The Royal Mint

Royal Mint Trading Fund Group

Annual Report | 2010-11

Making Money for Everyone

The Royal Mint

Royal Mint Trading Fund Group
Annual Report and Accounts 2010-11

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 7 July 2011

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Annual Report and Accounts 2010-11

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The Royal Mint Trading Fund Group Accounting Officer is Peter Schofield

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Director of Finance

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Comptroller and Auditor General

Internal auditor to The Royal Mint Limited
KPMG LLP, Chartered Accountants

The Accounts of the Royal Mint Trading Fund Group at 31 March 2011, 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 117 of 2009-10). Presented pursuant to Act 1973, c.63, s.4 (6).

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The Royal Mint

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Introduction

This report describes the performance of the Royal Mint Trading Fund Group for the year 2010-11.

On 31 December 2009 the assets and liabilities of the Trading Fund were vested in The Royal Mint Limited, a company wholly-owned by HM Treasury and a subsidiary of the Trading Fund, and in a separate company limited by guarantee, the Royal Mint Museum, of which HM Treasury is the sole member, which was vested with the heritage assets and liabilities of the museum. From 1 January 2010 the Royal Mint Trading Fund ceased to be an operating business, with The Royal Mint Limited becoming the operating entity under the Trading Fund, which now acts as an investment holding entity.

Given the significance of the trading activities of The Royal Mint Limited, this Royal Mint Trading Fund Group Annual Report draws on the views of the Chief Executive of The Royal Mint Limited as well as the Accounting Officer of The Royal Mint Trading Fund.

The Royal Mint commenced a programme of renewing and increasing capacity in the Commemorative Coin area in order to meet the expected demand for Olympic and Diamond Jubilee coins in 2012.

Accounting Officer's Statement

This report covers both the operations of The Royal Mint Limited and those of the Royal Mint Museum Limited.

Trading conditions throughout the year were extremely challenging with low UK demand reflecting macro economic conditions, and with political unrest impacting on a number of international customers later in the year.

In the circumstances, the outcome of £3.6m Operating Profit before exceptionals and adjusted for the impact of hedging ineffectiveness (IAS 39 – see note 5b) was an acceptable, though disappointing result. On a comparable pre-vesting basis this would have been estimated to be £7.3m (2009-10: £9.2m). Similarly, the Return on Average Capital Employed of 5.5% is disappointing, but reflective of the difficult trading period. The company operated within its financing facilities.

On a more positive note, this was a significant year in the development of the Company. The single largest capital investment for many years, to provide additional nickel-plating capacity, was completed on time and to budget. The Royal Mint was delighted to welcome the Chancellor of the Exchequer to Llantrisant for the formal opening of the facility. The company also commenced the programme of renewing and increasing capacity in the Commemorative Coin area in order to meet the expected demand for Olympic and HM The Queen's Diamond Jubilee coins in 2012. The timing of the Royal Wedding in 2011 also meant that these facilities were in place for meeting demand for official Commemorative Coins to mark the Royal Wedding.

The outlook for the next few years is positive. Commemorative Coin should perform well in the next two years, driven primarily by the Olympics and HM The Queen's Diamond Jubilee. The investment in aRMour™ nickel-plating capacity will provide the opportunity to work with HM Treasury to reduce the cost of providing UK coinage, whilst also consolidating the world leadership in aRMour™ nickel-plated coins.

In periods of volatile trading the demands on everyone, including suppliers and employees, to work in a highly flexible and responsive way are substantially increased. One example of this was the way in which all parties worked to overcome the difficult winter weather conditions. I know that the board of The Royal Mint Limited would wish me to record their appreciation of the contribution made by all involved.

Peter Schofield
Accounting Officer

The Chancellor of the Exchequer, Rt Hon George Osborne MP, officially opened the Royal Mint's two new nickel-plating production facilities. The new facility represents a £16.5m investment and is one of the largest undertakings in the Royal Mint's history.

The Royal Mint has seen increasing demand for its plated steel products over the past few years following the development of aRMour™, a patented advanced plating technology which results in significant savings to central banks, issuing authorities and governments that use them.

> "As a manufacturer, exporter and employer based in South Wales, the Royal Mint is a real British success story. I'm proud to open this new facility which will allow the Royal Mint to build on this success."

The Chancellor of the Exchequer, Rt Hon George Osborne MP


The Royal Mint

Chief Executive's Report

In last year's Report, we introduced our six corporate objectives: Ensure we are safe and environmentally friendly; Build for the future; Delight our customers; Work together to deliver results; Deliver London 2012 Olympic Programme; and Create a great place to work. These have evolved over the last 12 months, but we are still true to their ideals and I wanted to provide an update on our progress.

Ensure we are safe and environmentally friendly

Health, safety and the environment is now the first agenda item on all meetings or 'shift huddles' across the business. As a result, we have made great inroads in this area, reducing our overall accidents by 28% this year on top of a 30% reduction in the previous year. This means that we have halved the number of accidents in two years through proactive focus across the business.

During the year, our employees reported over 1,400 'hazard and near miss' incidents, 386 of which related to environmental issues. This heightened awareness and activity has a direct correlation with the reduction in the number of accidents on site.

During the year, we commissioned the construction of a new effluent treatment plant to support our increased production capacity from two new nickel-plating lines. The new treatment plant, which is expected to be fully operational during quarter one of 2011-12, has been built using the Best Available Technology (BAT) and will significantly reduce the amount of effluent discharged, allowing us to recycle wherever possible. Our energy usage per tonne of production has decreased during the year and we expect to make further improvements in this area.

Ensure
we are safe and environmentally friendly

Build
for the future

Build for the Future

Building a successful business for the future is of critical importance to the Royal Mint and I am pleased to report that the Royal Mint has made significant progress during 2010-11.

In Circulating Coin, we have had great success in converting existing customers and attracting new customers to aRMour™. These products are the market leading plating products and deliver many customer benefits including lower lifetime cost and improved durability in comparison to those products offered by our competitors. Over the next years, we plan to expand our offering with the introduction of more security features to our plated products to provide further benefits to both existing and new customers.

In support of our aRMour™ strategy, we have significantly expanded our capacity by the construction of two new Nickel-Plating Plants which were opened by the Chancellor of the Exchequer and Master of the Mint, the Rt Hon George Osborne MP, in March 2011. These plants are critical to our future growth plans. We have also invested in our sales team with the addition of several new positions to support our rapid growth plans, particularly in overseas markets.

In 2011-12 we are introducing phase two of our Operational Excellence plans where we shall be embedding the principles of improving productivity. This, together with our investment in plant and machinery, is designed to continue the improvement of delivery to our customers. The emphasis on process improvements is a major focus during the coming years.

Delight
our
customers

2011-12 is an exciting year for the Royal Mint. The Royal Wedding of Prince William to Catherine Middleton has captured the attention of the nation, with significant international interest being seen too. The Royal Mint is proud of its heritage and is committed to celebrating the history of the UK on the Nation's coinage for generations to come.

The Commemorative Coin part of our business has benefited from significant investment as we increased capacity in preparation for a busy 2012 with London 2012 and HM The Queen's Diamond Jubilee. The introduction of technologies such as PVD coated tooling and new hydraulic presses has increased capacity and flexibility and delivered energy and carbon footprint savings.

2012 heralds HM The Queen's Diamond Jubilee, which celebrates the 60th Anniversary of Queen Elizabeth II's accession to the throne. We shall be marking this historic milestone with a range of products that reflect the public's admiration for the Queen.

Finally, the Royal Mint is focused on becoming the industry leader in coin technology and innovation, establishing a team and funding to bring us to the forefront of coin technology and security. 2011-12 looks set to be an exciting year as several key projects come to fruition.

Delight our customers

The business conditions in the UK and across the globe remained challenging this year with the recession continuing to affect our customers. Despite this challenge, we have continued to expand our Circulating Coin business with seven new customers for our aRMour™ plated products, which are proving successful owing to their great value for money and longevity in the face of increasing commodity prices. The UK will be moving 5p and 10p coins to aRMour™ Nickel-plated steel effective 1 January 2012, another significant endorsement of the product's quality.

Our Operational Excellence programmes delivered great results, shortening customer lead times and improving visibility of our production output. Our UK Coin Contract performance was excellent and we achieved our Ministerial target of 99% on time delivery. Our overseas Circulating Coin delivery, however, remains behind target against our high expectations, so this will be a key focus over the next 12 months. Our delivery performance to our Commemorative Coin customers has dramatically improved during the year. The stress test through peak periods has confirmed that we can cope with increased volumes and still deliver good customer service.

We set ourselves a key objective this year to understand more about our customers; who they are and what they want from us. We undertook some extensive work including a usage and attitude study and customer satisfaction surveys across our various customer segments. We have also taken the opportunity to strengthen our marketing team.

I am proud to report that the Royal Mint was the first mint in the world, and one of the largest manufacturers in Europe, to achieve SA8000 accreditation. Social Accountability 8000 is the first global ethical standard for organisations to demonstrate their commitment to social responsibility. This accreditation proves that we have a code of practice for good labour conditions so that consumers can be confident that the goods they are buying have been produced in accordance with a recognised set of international standards.

Work together to deliver results

Overall, we did not achieve all of our financial targets this year. The difficult economic conditions, both in the UK and globally, combined with high commodity prices and pressure on budgets depressed demand for circulating coin. In our Commemorative Coin business, we continued to feel the impact on purchase costs with the price of gold and more latterly silver increasing, combined with the pressure on household incomes and rising inflation.

However, The Royal Mint Limited delivered an operating profit before exceptionals and adjusted for the impact of hedging ineffectiveness (IAS 39 - note 5b) of £3.5m. This year was the first year where we have experienced the full impact of incremental vesting costs. These additional costs relate to the cost of standing apart from Government as a limited company in Government ownership. The incremental costs in 2010-11 compared to 2009-10 are £2.7m higher (£3.6m on an annualised basis). With these increased costs and the economic climate, it was an achievement to deliver a solid profit for the year.

The Royal Mint's target return on capital employed for 2010-11 was 10.0%. The return achieved was 5.5% (2009-10: 11.2%). For this purpose, the annual rate of return is calculated using the operating profit for the year before interest as a percentage of the opening and closing monthly capital employed, using a 13 month average.

Work together to deliver our results

Deliver the London 2012 Olympic Coin Programme

Deliver London 2012 Olympic Programme

We are extremely proud to be the exclusive provider of the official UK Commemorative Coin programme for London 2012 Olympic and Paralympic Games. During the year, we were able to increase our participation in this national and international event by being awarded the contract to manufacture the 4,700 gold, silver and bronze Victory Medals.

In the official press release, Paul Deighton, the CEO of the London Organising Committee of the Olympic and Paralympic Games (LOCOG) said: “We’re delighted to be working with the Royal Mint, a company established in the UK for 1,100 years, to produce the London 2012 victory medals. The Olympic and Paralympic medals are presented to elite athletes at the biggest sporting events in the world – a moment which represents the pinnacle of their career and we’re pleased to announce that they will be produced in South Wales”. This is an enormous honour for the Royal Mint and further testimony to its reputation as the premier supplier of medals in the UK.

During the year, our retail strategy has continued to develop, particularly around the Olympic 50p programme but also at the higher end of the market with precious metal products. Major partners include The Post Office, WH Smith, John Lewis and Harrods. We expect to expand this further during the lead up to the games themselves.

Create
a great place
to work

Create a great place to work

Our people are key to our performance and we continue to involve them in the decisions that affect the business, encouraging their involvement in the solutions to move our business forward.

Following on from last year’s employee survey, we again asked employees to give their view and 80% responded. We learned that we have an engaged group of employees when compared to other organisations.

As a direct result of the employee survey, we started work on a major refurbishment programme of all catering and toilet facilities across site.

To launch the London 2012 50p sporting series to the world, we held an open day for our employees and their families, during which we became record breakers by breaking the Guinness World Record with 1,697 people simultaneously tossing an Olympic 50p coin.

We continued to make progress on training our people in the skills needed to perform with an emphasis on new skills such as process and business improvement, including Six Sigma.

Lastly I would like to take this opportunity to thank all of our staff for their work and commitment during this year. Our financial results fell short of our high expectations but we have laid the foundations for success in future years. I would also like to personally and on behalf of The Royal Mint thank Andrew Stafford for his leadership of the business over the last three years and wish him all the best in his retirement.

Adam Lawrence

Management Commentary
For the year ended 31 March 2011

Activities and structure
The Royal Mint Trading Fund Group's activities consist of:

The Royal Mint Limited

Circulating Coin:

— the manufacture 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 provision of technical services and advice related to the manufacture of coins and blanks.

Commemorative Coin:

— the manufacture, marketing and distribution of UK and overseas commemorative coins and medals;
— the manufacture and supply of official medals, seals and dies.

Royal Mint Museum Limited:

— the advancement of education of the public in the history of coinage and related artefacts and of the activities of the Royal Mint.

Royal Mint Trading Fund:

— to represent HM Treasury interests in the management of the Group and to oversee financing interactions with central government.

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

The Chancellor of the Exchequer is the Master of the Royal Mint. The Royal Mint Trading Fund was established on 1 April 1975, in accordance with the Royal Mint Trading Fund Order 1975 (S.I. 1975 No. 501) and from 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.

On 31 December 2009, the assets and liabilities of the Royal Mint Trading Fund were vested into a subsidiary company called The Royal Mint Limited. HM Treasury remains 100% owner of the shares of the company through the Trading Fund. All assets of a historical nature were vested into a separate company limited by guarantee. The objective of The Royal Mint Museum, of which HM Treasury is the sole member, is to preserve, protect and enhance the heritage assets for future generations. With the exception of the assets separated into The Royal Mint Museum, all other assets and liabilities, including those of a contingent nature, were transferred into The Royal Mint Limited effective from 1 January 2010.

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 2010-11, was 10% (2009-10, 10%). The return in 2010-11 was 5.5% (2009-10, 11.2%). For this purpose, the annual rate of return is calculated using the operating 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 performance against other key ministerial targets is set out on page 23.

One of the primary responsibilities of the Royal Mint is the provision and maintenance of UK coinage. The Royal Mint in conjunction with HM Treasury is required to produce sufficient quantities of each denomination to meet public demand.

On 16 October 2010 to launch the London 2012 50p sporting series to the world, the Royal Mint held an open day for employees and their families, during which we became record breakers by breaking the Guinness World Record with 1,697 people simultaneously tossing Olympic 50p coins.

In addition to these responsibilities the Circulating Coin business strategic objectives are to:

- develop our brand and reputation as the world's leading exporting mint;
- increase our market share via aRMour™ plating technology;
- increase operational flexibility to be able to react quickly to variations in demand;
- continue to improve the Royal Mint's competitive position through improved productivity levels and reduction in costs;
- create differentiation through the quality of the Royal Mint's products and services;
- increase operating efficiency and capacity to reduce customer lead-times.

The Commemorative Coin business strategic objectives are to:

- take advantage of the unique opportunity presented by the Olympic and Paralympic Games and HM The Queen's Diamond Jubilee to generate sales and broaden the customer base;
- achieve consistent growth in sales and profitability through building the Royal Mint brand, product development and growth of the customer database;
- promote our presence in the gift market;
- reduce our dependence on the UK market through international development;
- maintain a high level of customer service;
- improve productivity and reduce costs.

Issues of UK circulating coins 2010-11

Denomination	Number of Pieces Millions	Face Value £m
£2	18.9	37.8
£1	58.3	58.3
50 pence	16.3	8.2
20 pence	118.9	23.8
10 pence	55.4	5.5
5 pence	198.3	9.9
2 pence	131.2	2.6
1 penny	514.2	5.1
Total	1,111.5	151.2

Estimated value and number of coins in circulation at 31 March 2011

Denomination	Number of Pieces Millions	Face Value £m
£2	359	718
£1	1,501	1,501
50 pence	854	427
20 pence	2,536	507
10 pence	1,641	164
5 pence	3,767	188
2 pence	6,641	133
1 penny	11,297	113
Total	28,596	3,751

Operating and Financial Review

For the fifth year running, The Royal Mint Limited has produced a sustainable profitable performance, despite the challenging business and economic conditions in the UK and across the globe, that have had a significant impact on consumer demand for commemorative products in particular.

The Royal Mint returned an operating profit, before exceptionals and adjusted for the impact of hedging ineffectiveness (IAS 39 – note 5b), of £3.6m (2009-10: £8.3m).

Revenue increased by 24.5% to £215.1m (2009-10: £172.8m), with most of the growth coming from Commemorative Coin which achieved sales of £121.5m (2009-10: £89.0m). This increase was largely the result of higher commodity prices for precious metals and a growth in demand for bullion products particularly through the summer.

Circulating Coin turnover increased by 11.7 % to £93.6m (2009-10: £83.8m), mainly due to increases in base metal prices.

The key long-term strategy of encouraging central banks to change their coinage from non-ferrous metals to aRMour™ plated steel coins and blanks continued; the benefits of which will be seen in future years. The investment in our new aRMour™ nickel-plating steel production capacity at Llantrisant was completed with the plant officially opened by the Chancellor of the Exchequer, the Rt Hon George Osborne MP on 5 March 2011.

aRMour™ is available in nickel-plate, copper-plate and brass-plate. The process involves a full plate mono layer that is electroplated directly on to a steel core. This results in a very strong bond between the plated material and the steel core resulting in coins that have expected lifetimes in excess of 20 years in circulation. In comparison to other plated products there are many other key benefits of aRMour™ for circulating coins and coin blanks. These include the ability to incorporate edge lettering and latent image security features, superior wear and corrosion resistance coupled with lower acquisition costs. Last year, HM Treasury gave its approval for the 5p and 10p to move to aRMour™ nickel-plated steel. This will now be implemented from January 2012.

This year has seen a very significant investment in the business that has resulted in cash outflows of £96.0m (2009-10: £14.5m inflow). The primary driver of the positive cash inflow in 2009-10 was customer advances on large contracts received during the last quarter of the year. By comparison this year the primary drivers are threefold. Firstly the use of precious metal overdraft facilities to build stock of bullion and Royal Wedding products to maximise sales opportunities, secondly the timing of customer advances and finally capital investment. During the year, we also paid a £4.0m dividend to our shareholder, HM Treasury, for the financial year 2009-10.

Capital expenditure was £17.3m (2009-10: £5.5m) and supportive of our growth strategy. The major investment in two new aRMour™ nickel-plating lines accounted for £11.7m of the expenditure in the year. The balance of the expenditure related to projects within the Commemorative Coin production area to support the London 2012 Olympic Coin Programme and improve operational efficiency.

Summary financial results

	2010-11 £m	2009-10 £m
Revenue:		
Circulating Coin		
UK	31.1	22.6
Overseas	62.5	61.2
Total Circulating Coin	93.6	83.8
Commemorative Coin	121.5	89.0
Total	215.1	172.8
Operating profit		
Circulating Coin	12.0	14.7
Commemorative Coin	3.8	5.0
Central overheads	(12.1)	(14.4)
Total operating profit	3.7	5.3
Hedging ineffectiveness (IAS 39 – note 5b)	(0.1)	(2.3)
Exceptionals (note 5a)	–	5.3
Adjusted operating profit	3.6	8.3

Central overheads in 2010-11 reflected a full year of insurance costs and pension costs.

Circulating Coin

The Circulating Coin business delivered another profitable year, generating a contribution to central costs of £12.0m (2009-10: £14.7m). Operating profit was impacted by the rise in commodity prices, internal plated capacity constraints and political instability in North Africa and the Middle East.

UK coinage issued to the cash centres totalled 1,111 million coins (2009-10: 1,184 million). Working closely with the UK Payments Council against a ministerial delivery target of 99% being available for shipment to banks and post offices within 11 days, the Royal Mint achieved 99.5%.

The operational excellence programme in Circulating Coin has enabled us to reduce factory work in progress inventory and throughput time. It is also providing us with improved clarity and consistency. This will bear fruit as the operating capacity of the plant is improved and increased going forward.

Counterfeit coins

During the financial year, a survey was conducted to monitor the level of £1 counterfeit coins. The survey conducted in May 2010 indicated a counterfeit rate of around 2.81% (October 2009: 2.64%). The most recent study, conducted during May 2011, indicates that the overall trend may be increasing despite the positive action taken by all parties involved over the past 24 months. The results of the latest survey should be released in July 2011.

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 closely with these agencies to reduce the incidence of counterfeit £1 coins.

Museum

At this early stage in the Royal Mint Museum's separate existence, all significant transactions were undertaken on an arms-length basis with The Royal Mint Limited. Revenue was derived largely from the supply of services to or donations from The Royal Mint Limited. The major part of the costs have been payable to The Royal Mint Limited for employees seconded to the Museum. Information regarding the collection and its management is outlined in note 9.

Commemorative Coin

In testing economic conditions, 2010-11 proved a difficult year for the Commemorative Coin business. Contribution to central overheads was £3.8m (2009-10: £5.0m). The increase in turnover was again driven largely by higher precious metal prices coupled with a further increase in higher value, lower margin gold bullion products, as wholesale customers and investors sought alternative investment opportunities.

The latter part of the year saw accelerating sales of Olympic products as the build up to 2012 continues. Demand for Royal Engagement and Wedding products also stimulated public interest and had a beneficial impact on contribution.

We were marginally short of meeting our non-financial ministerial targets. For quality measure we achieved 99.5% against a target of 99.7%. For medals we achieved a delivery fulfilment of 93.2% against a target of 98%. The focus of the Operational Excellence programme in Commemorative Coin resulted in an improvement in our delivery performance to UK customers to 78% (2009-10: 49.8%). This was very close to our 80% target.

Dividends

The Board has declared a dividend for 2010-11 of £4.0m. In 2009-10 a dividend of £4.0m was provided for and paid in 2010-11.

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 exchange rates.

Effects of commodity hedging

In 2010-11 the year-end impact of commodity hedging on the profit and loss account was a gain of £0.1m (compared with a gain of £2.3m in 2009-10: see note 5b). The business has taken the view that the impact of commodity hedging should be separately reported on the face of the Income Statement to aid the reading of the Accounts. These adjustments have no cashflow implications.

Metal prices

The majority of the raw materials purchased by the Royal Mint are metals. Prices can be subject to significant volatility. The Royal Mint seeks to limit its commercial exposure to these risks.

Circulating Coin

Non–ferrous metals: Copper, nickel and zinc are all commodities traded on the London Metal Exchange (LME). The business largely avoids exposure to volatility through its hedging programme. Where possible, selling prices are determined on the basis of the market prices of metals 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 this time.

Ferrous metals: With the introduction of the aRMour™ plating the volume of steel used by the business is increasing. Steel is procured on six month contracts to try to avoid volatility over the short term. The Royal Mint is currently looking at alternative strategies to protect its longer term position for this increasingly important segment of our business.

Metal prices have been extremely volatile during the year. The volatility of our key non-ferrous metals, nickel and copper, is shown in the graphs below:

Commemorative Coin

The Royal Mint has employed two different strategies within the Commemorative Coin business:

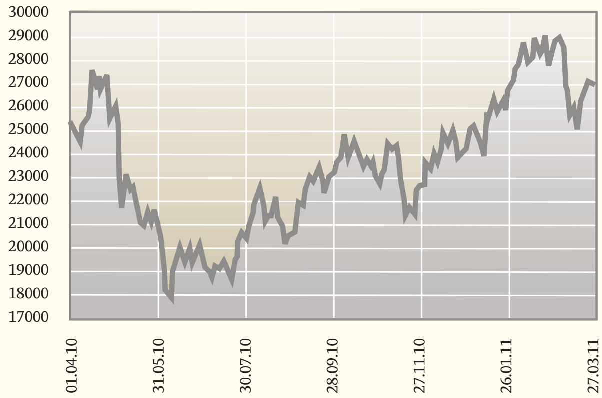
Proof product: Coins are manufactured for sale through the Royal Mint's marketing and promotional activities. Metal costs are secured by making quarterly commitments at agreed fixed prices. Selling prices are adjusted to reflect these costs thereby minimising the impact of fluctuations in metal prices on future transactions and cash flows. The level of commitment is determined by the Executive Management Team, and the risk is managed to achieve the Royal Mint's objective that its financial performance is not exposed to market fluctuations in metal prices.

Bullion product: Selling prices are quoted based on the prevailing market rates of the precious metals, which are purchased specifically to satisfy each order thereby avoiding exposure to risk.

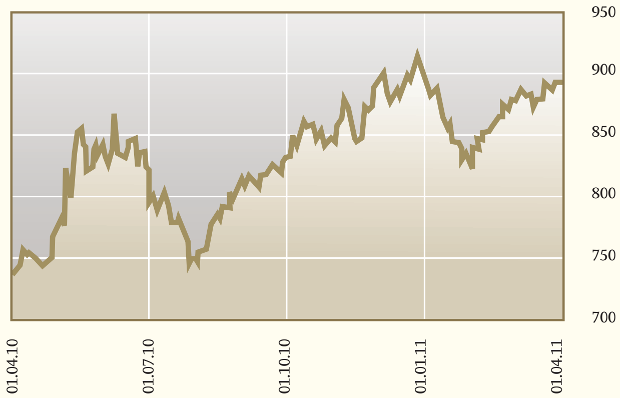
Precious metal overdrafts were used to build stock for prompt delivery and present low risk to commodity price changes.

Overall gold prices increased a further 20% in 2010-11 (2009-10: 20%), whilst silver increased by over 100% as shown in the graphs below:

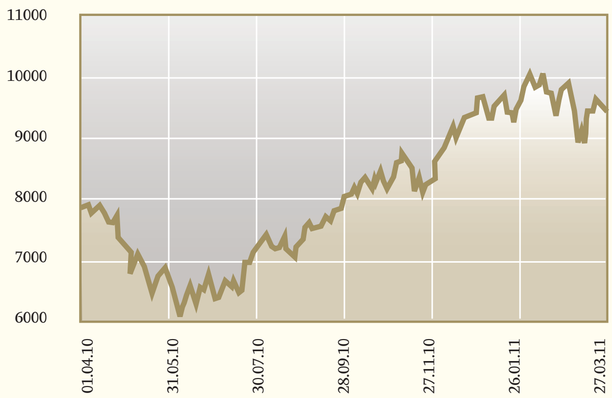
Nickel price (Source LME)



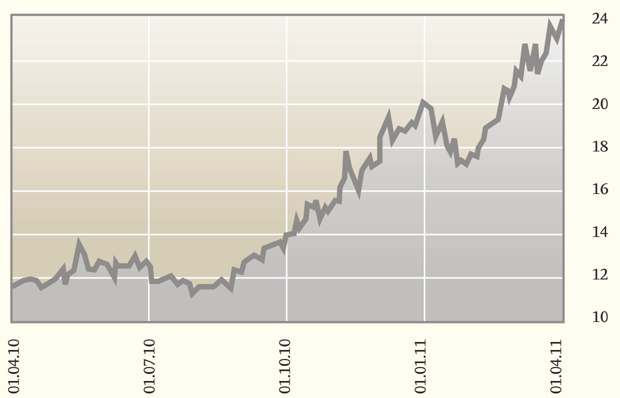
Gold price (Source LBMA)



Copper price (Source LME)



Silver price (Source LBMA)



Foreign exchange

Metal purchases

The Royal Mint minimises its exposure to exchange rate movements by buying the vast majority of commodities via sterling denominated contracts. In the small number of cases where this is not the case the Royal Mint reduces exposure by using forward exchange contracts.

Sales and non-metal purchases

The Royal Mint hedges its exposure to exchange rate movements on sales and purchases in foreign currency by selling/buying forward exchange contracts as appropriate.

Research and Development

The Royal Mint continues to invest in research and development; the cost of which is disclosed in Note 3.

Creditor payment policy

The Royal Mint always seeks to comply with agreed terms. A total of 83% (2009-10: 91%) of invoices were paid within 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 the abilities of employees are recognised and 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.

The number of people employed (permanent and casual staff) at 31 March 2011 was 911 (2009-10: 868).

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.

Sickness absence

The annual sickness absence for 2010-11 was 4.2% (2009-10 4.6%).

Safety, Health and Environment (SHE)

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

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

— the results of external SHE audits demonstrate that we are achieving continuous improvement in all aspects of performance;
— over the previous 2 years there has been a 50% decrease in the total number of accidents reported, by further raising employee understanding of safety, health and environment issues through training and regular communication and;
— the Royal Mint continues to work to the stringent controls of its Environmental Permit, which is regulated by the Environment Agency and the Control of Major Accident Hazards (COMAH) regulations, overseen by both the Environment Agency and the HSE.

The Royal Mint is committed to ensuring we are at the forefront of employing sustainable business practices in order to minimise our environmental footprint, and protect the health and safety of our workforce.

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:

— further reduce the total number of accidents which occur on site;
— continue to embed a positive SHE culture by providing the necessary tools, training and advice;
— ensure there is a comprehensive SHE framework that is legally compliant, recognised as best practice and leads to zero safety and environmental incidents;
— ensure all employees and contractors understand their SHE roles and are fully trained to carry out these roles;
— ensure that we understand the environmental impact of the suppliers we use, and only select those which 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.

Directors

Details of the Directors of The Royal Mint Limited are set out on page 3. None of the directors has interests that conflict with his or her responsibilities. The senior manager of The Royal Mint Museum is seconded from The Royal Mint Limited.

Auditor

The Royal Mint Trading Fund's statutory auditor is the Comptroller and Auditor General. The external audit costs are set out in note 3 to the Accounts.

Every effort has been made to ensure that there is no relevant audit information of which the Royal Mint's auditors are unaware. All the steps that ought to have been taken to make the auditors aware of any relevant audit information have been made.

Outlook

The Royal Mint views the future positively. The year ahead provides us with the opportunity to reinforce the merits of our aRMour™ platform within our Circulating Coin business; and to celebrate the unique position of our company's heritage in providing official UK Commemorative coins for the Royal Wedding, HM The Queen's Diamond Jubilee and 2012 Olympics.

Circulating Coin is expected to continue its success in persuading customers to convert from traditional alloy composition to aRMour™ plated coins and blanks, leading to anticipated growth in our overseas regions. Further investment in capacity for our plated technologies is planned for the coming year. The main element of this relates to an expansion and upgrade of our brass plating production facilities firmly placing our aRMour™ plated coins and blanks at the forefront of the global coin market.

The Royal Mint will continue to take a proactive approach to the development of new technology. Building on our successes with aRMour™ this will enable us to differentiate our offering, in an increasingly competitive market, and develop our intellectual property portfolio. Innovation is one of our values and will be critical to our future.

The Royal Mint is one of the most technologically advanced mints in the world. We plan to continue our capital investment program to consolidate this position and deliver our long-term strategic vision.

Commemorative Coin will continue to delight our existing customers through initiatives, such as the launch of its Mint Marque, and aims to establish a new generation of coin collectors by capitalising on the opportunities presented as a legacy of 2012.

Working capital remains a key area of focus. We will proactively seek to improve our efficiency with each opportunity that arises, particularly in light of the ramp up of activities as we approach 2012.

The plan for 2011-12 is to deliver sustainable retained profits and a positive return on capital employed in excess of the ministerial target of 10% (2010-11: 10%). We are confident this can be achieved, however, our business remains sensitive to UK macro economic conditions and political instability in overseas markets.

Going concern

After making enquiries, including seeking assurances from the directors of The Royal Mint Limited, the Accounting Officer has concluded that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

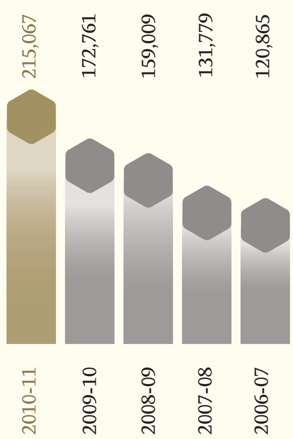
The single largest capital investment for years, the new nickel-plating plant, was completed on time and to budget.

Financial Summary

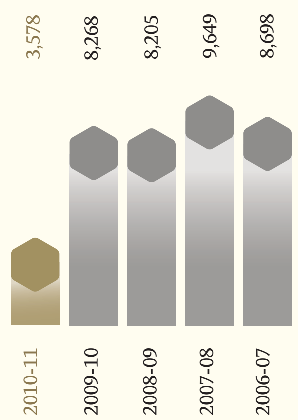
	2010-11 £'000	2009-10 £'000	2008-09 £'000	2007-08 £'000	2006-07 £'000
Accounting standards		Prepared under International Accounting Standards (IAS)			Prepared under UK Generally Accepted Accounting Principles (UKGAAP)
UK sales	72,569	62,715	76,787	75,441	73,165
Overseas sales	142,498	110,046	82,222	56,338	47,700
Total sales	215,067	172,761	159,009	131,779	120,865
Operating profit before exceptionals and IAS 39 hedging ineffectiveness (note 5b)	3,578	8,268	8,205	9,649	8,698
IAS 39 hedging ineffectiveness	77	2,263	(1,413)	–	–
Exceptional items	–	(5,273)	(2,204)	(1,325)	(6,385)
Operating profit	3,655	5,258	4,588	8,324	2,313
Net interest	(522)	(1,062)	(322)	(1,150)	(1,075)
Profit before tax	3,133	4,196	4,266	7,174	1,238
Tax	(590)	(443)	–	–	–
Profit after tax	2,543	3,753	4,266	7,174	1,238
Net assets	55,267	59,116	55,920	58,207	55,517
Operating profit before exceptionals and IAS 39 hedging ineffectiveness/sales	1.7%	4.8%	5.2%	7.3%	7.2%
Operating profit/sales	1.7%	3.0%	2.9%	6.3%	1.9%

The impact of hedging ineffectiveness has been highlighted separately, after the introduction of the "Financial Instruments" Standards (International Accounting Standard (IAS) 32: Presentation, (IAS) 39 (note 5b): Recognition and Measurement and International Financial Reporting Standard (IFRS) 7: Disclosures). In accordance with the Government Reporting Manual comparatives did not require restatement on adoption in 2008/09.

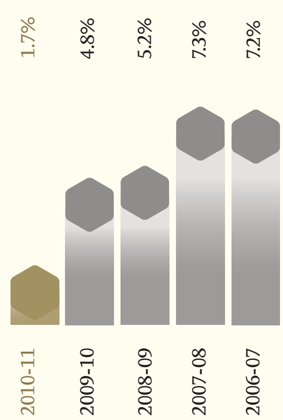
Total sales £'000



Operating profit before exceptional items and IAS 39 hedging ineffectiveness (see Note 5b) £'000



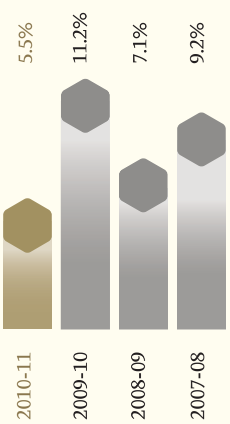
Operating profit before exceptional items and IAS 39 hedging ineffectiveness (see Note 5b) as a percentage of sales



Key Ministerial Targets

		2011-2012	2010-11	2009-10	2008-09	2007-08
Target 1* To achieve an average rate of return on average capital employed	Target	10.0%	10.0%	10.0%	5.1%	6.8%
	Outturn		5.5%	11.2%	7.1%	9.2%
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		99.5%	99.9%	100.0%	99.3%
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	80.0%	80.0%	80.0%	N/A	N/A
	Outturn		78.0%	49.8%	N/A	N/A
Target 4 Medals Orders delivered by agreed delivery date	Target	98.0%	98.0%	98.0%	98.0%	98.0%
	Outturn		93.2%	97.6%	99.1%	98.3%
Target 5 Quality Commemorative Coin products accepted by individual UK customers	Target	99.7%	99.7%	99.7%	99.7%	99.7%
	Outturn		99.5%	99.6%	99.6%	99.0%

Financial objective ratio (target 1)



* ROACE is calculated by expressing Operating profit as a percentage of average capital employed. Average capital employed will be taken as the average of the monthly balance sheet capital employed plus loans and cash.

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 6.2%. 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 provide a more exacting target.

The Royal Mint Advisory Committee 2010-11

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 HM Treasury and other government departments, with the recommendation of all new designs for UK coins and official medals. The Committee is designated a Non-Departmental Public Body and its membership is regulated by the Office for the Commissioner of Public Appointments (OCPA).

There were five meetings of the Committee in the last year all taking place in London, three at Cutlers' Hall, one at Buckingham Palace and one at the Gore Hotel. In addition, there were five meetings of the working group on the design of coins and medals for the London 2012 Olympic and Paralympic Games.

Programme for London 2012

Work continued during the year on completing the designs for the Gold Series of coins to be issued under the theme of Faster, Higher, Stronger. The first set of three coins by John Bergdahl was released in the spring of 2010 and the challenge for the artist was to explore the same approach for the remaining two sets of three coins to be issued in 2011 and 2012.

Having worked on the designs for some months, Mr Bergdahl was successful in resolving a coherent series of nine coins, all centred on the theme of ancient gods and goddesses combined with depictions of modern sports. Unlike other coins in the programme, the gold coins of this series will carry the Olympic Rings, rather than the London 2012 logo, and the design solution, with its clear link to the classical origins of the Games, seemed entirely appropriate. The working group's recommendations were endorsed by the Advisory Committee.

The programme of coins for London 2012 has deliberately embraced many artistic styles and design treatments in an effort to involve a wide range of people, creating a programme that works on a number of levels. Very much with that approach in mind, a competition was initiated in the autumn of 2010 for all students currently studying art and design in Britain to submit designs for the Olympiad and Paralympiad coins to be issued in 2012. The coins will be prominent elements of the programme, seeking to capture defining images of the Games and the very positive response is still being debated by the working group.

United Kingdom Commemorative Coins

For the regular programme of United Kingdom coins to be issued in 2011 a design for the 50th anniversary of the WWF by Matthew Dent was selected at the Committee meeting in May 2010. Having won the national competition to design the definitive coinage, unveiled in April 2008, this was the first time Mr Dent had been commissioned as part of a limited competition. Here he has created an intelligent and beautiful design made up of 50 icons of conservation to represent 50 years of the organisation's history.

Graphic designers Paul Stafford and Ben Wright were behind the two-pound coin to mark the 400th anniversary of the King James Bible. Their response to the brief was to focus on the printed word and the importance of the anniversary as a seminal moment in the history of how the Bible has been communicated, conveyed through a quotation from John's Gospel IN THE BEGINNING WAS THE WORD. Another two-pound coin came before the Committee during the year to commemorate the 500th anniversary of the maiden voyage of the Mary Rose, and a design by John Bergdahl was selected. His exquisitely detailed depiction of the ship, surrounded by a cartouche bearing an inscription in the Lombardic lettering used on coins of Henry VIII, was judged to capture beautifully a popular image of how the ship would have looked at the time. It has since proved to be a design strongly supported by the Mary Rose Trust.

A further UK coin design recommended by the Committee was for a crown piece to celebrate the 90th birthday of His Royal Highness The Duke of Edinburgh. Quite apart from the immense contribution he has made to national life in Britain and the unstinting support he has given Her Majesty The Queen, it is particularly appropriate that the life of Prince Philip should be honoured with the issue of a United Kingdom coin in view of his long years of service as President of the Advisory Committee. The portrait sculptor Mark Richards FRBS generated an arresting likeness conveying the character and bearing of the man.

Mr Richards also designed what was to become one of the most high-profile United Kingdom coins issued in the last 12 months, the crown piece commemorating the wedding of Prince William to Catherine Middleton. With very little time to complete the work, Mr Richards succeeded in creating an intimate composition showing the couple in profile facing each other.

The Committee examined designs for a number of official medals, details of which will be released through the sponsoring government departments in due course.

The 90th birthday of His Royal Highness The Duke of Edinburgh was commemorated with a coin designed by Mark Richards FRBS.

Sub-Committee on the selection of themes

In line with changes to the Committee's terms of reference, agreed in the summer of 2009, there was one meeting of the Sub-Committee on the Selection of Themes for United Kingdom Coins. At the meeting themes for new coins to be issued in 2012, with their associated denominations, were agreed and have subsequently received ministerial and royal approval.

Membership

The retirement from the Committee of Peter Gwynn-Jones, former Garter King of Arms, was reported in last year's Annual Report. It is with great sadness that mention has to be made this year of the untimely death of Mr Gwynn-Jones in August 2010. His memorial service, held at the church of St Martin-in-the-Fields, was attended by a number of current members of the Committee and the breadth of his interests, as well as his sensitivity, were revealed through moving tributes from friends.

The most significant development with respect to the Committee's membership was the retirement in January 2011 of the Chairman, Sir Christopher Frayling. He has served as Chairman for a decade and, under the terms governing appointments to public bodies regulated by OCPA, ten years is the maximum allowable period. The deep respect in which he is held by other members was apparent at every meeting he chaired, managing the Committee's deliberations with imagination and authority, and succeeding in balancing the often complex web of interests involved in securing designs for the nation's coins and medals.

Through the many and varied projects that arose during his time he never lost sight of the founding principle – to raise the standard of numismatic art in Britain – being prepared to fight for the cause of good design and being an inspired source of ideas for new artists. His commitment to public service, demonstrated through his many other roles, has been remarkable and his ten years as Chairman of the Committee has been no less impressive.

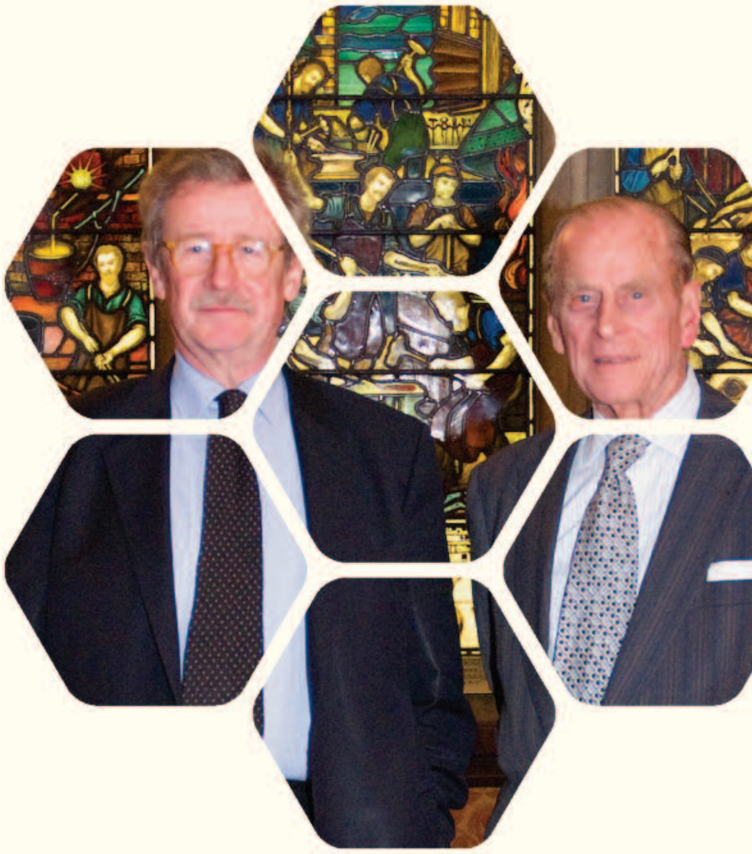
At the lunch to mark Sir Christopher's retirement, held following the meeting in December, it was a fitting tribute for him to be given a medal specially designed for the occasion by Matt Bonaccorsi, Head of Design at the Royal Mint, a beautifully painted card by Committee member Stephen Raw and for the occasion to be attended by Prince Philip.

After a recruitment process, initiated during the autumn of 2010, it was with considerable pleasure that his successor was announced in January 2011 as Lord Waldegrave, a man no less steeped in a deep commitment to public life. Up to 1997 he served as a Cabinet Minister for several years in successive Conservative governments and he has more recently been held in high regard as Chairman of the Trustees of the Science Museum. He is currently Provost of Eton College and, having chaired his first meeting of the Committee in March 2011, he is looking forward to working with other members in the years to come.

Members give of their time freely and, for HM Treasury and the other government departments who draw upon the Committee's advice, there is a deep sense of gratitude for the care and expertise they devote in discharging their duties.

50th anniversary of the WWF 50p coin designed by Matthew Dent.

Members of the Committee At 31 March 2011 (with dates of appointments)



Prince Philip, having long years of service as President of the Advisory Committee, attended the lunch to mark Sir Christopher Frayling's retirement.

Lord Waldegrave of North Hill
Chairman (January 2011)

Miss MaryAnne Stevens
Director for Academic Affairs, Royal Academy
(April 2001, re-appointed April 2008)

Professor Sir David Cannadine
Institute of Historical Research
(September 2004)

Mr John Maine RA
Sculptor (September 2004)

Mr Stephen Raw
Lettering artist (January 2005)

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

Mrs Jana Khayat
Former Chairman of Fortnum and Mason
(February 2008)

Mr Tim Knox
Director of Sir John Soane's Museum
(February 2008)

Mr Thomas Woodcock LVO DL
Garter King of Arms (January 2010)

Professor Nick Mayhew
Numismatic Consultant to the Committee

Mr Adam Lawrence
Chief Executive of the Royal Mint Limited

Dr Kevin Clancy
Secretary to the Committee

Mr Matthew Bonaccorsi
Technical Adviser to the Committee

Statement of the Royal Mint Trading Fund Group's and Accounting Officer's Responsibilities

Under section 4(6) of the Government Trading Funds Act 1973 HM Treasury has directed the Royal Mint Trading Fund Group to prepare a statement of accounts ('the 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 Trading Fund Group's state of affairs at the year end and of its Consolidated Income Statement, Consolidated and Trading Fund Statements of Comprehensive Income, Consolidated and Trading Fund Statements of Changes in Equity and Consolidated and Trading Fund Statements of Cashflows for the financial year.

In preparing the Accounts the Royal Mint Trading Fund Group 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, as set out in the Government Financial Reporting Manual, have been followed and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Royal Mint will continue in operation.

The Director of the Enterprise and Growth Unit within HM Treasury, Peter Schofield, continued in his role as Accounting Officer for the Royal Mint Trading Fund. His relevant responsibilities as Accounting Officer are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money. These include his responsibility for the propriety and regularity of the public finances for which he is answerable, the keeping of proper records and the safeguarding of the Royal Mint Trading Fund's assets.

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 Group's policies, aims and objectives, whilst safeguarding the public funds and the Group's assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

This responsibility has been carried out via delegated authority to the Board of Directors of The Royal Mint Limited, a wholly owned subsidiary of the Royal Mint Trading Fund, which is the operating entity under which the Royal Mint Trading Fund Group trades, and via the Trustees of The Royal Mint Museum. Except where there are explicit references to the museum, the remainder of this statement refers to the Internal Control processes within The Royal Mint Limited.

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 Limited'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 throughout the year 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 Board, the Royal Mint's risk management process is undertaken by the Executive Management Team which meets formally on a regular basis and not fewer than ten times a year. They focus on the identification and management of the key risks which could impact on the achievement of The Royal Mint Limited's policies, aims and objectives, and the control strategy for each of the significant risks. As part of its oversight process, the Board undertakes a review of risk management at least annually and has input into the broader risk management of The Royal Mint Limited. The Risk Management Committee also oversees fraud and other related risk areas.

The Risk Management Committee is responsible, on behalf of the Royal Mint Trading Fund Group's Accounting Officer and the Company's Board of Directors, 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 of the Chief Executive, the Director of Finance and the Director of Business Services. The Head of Internal Audit also attends all meetings.

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

The Executive Management Team involves the senior management team in their respective areas in the identification and assessment of risk. The risk management and governance processes are included for review 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 Limited'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 Limited'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 Management Team. These registers are updated regularly and evolve as new risks are identified and formally elevated to the risk register. This includes the 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. There are no significant weaknesses, nor were there any breaches of information that were required to be notified to the Information Commissioner during the year.

Governance

Although there is currently no requirement for The Royal Mint Limited 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.

The Board

The Board is comprised of the Chairman, four Non-Executive Directors and two Executive Directors (the Chief Executive and Director of Finance). The Director of Business Services attends the meeting as Company Secretary. The Board is a board of oversight which met 9 times in 2010-11 (2009-10: 10 times). In the terms of the UK Corporate Governance Code its role is:

> 'To provide entrepreneurial leadership of the company, within a framework of prudent and effective controls which enable 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 roles and responsibilities of the Board are:

- 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 major capital expenditure;
- oversight of operating performance;
- development of remuneration systems for the Executive Management Team, including performance related pay;
- annual evaluation of its performance and that of its committees;
- performance appraisal of executive management plus succession planning;
- approval of senior executive appointments or, where appropriate, recommendation of appointments to Shareholder Executive/Minister.

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

The number of times the relevant committee members attended meetings were as follows:

	Board	Audit Committee	Remuneration Committee	Appointed(A)/ Resigned(R)
Andrew Stafford	3	n/a	2	R: 31/12/2010
Adam Lawrence	9	n/a	2	
Vin Wijeratne	3	n/a	n/a	A: 23/11/2010
Mike Davies	9	n/a	5	
Colin Balmer	9	6	5	
Mary Chapman	9	6	5	
David Harding	9	6	5	
Charlie Villar	4	n/a	n/a	R: 30/11/2010
Tim Martin	3	n/a	n/a	A: 20/12/2010

Up to November 2010, Charlie Villar had a seat on the Board of the company as a representative of the Royal Mint Trading Fund and HM Treasury as shareholder. In December 2010 he was replaced by Tim Martin.

The Executive Management Team

The Chief Executive has primary responsibility for the day-to-day management of the business, and discharges his responsibilities through an executive management team, whose membership is made up from the executive directors and leaders of the main functions of the business.

The roles and responsibilities of the Executive Management Team are:

— Development of long-term strategy in conjunction with Board;
— Development of annual corporate plan, for submission to Board;
— Approval of all capital expenditure and major contracts not requiring Board approval;
— Development of remuneration systems for staff, including performance related pay;
— Compliance with established operating procedures;
— Preparation of risk register and subsequent reviews and mitigating actions;
— Development of performance improvement programmes.

Audit Committee

The Audit Committee comprises three independent Non-Executive Directors. The Audit Committee is chaired by Colin Balmer. The Committee invites the Chief Executive Officer and Director of Finance and senior representatives of both the internal and external auditors to attend meetings. The Committee meets at least 5 times each year.

The Audit Committee monitors and reviews the effectiveness of the internal control systems, accounting policies and practices, financial reporting process, risk management procedures, as well as the integrity of the financial statements.

The Audit Committee closely monitors and oversees the work of the internal auditors. Details of internal controls systems and their effectiveness are described below.

The Committee ensures the external auditors provide a cost-effective service and remain objective and independent.

Governance of The Royal Mint Museum Limited

The Royal Mint Museum is a separate company limited by guarantee of which HM Treasury is the sole member. It is governed by a board of Trustees of whom there are currently three: Sarah Tebbutt, Sir Christopher Frayling and Rear Admiral John Lippiett CB, MBE.

Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness 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 Limited 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. My review is also informed by the work of the Trustees for the Royal Mint Museum. 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;
- formal security arrangements.

Members of the Executive Management Team within The Royal Mint Limited provide the Board with annual written confirmation in relation to the effectiveness of the system of internal control in their area of responsibility.

The Royal Mint Limited's risk priorities in 2010-11 were in the following areas:

- safety, health and the environment;
- key engineering failure;
- political and economic instability of overseas customers;
- the impact of the economic downturn upon demand for products;
- the execution of the 2012 growth strategy targeted at HM The Queen's Diamond Jubilee and the Olympics.

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 Management Team.

The Royal Mint Limited operates internal audit arrangements to standards defined in the Government Internal Audit Standards. During 2010-11 this function 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 presented to the Audit Committee. They also provide an independent opinion on the adequacy of The Royal Mint Limited's system of internal control.

KPMG have reported that they believe the Statement on Internal Control to be a reasonable representation of the Royal Mint Limited's capacity for managing its risks and do not believe there is a conflict between it, the supporting submissions, and their findings and observations from their internal audit. KPMG did not qualify their opinion, although they did draw attention to some issues identified during the year as matters of emphasis. It is expected that any remaining issues will have been resolved in the first quarter of 2011-12.

In addition there were no issues that arose from the review of effectiveness of the controls operating within the Royal Mint Museum.

Peter Schofield
Accounting Officer
27 June 2011

Remuneration Report

Introduction

The Accounting Officer of the Royal Mint Trading Fund and the Trustees of the Royal Mint Museum receive no remuneration in connection with their respective roles within the Royal Mint Trading Fund Group.

The Royal Mint Limited

Remuneration Committee of The Royal Mint Limited

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

The Committee comprised Colin Balmer, Mary Chapman (Chairman), Mike Davies and David Harding throughout 2010-11. The Executive Management Team may be invited to attend meetings of the Committee, but do not take part in any decision affecting their own remuneration. The Director of Business Services is Secretary to the Committee, which met as necessary during the year. There were 5 meetings in 2010-11 (2009-10: 4) which were attended by all members of the Committee.

Committee remit

The remit was updated in October 2010. This can be accessed on The Royal Mint Limited's website.

Remuneration policy

The Royal Mint Limited's policy is to maintain levels of remuneration such as to attract, motivate and retain Executives of a high calibre who can effectively contribute to the successful development of the business.

Executive Management Team

The team as at 31 March 2011 is made up of 6 people in the following roles:

Chief Executive, Director of Finance, Director of Business Services, Director of Operations, Director of Commemorative Coin, Director of Circulating Coin.

There were a number of changes during the year that are detailed in the remuneration table overleaf. In addition there were the following changes of role:

Adam Lawrence was Director of Finance until appointed Chief Operating Officer on 1 May 2010 and then Chief Executive on 1 January 2011.

Anne Jessopp was Director of Human Resources until appointed Director of Business Services on 1 May 2010.

Members of the Executive Management Team's terms, conditions and remuneration

The remuneration package for the members of the Executive Management Team consists of the following elements.

i **Basic salary**
The basic starting salary of a member of the Executive Management Team is determined as part of the recruitment and selection process. Thereafter it is subject to annual review.

ii **Short-Term Incentive Plan (STIP)**
The Remuneration Committee agreed a STIP for 2010-11. The purpose was to recognise and reward outstanding performance against planned business targets deemed appropriate to incentivise management. The maximum award for 2010-11 (if ROACE in excess of 130% of target is achieved), was £60,000 for Andrew Stafford and 30% of basic pay (2009-10: 25%) for the other members of the Executive Management Team.

STIP awards are disclosed in the year they are paid. Amounts paid in 2010-11 relate to performance in 2009-10 and are outlined in the table. Amounts payable for 2010-11 performance have not been finalised and will be fully disclosed when paid in 2011-12.

iii **Long-Term Incentive Plan**
The Long-Term Incentive Plan (LTIP) is available to Executive Directors on the Board and is in place to reward and recognise achievement of the strategic and sustainable development of the business. Targets are set over a three year timescale. Incentives earned through the achievement of strategic objectives are paid at the end of the three year period. The maximum amount per year was £60,000 for Andrew Stafford and 25% of basic salary for Adam Lawrence. Following his appointment as Chief Executive this increased to 33%. LTIP awards will be disclosed in the year they are paid. Andrew Stafford's LTIP matured in 2010-11 resulting in a payment of the accrued amount. Accrued amounts in relation to the LTIP amounted to £132,000 (2009-10: £228,000).

iv **Pension Scheme**
All members of the Executive Management Team, who joined prior to 1 January 2010, are members of Prudential Platinum Pension – The Royal Mint Limited Scheme. Those who joined after that date are members of The Royal Mint Group Personal Pension Plan, a defined contribution scheme.

v **Discretionary benefits allowance**
Any allowance paid is non-consolidated, non-pensionable and is not used for the basis of Incentive Plan calculations. Payments are included within remuneration below.

The following sections provide details of the salaries, pension entitlements and fees of the Board members and Executive Management Team of The Royal Mint Limited. These disclosures have been subject to external audit.

Remuneration and Incentive Plan Payments

Executive Management Team of The Royal Mint Limited	Remuneration 2010-11 £'000	STIP payments made in 2010-11 for 2009-10 performance £'000	LTIP Payments made in 2010-11 for 3 years performance £'000	Remuneration 2009-10 £'000	STIP payments made in 2009-10 for 2008-09 performance £'000
Andrew Stafford*	155-160	60	150	200-205	60
Chief Executive					
Left 31 December 2010					
Adam Lawrence*	165-170	30	–	135-140	23
Chief Executive					
Appointed 01 January 2011					
Full year equivalent	190-195				
Vin Wijeratne*	40-45	–	–	–	–
Director of Finance					
Appointed 24 November 2011					
Full year equivalent	125-130				
Anne Jessopp	125-130	26	–	120-125	18
Director of Business Services					
Phil Carpenter	100-105	25	–	95-100	23
Director of Operations					
Andrew Mills	125-130	25	–	115-120	–
Director of Circulating Coin					
Dave Knight	105-110	27	–	125-130	10
Director of Commemorative Coin					
Left 11 February 2011					
Full year equivalent	125-130				
Shane Bissett	10-15	–	–	–	–
Interim Director of Commemorative Coin					
Appointed 28 February 2011					

* Board Member

Shane Bissett, Interim Director of Commemorative Coin, was appointed on a temporary contract with a one-month notice period. His remuneration includes accommodation and travel costs.

Nick Martin, Interim Director of Finance from 7 June 2010 to 19 November 2010, was appointed under a contract through a service provider. The invoiced costs were £62,000.

Andrew Stafford left the business on grounds of ill health whilst Dave Knight left by mutual consent. They received compensation for loss of office amounting to £207,000 and £82,000 respectively. These payments were in line with contractual terms and approved by the Remuneration Committee.

Pension Benefits Accrued in Prudential Platinum Pension – The Royal Mint Limited Scheme (audited)

	Accrued Pension at 31 March 2011 £'000	Accrued Pension at 31 March 2010 £'000	Increase in accrued pension in year in excess of inflation £'000	Transfer Value as at 31 March 2010 £'000	Transfer Value as at 31 March 2011 £'000	Increase in Transfer Value less employees contributions £'000
Andrew Stafford* Chief Executive	6	1	4	18	94	71
Adam Lawrence* Chief Executive	4	1	3	8	44	31
Anne Jessop Director of Business Services	3	1	3	8	43	31
Phil Carpenter Director of Operations	2	0	1	6	29	22
Andrew Mills Director of Circulating Coin	3	1	3	10	51	38
Dave Knight Director of Commemorative Coin	3	1	3	9	47	34

* Board Member

Phil Carpenter had an accrued pension lump sum of £5,000 at 31 March 2011 (£1,000 at 31 March 2010).

Vin Wijeratne is a member of The Royal Mint Group Personal Pension Plan, a defined contribution scheme. Employer contributions made during the year amounted to £5,000.

Employment agreements

All permanent members of the Executive Management Team covered by this Annual Report hold appointments which are open-ended until they reach retirement age. Their notice periods are six months except Adam Lawrence for whom it is one year.

Early termination, other than for misconduct or persistent poor performance, would result in the individual receiving compensation in line with the redundancy scheme.

Nick Martin, Interim Director of Finance from 7 June 2010 to 19 November 2010 was appointed under a contract through a service provider.

Shane Bissett, Interim Director of Commemorative Coin, was appointed on a temporary contract providing a one-month notice period.

Non-Executive Directors' terms, conditions and fees (audited)

The Non-Executive Directors are engaged under letters of appointment from HM Treasury. Either party can terminate his or her engagement upon three months notice. The current appointments run to 31 December 2012.

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

	2010-11 £'000	2009-10 £'000
Mike Davies	45	45
Colin Balmer	23	23
Mary Chapman	20	19
David Harding	18	18

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 £7,023 (2009-10: £4,762).

Messrs Villar and Martin received no remuneration from The Royal Mint Limited or the Royal Mint Trading Fund.

Peter Schofield
Accounting Officer
27 June 2011

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 Trading Fund for the year ended 31 March 2011 under the Government Trading Funds Act 1973. These comprise the Consolidated Income Statement, Consolidated and Royal Mint Trading Fund Statements of Comprehensive Income, the Consolidated and Royal Mint Trading Fund Statements of Changes in Equity, the Consolidated and Royal Mint Trading Fund Statements of Financial Position, the Consolidated and Royal Mint Trading Fund Statements of Cash Flow 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 Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Royal Mint Trading Fund Group's and the Royal Mint Trading Fund's affairs as at 31 March 2011 and of the Group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued there under.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Management Commentary and Financial Summary and key ministerial targets for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
30 June 2011

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

Consolidated Income Statement

For the year ended 31 March 2011

	Notes	Before IAS 39 hedging ineffectiveness (note 5b) 2010-11 £'000	IAS 39 hedging ineffectiveness (note 5b) 2010-11 £'000	Total 2010-11 £'000	Before Exceptionals and IAS 39 hedging ineffectiveness (note 5) 2009-10 £'000	IAS 39 hedging ineffectiveness (note 5b) 2009-10 £'000	Exceptional Items (note 5a) 2009-10 £'000	Total 2009-10 £'000
Revenue – Continuing	2	215,067	–	215,067	172,761	–	–	172,761
Cost of sales	3	(180,936)	(876)	(181,812)	(134,428)	1,393	–	(133,035)
Gross profit		34,131	(876)	33,255	38,333	1,393	–	39,726
Administrative expenses	3	(12,189)	–	(12,189)	(11,860)	–	(5,273)	(17,133)
Selling and distribution costs	3	(18,503)	–	(18,503)	(16,673)	–	–	(16,673)
Other gains/(losses)-net	22	139	953	1,092	(1,532)	870	–	(662)
Operating profit	2	3,578	77	3,655	8,268	2,263	(5,273)	5,258
Finance income	6	33	–	33	54	–	–	54
Finance costs	6	(555)	–	(555)	(551)	–	(565)	(1,116)
Profit before tax		3,056	77	3,133	7,771	2,263	(5,838)	4,196
Tax charge for the year	7			(590)				(443)
Profit for the financial year				2,543				3,753
Profit attributable to: Owners of the parent				2,543				3,753

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	2010-11 £'000	2009-10 £'000
Profit for the financial year	2,543	3,753
Other comprehensive income:		
Cash flow hedges	(2,782)	4,381
Actuarial gain/(loss) on defined benefit scheme	92	(49)
Deferred tax on actuarial gain/(loss) on defined benefit scheme	(24)	14
Impairment provision reversal	–	4,400
Loss on land and buildings revaluation	–	(5,416)
Gains on plant and machinery revaluation	322	113
Total comprehensive income for the year	151	7,196
Total comprehensive income attributable to:		
Owners of the parent	151	7,196

Royal Mint Trading Fund Statement of Comprehensive Income

For the year ended 31 March 2011

	2010-11 £'000	2009-10 £'000
Profit for the financial year	4,000	2,699
Other comprehensive income:		
Cash flow hedges	–	1,623
Impairment provision reversal	–	4,400
Loss on land and buildings revaluation	–	(5,416)
Gains on plant and machinery revaluation	–	93
Total comprehensive income for the year	4,000	3,399
Total comprehensive income attributable to:		
Owners of the parent	4,000	3,399

Consolidated Statement of Changes in Equity

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
At 1 April 2010	5,500	2,388	48,470	2,758	59,116
Movements in the year:					
Profit for the financial year	–	–	2,543	–	2,543
Cash flow hedges	–	–	–	(2,782)	(2,782)
Actuarial gain on defined benefit scheme	–	–	92	–	92
Deferred tax on actuarial gain of defined benefit scheme	–	–	(24)	–	(24)
Gains on plant and machinery revaluation	–	322	–	–	322
Transfers	–	(144)	144	–	–
Total Comprehensive Income for the year	–	178	2,755	(2,782)	151
Transactions with owners – dividends	–	–	(4,000)	–	(4,000)
At 31 March 2011	5,500	2,566	47,225	(24)	55,267

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
At 1 April 2009	5,500	3,426	48,617	(1,623)	55,920
Movements in the year:					
Profit for the financial year	–	–	3,753	–	3,753
Cash flow hedges	–	–	–	4,381	4,381
Actuarial loss on defined benefit scheme	–	–	(49)	–	(49)
Deferred tax on actuarial loss of defined benefit scheme	–	–	14	–	14
Impairment provision reversal	–	4,400	–	–	4,400
Loss on land and buildings revaluation	–	(5,416)	–	–	(5,416)
Gains on plant and machinery revaluation	–	113	–	–	113
Transfers	–	(135)	135	–	–
Total Comprehensive Income for the year	–	(1,038)	3,853	4,381	7,196
Transactions with owners – dividends	–	–	(4,000)	–	(4,000)
At 31 March 2010	5,500	2,388	48,470	2,758	59,116

The Notes on pages 47 to 80 form part of the Accounts.

Royal Mint Trading Fund
Statement of Changes in Equity

	Public Dividend Capital £'000	Profit and Loss Account £'000	Total £'000
At 1 April 2010	5,500	49,819	55,319
Movements in the year:			
Profit for the financial year	–	4,000	4,000
Total Comprehensive Income for the year	–	4,000	4,000
Transactions with owners – dividends	–	(4,000)	(4,000)
At 31 March 2011	5,500	49,819	55,319

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
At 1 April 2009	5,500	3,426	48,617	(1,623)	55,920
Movements in the year:					
Profit for the financial year	–	–	2,699	–	2,699
Cash flow hedges	–	–	–	1,623	1,623
Impairment provision reversal	–	4,400	–	–	4,400
Loss on land and buildings revaluation	–	(5,416)	–	–	(5,416)
Gains on plant and machinery revaluation	–	93	–	–	93
Transfers	–	(2,503)	2,503	–	–
Total Comprehensive Income for the year	–	(3,426)	5,202	1,623	3,399
Transactions with owners – dividends	–	–	(4,000)	–	(4,000)
At 31 March 2010	5,500	–	49,819	–	55,319

The Notes on pages 47 to 80 form part of the Accounts.

Consolidated Statement of Financial Position
At 31 March 2011

	Notes	2011 £'000	2010 £'000
Non-Current Assets			
Property, plant and equipment	8	46,237	32,369
Heritage assets	9	5	–
Intangible assets	10	1,427	1,006
Total Non-Current Assets		47,669	33,375
Current Assets			
Inventories	11	96,137	38,577
Derivative financial instruments	23	1,051	2,089
Retirement benefit asset	17	562	179
Trade and other receivables	12	32,106	21,485
Cash and cash equivalents		868	20,459
Total Current Assets		130,724	82,789
Current Liabilities			
Short-term borrowings	13	(88,730)	(12,343)
Trade and other payables	14	(31,409)	(41,043)
Current tax liability	7	–	(131)
Derivative financial instruments	23	(243)	(262)
Total Current Liabilities		(120,382)	(53,779)
Net Current Assets		10,342	29,010
Non-Current Liabilites			
Deferred tax liability	16	(1,043)	(298)
Provision for liabilities and charges	15	(1,701)	(2,971)
Net Assets		55,267	59,116
Equity			
Public dividend capital		5,500	5,500
Revaluation reserve		2,566	2,388
Retained earnings		47,225	48,470
Hedging reserve		(24)	2,758
Total Equity		55,267	59,116

The Notes on pages 47 to 80 form part of the Accounts.

Peter Schofield
Accounting Officer
27 June 2011

Royal Mint Trading Fund
Statement of Financial Position
At 31 March 2011

	Notes	2011 £'000	2010 £'000
Non-Current Assets			
Investments	24	59,319	59,319
Total Non-Current Assets		59,319	59,319
Current Liabilities			
Trade and other payables	14	(4,000)	(4,000)
Net Current Liabilities		(4,000)	(4,000)
Net Assets		55,319	55,319
Equity			
Public dividend capital		5,500	5,500
Retained earnings		49,819	49,819
Total Equity		55,319	55,319

The Notes on pages 47 to 80 form part of the Accounts.

Peter Schofield
Accounting Officer
27 June 2011

Consolidated Statement of Cashflow

For the year ended 31 March 2011

	Notes	2010-11 £'000	2009-10 £'000
Cashflow from Operating Activities			
Operating profit		3,655	5,258
Depreciation and amortisation on non-current assets		3,347	3,820
Loss on disposal		–	521
Cashflow hedges		(1,763)	2,451
Movements in working capital:			
Inventory		(57,560)	(3,721)
Retirement benefit asset		(291)	(228)
Trade and other receivables		(10,625)	71
Trade and other payables		(11,550)	15,507
Provisions		(1,296)	1,148
Cashflow from operations		(76, 083)	24,827
Interest paid		(462)	(1,072)
Net cashflow from operating activities		(76,545)	23,755
Cashflow from Investing Activities			
Acquisition of property, plant and equipment		(14,867)	(4,770)
Acquisition of intangible assets		(603)	(548)
Interest received		37	54
Net cash used in investing activities		(15,433)	(5,264)
Cashflow from Financing Activities			
Dividend paid		(4,000)	(4,000)
Movement in bullion overdraft		49,387	1,502
Long-term loan principal repaid		–	(7,427)
Short-term loans		27,000	–
Net cash generated/(used) in financing activities		72,387	(9,925)
Net (Decrease)/Increase in Cash and Cash Equivalents		(19,591)	8,566
Cashflow from movement in borrowings		(76,387)	5,925
Movement in net (debt)/funds		(95,978)	14,491
Net funds/(debt) at start of year		8,116	(6,375)
Net (debt)/funds at end of year	21	(87,862)	8,116

The Notes on pages 47 to 80 form part of the Accounts.

Royal Mint Trading Fund Statement of Cashflow

For the year ended 31 March 2011

	Notes	2010-11 £'000	2009-10 £'000
Cashflow from Operating Activities			
Operating profit		–	2,466
Depreciation and amortisation on non-current assets		–	3,365
Cashflow hedges		–	1,527
Movements in working capital:			
Inventory		–	(6,959)
Receivables		–	(1,341)
Payables		–	11,336
Provisions		–	2,627
Cash generated from operations		–	13,021
Interest paid		–	(492)
Net cash generated from operating activities		–	12,529
Cashflow from Investing Activities			
Acquisition of property, plant and equipment		–	(1,921)
Acquisition of intangible assets		–	(451)
Interest received		–	39
Dividend received from The Royal Mint Limited		4,000	–
Purchase of shares in The Royal Mint Limited		–	(15,000)
Cash transferred to The Royal Mint Limited		(27,000)	(11,397)
Net cashflows relating to investing activities		(23,000)	(28,730)
Cashflow From Financing Activities			
Dividend paid		(4,000)	(4,000)
Movement in bullion overdraft		–	8,747
Long-term loan principal repaid		–	(439)
Short-term loans		27,000	(439)
Net cash generated from financing activities		23,000	4,308
Net (Decrease)/Increase in Cash and Cash Equivalents		–	(11,893)
Cashflow from movement in borrowings		–	(8,308)
Movement in net funds		–	(20,201)
Net debt at start of year		–	(6,375)
Debt transferred to The Royal Mint Limited		–	26,576
Net debt at end of year	21	–	–

The Notes on pages 47 to 80 form part of the Accounts.

Note 1

PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation

The financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Royal Mint Trading Fund Group for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

2.1 Changes in accounting policy and disclosures

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 April 2010 but not currently relevant to the Group:

- IFRIC 18 (interpretation): Transfer of assets from customers
- IFRIC 17 (interpretation): Distribution of non cash assets to owners
- IFRIC 9 (interpretation): Assessment of embedded derivatives
- IFRIC 16 (amendment): Hedges of a net investment in a foreign operation
- IAS 1 (amendment): Presentation of financial statements
- IAS 36 (amendment): Impairment of assets
- IFRS 2 (amendment): Group cash settled share based transactions
- IFRS 5 (amendment): Non current assets held for sale and discontinued operations
- IAS 27: Consolidated and separate financial statements
- IAS 32 (amendment): Financial instruments: Presentational classification of rights issues
- IAS 24 (revised 2009): Related party disclosures

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2011 and not early adopted:

- IFRIC 19 (interpretation): Extinguishing financial liabilities with equity instruments
- IFRIC 14 (amendment): Prepayments of a minimum funding requirement
- IFRS 1: First time adoption of IFRS
- IFRS 3: Business combinations

These standards are not expected to have a material impact on the Group.

2.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Management Team of The Royal Mint Limited.

2.3 Foreign currency translation

(a) **Functional and presentation currency**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in sterling, which is the company's functional currency.

(b) **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end of exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

Note 1 continued

2.4 Property, plant and equipment

Property, plant and equipment are included at fair value to the business as follows:

The valuation is based upon the following:

(i) land and buildings are stated at an open market triennial valuation by external independent valuers; and

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from "revaluation reserves" to "retained earnings".

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Depreciation is calculated on a straight-line basis so as to charge the depreciable amount of the respective asset to income 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	3 – 8
Motor vehicles	4

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 the carrying amount and are recognised within other gains/(losses) – net in the Consolidated Income Statement.

It is not practicable or appropriate to obtain a meaningful valuation of the heritage assets of the Group because reliable valuations cannot be obtained and the assets concerned are of inestimable value.

Heritage assets

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental and historic associations.

Heritage assets donated from The Royal Mint Trading Fund to The Royal Mint Museum upon establishment of The Royal Mint Museum Group as a separate entity have not been included in the financial statements as the cost is unknown and a reliable valuation is currently difficult to achieve due to their unique and historic nature. Heritage assets acquired since company formation have been capitalised to the balance sheet at initial cost. Donated heritage assets are recorded at estimated valuation at the date of donation unless this is not practicable in which case the appropriate disclosures are made of the nature and the extent of these donations.

Note 1 continued

2.5 Intangible assets

Licenses for computer software are amortised on a straight-line basis over between 3 and 8 years. Other software costs are charged as incurred.

2.6 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

Financial assets are recognised when the Royal Mint Trading Fund Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the Income Statement or loans and receivables, 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 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 time frame 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 income statement – 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 Income Statement.

(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.

2.8 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 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 Income Statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Impaired debts are de-recognised when their outcome is certain.

Note 1 continued

2.9 Trade receivables

Trade receivables 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 Income Statement 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 de-recognised when their outcome is certain.

2.10 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 Income Statement in the period in which they are incurred.

(b) **Financial liabilities at fair value through the statement of comprehensive income**

Financial liabilities at fair value through the Income Statement 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 Statement of Comprehensive Income.

2.11 Derivative financial instruments

Derivative financial instruments are used to reduce exposure to risks associated with movements in foreign currency rates and metal prices. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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 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 Income Statement. Amounts taken to equity are transferred to the Income Statement when the hedged transaction affects the Income Statement, such as when a forecast sale or purchase occurs.

Note 1 continued

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Income Statement. 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 Income Statement 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 Income Statement.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the Statement of Comprehensive Income.

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

2.12 Inventories

Inventories 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 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.

2.13 Cash and cash equivalents

In the statement of cashflows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Current and deferred tax

The tax expense for the period comprises of current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the Statement of Financial Position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Note 1 continued

2.16 Employee benefits

(a) **Pension obligations**

The Royal Mint Limited operates defined benefit and defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, The Royal Mint Limited pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) **Profit-sharing and incentive schemes**

The Royal Mint Trading Fund Group recognises a liability and an expense for profit-sharing and incentive schemes, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Note 1 continued

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of Value Added Tax, returns, rebates and discounts.

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

- the buyer must have taken title to the goods and accepted billing;
- it is probable delivery will take place;
- the goods must be on hand, identified and be ready for delivery to the buyer at the time the sale is recognised;
- the buyer must specifically acknowledge the deferred delivery instructions;
- the usual payment terms apply.

2.19 Leases

Leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the period of the lease.

2.20 Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of performance.

2.21 Dividend distribution

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

2.22 Consolidation accounting policy

Subsidiaries are all entities over which the Group has the power to govern the financial and operating financial policies generally accompanying a shareholding of more than one half of the voting rights.

After the transfer of assets and liabilities from the Royal Mint Trading Fund to The Royal Mint Limited, the ultimate beneficial owner continues to be HM Treasury, on behalf of HM Government. The transaction is therefore exempt from IFRS 3 (revised): Business Combinations. Predecessor accounting has been used to account for the acquisition of The Royal Mint Limited and the identified assets and liabilities recorded at book value.

2.23 Going Concern

After making enquiries, including seeking assurances from the directors of The Royal Mint Limited, the Accounting Officer has concluded that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Note 1 continued

3 Critical accounting estimates and assumptions and judgements in applying the accounting policies

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) **Pension benefits**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the company considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

In arriving at the retirement benefit asset for the year, an actuarial estimate has been made of the impact of individuals who have determined that they wish to transfer into The Royal Mint Limited's pension scheme. This is based on latest available information which will require refinement in the financial statements for the year ending 31 March 2012.

Key assumptions for pension obligations are disclosed in note 16.

(b) **Impairment of non-financial assets**

The Royal Mint Trading Fund Group 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.

(c) **Trade receivables**

An appropriate allowance for estimated irrecoverable trade receivables 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 Trading Fund Group's historical experience of customer repayment patterns, remains inherently uncertain.

(d) **Inventory**

Provision is made for those items of inventory 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.

Note 2

SEGMENTAL REPORTING

The Royal Mint Trading Fund Group has determined business segments based on reports reviewed by the Executive Management Team of The Royal Mint Limited that are used to make strategic decisions. The Executive Management Team reviews the business from a product perspective as each segment offers products for different purposes and serves different markets.

The following tables present revenue, operating profit and certain asset and liability information regarding the Royal Mint Trading Fund Group's business segments for the years ending 31 March 2010 and 2011.

A. Analysis by class of business 2010-11

	Circulating £'000	Commemorative £'000	Total Segments £'000	Unallocated £'000	Total £'000
Segment revenue	93,610	121,457	215,067	–	215,067
Depreciation and amortisation	2,515	354	2,869	478	3,347
Operating profit	12,016	3,797	15,813	(12,158)	3,655
Segment assets and liabilities:					
Non-current assets	33,473	6,489	39,962	7,707	47,669
Current assets	43,467	84,624	128,091	5,100	133,191
Current liabilities	(7,473)	(66,418)	(73,891)	(46,491)	(120,382)
Non-current liabilities	–	–	–	(1,701)	(1,701)
Net assets	69,467	24,695	94,162	(35,385)	58,777

Analysis by class of business 2009-10

	Circulating £'000	Commemorative £'000	Total Segments £'000	Unallocated £'000	Total £'000
Segment revenue	83,792	88,969	172,761	–	172,761
Depreciation and amortisation	2,738	235	2,973	847	3,820
Operating profit	14,670	5,024	19,694	(14,436)	5,258
Segment assets and liabilities:					
Non-current assets	24,936	4,557	29,493	3,882	33,375
Current assets	31,039	29,838	60,877	21,912	82,789
Current liabilities	(24,271)	(14,700)	(38,971)	(14,808)	(53,779)
Non-current liabilities	–	–	–	(3,269)	(3,269)
Net assets	31,704	19,695	51,399	7,717	59,116

The unallocated net liabilities comprise cash at bank and in hand, receivable and payable balances which are not specifically attributed to either segment.

Note 2 continued

B. Analysis of Revenue by Destination

	2010-11 £'000	2009-10 £'000
UK	72,569	62,715
Greece	30,492	26,000
Rest of Europe	41,463	20,140
Asia	30,086	21,168
Africa	23,594	32,545
Americas	15,369	8,789
Rest of the World	1,494	1,404
	215,067	172,761

During 2010-11 revenues with two customers amounted to £31.0m and £28.6m which each represented in excess of 10% of sales.

Note 3

EXPENSE BY NATURE

	2010-11 £'000	2009-10 £'000
Changes in inventories of finished goods and work in progress (excluding metal)	194	(916)
Raw materials and consumables used	16,830	16,005
Metal costs of products sold	139,775	92,402
Hire of plant and machinery	206	115
Employee benefit expenses	34,632	32,164
Travel and subsistence	914	686
Transportation expenses	1,811	1,583
Depreciation and amortisation charges	3,347	3,820
Plant and building maintenance	1,967	1,887
Research and development	120	332
Market Research	420	90
Promotional expenses	5,698	5,362
Commission expenses	1,420	1,097
Exceptional expenses (see note 5)	–	5,273
Auditors' remuneration		
Audit of these financial statements	15	77
Non audit fees	–	–
Audit of subsidiaries	57	49
Non audit fees – taxation (subsidiaries)	9	–
Other expenses	5,089	6,815
Total cost of sales, selling and distribution costs and administration expenses	212,504	166,841

Included in metal costs above is the impact of commodity hedging on cost of sales amounting to a £876,000 loss (2009-10: £1,393,000 gain).

Note 4

REMUNERATION AND EMPLOYMENT

Details of the salary and pension entitlements of members of the Executive Management Team are included in the Remuneration Report on pages 33 to 37.

Total staff costs

	£'000	2010-11 £'000	£'000	2009-10 £'000
Wages and salaries				
Staff with a permanent contract	25,255		25,685	
Other staff	1,316		499	
		26,571		26,184
Social Security costs				
Staff with a permanent contract	1,743		1,733	
Other staff	192		41	
		1,935		1,774
Other pension costs				
Staff with a permanent contract	6,122		4,180	
Other staff	4		26	
		6,126		4,206
		34,632		32,164

Average number employed

		2010-11		2009-10
Production				
Staff with a permanent contract	586		565	
Other staff	46		46	
		632		611
Sales and Marketing				
Staff with a permanent contract	121		112	
Other staff	3		3	
		124		115
Administration				
Staff with a permanent contract	130		114	
Other staff	6		2	
		136		116
		892		842

Staff costs above include a charge of £200,000 (2009-10: £1,730,000) in relation to the employee profit share scheme and the management short-term incentive plan.

Note 5

a) EXCEPTIONAL ITEMS

	2010-11 £'000	2009-10 £'00
Administration		
Costs associated with nickel-plating plant fire (including assets scrapped of £521,000)	–	2,697
Costs associated with vesting	–	1,709
Legal costs	–	(133)
Provision for remediation costs in relation to environmental contamination	–	1,000
	–	5,273
Finance costs		
Costs associated with repayment of loans	–	565
	–	5,838

b) IMPACT OF HEDGING INEFFECTIVENESS UNDER IAS 39

In accordance with the Group accounting policy the hedge accounting rules under International Accounting Standards (IAS) 39 have been adopted where appropriate. The ineffective portion of the gain or loss on the hedging instrument (as defined under the accounting rules of IAS 39) is recorded in the Income Statement.

The objective of the company's hedging policy is to mitigate the cash flow impact of movements in the price of metal commodities where appropriate over time, the ineffectiveness impact of which for accounting purposes will be seen in different accounting periods depending on the relevant assessment under IAS39 rules.

The accounting treatment in this area is therefore not necessarily a reflection of the economic impact of the company's hedging policy but represents the respective accounting impact of hedging ineffectiveness under IAS39.

The impact of this has also been highlighted separately on the Income Statement.

Note 6

FINANCE COSTS

	2010-11 £'000	2009-10 £'000
On loans repayable within five years	529	185
On loans payable by instalments over more than five years	–	353
Unwinding of discount on provision for early retirement (Note 15)	26	13
	555	551
Exceptional finance costs		
Premium on repayment of long-term loans (Exceptional)	–	565
	555	1,116

FINANCE INCOME

	2010-11 £'000	2009-10 £'000
Bank interest received	33	54
	33	54

Note 7

TAXATION

Analysis of tax charge in period

	2010-11 £'000	2009-10 £'000
UK corporation tax:		
Current year	(256)	131
Prior year	124	–
Deferred tax:		
Current year	716	312
Prior year	6	–
Taxation charge	590	443

The tax for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK (28%) from:

	2010-11 £'000	2009-10 £'000
Profit before tax	3,133	4,196
Profit multiplied by the standard rate of corporation tax of 28%	877	1,175
Effects of:		
Trading Fund profit not being taxable	(482)	(779)
Expenses not deductible for tax purposes	143	47
Adjustments re: prior years	130	–
Reduction in tax rate for deferred tax provision	(78)	–
Tax charge for year	590	443

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate reduction creates a reduction in the deferred tax liability of £78,000 which has been included in the figures above.

The effective tax rate for the year was 17% (2010: 19%) ignoring adjustments relating to prior years and the tax charge arising from the reduction in the rate at which deferred tax has been provided to 26%.

In addition to the amount charged to the Income Statement, a deferred tax charge relating to actuarial gains on defined benefit pension schemes of £24,000 (2010: £14,000 credit) has been charged directly to the Consolidated Statement of Comprehensive Income.

Current tax liability

	2010-11 £'000	2009-10 £'000
UK corporation tax	–	131

The Royal Mint Limited has been liable to taxation from 1 January 2010. The Royal Mint Trading Fund is not subject to taxation.

Note 8

PROPERTY, PLANT AND EQUIPMENT

Consolidated

	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 2010	13,994	2,438	78,485	94,917
Additions	–	16,711	–	16,711
Transfers	637	(2,377)	1,740	–
Disposals	–	–	(1,629)	(1,629)
Indexation	–	–	984	984
At 31 March 2011	14,631	16,772	79,580	110,983
Depreciation				
At 1 April 2010	1,202	–	61,346	62,548
Charge for year	416	–	2,749	3,165
Disposals	–	–	(1,629)	(1,629)
Indexation	–	–	662	662
At 31 March 2011	1,618	–	63,128	64,746
Net book value at 31 March 2011	13,013	16,772	16,452	46,237
Net book value at 1 April 2010	12,792	2,438	17,139	32,369

Land and buildings are stated at open market current use valuation at 5 October 2009. This valuation which totalled £12.44 m was provided by BNP Paribas 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.

Note 9

HERITAGE ASSETS

	Heritage Assets £'000	Total £'000
Cost		
At 1 April 2010	–	–
Additions	5	5
Disposals	–	–
At 31 March 2011	5	5
Net book value at 31 March 2011	5	5
Net book value at 1 April 2010	–	–

Note 9 continued

The collection

The museum has a significant collection of different types of heritage assets including the following:

Coins
Medals
Banknotes and postage stamps
Seal counterparts and impressions
Minting and scientific equipment, furniture and clocks
Master tools and dies
Weights
Balances
Trial plates
Plaster models
Drawings
Books
Journals and periodicals
Sales catalogues
Box-files of archival material
Volumes of archival material
Loose folders of archival material
Photographs and negatives
Glass negatives
Films reels and tapes
Architectural plans
Paintings and engravings
Sculptures

The collection forms a remarkable record of one of the oldest continuously operating organisations in the world. Many of the items are unique, standing as an insight into the evolution and on-going activities of the Royal Mint. The collection can be seen as forming two broad categories:

— Material relating to the working of the Royal Mint as an institution and a manufacturer. The equipment, including coinage tools dating back to the medieval period, are not represented in any other collection in Britain to the same scale and diversity.

— Material relating to coins, medals and seals produced by the Royal Mint. The collection of coins and medals reflects the practice of items coming into the collection direct from the factory and consequently contains large numbers of trial and experimental pieces that are not represented in any other museum either in Britain or elsewhere.

The Royal Mint Museum aims to maintain the condition of the collection by housing the collection within air-conditioned premises and specially designed cabinets. Items from the collection are on public display in various temporary and permanent exhibitions, whilst the remaining collection is held at the museum premises within the Royal Mint. The collection is managed by the museum director in accordance with policies approved by the Trustees. With respect to acquisition, authorisation levels have been set for the Director of the museum and the Trustees, and the circumstances in which the acquisition of an item will be referred to HM Treasury are noted. Provisions dealing with proof of ownership of acquired items also form part of the policy. The authorisation levels at which items might be disposed of mirrors that specified for acquisition. The policy, moreover, details the precise criteria that would need to be met if an item were to be disposed of. The Royal Mint Museum is currently in the process of cataloguing the collection.

Note 10

INTANGIBLE ASSETS (Software Licences)

Consolidated

	Payments on account and assets in the course of construction £'000	Software Licences £'000	Total £'000
Cost			
At 1 April 2010	102	3,169	3,271
Additions	603	–	603
Transfers	(284)	284	–
Disposals	–	(63)	(63)
At 31 March 2011	421	3,390	3,811
Amortisation			
At 1 April 2010	–	2,265	2,265
Amortisation for year	–	182	182
Disposals	–	(63)	(63)
At 31 March 2011	–	2,384	2,384
Net book value at 31 March 2011	421	1,006	1,427
Net book value at 1 April 2010	102	904	1,006

Note 11

INVENTORIES

Consolidated

	2011 £'000	2010 £'000
Metal inventory	67,850	28,014
Work in progress (excluding metal)	4,035	3,331
Stores and packing materials	3,120	2,988
Finished goods	21,132	4,244
	96,137	38,577

Note 12

RECEIVABLES

Consolidated

	2011 £'000	2010 £'000
Trade receivables	29,359	19,348
Less provision for impairment of receivables	(613)	(524)
VAT	814	268
Prepayments and accrued income	2,546	2,393
	32,106	21,485

Included within the receivables are the following:

	2011 £'000	2010 £'000
Balances with other Government bodies		
Other Central Government bodies	3,793	2,014
Local Authorities	1	5
NHS Trusts	3	–
Public Corporations and Trading Funds	2,648	2,345
	6,445	4,364

The carrying value of the Royal Mint Trading Fund Group's trade and other receivables are denominated in the following currencies

	2011 £'000	2010 £'000
Pounds sterling	32,058	21,028
Euro	–	151
US Dollar	48	306
	32,106	21,485

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

Movement in provision for impairment in receivables as regards the Group:

	2011 £'000	2010 £'000
At 1 April	(524)	(457)
Provision made in year	(89)	(67)
At 31 March	(613)	(524)

Note 13

SHORT-TERM BORROWINGS

Consolidated

	2011 £'000	2010 £'000
Short-term NLF loans	27,000	–
Bullion overdraft	61,730	12,343
	88,730	12,343

Note 14

PAYABLES: amounts falling due within one year

	Consolidated		Trading Fund	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade payables	19,320	12,247	–	–
Other payables	267	1,788	–	–
Payments received on account	5,823	20,833	–	–
Taxation and social security	707	626	–	–
Proposed dividend	4,000	4,000	4,000	4,000
Accruals and deferred income	1,292	1,549	–	–
	31,409	41,043	4,000	4,000

Included within the payables are the following:

Balances with other Government bodies not shown separately above

Other Central Government bodies	4,512	4,782
Public Corporations and Trading Funds	34	–
NHS Trusts	–	1
	4,546	4,783

Note 15

PROVISION FOR LIABILITIES AND CHARGES

Consolidated

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 Consolidated Income Statement is charged with the full liability of new decisions taken and a provision made, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2011 and 2021. The provision has been assessed at current prices at the Balance Sheet date, and in accordance with International Accounting Standard 19, has been discounted at a real rate of 2.9%, with the unwinding of the discount treated as an interest charge.

	Early Retirement £'000	Nickel plating plant fire £'000	Environment remediation £'000	Total £'000
At 1 April 2010	1,253	826	892	2,971
Charge made in year	56	–	–	56
Unwinding of discount on provision	26	–	–	26
Utilised in year	(406)	(826)	(120)	(1,352)
At 31 March 2011	929	–	772	1,701

Note 16

DEFERRED TAXATION

Deferred tax is provided in full on temporary differences under the liability method using a tax rate of 26% (2010: 28%)

	2011 £'000	2010 £'000
Liability at 1 April 2010	298	–
Movements on deferred tax were:		
Charged to the Income Statement	721	312
Charged/(credited) to Statement of Comprehensive Income	24	(14)
	1,043	298

Movements in deferred tax (assets)/liabilities were:

Deferred tax (assets)/liabilities

	Tax losses £'000	Accelerated tax depreciation £'000	Derivative instruments £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 April 2010	–	148	99	51	–	298
(Credited)/charged to the Income Statement	(380)	969	129	71	(68)	721
Charged to Statement of Comprehensive Income	–	–	–	24	–	24
At 31 March 2011	(380)	1,117	228	146	(68)	1,043

	2011 £'000	2010 £'000
Deferred tax charged/(credited) to Statement of Comprehensive Income during the year was:		
Actuarial gains/(losses) on defined benefits schemes	24	(14)
	24	(14)

Analysis of deferred tax liability

	2011 £'000	2010 £'000
Deferred tax liability over 12 months	1,043	199
Deferred tax liability within 12 months	–	99
	1,043	298

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate reduction creates a reduction in the deferred tax asset which has been included in the figures above.

The Chancellor also proposed changes to reduce further the main rate of corporation tax by 1% per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 26% to 23%, if these applied to the deferred tax balance at 31 March 2011, would be to reduce further the deferred tax liability by approximately £120,000.

The Royal Mint Limited has been liable to taxation from 1 January 2010. The Royal Mint Trading Fund is not subject to taxation.

Note 17

RETIREMENT BENEFIT SCHEMES

Defined contribution scheme

The Royal Mint Limited operates a defined contribution scheme for new employees via The Royal Mint Limited Group Personal Pension Plan. The related pension assets are held in trustee administered funds separate from the company. The total cost charged to income of £58,739 (2009-10: £2,675) represents contributions payable to the scheme by The Royal Mint Limited at rates specified in the plan rules.

Defined benefit scheme

The Royal Mint Limited operates a funded defined benefit pension scheme for existing employees of the Civil Service Pension Scheme, and as part of the vesting process Royal Mint employees were given the option to transfer deferred benefits from the Civil Service Pension Scheme into The Royal Mint Limited Scheme, the option for which was open for three months from date of receipt of transfer details. The Royal Mint Limited Scheme (RMLS) operates via Prudential Platinum Pensions where participants can be in one of three schemes:

Platinum Classic – Participants are entitled to pension retirement benefits of 1.25% of final salary per year of service on attainment of a retirement age of 65 years but there is a right to retire at 60 years. A lump sum is also payable based on 3.75% of final pensionable pay for each year of pensionable service.

Platinum Premium – Participants are entitled to pension retirement benefits of 1.67% of final salary per year of service on attainment of a retirement age of 60 years. A member may opt to commute pension to receive a lump sum payment up to the limit set by the Finance Act 2004.

Platinum Nuvos – Participants build up a pension based on their 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 up-rated in line with RPI. A member may opt to commute pension to receive a lump sum payment up to the limit set by the Finance Act 2004.

Detail of valuation assumptions

An actuarial valuation of the RMLS assets and liabilities for financial reporting purposes was carried out on 31 March 2011 by independent actuaries Xafinity Consulting. The liabilities have been valued using the projected unit method, taking into account benefits to 31 March 2011 with allowance for future salary increases or future price inflation for members of the Platinum Nuvos scheme. The principal actuarial assumptions used were:

	2011	2010
Discount rate	5.5%	5.5%
Price inflation	3.3%	3.5%
Pensionable salary increase	4.3%	4.5%
Revaluation of deferred pensions before retirement	3.3%	3.5%
Increase to pensions in payment in line with RPI	3.3%	3.5%
Mortality rates – males	PNMA00 1%	PNMA00 1%
– females	PNFA00 1%	PNFA00 1%

The discount rate reflects the yield on the iBox AA-rated over 15-year corporate bond index. The rate of inflation has been obtained by reference to the difference between the yields on long-term conventional and index-linked government bonds. All RPI-linked pension increases in payment have been assessed with reference to the inflation assumption.

Note 17 continued

Amounts included in the Income Statement

	2010-11 £'000	2009-10 £'000
Current service cost	6,123	1,358
Pension scheme expenses	90	–
Interest cost	252	10
Expected return on assets	(317)	(8)
Amounts charged to the Income Statement	6,148	1,360

Amounts recognised in Statement of Comprehensive Income

	2010-11 £'000	2009-10 £'000
Actual return less expected return on assets	(361)	35
Experience gains/(losses) arising on the scheme liabilities	453	(84)
Actuarial gains/(losses) recognised in Statement of Comprehensive Income	92	(49)

Amounts recognised in the Statement of Financial Position

	2011 £'000	2010 £'000
Fair value of plan assets	11,468	4,613
Present value of plan liabilities	(10,906)	(4,434)
Net Defined Benefit Asset	562	179

Reconciliation of movements in the Statement of Financial Position

	2011 £'000	2010 £'000
Surplus at 1 April	179	–
Current service cost	(6,123)	(1,358)
Pension scheme expenses	(90)	–
Interest cost	(252)	(10)
Expected return on assets	317	8
Actuarial gain/(loss)	92	(49)
Contributions	6,439	1,588
Net Defined Benefit Asset	562	179

Note 17 continued

Reconciliation of movements in liabilities during the year

	2010-11 £'000	2009-10 £'000
Scheme liabilities at beginning of year	4,434	–
Movement in year:		
Current service cost	6,123	1,358
Transfer value from Civil Service Scheme	385	2,914
Pension scheme expenses	90	–
Interest cost	252	10
Employee contributions	484	121
Benefits paid	(409)	(53)
Actuarial (gain)/loss	(453)	84
Scheme liabilities at end of year	10,906	4,434

Reconciliation of movements in assets during the year

	2010-11 £'000	2009-10 £'000
Scheme assets at beginning of year	4,613	–
Movements in year:		
Expected return on scheme assets	317	8
Employer contributions	6,439	1,588
Employee contributions	484	121
Transfer value from Civil Service Scheme	385	2,914
Benefits paid	(409)	(53)
Actuarial (loss)/gain	(361)	35
Scheme assets at end of year	11,468	4,613

Reconciliation of amount recognised in Statement of Comprehensive Income

	2010-11 £'000	2009-10 £'000
Actual return less expected return on assets	(361)	35
Experience gain/(loss) arising on the scheme liabilities	453	(84)
Actuarial gain/(loss) recognised in Statement of Comprehensive Income	92	(49)
Cumulative actuarial gain/(loss) recognised in Statement of Comprehensive Income	43	(49)

Note 17 continued

Further analysis of RMLS assets

Assets are made up of Prudential M&G Pooled Funds distributed as shown below with an expected long-term rate of return of 6.25% derived as follows:

Asset class	As at 31 March 2011 % of fund	As at 31 March 2011 Expected return	As at 31 December 2009 % of fund	As at 31 December 2009 Expected return
UK index-linked gilts	12.1%	4.2%	12.0%	4.4%
Equities	62.2%	6.7%	61.0%	6.9%
Alternative assets	13.8%	6.7%	15.0%	6.9%
Corporate bonds	11.9%	5.5%	12.0%	5.4%
Total	100%	6.25%	100%	6.4%

The overall expected return on RMLS assets has been assessed with reference to the distribution of assets underlying the policy. Each asset class return is based on the long-term expected rate of return on that class. The overall expected return is a weighted average of the returns for all asset classes. Contributions expected to be paid in 2011-12 are £6.144 m.

Note 18

CAPITAL COMMITMENTS

	2011 £'000	2010 £'000
Commitments in respect of contracts – Tangible Assets	779	1,436
Commitments in respect of contracts – Intangible Assets	406	237
	1,185	1,673

Note 19

OPERATING LEASE COMMITMENTS

	2011 £'000	2010 £'000
Operating lease rentals due on leases expiring:		
Less than one year	160	181
Between one and five years	–	–
After five years	–	–

Note 20

RELATED PARTY TRANSACTION

The Royal Mint Trading Fund is an Executive Agency and Trading Fund. Since vesting, The Royal Mint Ltd, as a subsidiary of the Royal Mint Trading Fund, is a company wholly owned by HM Treasury.

HM Treasury is regarded as a related party. It has both an ownership and a customer role. The Royal Mint Trading Fund Group is effectively owned by the Crown, with the Chancellor of the Exchequer holding the title of Master of the Mint. In practice, the Economic 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 Trading Fund Group's objective of delivering a commercial return on capital employed and provision of relevant advice to the Economic Secretary. HM Treasury also contracts the Royal Mint Trading Fund Group as a customer, under a contract, for the manufacture and distribution of UK circulating coin.

In addition the Royal Mint Trading Fund Group has had a number of material transactions with other Government Departments. Most of these transactions have been with the Ministry of Defence and LOCOG. 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 Trading Fund Group, balances with other government bodies are set out in notes 12 and 14.

Key management are considered to be members of the Executive Management Team of The Royal Mint Limited. Remuneration of key management staff is set out in the table below:

Remuneration of key management staff

	2010-11 £'000	2009-10 £'000
Salaries and other short-term employee benefits	1,471	986
Post employment benefits	206	180
	1,677	1,166

Note 21

ANALYSIS OF NET FUNDS/(DEBT)

Consolidated

	At 1 April 2010 £'000	Cash Flow £'000	At 31 March 2011 £'000
Cash at bank and in hand	20,459	(19,591)	868
Bullion overdraft	(12,343)	(49,387)	(61,730)
Short term loan due within one year	–	(27,000)	(27,000)
	8,116	(95,978)	(87,862)

ANALYSIS OF NET FUNDS/(DEBT)

Trading Fund

	At 1 April 2010 £'000	Cash Flow £'000	At 31 March 2011 £'000
Cash at bank and in hand	–	–	–
	–	–	–

Note 22

OTHER GAINS/(LOSSES) – NET

	2011 £'000	2010 £'000
Foreign exchange gain/(loss)	139	(1,532)
Ineffectiveness of commodity hedges	953	870
	1,092	(662)

Note 23

FINANCIAL INSTRUMENTS

Derivative asset

	2011 £'000	2010 £'000
Foreign currency fair value	13	19
Commodity fair value	111	2,070
Precious metal fair value	927	–
	1,051	2,089

Derivative liability

	2011 £'000	2010 £'000
Foreign currency fair value	35	80
Commodity fair value	183	182
Precious metal fair value	25	–
	243	262

Risk management

The main risk exposures arising from the Royal Mint Trading Fund Group'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 Finance section through a combination of derivative and other financial instruments.

Currency risk

The Royal Mint Trading Fund Group 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 Trading Fund Group's risk management policy is to enter into forward contracts for all of the anticipated foreign currency cash flows (mainly in relation to sales contracts), where the future settlement date is the forecast payment date. Hedge accounting is not followed for foreign currency forward contracts.

	Contract amount 2011 £'000	Average forward rate 2011 £'000	Fair value 2011 £'000	Contract amount 2010 £'000	Average forward rate 2010 £'000	Fair value 2010 £'000
Forward contract – sell £/buy EUR						
Maturing in less than 1 year	958	1.1329	3	–	–	–
	958	1.1329	3	–	–	–
Forward contract – buy £/sell US$						
Maturing in less than 1 year	4,205	1.6048	(20)	2,500	1.5631	(78)
	4,205	1.6048	(20)	2,500	1.5631	(78)
Forward contract – buy £/sell EUR						
Maturing in less than 1 year	248	1.1531	(5)	770	1.093	19
	248	1.1531	(5)	770	1.093	19
Forward contract – buy £/sell DKK						
Maturing in less than 1 year	–	–	–	121	8.4897	(2)
	–	–	–	121	8.4897	(2)

Note 23 continued

Sensitivity analysis

The movements shown below largely result from foreign exchange gains/losses on translation of US Dollar/Euro denominated trade payables and receivables. The first table below shows the impact on profit of a 10% decrease in sterling and the second table the impact of a 10% increase in sterling against other currencies on the balances of financial assets and liabilities as at 31 March 2011.

	Closing exchange rate 2011	Effect on net earnings of a 10% decrease 2011 £'000	Closing exchange rate 2010	Effect on net earnings of a 10% decrease 2010 £'000
Euro	1.1296	(3)	1.1211	13
US Dollar	–	–	1.5169	31
New Zealand Dollar	–	–	2.1379	(1)
		(3)		43

	Closing exchange rate 2011	Effect on net earnings of a 10% increase 2011 £'000	Closing exchange rate 2010	Effect on net earnings of a 10% increase 2010 £'000
Euro	1.1296	24	1.1211	(26)
US Dollar	1.6030	(3)	1.5169	(10)
New Zealand Dollar	–	–	2.1379	1
Swiss Franc	1.55	(1)	–	–
		20		(35)

Note 23 continued

Commodity price risk

The Royal Mint Trading Fund Group 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 Trading Fund Group 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 Statement of Financial Position at fair value to the extent they are deemed to be effective under IAS 39, ineffective portions of hedges are recognised in the Income Statement. The open commodity hedges as at 31 March are as follows:

	Tonnes 2011	Value at average price 2011 £'000	Fair value 2011 £'000	Tonnes 2010	Value at average price 2010 £'000	Fair value 20010 £'000
Cashflow hedges:						
Copper futures –						
GBP denominated contracts:						
Maturing in less than 1 year	100	614	(29)	775	3,484	521
	100	614	(29)	775	3,484	521
Nickel futures –						
GBP denominated contracts:						
Maturing in less than 1 year	246	4,012	(43)	288	3,378	1,360
	246	4,012	(43)	288	3,378	1,360
Zinc futures –						
GBP denominated contracts:						
Maturing in less than 1 year	–	–	–	100	150	8
	–	–	–	100	150	8

Note 23 continued

Sensitivity analysis

The tables below show the impact a 10% decrease/increase in commodity prices would have on the balances of financial assets and liabilities at 31 March.

	Closing price/tonne 2011 £	Effect on net earnings of a 10% decrease 2011 £'000	Effect on equity of a 10% decrease 2011 £'000	Closing price/tonne 2010 £	Effect on net earnings of a 10% decrease 2010 £'000	Effect on equity of a 10% decrease 2010 £'000
Copper	5,842	(64)	(24)	5,162	(84)	(317)
Nickel	16,210	(142)	(298)	16,448	(73)	(401)
Zinc	1,441	–	–	1,556	(6)	(10)
		(206)	(322)		(163)	(728)

	Closing price/tonne 2011 £	Effect on net earnings of a 10% increase 2011 £'000	Effect on equity of a 10% increase 2011 £'000	Closing price/tonne 2010 £	Effect on net earnings of a 10% increase 2010 £'000	Effect on equity of a 10% increase 2010 £'000
Copper	5,842	1	28	5,162	90	311
Nickel	16,210	188	167	16,448	79	395
Zinc	1,441	–	–	1,556	6	10
		189	195		175	716

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

Note 23 continued

Purchases are made in two ways:
(1) For a specific order;
(2) Based on forecast sales demand over a specified period.
The purchases can either be made on a spot basis or through forward contracts, hedge accounting is not followed for precious metal forward contracts. The open forward contracts as at 31 March are as follows:

	Ozs 2011	Value at average price 2011 £'000	Fair value 2011 £'000	Ozs 2010	Value at average price 2010 £'000	Fair value 2010 £'000
Gold forwards –						
GBP denominated contracts:						
Maturing in less than 1 year	11,815	10,137	455	–	–	–
	11,815	10,137	455	–	–	–
Silver forwards –						
GBP denominated contracts:						
Maturing in less than 1 year	115,786	2,265	467	–	–	–
	115,786	2,265	467	–	–	–
Platinum forwards –						
GBP denominated contracts:						
Maturing in less than 1 year	727	826	(20)	–	–	–
	727	826	(20)	–	–	–

Note 23 continued

The tables below show the impact a 10% decrease/increase in precious metal prices would have on the balances of financial assets and liabilities at 31 March.

	Closing price 2011 £/oz	Effect on net earnings of a 10% decrease 2011 £'000	Closing price 2010 £/oz	Effect on net earnings of a 10% decrease 2010 £'000
Gold	897	(604)	736	–
Silver	24	194	12	–
Platinum	1,106	(101)	1,084	–
		(511)		–

	Closing price 2011 £/oz	Effect on net earnings of a 10% increase 2011 £'000	Closing price 2010 £/oz	Effect on net earnings of a 10% increase 2010 £'000
Gold	897	1,514	736	–
Silver	24	740	12	–
Platinum	1,106	61	1,084	–
		2,315		–

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

	Closing price 2011 £/oz	Effect on net earnings of a 10% change 2011 £'000	Closing price 2010 £/oz	Effect on net earnings of a 10% change 2010 £'000
Gold	897	38	736	9
Silver	24	14	12	2
Platinum	1,106	1	1,084	0
		53		11

Interest rate risk

The Royal Mint Trading Fund Group has exposure to interest rate risk, arising principally in relation to cash held at bank 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.

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 to not have a significant effect on income and operating cash flows, so no financial instruments are utilised to manage this risk.

Note 23 continued

If interest rates had increased/decreased by 10% it would have had the following effect on interest payable:

	2011 £'000	Effect on net earnings of a 10% change 2011 £'000	2010 £'000	Effect on net earnings of a 10% change 2010 £'000
Short-term NLF loans	27,000	76	–	–
		76		–

Credit risk

Exposures to credit risks are as a result of transactions in the Royal Mint Trading Fund Group's ordinary course of business. The major risks are in respect of:

(1) Trade receivables

(2) 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 receivables

Circulating Coin receivables 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 receivables:			
2011	169	–	32
2010	3,093	164	252

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 customers 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 2011.

	Between 31 and 60 days £'000	Between 61 and 90 days £'000	Between 91 and 120 days £'000
Wholesale trade receivables:			
2011	609	41	123
2010	366	164	110

Note 23 continued

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.

	Balance overdue statement 1 status £'000	Balance overdue statement 2 status £'000	Balance overdue statement 3 status £'000
Business to Consumer receivables:			
2011	141	–	436
2010	235	58	316

Counter-party risk
The Royal Mint Trading Fund Group 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 statement of financial position as at the reporting date. For 2011 the amount is £32m (2010: £21.5m).

Hierarchy disclosure under IFRS7
The fair value of financial instruments is based on mark to market information and considered to be at level 2 in terms of the hierarchy measurement requirements of IFRS 7.

Liquidity risk
Liquidity risk is the risk that the Royal Mint Trading Fund Group may not be able to settle or meet its obligations on time or at a reasonable price. The Royal Mint Limited's Finance department (prior to vesting the Royal Mint Trading Fund's treasury section) is responsible for management of liquidity risk, which includes funding, settlements, related processes and policies. The Royal Mint Trading Fund Group manages liquidity risk by maintaining adequate reserves and monitoring actual cash flow against forecast cash flow. In addition, as part of the vesting process the Royal Mint Trading Fund Group has negotiated a revolving credit facility of £36m, of which £27m was drawn down at 31 March 2011. It is anticipated that this will be sufficient to meet future requirements.

The table below analyses the Royal Mint Trading Fund Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at 31 March 2011 to the contractual maturity date.

At 31 March 2011

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	27,000	–	–	–
Derivative financial instruments	243	–	–	–
Bullion overdraft	61,730	–	–	–
Trade and other payables	31,409	–	–	–
Provision for Liabilities and Charges	1,114	370	211	6

At 31 March 2010

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	–	–	–	–
Derivative financial instruments	262	–	–	–
Bullion overdraft	12,343	–	–	–
Trade and other payables	41,043	–	–	–
Provision for Liabilities and Charges	2,125	320	444	82

Note 23 continued

Capital risk

The management of the Royal Mint Trading Fund Group 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 Trading Fund Group's financial instruments recognised in the financial statements at 31 March.

Fair value of cash and cash equivalents, trade receivables and payables 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.

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 2011 £'000	Fair value 2011 £'000	Carrying value 2010 £'000	Fair value 2010 £'000
Financial assets:				
Loans and receivables	32,106	32,106	21,485	21,485
Derivatives used for hedging	1,051	1,051	2,089	2,089
Financial liabilities:				
Loans & Payables	120,139	120,139	53,386	53,386
Derivatives used for hedging	243	243	262	262

Note 24

INVESTMENTS IN SUBSIDIARIES

	2011 £'000	2010 £'000
Cost		
Acquired in the year	–	59,319
At 31 March	59,319	59,319

	Ownership
Subsidiaries	
The Royal Mint Limited	100%
The Royal Mint Museum Limited	100%

Note 25

AUTHORISATION FOR ISSUE

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 30 June 2011.

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