date when the Accounting Officer signed the Accounts and the date the Accounts were authorised to be issued on 12 June 2009.

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID6084122 06/09

Printed on Paper containing 75% recycled fibre content minimum.

TSO

information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/ General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

Customers can also order publications from
TSO Ireland
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401