The Royal Mint

Royal Mint Trading Fund Group

Annual Report | 2009-10

Making Money for Everyone

The Royal Mint

Royal Mint Trading Fund Group

Annual Report and Accounts 2009-10

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

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Annual Report and Accounts 2009-10

The Royal Mint Trading Fund Group Board of Directors (At 31 March 2010)

The Royal Mint Trading Fund Group Accounting Officer is Peter Schofield

The Royal Mint Limited Directors

Mike Davies*
Chairman

Andrew Stafford
Chief Executive

Adam Lawrence
Director of Finance

Phil Carpenter
Director of Operations

Andrew Mills
Director of Circulating Coin

Dave Knight
Director of Commemorative Coin

Anne Jessopp
Director of Human Resources

Colin Balmer CB*
Chairman of the Audit Committee

Mary Chapman*
Chairman of the Remuneration Committee

David Harding*

Charlie Villar*
Representative of the Royal Mint Trading Fund and HM Treasury as shareholder

Richard Thomas
Board Secretary

*Non-Executive Directors

The Royal Mint Museum Limited and The Royal Mint Museum Services Limited Directors

Dave Knight

Sarah Tebbutt

The Royal Mint, Llantrisant CF72 8YT
Email: informationoffice@royalmint.com
Website: www.royalmint.com

Banker
Barclays plc

External Auditor
Comptroller and Auditor General

Internal Auditor
KPMG LLP, Chartered Accountants

The Accounts of the Royal Mint Trading Fund Group at 31 March 2010, together with the Certificate and Report of the Comptroller and Auditor General thereon, are prepared pursuant to section 4 (6) of the Government Trading Funds Act 1973. (In continuation of House of Commons Paper No 570 of 2008-09.) Presented pursuant to Act 1973, c.63, s.4 (6).

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Introduction

This report describes the performance of the Royal Mint Trading Fund Group for the year 2009-10.

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. A separate company limited by guarantee, The Royal Mint Museum Limited, of which HM Treasury is the sole member, 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. The Royal Mint Trading Fund Group financial statements include nine months trading of the Royal Mint Trading Fund and three months trading of The Royal Mint Limited and The Royal Mint Museum Limited. As Accounting Officer, I am responsible for the Royal Mint Trading Fund Group accounts for the whole year.

This Royal Mint Trading Fund Group report, however, contains the views of the Chairman and Chief Executive of The Royal Mint Limited. For ease of understanding, these and other sections describe performance for the whole year as one entity.

Peter Schofield
Accounting Officer

As part of Big Ben's 150th anniversary celebrations a new £5 crown was placed inside the movement of the Great Clock replacing some of the pre-decimal pennies which have acted as weights since 1859. The crown will play an essential role in maintaining Big Ben's famous accuracy.

Chairman's Statement

The vesting process represents an important milestone in the 1000-year history of the Royal Mint. In its new form, The Royal Mint Limited will be free to operate as a fully commercial entity, selling its products and services across the world to pursue growth in the interests of all its stakeholders.

I am pleased to report that the heritage assets of the Royal Mint have been vested into a separate non-profit organisation called The Royal Mint Museum Limited, with a Board of Trustees independent of that company. In this way, the history and legacy of more than a thousand years will be preserved for the nation.

The Royal Mint Trading Fund Group faces the future with optimism, enthusiasm and a clear sense of direction. All our people are fully engaged in the development of our strategy, which we have expressed in the 'honeycomb' corporate objectives. The Chief Executive's Report is aligned with our objectives, thus reinforcing the fact that the strategy is driving the day-to-day actions of the business.

These accounts represent a consolidation of the Royal Mint Trading Fund and its subsidiary (The Royal Mint Limited) reflecting a full year's trading. The results of the Royal Mint Trading Fund Group show that, despite very tough economic conditions, the Royal Mint built further on the financial success and strong performance of recent years. Our established profit-share scheme means that all eligible employees will participate in the success of the company.

Finally, I would like to pay tribute to all those who participated in the vesting process. This required substantial legal and financial work. The successful outcome represented both commitment and goodwill across teams from the Royal Mint Trading Fund, HM Treasury and our advisors. In particular, I would like to pay tribute to our people at Llantrisant. In embracing the changes inherent in vesting, they have given a vote of confidence in the commercial future for the Royal Mint Trading Fund Group.

Mike Davies

Delight our customers

Work together to deliver our results

Deliver the London 2012 Olympic Coin Programme

Create
a great place
to work

Build
for the
future

Ensure
we are safe and
environmentally
friendly

Chief Executive's Report

In this 2009-10 Report, I wanted to share with you how we are doing against our six corporate objectives, which are to: Delight our customers; Work together to deliver results; Deliver the London 2012 Olympic Coin Programme; Ensure we are safe and environmentally friendly; Build for the future; Create a great place to work.

Delight our customers

During the year, we have continued to turn our vision of **'Making Money for Everyone'** into a reality, against a backdrop of challenging business conditions in the UK and across the globe. We have expanded our international Circulating Coin business, maintained the highest level of service for HM Treasury and reinvigorated our Commemorative Coin business, as we build towards the London 2012 Olympic and Paralympic Games. We have improved delivery performance to our Circulating Coin customers, but there is still more to do in order that we consistently delight our customers. In Commemorative Coin, we have reduced customer delivery times from the point of order to despatch but again we have more to do. Building on the work to introduce Lean Management principles to our Commemorative Coin business, two Operational Excellence projects are underway. The main objective of the Operational Excellence projects is the continued improvement of processes that will enable us, amongst other things, to be more effective, deliver to our customers on time and delight them.

Subsequent to year end, the business has been awarded accreditation to SA 8000, the first global standard for manufacturers to demonstrate their commitment to social responsibility. This accreditation proves we have a code of practice for good labour conditions in place so that consumers can be confident that the goods they are buying have been produced in accordance with a recognised set of standards. The Royal Mint is the first mint in the world, and one of the largest manufacturers in the UK, to achieve SA 8000 accreditation.

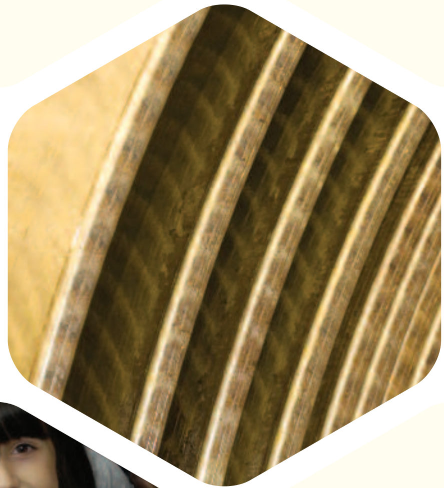
Work together to deliver results

For the fourth year running, the Royal Mint has produced sustainable profit performance and is poised for future growth in the coming years, as we deliver against the second year of our five-year strategy. The Royal Mint's target of Return on Average Capital Employed (ROACE), as determined by the previous Chancellor of the Exchequer for 2009-10, was 10% (2008-09: 5.1%). The return in 2009-10 was 11.2% (2008-09: 7.1%). For this purpose, the annual rate of return is calculated using operating profit for the year before interest as a percentage of the average of the opening and monthly closing capital employed, a 13-month average. The gain against our performance target was achieved despite the additional costs associated with vesting on 31 December 2009 and a fire in our oldest plating plant at the start of the year. Without these extra costs, the ROACE performance would have been 19.6%. Further details are contained in the Management Commentary pages 12 to 21.

During the year, we made significant improvements in information systems to help manage the business. For example, we have implemented a new Sales Order Processing system within our Commemorative Coin business that will facilitate our growth, we have implemented new key performance indicators (KPIs) which are aligned to our strategy and provide management with the correct information to manage our business. Working together across the business by using a collaborative cross-functional team, we have been able to achieve a significant improvement in quality. We plan to do more work in these and other areas to drive our business forward.

Deliver the London 2012 Olympic Coin Programme

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



Our Olympic Coin Programme is the most successful ever at this stage in the build up to an Olympics. Winners of two of the three public competitions to design the 50p Sporting Series have been announced. In October 2009, nine-year-old Florence Jackson from Bristol was revealed as the first child ever to work with the Royal Mint to design a UK coin. Florence won the once-in-a-lifetime opportunity to design a coin celebrating London 2012 by taking part in a Blue Peter competition. The competition proved to be one of the most popular ever run by Blue Peter, with Florence's design beating more than 17,000 other entries. In February, sixteen-year-old Theo Crutchley-Mack from Rishworth School in Halifax entered the history books when he became the first teenager to design a British coin. Theo's winning design featuring a rider racing a cycle in a velodrome, beat off huge competition from over 3,000 entries from pupils across the country in the secondary schools' design competition. These designs will be found on millions of people's change from the Autumn of 2010, when the 50p Sporting Series enters general circulation.

All the launch dates have been successfully met, and the second coin in the Countdown series is selling well as the momentum starts towards the 2012 Games. We are continuing to develop our relationship with LOCOG and other key organisations, or partners, associated with the London 2012 Olympics.

Ensure we are safe and environmentally friendly

Our commitment to continuous improvement in the areas of safety, health and environment has resulted in a 30% reduction in total accidents this year. This is a great step towards becoming a zero accident organisation. Accident prevention was the key driver behind the implementation of a hazard and near miss reporting scheme. Over 800 reports have been received, which means our employees are actively involved in identifying potential hazards so they can be rectified, preventing accidents before they happen. There were no major environmental incidents to report, despite a major fire in one of our nickel-plating plants. Despite this hugely disappointing event, our emergency response and containment procedures worked well and limited the impact of the incident. A key focus for the coming year will be to progress work on reducing energy usage and increase recycling to build on the progress made this year.

Build for the future

Following the previous Chancellor of the Exchequer's decision, on 31 December 2009 the Royal Mint vested into a limited company, wholly owned by Government. This will allow us to pursue new commercial opportunities and expand more rapidly, taking advantage of the flexibility that arises from a move to company status. It confirms our position as a high-quality British manufacturer and the world's leading exporting mint. As a consequence, our people are now employees of The Royal Mint Limited, and are no longer civil servants. From 1 January 2010, all eligible employees became members of a new pension scheme – Prudential Platinum.

In line with our five-year strategy, we have grown our global market share of the Circulating Coin market from 15% to 16%. We have also achieved an 80% increase in the number of individual Commemorative Coin customers over the prior year. Our Operational Excellence projects are key to delivering the capacity required for our future growth. Over recent years, we have enjoyed significant growth in our plated steel products and we have now trademarked our process called aRMour™, which represents superior wear resistance and a longer lifetime in circulation.

Create a great place to work

Our people are key to our performance and this year is no exception. A key strand of our five-year strategy has been the involvement of our people in all aspects of the business, encouraging them to give their views and feedback. One way they can let us know how they feel about working at the Royal Mint is through our annual employee survey. After we shared the results across our organisation, we actively engaged people in discussion groups and the planning process to identify what needed to be done to create a great place to work.

As a direct result of the 2009 employee survey, we put in place a number of initiatives, including the introduction of a childcare voucher scheme, a monthly reward scheme called 'Leading Lights' and a job alert texting service. There have also been more opportunities for everyone to get involved in cross-functional and process improvement projects.

In November 2009, we were successfully re-accredited as an Investor in People. We have continued to make significant progress in developing our people throughout the organisation, including workplace training, management training and leadership training for the senior management team. This will ensure that we have the necessary skills to deliver our five-year strategy for future growth and continue to capitalise on all opportunities as they arise.

Andrew Stafford

Management Commentary
For the year ended 31 March 2010

Activities and structure

The Royal Mint's activities consist of:

Circulating Coin:

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

Commemorative Coin:

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

Museum:

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

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 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 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 have been vested into a separate company limited by guarantee, The Royal Mint Museum Limited of which HM Treasury is the sole member, to preserve, protect and enhance them for future generations.
With the exception of the assets separated into The Royal Mint Museum Limited, all other assets and liabilities, including those of a contingent nature, were transferred into the new company effective 1 January 2010. All assets and liabilities were transferred at book value.

From 1 April 2009 to 31 December 2009, employees of the Royal Mint Trading Fund were civil servants and subject to conditions of service prescribed for the Civil Service. On 1 January 2010 employees of The Royal Mint Limited became public servants with all terms and conditions transferred under TUPE regulations. Remuneration and performance-related pay structures are specific to The Royal Mint Limited.

The Management Commentary covers the 12-month operational and financial performance of the business.

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 2009-10, was 10% (2008-09: 5.1%). The return in 2009-10 was 11.2% (2008-09: 7.1%). For this purpose, the annual rate of return is calculated using 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 gain against our performance target was achieved despite the additional costs associated with vesting the company on 31 December 2009 (which the company paid on HM Treasury's behalf) and a fire in our oldest plating plant. The performance compared with 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. It was a challenging year in this respect as demand fluctuated significantly over the year requiring the business to respond to abnormally high volatility at short notice. Nonetheless, the Royal Mint fulfilled its objectives.

The Circulating Coin business strategic objectives are to:

- develop our brand and reputation as the leading exporting mint globally;
- 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:

- achieve consistent growth in sales and profitability through building the Royal Mint brand, product development and growth of the customer database;
- reduce our reliance on major event-driven products;
- 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 2009-10

Denomination	Number of Pieces Millions	Face Value £m
£2	14.690	29.38
£1	22.185	22.185
50 pence	9.200	4.6
20 pence	126.700	25.34
10 pence	77.520	7.752
5 pence	186.480	9.324
2 pence	161.100	3.222
1 pence	586.408	5.864
Total	1184.283	107.667

Estimated value and number of coins in circulation 31 March 2010

Denomination	Number of Pieces Millions	Face Value £m
£2	345	690
£1	1,474	1,474
50 pence	845	423
20 pence	2,473	495
10 pence	1,651	165
5 pence	3,774	189
2 pence	6,664	133
1 pence	11,215	112
Total	28,441	3,681

Operating and Financial Review

For the fourth year running, the Royal Mint has produced sustainable profitable performance, despite the challenging business 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 delivered another outstanding result this year, returning an operating profit before interest, the effect of commodity hedging and exceptional costs, of £8.3 million (2008-09: £8.2 million). The costs of running the business increased post-vesting due to stand-alone costs such as insurance and pension funding. On a like-for-like basis with the prior year, operating profit (after adjusting for insurance and pension funding) before exceptionals increased by £0.8 million, a 9.3% increase.

Turnover increased by 8.7% to £172.8 million (2008-09: £159.0 million). Sales growth coming from Commemorative Coin, which achieved sales of £89.0 million, well in excess of the £65.8 million achieved in the prior year. The increase in Commemorative Coin sales was largely the result of higher commodity prices for gold and increased demand for bullion products in the first half of the year, and increased gold-based Commemorative Coin orders from overseas central banks.

In line with our strategy of encouraging central banks to change their coinage from non-ferrous metals to aRMour™ plated steel coins and blanks, Circulating Coin turnover was down 10.1% to £83.8 million (2008-09: £93.2 million), as expected, but operating profit increased to £14.7 million (2008-09: £10.7 million).

Paramount to the Circulating Coin business strategy, the promotion and delivery of aRMour™ products to customers globally is generating new investment in additional nickel-plated steel production capacity at Llantrisant.

aRMour™ is available in nickel plate, copper plate and brass plate and the process involves a full plate, mono layer that is electroplated directly onto a steel core. This results in a very strong bond between the plated material and the steel core, that have typical lifetimes of 25-30 years in circulation. In comparison to other plated products there are many other key benefits of aRMour™ for circulation coins and coin blanks, including the ability to include edge lettering and latent image security features, superior wear and corrosion resistance and lower acquisition costs. In the last financial year we added new plated customers and HM Treasury gave their approval for the 5p and 10p to move to aRMour™ nickel-plated steel from January 2011.

At the start of the year, we experienced a fire in our oldest plating plant which was completely destroyed. The costs of the fire, including assets written-off, have been recorded as exceptional items in arriving at operating profit.

As indicated last year, cashflow remains a major focus. We achieved operating cashflow in excess of £23.8 million compared with £8.7 million in the prior year. The primary driver of improved cashflow was customer advances as a result of several large contracts obtained during the last quarter of the year. We were also able to offset much of the increases in commodity prices by reducing our holdings of raw materials by more than 20% year on year. During the year, we also paid a £4.0 million dividend to our shareholder, HM Treasury, for the financial year 2008-09, and repaid all of our existing long-term debt of £7.4 million to the National Loans Fund.

Capital expenditure was £5.5 million (2008-09: £4.2 million), in keeping with our strategy of increasing the investment required to support our growth strategy. Over the next 12 months capital expenditure will increase significantly as we increase Commemorative Coin production in support of the London 2012 Olympic Coin Programme and, as announced in February 2010, complete our major investment in two new nickel-plating lines and a new effluent plant.

Summary financial results

	2009-10 £m	2008-09 £m
Turnover:		
Circulating Coin		
UK	22.6	31.6
Overseas	61.2	61.6
Total Circulating Coin	83.8	93.2
Commemorative Coin	89.0	65.8
Total	172.8	159.0
Operating profit/(loss)		
Circulating Coin	14.7	10.7
Commemorative Coin	5.0	7.8
Central overheads	(14.4)	(13.9)
Total operating profit	5.3	4.6

Central overheads in 2009-10 reflected higher salaries, insurance costs, pension costs, investment in staff training and recruitment, and increased profit share provision for all eligible employees.

Circulating Coin

The Circulating Coin business delivered its fourth year of increased profitability with contribution to central costs of £14.7 million (2008-09: £10.7 million), an increase of £4.0 million over the prior year, owing to increased diversification away from UK circulating coin. Overseas coins and blanks contributed over two-thirds of the production activity in Circulating Coin and a higher proportion of contribution to central overheads.

UK coinage issued to the cash centres totalled 1,184 million coins (2008-09: 1,297 million). Working closely with the UK Payments Council, against a delivery target of 99% being available for shipment to banks and post offices within 11 days, the Royal Mint achieved 99.9%.

During the year we embarked on an Operational Excellence programme with the aim of delighting our customers, by providing them with the right product at the right time, whilst at the same time allowing the business to increase its capacity and operational efficiency, so that we remain price competitive in the longer term. Whilst still in the early phases, initial benefits are already being delivered, including a 30% reduction in our cost of quality measure for this year.

Clockwise from top left: A colour pad printing machine in action; construction of the new nickel-plated steel production facility; pickling coin blanks; the Medal Cell.

Counterfeit Coins

During the financial year, two routine surveys were conducted to monitor the level of £1 counterfeit coins. The survey conducted in November 2009 indicated a counterfeit rate of around 2.64% (October 2008: 2.58%). The most recent study conducted during May 2010, indicates that the overall trend may be increasing despite the positive action taken by all parties involved over the past 24 months. The official results should be released in July 2010.

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.

Commemorative Coin

As anticipated, 2009-10 was a difficult year for the Commemorative Coin business. Contribution to central overheads was £5.0 million, compared to £7.8 million in 2008-09. Increases in sales were driven largely by higher metal prices, particularly for gold, and an increase in higher value, lower margin gold bullion products as wholesale customers and investors sought alternative investment opportunities.

Despite the tough business conditions, there were a number of noteworthy achievements during the period. The London 2012 Olympic Coin Programme has made a successful start, with the 2009 £5 Countdown silver proof and silver proof piedfort coins selling out. Christmas 2009 saw us building on our gift range, which was highly successful and resulted in some of the best selling months in our entire history. We were able to test our retail strategy during the year with a major high street name. This allowed us to refine our strategy to drive the growth of the brand and business over the next few years.

It was a difficult year when reviewing our performance against Ministerial targets. We were marginally short of meeting two of the Ministerial targets: delivery dates for medals achieved 97.6% against a target of 98%, and for our quality measure we achieved 99.6% against a target of 99.7%.

Last year, we changed the delivery performance metric for delivery of orders to UK customers from seven and 14 days to three days to better reflect our customers' changing expectations. We have fallen short of this target, with an actual result of 49.8% against our target of 80%.

One of the focal points of our Operational Excellence programme in Commemorative Coin is to improve our delivery performance to individual and wholesale customers to be at least in line with our current performance targets. As with Circulating Coin, we are beginning to see improvements already and expect to see this continue as the programme develops.

Exceptional items

During the year the Royal Mint incurred £5.8 million in exceptional items (2008-09: £2.2 million). £1.7 million related to costs incurred in support of the previous Government's Operational Efficiency Programme Review (OEP Review), which led to the vesting of The Royal Mint Limited on 31 December 2009.

During the vesting process, our due diligence uncovered some low-level historical contamination on site. We undertook detailed investigation of the causes and effects of the contamination and, based on advice from our environmental consultants, have provided in full for the expected remediation costs to meet legal obligations. This amounted to £1.0 million during the current year.

Last year, we provided £0.6 million for future anticipated legal costs with regard to a dispute with Birmingham Mint Limited. I am pleased to report this matter was settled prior to litigation. As a result, £0.1 million has been written back to profit this year, as the unused balance of the prior year's provision.

As noted earlier, we experienced a fire in our oldest plating plant at the start of the period. This resulted in costs of £2.7 million related to asset impairment and significant clean-up and decommissioning costs to meet legal obligations, for which a provision of £0.8 million is included in the financial statements as at 31 March 2010.

In January, we took the opportunity afforded to us by our excellent cashflow generation to pay down our outstanding long-term loans of £7.4 million, resulting in a one-off premium of £0.6 million. Future debt requirements will be drawn from a new revolving credit facility, with improved commercial terms and conditions from the previous long-term loans.

Dividends

The Board have declared a dividend for 2009-10 of £4 million. In 2008-09 a dividend of £4 million was provided for and paid in 2009-10.

Derivative financial instruments

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

Effects of Commodity Hedging

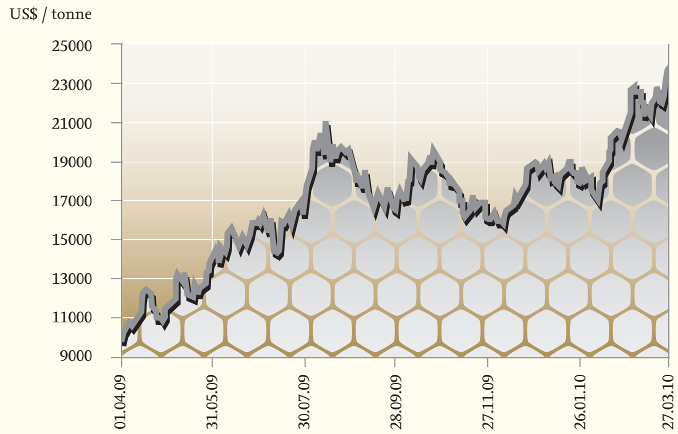
In 2009-10 the year-end impact of commodity hedging on the profit and loss account was a gain of £2.3 million (compared with a loss of £1.4 million in 2008-09). The business has taken the view that the impact of commodity hedging should be separately reported on the face of the Income Statement to aid the reading of the accounts. These adjustments have no cashflow implications.

International Financial Reporting Standards (IFRS)

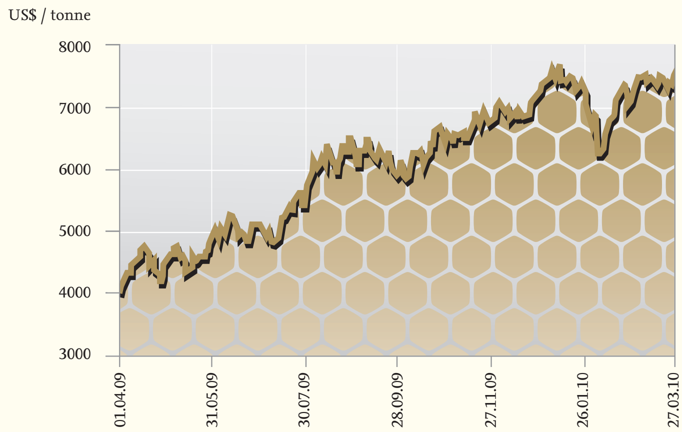
This is the first full set of financial statements prepared under government financial reporting adopting IFRS, as adapted or interpreted in the public sector context.

The move to this basis has not had a material impact on the previously reported equity as at 1 April 2008, 31 March 2009, or the profit and cashflows for the year ended 31 March 2009.

Nickel price (Source LME)



Copper price (Source LME)



Metal prices

A significant proportion of the Royal Mint's raw materials consist of non-ferrous metals which are traded on the London Metal Exchange (LME), where the prices are volatile. Volatility in non-ferrous metals, notably nickel and copper, is largely avoided by the Royal Mint through its hedging programme.

Where possible, the non-ferrous metal element of selling prices is determined on the basis of market prices at the date a contract or order is accepted. The Royal Mint seeks to hedge its exposure to subsequent movements in metal prices by securing forward contracts to acquire the metal at the committed selling price.

Ferrous metals such as steel are procured on short to medium length contracts to try to avoid volatility over our supply duration. We are currently looking at an alternative derivative strategy, and other options, to protect our longer term position on this increasingly important segment of our business.

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

Metal prices were extremely volatile during the year. Gold increased a further 20% in the year over and above the 34% increase the prior year. Our key non-ferrous metals, nickel and copper, have been even more volatile, with 100% plus increases from the start of the year after even larger falls in price during the prior year.

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

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

Foreign exchange

The Royal Mint reduces exposure to exchange rate fluctuations in its expected future trading cashflows using forward contracts. The objective of this policy is to minimise the effect of fluctuations in exchange rates on future transactions and cashflows. The Royal Mint was able to expand its programme over the last 12 months of buying more commodities via sterling denominated contracts. This has decreased the overall exposure of the business to foreign exchange volatility.

Creditor payment policy

The Royal Mint always seeks to comply with agreed terms. A total of 87% (2008-09: 91%) of invoices were paid within either 30 days or to the agreed period.

Assay

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

People

The Royal Mint believes that all employees have an important contribution to make to the working and development of the organisation. The aim is to create an environment in which 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.

To this end, a new Performance Review Scheme was implemented for all non-industrial staff during the year, and this is expected to be extended to industrial staff in 2010-11.

The number of people employed (permanent and casual staff) at 31 March 2010 was 868 (2008-09: 861).

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 2009-10 was 4.6% (2008-09: 6.0%).

Directors

Details of the Directors are set out on page 3. None of the Directors has interests that conflict with his or her responsibilities.

Auditor

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

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

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 safety, health and environment responsibilities. Our safety, health and environment management systems aim for continuous improvement beyond basic legal compliance, which involves placing strong emphasis on working with, and looking after, our workforce, as well as being responsible in these matters.

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

— the results of external Safety, Health and Environment (SHE) audits demonstrate that we are achieving continuous improvement in all aspects of performance;
— there has been a 30% decrease in the total number of accidents reported in the last year, by further raising employee understanding of safety, health and environment issues through training and regular communication;
— the number of reportable accidents recorded within the year has also reduced, with reportable accidents remaining below the Health and Safety Executive (HSE) national incident rate for manufacturing industry;
— 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;
- fully understand and manage the environmental concerns and impacts of the local communities.

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

Outlook

The Royal Mint Limited views the future positively. The increases in non-ferrous metal prices over the past 12 months have accelerated many countries' thoughts on shifting production of coins from homogeneous metals to plated steel, to maintain positive seignorage, and take advantage of cost savings. Accordingly, we are currently investing in significant new plating capacity that will come on-line during the fourth quarter of 2010-11.

In Circulating Coin, while the impact of the global downturn has been less than we anticipated, we continue to monitor the situation closely.

An exciting year lies ahead in Commemorative Coin, with the expansion of our London 2012 Olympic Coin Programme with the premium 'Faster, Higher, Stronger' Gold Series being launched in May 2010. Beyond the London 2012 Olympic Coin Programme, the expansion of our gift strategy is a key focus, as we continue to become less reliant on event-driven themes and our traditional customer base.

Operational Excellence in all areas of the business is also a key aim for the coming 12 months. Within the Circulating Coin business, our focus will be to drive efficiency and firmly establish The Royal Mint Limited as the market leader for global coin demand. In Commemorative Coin, we intend to improve our product delivery, and create an operation that can take us through the peak Olympic period and beyond.

The Royal Mint is also taking a more proactive approach with regard to the development of new technology. This will enable us to differentiate our offering in an increasingly competitive market and to develop our intellectual portfolio, building on the recent successes with aRMour™. Innovation is one of our values and this will be critical to our future.

Working capital and cashflow are again key focus areas on which management will be concentrating in the forthcoming year. Capital investment will be particularly high during the next twelve months, with the completion of major investments such as plating capacity expansion, a new effluent treatment plant, as well as a capacity expansion to cope with our London 2012 Coin Programme. Each of these investments is driven by our growth strategy and will position us, not only as one of the largest mints in the world, but also one of the most technologically advanced.

The planned 2010-11 targets are to deliver a sustainable retained profit and positive return on capital employed at least equivalent to the Ministerial target. For the financial year 2010-11, the Ministerial target number 1 is to be calculated on a consistent basis with the prior year. The Ministerial target number 1 for 2010-11 is 10% and reflects the improvements in performance experienced over the past two years, as well as a recognition of the fact that as a stand-alone company The Royal Mint Limited will incur additional costs.

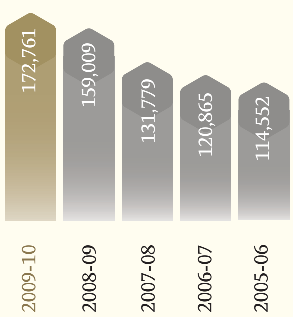
Clockwise from top left: The 2010 Britannia designed by Suzie Zamit; aRMour™ plated blanks and promotional medals; 50p competition winner Theo Crutchley-Mack; the 2010 £1 London and Belfast coins designed by Stuart Devlin.

Financial Summary

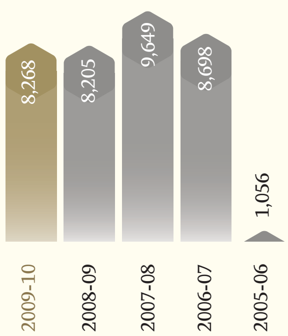
	2009-10 £'000	2008-09 £'000	2007-08 £'000	2006-07 £'000	2005-06 £'000
Accounting standards		Prepared under International Accounting Standards (IAS)			Prepared under UK Generally Accepted Accounting Principles (UKGAAP)
UK sales	62,715	76,787	75,441	73,165	59,323
Overseas sales	110,046	82,222	56,338	47,700	55,229
Total sales	172,761	159,009	131,779	120,865	114,552
Operating profit/(loss) before exceptional items and effects of commodity hedging	8,268	8,205	9,649	8,698	1,056
Effects of commodity hedging	2,263	(1,413)	—	—	—
Exceptional items	(5,273)	(2,204)	(1,325)	(6,385)	(1,344)
Operating profit	5,258	4,588	8,324	2,313	(288)
Net interest	(1,062)	(322)	(1,150)	(1,075)	(1,312)
Profit before tax	4,196	4,266	7,174	1,238	(1,600)
Tax	(443)	—	—	—	—
Profit after tax	3,753	4,266	7,174	1,238	(1,600)
Net assets	59,116	55,920	58,207	55,517	49,940
Operating profit/(loss) before exceptional items and effects of commodity hedging/sales	4.8%	5.2%	7.3%	7.2%	0.9%
Operating profit/(loss)/sales	3.0%	2.9%	6.3%	1.9%	(0.3%)

The impact of commodity hedging has been highlighted separately, after the introduction of the 'Financial Instruments' Standards (International Accounting Standard (IAS) 32: Presentation, IAS 39: 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.

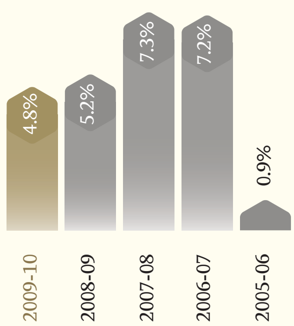
Total sales £'000



Operating profit/(loss) before exceptional items and effects of commodity hedging £'000



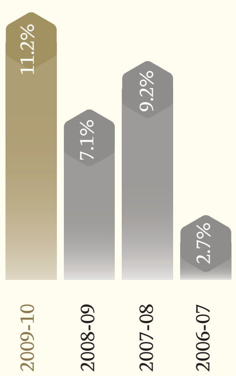
Operating profit/(loss) before exceptional items and effects of commodity hedging as a percentage of sales



Key Ministerial Targets

		2010-2011	2009-10	2008-09	2007-08	2006-07
Target 1*						
To achieve an average						
rate of return on average	Target	10.0%	10.0%	5.1%	6.8%	(0.3)%
capital employed	Outturn		11.2%	7.1%	9.2%	2.7%
Target 2						
UK Circulating Coin						
Delivery of accepted orders	Target	99.0%	99.0%	99.0%	99.0%	99.0%
from UK banks and						
post offices within 11 days	Outturn		99.9%	100.0%	99.3%	99.3%
Target 3**						
UK Commemorative Coin						
Delivery of orders to	Target	80.0%	80.0%	n/a	n/a	n/a
individual UK customers	Outturn		49.8%	n/a	n/a	n/a
within three days, measured from receipt of order or published due date						
Delivery of orders to	Target	n/a	n/a	85.0%	85.0%	85.0%
individual UK customers	Outturn		n/a	81.9%	86.9%	81.0%
within 14 days, measured from receipt of order or published due date						
Delivery of orders to	Target	n/a	n/a	65.0%	65.0%	65.0%
individual UK customers	Outturn		n/a	74.6%	77.9%	72.0%
within seven days, measured from receipt of order or published due date						
Target 4						
Medals						
Orders delivered by	Target	98.0%	98.0%	98.0%	98.0%	98.0%
agreed delivery date	Outturn		97.6%	99.1%	98.3%	99.6%
Target 5						
Quality						
Commemorative Coin	Target	99.7%	99.7%	99.7%	99.7%	99.7%
products accepted by	Outturn		99.6%	99.6%	99.0%	99.6%
individual UK customers						

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 2009-10

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.

There were two meetings of the Committee in the last year, one at Cutlers' Hall and one at Buckingham Palace, and there were eight meetings of the working group on designs for the coins and medals of the London 2012 Olympic and Paralympic Games.

Coin programme for London 2012

The three competitions to find designs for 29 fifty pence pieces celebrating each sport that will form part of London 2012 were initiated in January 2009. Viewers of Blue Peter were invited to prepare designs for the Athletics coin, schoolchildren between 13 and 18 were asked to design the Cycling coin and the opportunity to design coins for all the other 27 sports was thrown open to members of the public. The first meeting of the reporting year took place at Buckingham Palace on 16 July and it proved to be something of a momentous occasion. Earlier in the day the working group on the design of coins and medals for London 2012 had recommended a drawing designed by an eight-year-old Blue Peter viewer. With Lord Peel, the Lord Chamberlain, having very kindly granted permission for part of the session to be filmed, it was possible for viewers some months later when the coin was launched to see on Blue Peter itself something of the process of how the winning design was selected. Designs for the Cycling coin and for the 27 other fifty pence pieces were also examined and in a very productive session decisions were reached on them all. The working group's recommendations were endorsed by the Advisory Committee and details of the first two coins, the one for Athletics by Blue Peter viewer Florence Jackson, and the Cycling coin by secondary school student Theo Crutchley-Mack, have since been made public. They received a great deal of coverage, representing as they do the first time that a child and a student of secondary school age have designed UK coins. Details of the remaining 27 fifty pence pieces will be released later in 2010.

Approximately 30,000 designs were received across the three competitions and the quality of work has been of a very high standard. Securing agreement on such a large number of UK coins has never been done before and Andrew Stafford, the Deputy Chairman of the Committee, is enormously grateful to the working group for the time and effort it has devoted to the exercise.

The preparation of designs for the London 2012 coin programme did not end there. During the year there were seven further meetings at which elements of the programme were developed. Final designs for the 18-coin series of silver crowns that will celebrate the culture, nature and spirit of Britain were selected at the meeting of the Committee in December. It has grown into a fascinating series, ambitious in the themes it has tackled and radical in the nature of the design approach taken. Work on a series of nine gold coins focusing on the aims and ideals of the Olympic Movement through the well-known motto, Faster, Higher, Stronger, was initiated and the first three on the theme Faster, by sculptor John Bergdahl, were selected in December. He has with these designs added to his success of recent years, producing beautiful compositions based on depictions of classical Gods and the modern sports with which they are associated. Further work will be required over the coming months on the remaining six coins in the series but it has the prospect of becoming an accomplished tribute to the legacy of the Olympic Movement.

United Kingdom commemorative coins

For the regular programme of UK coins to be issued in 2010 a design for the 100th anniversary of the Girl Guides by Jonathan Evans and Donna Hainan, and a design for the 350th anniversary of the Restoration of the Monarchy by David Cornell had already been settled by April 2009 but a new one pound coin series and a two-pound coin for the centenary of the death of Florence Nightingale remained to be resolved. The outcome was determined at the meeting in July with Royal Mint designer Gordon Summers winning through on the Florence Nightingale two-pound coin. It is his first UK coin and he has achieved it with a bold approach that eschewed the more obvious depictions of the lady herself. For the new series of one pound coins to be released during 2010 and 2011 the distinguished silversmith and coin designer Stuart Devlin was successful with an imaginative heraldic treatment for coins that will celebrate the capital cities of the UK. His designs for the Australian coinage of the 1960s are still regarded as modern classics but this is the first time that he has designed a UK coin and it is particularly gratifying that a former member of the Committee has been successful in this way. The July meeting also saw a resolution of the Prison Service Medal. Herald painter Timothy Noad, who has now built up a formidable portfolio of official medals, was successful with a design that


BRITANNIA
ONE OUNCE FINE SILVER
2010
ONE OUNCE FINE GOLD

was strongly supported by the Prison Service itself and the hope is that it will start to be awarded in the very near future.

Terms of reference

While the Committee has advised HM Treasury and other government departments for many decades and while its core purpose is well understood, its terms of reference have not been codified in recent years. The change in status of the Royal Mint from a government department to a vested government company in December provided the opportunity to clarify the Committee's role and procedures. This exercise coincided with a recognition of the need for a more robust system to judge the selection of themes for new UK coins that would embrace the views of a cross-section of the public and that would be subject to proper scrutiny prior to recommendations being put forward to Ministers. A Sub-Committee on the selection of themes for UK coins which would include a representative of HM Treasury, the Royal Mint's Director of Commemorative Coin and representatives from the Advisory Committee was accordingly established and met for the first time in September.

The new status of the Royal Mint has also entailed an alteration to how the Committee reports to government. As a company the Royal Mint, albeit owned by the government, could no longer perform the role of sponsoring department for the Committee and instead this function will now fall to HM Treasury.

Members

There have been two retirements from the Committee, Peter Gwynn-Jones and John Porteous. The presence of Garter King of Arms at meetings of the Committee dates back to the 1930s and since that time the successive incumbents of that office have provided invaluable insights and guidance. Mr Gwynn-Jones became Garter in 1996 and the advice he has readily offered has been of the highest quality, steering the Committee's discussions through what could have been minefields of heraldic detail with authority, imagination and flexibility. Liberally salting proceedings with penetrating and witty remarks, his colourful style will be missed. His successor as Garter is Thomas Woodcock and he will be welcomed as an ex officio member at his first meeting in May.

Coming on to the Committee in 1969, John Porteous has attended more meetings than any other member apart from former President of the Committee, Prince Philip. In that time he has by turns been a steadying hand and a supporter of new ideas, all founded on his formidable knowledge of British and world coinages. Over the last few years he has occupied the position of Numismatic Consultant to the Committee and it was eminently apparent to members that there was no one better qualified to fulfil that role. He was one of the strongest supporters of Matt Dent's radical new definitive designs released in 2008 and through his pertinent observations, remarkable eye for detail and his understated scholarship he has helped improve the appearance of the British coinage on countless occasions.

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

Membership of the Committee
At 31 March 2010
(with dates of appointments)

Professor Sir Christopher Frayling
Former Chairman of the Royal College of Art
Chairman
(January 2001, re-appointed January 2009)

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

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
Garter King of Arms
(January 2010)

Kevin Clancy
Secretary to the Committee

Blue Peter viewer and competition winner Florence Jackson, with her winning design for the Athletics 50p coin.

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 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 profit or loss, total recognised gains and losses and 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 have been followed, and to 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.

As of 1 January 2010 HM Treasury has appointed the Director of the Enterprise and Growth Unit, HM Treasury, Peter Schofield, as Accounting Officer for the Royal Mint Trading Fund, including its subsidiary companies The Royal Mint Limited and The Royal Mint Museum Limited. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and for safeguarding the Royal Mint Trading Fund Group's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money.

Corporate Governance – Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the 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.

With effect from 1 January 2010 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. The remainder of this statement refers to the Internal Control processes within The Royal Mint Limited since 1 January 2010 and within the Royal Mint Trading Fund for the nine months prior.

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 for the Royal Mint Trading Fund for nine months ended 31 December 2009 and The Royal Mint Limited for the three months ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts. It accords with HM Treasury guidance.

Capacity to handle risk

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

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

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

The Executive Directors involve the senior management team in their respective areas in the identification and assessment of risk. The risk management and governance processes are included 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 Board. 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 includes a mandatory requirement to report on any significant control weaknesses in the annual Statement on Internal Control. There are no significant control weaknesses, nor were there any breaches of information that were required to be notified to the Information Commissioner during the year.

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 Supervisory Board

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

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

The roles and responsibilities of the Supervisory 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 Executive Directors, 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, and all Directors have access to independent professional advice, at The Royal Mint Limited's expense, if required.

The Supervisory Board met 10 times in 2009-10 (2008-09: five times).

	Supervisory Board	Audit Committee	Remuneration Committee
Andrew Stafford	8	5	4
Adam Lawrence	10	6	n/a
Anne Jessopp	n/a	n/a	4
Mike Davies	10	6	4
Colin Balmer	10	6	4
Mary Chapman	10	6	4
David Harding	10	6	4
Charlie Villar	10	1	1

Charlie Villar has a seat on the Supervisory Board of the company as a representative of the Royal Mint Trading Fund and HM Treasury as shareholder. Mr Villar receives no remuneration from The Royal Mint Limited or the Royal Mint Trading Fund.

The Executive Board

The Executive Board has primary responsibility for the day-to-day management of the business and its membership comprises the Chief Executive and the Executive Directors.

The roles and responsibilities of the Executive Board are:

— development of long-term strategy in conjunction with Supervisory Board;
— development of annual corporate plan, for submission to Supervisory Board;
— approval of all capital expenditure and major contracts not requiring Supervisory Board approval;
— 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.

The Audit Committee

The Audit Committee comprises the four independent Non-Executive Directors and Charlie Villar who has a seat as a representative of the Royal Mint Trading Fund and HM Treasury as shareholder. The Audit Committee is chaired by Colin Balmer. The Committee invites the Chief Executive, the Director of Finance and senior representatives of both the internal and external auditors to attend meetings. The Committee meets at least five 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 control systems and their effectiveness are described below.

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

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. 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.

Executive Directors within The Royal Mint Limited provide the Board with written confirmation in relation to the effectiveness of the system of internal control in their areas of responsibility.

The Royal Mint Limited's risk priorities in 2009-10 were in the following areas:

— safety, health and the environment;
— fire risk;
— the impact of the recession and hence demand for Commemorative Coin;
— delivery (customer service) of Commemorative Coin.

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

During the year The Royal Mint Limited experienced a fire in one of its nickel-plating plants, NP3. The fire destroyed the plant and it is being decommissioned and debris cleaned and disposed of. The Royal Mint Limited's emergency plan was executed which resulted in no injuries to staff, police or other attendees at the fire. The risk management plans in place were activated and within several days most operations were functioning again. Following the fire a comprehensive review of the causes was undertaken which resulted in a number of recommendations which have now been actioned.

The Royal Mint Limited operates internal audit arrangements to standards defined in the Government Internal Audit Standards. The internal audit function during 2009-10 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.

During the year none of the areas reported on by KPMG were identified as either no assurance or critical and the total number of outstanding audit observations had been reduced from 15 at 31 March 2009 to eight at 31 March 2010.

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

The House of Commons Treasury Committee made two recommendations concerning the Royal Mint Trading Fund Group in their administration and expenditure of the Chancellor's departments, 2008-09, Seventh Report of Session 2009-10 report. The first related to shareholder monitoring of rates of return achieved by the Royal Mint Trading Fund Group which is a matter for the shareholder. The second related to clear disclosure in the annual accounts on matters of policy application. Both recommendations have been noted and actioned.

Peter Schofield
16 July 2010

Remuneration Committee

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

The Committee for the financial year 2009-10 was comprised of Colin Balmer, Mary Chapman (Chairman), Mike Davies, David Harding and Charlie Villar (representing Shareholder Executive). Executive Directors may be invited to attend meetings of the Committee, but do not take part in any decision affecting their own remuneration. The Director of Human Resources is Secretary to the Committee. The Committee meets as necessary during the year, and met four times in 2009-10, three times under the Royal Mint Trading Fund and once under The Royal Mint Limited (2008-09: six times). The meetings were attended by all members of the Committee.

Committee remit

The remit was updated in 2009 and is due to be reviewed in September 2010. The remit can be accessed on The Royal Mint Limited website.

Remuneration policy

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

Executive Board of Directors

The team is made up of six people. Andrew Mills was appointed as Director of Circulation Coin in May 2009. Keith Cottrell subsequently retired in June 2009. Andrew Stafford accepted a permanent contract on 1 January 2010.

Executive Directors' terms, conditions and remuneration

The remuneration package for the Executive Board of Directors consists of basic salary, a Short-Term Incentive Plan in the form of a performance-linked annual cash bonus, pension scheme and a discretionary benefits allowance. The Supervisory Executive Board Directors also participate in a Long-Term Incentive Plan.

i. **Basic salary**
The basic starting salary of an Executive Director is determined as part of their recruitment and selection process. Thereafter it is subject to regular review. During 2009-10 the Remuneration Committee agreed to an increase to the basic salary of Adam Lawrence and Anne Jessopp.

ii. **Short-Term Incentive Plan (STIP)**
The Remuneration Committee agreed a STIP for 2009-10, the purpose of which was to recognise and reward outstanding performance against planned business targets deemed appropriate to incentivise management. The maximum award, if 120% performance against all targets is achieved, is 25% of basic salary for the Directors and £60,000 for Andrew Stafford.

STIP awards are disclosed in the year they are paid. Amounts paid in 2009-10 for performance in 2008-09 are outlined in the table. Amounts payable for 2009-10 performance have not been finalised and will be fully disclosed when paid in 2010-11.

iii. **Long-Term Incentive Plan**
The Long-Term Incentive Plan (LTIP) is in place to reward and recognise achievement of the strategic and sustainable development of the business. The bonus is set over a three-year timescale and payments against achievement of strategic objectives will be paid at the end of the three-year period. The maximum amount per year is £60,000 for Andrew Stafford and 25% of basic salary for Adam Lawrence. LTIP awards will be disclosed in the year they are paid. Accrued amounts in relation to the LTIP amounted to £228,000 (2008-09: £nil). No payments were made in 2009-10.

iv. **Pension Scheme**
Prior to vesting, Phil Carpenter and Keith Cottrell were members of the Civil Service Classic Pension Scheme. Andrew Stafford, Anne Jessopp, Andrew Mills and Dave Knight were members of the Civil Service Nuvos Pension Scheme. Adam Lawrence was a member of the Partnership Scheme. See Note 1 for details.

Post-vesting, the Executive Board are all members of Prudential Platinum Pension — The Royal Mint Limited 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 tables are subject to audit.

Remuneration and Short-Term Incentive Plan (STIP) payments

Executive Directors of The Royal Mint Limited	Remuneration 2009-10 £'000	STIP payments made in 2009-10 for 2008-09 performance £'000	Remuneration 2008-09 £'000
Andrew Stafford (SB) (EB) Chief Executive	200-205	60	195-200
Adam Lawrence (SB) (EB) Director of Finance	135-140	23	105-110
Full year equivalent 2008-09			130-135
Phil Carpenter (EB) Director of Operations	95-100	23	90-95
Keith R Cottrell (EB) Director of Circulating Coin Sales (Retired 30 June 2009)	25-30	21	80-85
Andrew Mills (EB) Director of Circulating Coin (Appointed 5 May 2009)	115-120	–	–
Full year equivalent 2009-10	125-130		
Dave Knight (EB) Director of Commemorative Coin	125-130	10	45-50
Full year equivalent 2008-09			125-130
Anne Jessopp (EB) Director of Human Resources	120-125	18	80-85
Full year equivalent 2008-09			115-120

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

Benefits Accrued in the Civil Service Pension Scheme

	Real increase in pension and related lump sum at pension age £'000	Total accrued pension at retirement age at 31 March 2010 and related lump sum £'000	CETV 31 March 2010 £'000	CETV 31 March 2009 £'000*	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Andrew Stafford (SB) (EB) Chief Executive	2.5-5 lump sum n/a	10-15 lump sum n/a	151	202	39
Adam Lawrence (SB) (EB) (1) Director of Finance	–	–	–	–	–
Phil Carpenter (EB) Director of Operations	2.5-5 lump sum 7.5-10	20-25 plus 60-65 lump sum	231	293	39
Keith R Cottrell (EB) Director of Circulating Coin Sales (Retired 30 June 2009)	0-2.5 lump sum 2.5-5	20-25 plus 60-65 lump sum	471	512	37
Andrew Mills (EB) Director of Circulating Coin (Appointed 5 May 2009)	0-2.5 lump sum n/a	0-5 lump sum n/a	–	21	18
Dave Knight (EB) Director of Commemorative Coin	0-2.5 lump sum n/a	0-5 lump sum n/a	7	28	17
Anne Jessopp (EB) Director of Human Resources	0-2.5 lump sum n/a	0-5 lump sum n/a	17	37	16

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

(1) The Royal Mint Limited's contribution to Adam Lawrence's Partnership Pension was £15,500 for 2009-10 (2008-09: £12,000).

* The figure may be different from the closing figure in 2008-09 accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

The above table shows the member's Cash Equivalent Transfer Value (CETV) accrued at the beginning and end of the reporting period and the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. The real increase in CETV is after adjustment for inflation and changes in market investment factors.

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

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

	Accrued Pension at 31 March 2010 £	Accrued Pension Commencement Lump Sum at 31 March 2010 £	Transfer Value at 31 March 2010 £	Member Contributions for period to 31 March 2010 £
Andrew Stafford (SB) (EB) Chief Executive	1,086	–	17,999	1,652
Adam Lawrence (SB) (EB) Director of Finance	687	–	7,692	1,046
Phil Carpenter (EB) Director of Operations	313	939	5,697	375
Andrew Mills (EB) Director of Circulating Coin	633	–	9,763	962
Dave Knight (EB) Director of Commemorative Coin	618	–	8,962	941
Anne Jessopp (EB) Director of Human Resources	604	–	8,191	919

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

Employment agreements

Prior to vesting all Executive Directors were employed as civil servants in the Royal Mint Trading Fund and as such were subject to all Civil Service terms and conditions. All the officials covered by this Annual Report hold appointments which are open-ended until they reach retirement age.

Upon vesting all Executive Directors became employees of The Royal Mint Limited. All terms and conditions transferred under TUPE regulations. The Executive Directors have a six-month notice period except Adam Lawrence and Andrew Stafford where the notice period is one year.

Early termination, other than for misconduct and persistent poor performance, would result in the individual receiving compensation in line with the Civil Service Compensation Scheme.

Non-Executive Directors' terms, conditions and fees

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

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

The following information is subject to audit.

	2009-10	2008-09
	£'000	£'000
Mike Davies	45	45
Colin Balmer	23	23
Mary Chapman	19	17
David Harding	18	17

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 £4,764 (2008-09: £7,972).

Peter Schofield
Accounting Officer
16 July 2010

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 Group for the year ended 31 March 2010 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 Cashflow 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 Royal Mint Trading Fund Group's and Accounting Officer's Responsibilities, the Royal Mint Trading Fund 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 the financial statements in accordance with applicable law and 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 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 2010 and of the Group's profit, the Group's and the Royal Mint Trading Fund's changes in equity and cashflows for the year then ended; and
— the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

— the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
— the information given in the management commentary 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 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
22 July 2010

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

Consolidated Income Statement

For the year ended 31 March 2010

	Notes	Before Exceptional Items and effects of Commodity Hedging 2009-10 £'000	Effects of Commodity Hedging 2009-10 £'000	Exceptional Items (note 5) 2009-10 £'000	Total 2009-10 £'000	Before Exceptional Items and effects of Commodity Hedging 2008-09 £'000	Effects of Commodity Hedging 2008-09 £'000	Exceptional Items (note 5) 2008-09 £'000	Total 2008-09 £'000
Revenue – continuing	2	172,761	–	–	172,761	159,009	–	–	159,009
cost of sales	3	(134,428)	1,393	–	(133,035)	(128,948)	–	–	(128,948)
Gross profit		38,333	1,393	–	39,726	30,061	–	–	30,061
Administrative expenses	3	(11,860)	–	(5,273)	(17,133)	(10,285)	–	(2,204)	(12,489)
Selling and distribution costs	3	(16,673)	–	–	(16,673)	(12,543)	–	–	(12,543)
Other (losses)/ gains-net	22	(1,532)	870	–	(662)	972	(1,413)	–	(441)
Operating profit	2	8,268	2,263	(5,273)	5,258	8,205	(1,413)	(2,204)	4,588
Finance income	6	54	–	–	54	383	–	–	383
Finance costs	6	(551)	–	(565)	(1,116)	(705)	–	–	(705)
Profit before tax		7,771	2,263	(5,838)	4,196	7,883	(1,413)	(2,204)	4,266
Tax charge for the year	7				(443)				–
Profit for the financial year					3,753				4,266
Profit attributable to: Owners of the parent					3,753				4,266

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	2009-10 £'000	2008-09 £'000
Profit for the financial year	3,753	4,266
Other comprehensive income:		
Cashflow hedges	4,381	(1,623)
Actuarial loss on defined benefit scheme	(49)	–
Deferred tax on actuarial loss on defined benefit scheme	14	–
Impairment provision reversal	4,400	–
Loss on land & buildings revaluation	(5,416)	–
Gains / (losses) on plant and machinery revaluation	113	(930)
Total comprehensive income for the year	7,196	1,713
Total comprehensive income attributable to:		
Owners of the parent	7,196	1,713

Royal Mint Trading Fund Statement of Comprehensive Income

For the year ended 31 March 2010

	2009-10 £'000	2008-09 £'000
Profit for the financial year	2,699	4,266
Other comprehensive income:		
Cashflow hedges	1,623	(1,623)
Impairment provision reversal	4,400	–
Loss on land & buildings revaluation	(5,416)	–
Gains / (losses) on plant and machinery revaluation	93	(930)
Total comprehensive income for the year	3,399	1,713
Total comprehensive income attributable to:		
Owners of the parent	3,399	1,713

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 2009	5,500	3,426	48,617	(1,623)	55,920
Movements in the year:					
Profit for the financial year	–	–	3,753	–	3,753
Cashflow hedges	–	–	–	4,381	4,381
Actuarial loss on defined benefit scheme	–	–	(49)	–	(49)
Deferred tax on actuarial loss on defined benefit scheme	–	–	14	–	14
Impairment provision reversal	–	4,400	–	–	4,400
Loss on land & buildings revaluation	–	(5,416)	–	–	(5,416)
Gains (losses) 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

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
At 1 April 2008	5,500	12,360	40,347	–	58,207
Movements in the year:					
Profit for the financial year	–	–	4,266	–	4,266
Cashflow hedges	–	–	–	(1,623)	(1,623)
Fixed assets revaluation	–	(930)	–	–	(930)
Transfers	–	(8,004)	8,004	–	–
Total comprehensive income for the year	–	(8,934)	12,270	(1,623)	1,713
Transactions with owners – dividends	–	–	(4,000)	–	(4,000)
At 31 March 2009	5,500	3,426	48,617	(1,623)	55,920

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	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
Cashflow hedges	–	–	–	1,623	1,623
Impairment provision reversal	–	4,400	–	–	4,400
Loss on land & buildings revaluation	–	(5,416)	–	–	(5,416)
Gains/(losses) 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

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
At 1 April 2008	5,500	12,360	40,347	–	58,207
Movements in the year:					
Profit for the financial year	–	–	4,266	–	4,266
Cashflow hedges	–	–	–	(1,623)	(1,623)
Fixed assets revaluation	–	(930)	–	–	(930)
Transfers	–	(8,004)	8,004	–	–
Total comprehensive income for the year	–	(8,934)	12,270	(1,623)	1,713
Transactions with owners – dividends	–	–	(4,000)	–	(4,000)
At 31 March 2009	5,500	3,426	48,617	(1,623)	55,920

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

Consolidated Statement of Financial Position

At 31 March 2010

	Notes	2010 £'000	2009 £'000
Non-Current Assets			
Property, plant and equipment	8	32,369	32,467
Intangible assets	9	1,006	677
Total Non-Current Assets		33,375	33,144
Current Assets			
Inventories	10	38,577	34,856
Derivative financial instruments	23	2,089	350
Retirement benefit asset	17	179	–
Trade and other receivables	11	21,485	21,556
Cash and cash equivalents		20,459	11,893
Total Current Assets		82,789	68,655
Current Liabilities			
Short-term borrowings	12	(12,343)	(11,634)
Trade and other payables	13	(41,043)	(25,335)
Current tax liability	7	(131)	–
Derivative financial instruments	23	(262)	(453)
Total Current Liabilities		(53,779)	(37,422)
Net Current Assets		29,010	31,233
Non-Current Liabilities			
Deferred tax liability	16	(298)	–
Long-term borrowings	14	–	(6,634)
Provision for liabilities and charges	15	(2,971)	(1,823)
Net Assets		59,116	55,920
Equity			
Public dividend capital		5,500	5,500
Revaluation reserve		2,388	3,426
Retained earnings		48,470	48,617
Hedging reserve		2,758	(1,623)
Total Equity		59,116	55,920

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

A Consolidated Statement of Financial Position as at the IFRS transition date of 1 April 2008 is at Note 25 to the Accounts.

Peter Schofield
Accounting Officer
16 July 2010

Royal Mint Trading Fund
Statement of Financial Position
At 31 March 2010

	Notes	2010 £'000	2009 £'000
Non-Current Assets			
Property, plant and equipment	8	–	32,467
Intangible assets	9	–	677
Investments	24	59,319	–
Total Non-Current Assets		59,319	33,144
Current Assets			
Inventories	10	–	34,856
Derivative financial instruments	23	–	350
Trade and other receivables	11	–	21,556
Cash and cash equivalents		–	11,893
Total Current Assets		–	68,655
Current Liabilities			
Short-term borrowings	12	–	(11,634)
Trade and other payables	13	(4,000)	(25,335)
Derivative financial instruments	23	–	(453)
Total Current Liabilities		(4,000)	(37,422)
Net Current Assets		(4,000)	31,233
Non-Current Liabilities			
Long-term borrowings	14	–	(6,634)
Provision for liabilities and charges	15	–	(1,823)
Net Assets		55,319	55,920
Equity			
Public dividend capital		5,500	5,500
Revaluation reserve		–	3,426
Retained earnings		49,819	48,617
Hedging reserve		–	(1,623)
Total Equity		55,319	55,920

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

Peter Schofield
Accounting Officer
16 July 2010

Consolidated Statement of Cashflow

For the year ended 31 March 2010

	Notes	2009-10 £'000	2008-09 £'000
Cashflow from Operating Activities			
Operating profit		5,258	4,588
Depreciation and amortisation on non-current assets		3,820	3,883
Loss on disposal		521	–
Cashflow hedges		2,451	(1,520)
Movements in working capital:			
Inventory		(3,721)	13,615
Retirement benefit asset		(228)	–
Trade and other receivables		71	(9,093)
Trade and other payables (excluding dividend)		15,507	(2,498)
Provisions		1,148	405
Cash generated from operations		24,827	9,380
Interest paid		(1,072)	(703)
Net cash generated from operating activities		23,755	8,677
Cashflow from Investing Activities			
Acquisition of property, plant & equipment		(4,770)	(3,820)
Acquisition of intangible assets		(548)	(347)
Interest received		54	412
Net cash used in investing activities		(5,264)	(3,755)
Cashflow from Financing Activities			
Dividend paid		(4,000)	(3,940)
Movement in bullion overdraft		1,502	(276)
Long-term loan principal repaid		(7,427)	(745)
Net cash used in financing activities		(9,925)	(4,961)
Net Increase/(Decrease) in Cash and Cash Equivalents		8,566	(39)
Cashflow from movement in borrowings		5,925	1,021
Movement in net funds		14,491	982
Net (debt) at start of year		(6,375)	(7,357)
Net funds/(debt) at end of year	21	8,116	(6,375)

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 2010

	Notes	2009-10 £'000	2008-09 £'000
Cashflow from Operating Activities			
Operating profit		2,466	4,588
Depreciation and amortisation on non-current assets		3,365	3,883
Cashflow hedges		1,527	(1,520)
Movements in working capital:			
Inventory		(6,959)	13,615
Trade and other receivables		(1,341)	(9,093)
Trade and other payables (excluding dividend)		11,228	(2,498)
Provisions		2,735	405
Cash generated from operations		13,021	9,380
Interest paid		(492)	(703)
Net cash generated from operating activities		12,529	8,677
Cashflow from Investing Activities			
Acquisition of property, plant & equipment		(1,921)	(3,820)
Acquisition of intangible assets		(451)	(347)
Interest received		39	412
Purchase of shares in The Royal Mint Limited		(15,000)	–
Cash transferred to The Royal Mint Limited		(11,397)	–
Net cash used in investing activities		(28,730)	(3,755)
Cashflow from Financing Activities			
Dividend paid		(4,000)	(3,940)
Movement in bullion overdraft		8,747	(276)
Long-term loan principal repaid		(439)	(745)
Net cash used in financing activities		4,308	(4,961)
Net (Decrease)/Increase in Cash and Cash Equivalents		(11,893)	(39)
Cashflow from movement in borrowings		(8,308)	1,021
Movement in net debt		(20,201)	982
Net (debt) at start of year		(6,375)	(7,357)
Debt transferred to The Royal Mint Limited		26,576	–
Net (debt) at end of year	21	–	(6,375)

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 2009-10 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the 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.

1.2 Adoption of IFRS as adapted or interpreted for the public sector context

These financial statements represent the first set of financial statements prepared using the Government Financial Reporting Manual adopting IFRS as adapted or interpreted for the public sector context. The move to this basis has not had a material impact on the previously reported equity as at 1 April 2008 (date of transition), 31 March 2009 or the profit and loss account and cashflows for the year ended 31 March 2009. The balance sheet at transition is set out in Note 25.

2.1 Standards, amendments and interpretations to existing standards, that are not yet effective and have not been early adopted

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2010 or later periods, but the Group has not early adopted them. These standards are not expected to have a material impact on the financial statements.

- IFRIC 17 (interpretation): 'Distribution of non-cash assets to owners'
- IFRIC 9 (amendment): 'Assessment of embedded derivatives'
- IFRIC 16 (amendment): 'Hedges of a net investment in a foreign operation'
- IFRIC 19 (interpretation): 'Extinguishing financial liabilities with equity instruments'
- IAS 27 (revised): 'Consolidated and separate financial statements'
- IFRS 3 (revised): 'Business combinations'
- IAS 38 (amendment): 'Intangible assets'
- IFRS 5 (amendment): 'Non-current assets held for sale and discontinued operations'
- IAS 1 (amendment): 'Presentation of financial statements'
- IFRS 2 (amendments): 'Group cash-settled share-based payment transaction'
- IAS 24 (amendment): 'Related party disclosures'
- IFRS 8 (amendment): 'Operating segments'
- IAS 7 (amendment): 'Statement of cashflow'
- IAS 17 (amendment): 'Leases'
- IAS 36 (amendment): 'Impairment of assets'
- IAS 39 (amendment): 'Financial instruments: Recognition and measurement'

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 Board.

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.

Note 1 continued

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cashflow 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 (losses)/gains – net'.

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 (losses)/gains – net' in the 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.

Note 1 continued

2.5 Intangible assets

Licences for computer software

Licences for computer software are amortised on a straight-line basis over between three and eight 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 cashflows (cash-generating units). Non-financial assets which have suffered an 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 Statement of Comprehensive Income 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, in the case of financial assets not at fair value through the Statement of Comprehensive Income, directly attributable transaction costs.

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

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

(i) Financial assets at fair value through the 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 Statement of Comprehensive Income.

(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 cashflows (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 Statement of Comprehensive Income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Impaired debts are derecognised when 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 Statement of Comprehensive Income and represents the difference between the carrying amount and the recoverable amount. Balances are written off when the probability of recovery is assessed as remote. Impaired debts are derecognised when 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 cashflows 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 cashflow hedges when hedging exposure to variability in cashflows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cashflow 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 Statement of Comprehensive Income. Amounts taken to equity are transferred to the Statement of Comprehensive Income when the hedged transaction affects the Statement of Comprehensive Income, 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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 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 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 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.

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

Prior to vesting
Employees were either members of one of the Principal Civil Service Pension Scheme final-salary defined-benefit schemes that are unfunded or have a stakeholder pension. Both schemes are accounted for as defined contribution schemes. The amount recognised as an expense in the Income Statement is the contribution payable.

Post-vesting
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 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 bonus plans
The Royal Mint Trading Fund Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable after certain adjustments. The Group 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 company'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, 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.

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, 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 Group 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.

Note 1 continued

In arriving at the retirement benefit asset for the year an actuarial estimate has been made of the impact of individuals who have determined 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 2011.

Key assumptions for pension obligations are disclosed in note 17.

(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 cashflows from the asset or income-generating unit and choose a suitable discount rate in order to calculate the net present value of those cashflows.

(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 cashflows. 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 Board (of the Royal Mint Trading Fund for nine months and The Royal Mint Limited for three months) that are used to make strategic decisions. The Executive Board 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 2009 and 2010.

A. 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/(loss)	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

Analysis by Class of Business 2008-09

	Circulating £'000	Commemorative £'000	Total Segments £'000	Unallocated £'000	Total £'000
Segment revenue	93,169	65,840	159,009	–	159,009
Depreciation and amortisation	3,115	317	3,432	451	3,883
Operating profit/(loss)	10,704	7,786	18,490	(13,902)	4,588
Segment assets and liabilities:					
Non-current assets	22,033	5,373	27,406	5,738	33,144
Current assets	31,437	21,966	53,403	15,252	68,655
Current liabilities	(11,610)	(10,867)	(22,477)	(14,945)	(37,422)
Non-current liabilities	–	–	–	(8,457)	(8,457)
Net assets	41,860	16,472	58,332	(2,412)	55,920

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

	2009-10 £'000	2008-09 £'000
UK	62,715	76,787
Africa	32,545	25,223
Rest of Europe	46,140	25,585
Americas	8,789	15,540
Rest of the World	22,572	15,874
	172,761	159,009

Note 3

EXPENSE BY NATURE

	2009-10 £'000	2008-09 £'000
Changes in inventories of finished goods and work in progress	(916)	1,279
Raw materials and consumables used	16,005	16,451
Metal costs of products sold	92,402	86,998
Hire of plant and machinery	115	71
Employee benefit expenses	32,164	28,699
Travel and subsistence	686	529
Transportation expenses	1,583	1,189
Depreciation and amortisation charges	3,820	3,883
Plant and building maintenance	1,887	1,455
Research and development	422	152
Promotional expenses	5,362	3,537
Commission expenses	1,097	642
Exceptional expenses (see note 5)	5,273	2,204
Auditors remuneration:		
Audit of these financial statements	126	69
Fees for non-audit work	–	20
Other expenses	6,815	6,802
Total cost of sales, selling and distribution costs and administration expenses	166,841	153,980

Included in metal costs above is the impact of commodity hedging on cost of sales amounting to a £1,393,000 gain (2008-09: £nil).

Note 4

REMUNERATION AND EMPLOYMENT

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

Total Staff Costs

		2009-10		2008-09
	£'000	£'000	£'000	£'000
Wages and salaries				
Staff with a permanent contract	25,685		22,222	
Other staff	499		1,491	
		26,184		23,713
Social Security costs				
Staff with a permanent contract	1,733		1,373	
Other staff	41		126	
		1,774		1,499
Other pension costs				
Staff with a permanent contract	4,180		3,485	
Other staff	26		2	
		4,206		3,487
		32,164		28,699

Average Number Employed

		2009-10		2008-09
Production				
Staff with a permanent contract	565		541	
Other staff	46		72	
		611		613
Sales and Marketing				
Staff with a permanent contract	112		103	
Other staff	3		2	
		115		105
Administration				
Staff with a permanent contract	114		107	
Other staff	2		5	
		116		112
		842		830

Staff costs above include a charge of £1,730,000 (2008-09: £1,109,000) in relation to the employee profit-share scheme and the management short-term incentive plan.

Note 5

EXCEPTIONAL ITEMS

	2009-10 £'000	2008-09 £'000
Administration		
Costs associated with nickel-plating plant fire (including assets scrapped of £521,000)	2,697	–
Costs associated with vesting	1,709	818
Legal costs	(133)	636
Provision for remediation costs in relation to environmental contamination	1,000	–
Business improvement programme	–	750
	5,273	2,204
Finance costs		
Costs associated with repayment of loans (See Note 14)	565	–
	5,838	2,204

Note 6

FINANCE COSTS

	2009-10 £'000	2008-09 £'000
On loans repayable within five years	185	178
On loans payable by instalments over more than five years	353	507
Unwinding of discount on provision for early retirement (Note 15)	13	20
	551	705
Finance costs		
Premium on repayment of long-term loans	565	–
	1,116	705

FINANCE INCOME

	2009-10 £'000	2008-09 £'000
Bank interest received	54	383
	54	383

Note 7

TAXATION

Analysis of tax charge in period

	2009-10 £'000	2008-09 £'000
UK corporation tax	131	–
Deferred tax:		
Current year movements	312	–
Taxation charge	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:

	2009-10 £'000	2008-09 £'000
Profit before tax	4,196	–
Profit multiplied by the standard rate of corporation tax of 28%	1,175	–
Effects of:		
Trading Fund profit not being taxable	(779)	–
Expenses not deductible for tax purposes	47	–
Tax charge for year	443	–

The effective tax rate for the year was 11% (2008-09: 0%)

In addition to the amount charged to the Income Statement, a deferred tax credit relating to actuarial losses on defined benefit pension schemes of £14,000 (2008-09: £nil) has been credited directly to the Consolidated Statement of Comprehensive Income.

Current tax liabilities

	2009-10 £'000	2008-09 £'000
UK corporation tax	131	–
	131	–

The Royal Mint Limited has been liable to taxation from 1 January 2010.

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 2009	14,642	1,824	75,576	92,042
Additions	–	4,908	–	4,908
Transfers	908	(3,773)	2,865	–
Disposals	–	(521)	(1,096)	(1,617)
Reverse impairment	3,860	–	540	4,400
Revaluation	(5,416)	–	601	(4,815)
At 31 March 2010	13,994	2,438	78,486	94,918
Depreciation				
At 1 April 2009	799	–	58,776	59,575
Charge for year	403	–	3,169	3,572
Disposals	–	–	(1,096)	(1,096)
Revaluation	–	–	498	498
At 31 March 2010	1,202	–	61,347	62,549
Net book value at 31 March 2010	12,792	2,438	17,139	32,369
Net book value at 1 April 2009	13,843	1,824	16,800	32,467

Land and buildings are stated at open market current use valuation at 5 October 2009. This valuation which totalled £12.44 million 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.

Following review it has been determined that the impairment provision of £4.4m at 31 March 2009 is no longer required and has been reversed.

Note 8 continued

PROPERTY, PLANT AND EQUIPMENT

Trading Fund

	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 2009	14,642	1,824	75,576	92,042
Additions	–	2,009	–	2,009
Transfers	514	(2,133)	1,619	–
Disposals	–	(521)	(1,065)	(1,586)
Reverse impairment	3,860	–	540	4,400
Revaluation	(5,417)	–	480	(4,937)
Transfer to The Royal Mint Limited	(13,599)	(1,179)	(77,150)	(91,928)
At 31 March 2010	–	–	–	–
Depreciation				
At 1 April 2009	799	–	58,776	59,575
Charge for year	299	–	2,393	2,692
Disposals	–	–	(1,065)	(1,065)
Revaluation	–	–	395	395
Transfer to The Royal Mint Limited	(1,098)		(60,499)	(61,597)
At 31 March 2010	–	–	–	–
Net book value at 31 March 2010	–	–	–	–
Net book value at 1 April 2009	13,843	1,824	16,800	32,467

Note 9

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 2009	294	2,425	2,719
Additions	577	–	577
Transfers	(769)	769	–
Disposals	–	(25)	(25)
At 31 March 2010	102	3,169	3,271
Amortisation			
At 1 April 2009	–	2,042	2,042
Amortisation for year	–	248	248
Disposals	–	(25)	(25)
At 31 March 2010	–	2,265	2,265
Net book value at 31 March 2010	102	904	1,006
Net book value at 1 April 2009	294	383	677

Note 9 continued

INTANGIBLE ASSETS (SOFTWARE LICENCES)

Trading Fund

	Payments on account and assets in the course of construction £'000	Software licences £'000	Total £'000
Cost			
At 1 April 2009	294	2,425	2,719
Additions	462	–	462
Transfers	(661)	661	–
Disposals	–	(25)	(25)
Transfer to The Royal Mint Limited	(95)	(3,061)	(3,156)
At 31 March 2010	–	–	–
Amortisation			
At 1 April 2009	–	2,042	2,042
Amortisation for year	–	141	141
Disposals	–	(25)	(25)
Transfer to The Royal Mint Limited	–	(2,158)	(2,158)
At 31 March 2010	–	–	–
Net book value at 31 March 2010	–	–	–
Net book value at 1 April 2009	294	383	677

Note 10

INVENTORIES

	Consolidated 2010 £'000	Consolidated 2009 £'000	Trading Fund 2010 £'000	Trading Fund 2009 £'000
Metal inventory	28,014	25,210	–	25,210
Work in progress (excluding metal)	3,331	3,952	–	3,952
Stores and packing materials	2,988	2,627	–	2,627
Finished goods	4,244	3,067	–	3,067
	38,577	34,856	–	34,856

Note 11

RECEIVABLES

	Consolidated 2010 £'000	Consolidated 2009 £'000	Trading Fund 2010 £'000	Trading Fund 2009 £'000
Trade receivables	19,348	19,978	–	19,978
Less Provision for impairment of receivables	(524)	(457)	–	(457)
VAT	268	593	–	593
Other receivables	–	6	–	6
Prepayments and accrued income	2,393	1,436	–	1,436
	21,485	21,556	–	21,556

Note 11 continued

Included within receivables are the following:

	2010 £'000	2009 £'000
Balances with other Government bodies:		
Other Central Government bodies	133	319
Local Authorities	5	3
Public Corporations and Trading Funds	2,345	1,750
	2,483	2,072

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

	2010 £'000	2009 £'000
Pounds sterling	21,028	19,478
Euros	151	343
US Dollars	306	1,395
Other currencies	–	340
	21,485	21,556

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:

	2010 £'000	2009 £'000
At 1 April	(457)	(526)
Provision made in year	(67)	(234)
Debts written off in year as uncollectable	–	303
At 31 March	(524)	(457)

Note 12

SHORT-TERM BORROWINGS

	Consolidated		Trading Fund	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Long-term NLF loans	–	793	–	793
Bullion overdraft	12,343	10,841	–	10,841
	12,343	11,634	–	11,634

Note 13

PAYABLES: amounts falling due within one year

	Consolidated		Trading Fund	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade payables	12,247	9,299	–	9,299
Other payables	1,788	1,746	–	1,746
Payments received on account	20,833	8,591	–	8,591
Taxation and Social Security	626	578	–	578
Proposed dividend	4,000	4,000	4,000	4,000
Accruals and deferred income	1,549	1,121	–	1,121
	41,043	25,335	4,000	25,335

Included within the payables are the following:

Balances with other Government bodies not shown separately above:

Other Central Government bodies	782	407
NHS Trusts	1	–
	783	407

Note 14

PAYABLES: amounts falling due after more than one year

	Consolidated		Trading Fund	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Loans repayable:				
Between one and two years	–	844	–	844
Between two and five years	–	2,873	–	2,873
After five years	–	2,917	–	2,917
	–	6,634	–	6,634

The two long-term loans had a remaining term to 2016. These loans were settled on 8 January 2010 and a premium of £565,000 was paid and included as an exceptional charge in arriving at finance costs for the year (See Note 6).

Note 15

PROVISION FOR LIABILITIES AND CHARGES

HM Treasury guidance requires that the full cost of early retirement and severance schemes should be recognised in the Accounts when early departure decisions are made. The Operating Account is charged with the full liability of new decisions taken and a Balance Sheet provision made, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2009 and 2019. The provision has been assessed at current prices at the Balance Sheet date, and in accordance with International Accounting Standard 19, has been discounted at a real rate of 1.8%, with the unwinding of the discount treated as an interest charge.

Note 15 continued

Consolidated

	Legal costs £'000	Redundancy £'000	Early retirement £'000	Nickel-plating plant fire £'000	Environment remediation £'000	Total £'000
At 1 April 2009	583	3	1,237	–	–	1,823
Transfer from other payables	–	–	588	–	–	588
Charge/(credit) made in year	(133)	–	(28)	2,697	1,000	3,536
Unwinding of discount on provision	–	–	13	–	–	13
Payments	(450)	(3)	(557)	(1,871)	(108)	(2,989)
At 31 March 2010	–	–	1,253	826	892	2,971

Trading Fund

	Legal costs £'000	Redundancy £'000	Early retirement £'000	Nickel-plating plant fire £'000	Museum funding £'000	Environment remediation £'000	Total £'000
At 1 April 2009	583	3	1,237	–	–	–	1,823
Transfer from other payables	–	–	588	–	–	–	588
Charge/(credit) made in year	(133)	–	–	2,697	770	1,000	4,334
Payments	(450)	(3)	(433)	(1,301)	–	–	(2,187)
	–	–	1,392	1,396	770	1,000	4,558
Transferred to The Royal Mint Limited	–	–	(1,392)	(1,396)	(770)	(1,000)	(4,558)
At 31 March 2010	–	–	–	–	–	–	–

Note 16

DEFERRED TAXATION

Deferred tax is provided in full on temporary differences under the liability method using a tax rate of 28%.

	2010 £'000	2009 £'000
Movements on deferred tax were:		
Charged to the Income Statement	312	–
(Credited) to Statement of Comprehensive Income	(14)	–
	298	–

Note 16 continued

Movements in deferred tax liabilities were:

Deferred tax liabilities

	Accelerated tax depreciation £'000	Derivative instruments £'000	Retirement benefit obligations £'000	Total £'000
At 1 January 2010	–	–	–	–
Charged to the Income Statement	148	99	65	312
(Credited) to Statement of Comprehensive Income	–	–	(14)	(14)
At 31 March 2010	148	99	51	298

	2010 £'000	2009 £'000
Deferred tax (credited)/charged to Statement of Comprehensive Income during the year was:		
Actuarial losses on defined benefits schemes	(14)	–
	(14)	–

Analysis of deferred tax liability

	2010 £'000	2009 £'000
Deferred tax liability to be recovered after 12 months	99	–
Deferred tax liability to be recovered within 12 months	199	–
	298	–

The Royal Mint Limited has been liable to taxation from 1 January 2010.

Note 17

RETIREMENT BENEFIT SCHEMES

Prior to vesting

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's

Note 17 continued

earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Royal Mint Trading Fund is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007.

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

For 2009-10, employers' contributions of £2.816 million (2008-09: £3.250 million) were paid to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £26,169 were paid (2008-09: £25,242) to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,705 (2008-09: £1,497), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Post-vesting

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 £2,675 (2008-09: £nil) 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 members 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 (RMLS), the option for which was open for three months from date of receipt of transfer details. The RMLS operates via Prudential Platinum Pensions where participants can be in one of three schemes:

Note 17 continued

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 uprated 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.

Details of valuation assumptions

An actuarial valuation of the RMLS assets and liabilities for financial reporting purposes was carried out on 31 March 2010 by independent actuaries Xafinity Consulting. The liabilities have been valued using the projected unit method, taking into account benefits to 31 March 2010 with allowance for future salary increases or future price inflation for members of the Platinum Nuvos scheme. The principal actuarial assumptions used were:

		2010
Discount rate		5.5%
Inflation		3.5%
Salary increase		4.5%
Increases to deferred pensions before retirement		3.5%
Increases to pensions in payment in line with RPI		3.5%
Mortality rates:	males	PNMA00 1%
	females	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 fixed-interest and index-linked gilt yields, and all RPI-linked pension increases in payment have been assessed with reference to the inflation assumption.

Amounts included in the Consolidated Income Statement

	2010 £'000	2009 £'000
Current service cost	1,358	–
Interest cost	10	–
Expected return on assets	(8)	–
Amounts charged to the Consolidated Income Statement	1,360	–

Amounts recognised in Consolidated Statement of Comprehensive Income

	2010 £'000	2009 £'000
Actual return less expected return on assets	35	–
Experience losses arising on the scheme liabilities	(84)	–
Actuarial losses recognised in Consolidated Statement of Comprehensive Income	(49)	–

Note 17 continued

Amounts recognised in the Consolidated Statement of Financial Position

	2010 £'000	2009 £'000
Fair value of plan assets	4,613	–
Present value of plan liabilities	(4,434)	–
Net Defined Benefit Asset	179	–

Reconciliation of movements in the Consolidated Statement of Financial Position

	2010 £'000	2009 £'000
Current service cost	(1,358)	–
Interest cost	(10)	–
Expected return on assets	8	–
Actuarial losses	(49)	–
Contributions	1,588	–
Net Defined Benefit Asset	179	–

Reconciliation of movements in liabilities during the year

	2010 £'000	2009 £'000
Scheme liabilities at beginning of year	–	–
Movement in year:		
Current service cost	1,358	–
Transfer value from Civil Service Scheme	2,914	–
Interest cost	10	–
Employee contributions	121	–
Benefits paid	(53)	–
Actuarial losses	84	–
Scheme liabilities at end of year	4,434	–

Reconciliation of movements in assets during the year

	2010 £'000	2009 £'000
Scheme assets at beginning of year	–	~
Movements in year:		
Expected return on scheme assets	8	–
Employer contributions	1,588	–
Employee contributions	121	–
Transfer value from Civil Service Scheme	2,914	–
Benefits paid	(53)	–
Actuarial gain	35	–
Scheme assets at end of year	4,613	–

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 6.4% derived as follows:

At 31 December 2009

Asset class	% of fund	Expected return
UK index-linked gilts	12%	4.4%
UK equities	27%	6.9%
Overseas equities	34%	6.9%
Alternative assets	15%	6.9%
Corporate bonds	12%	5.5%
Total	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 2010-11 are £6,395,000.

Note 18

CAPITAL COMMITMENTS

	2010 £'000	2009 £'000
Commitments in respect of contracts – Tangible assets	1,436	575
Commitments in respect of contracts – Intangible assets	237	427
	1,673	1,002

Note 19

OPERATING LEASE COMMITMENTS

	2010 £'000	2009 £'000
Operating lease rentals due within the next year	181	104
Leases expiring:		
Between one and five years	–	4
After five years	–	–

Note 20

RELATED-PARTY TRANSACTIONS

The Royal Mint Trading Fund is an Executive Agency and Trading Fund. Since vesting, The Royal Mint Limited 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 Financial Secretary to the Treasury, reporting to Parliament, acts as owner on a day-to-day basis. The operation of the shareholding interest has been delegated to the Shareholder Executive, which is responsible for oversight of the Royal Mint Trading Fund Group's objective of delivering a commercial return on capital employed and provision of relevant advice to the Financial Secretary. HM Treasury also contracts with the Royal Mint Trading Fund Group as a customer, under a Service Level Agreement, for the manufacture and distribution of UK circulating coin.

Note 20 continued

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 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 11 and 13.

Key management staff are considered to be The Royal Mint Limited's Executive Board of Directors. Remuneration of key management staff is set out in the table below:

Remuneration of key management staff

	2010 £'000	2009 £'000
Salaries and other short-term employee benefits	986	744
Post-employment benefits	180	136
	1,166	880

Note 21

ANALYSIS OF NET FUNDS/(DEBT)
Consolidated

	At 1 April 2009 £'000	Cashflow £'000	At 31 March 2010 £'000
Cash at bank and in hand	11,893	8,566	20,459
Bullion overdraft	(10,841)	(1,502)	(12,343)
Long-term loan due within one year	(793)	793	–
Long-term loan due after more than one year	(6,634)	6,634	–
	(6,375)	14,491	8,116

ANALYSIS OF NET FUNDS/(DEBT)
Trading Fund

	At 1 April 2009 £'000	Cashflow £'000	Transfer * £'000	At 31 March 2010 £'000
Cash at bank and in hand	11,893	(11,893)	–	–
Bullion overdraft	(10,841)	(8,747)	19,588	–
Long-term loan due within one year	(793)	439	354	–
Long-term loan due after more than one year	(6,634)	–	6,634	–
	(6,375)	(20,201)	26,576	–

* Transfer to The Royal Mint Limited.

Note 22

OTHER GAINS/(LOSSES) – NET

	2010 £'000	2009 £'000
Foreign exchange (loss)/gain	(1,532)	972
Ineffectiveness of commodity hedges	870	(1,413)
	(662)	(441)

Note 23

FINANCIAL INSTRUMENTS

Derivative Asset

		Group		Trading Fund
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Foreign currency fair value	19	165	–	165
Commodity fair value	2,070	185	–	185
	2,089	350	–	350

Derivative Liability

Foreign currency fair value	80	280	–	280
Commodity fair value	182	173	–	173
	262	453	–	453

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 treasury 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 treasury section's risk management policy is to enter into forward contracts for all anticipated foreign currency cashflows (mainly in relation to sales contracts), where the future settlement date is the forecasted payment date. Hedge accounting is not followed for foreign currency forward contracts.

Note 23 continued

	Contract amount 2010 £'000	Average forward rate 2010 £'000	Fair value 2010 £'000	Contract amount 2009 £'000	Average forward rate 2009 £'000	Fair value 2009 £'000
Forward contracts – sell £/buy US$						
Maturing in less than 1 year	–	–	–	2,670	1.5134	147
	–	–	–	2,670	1.5134	147
Forward contracts – sell £/buy EUR						
Maturing in less than 1 year	–	–	–	167	1.0718	(1)
	–	–	–	167	1.0718	(1)
Forward contracts – sell NZ$/buy £						
Maturing in less than 1 year	–	–	–	119	2.6132	5
	–	–	–	119	2.6132	5
Forward contracts – buy £/sell US$						
Maturing in less than 1 year	2,500	1.5631	(78)	7,623	1.4759	(222)
	2,500	1.5631	(78)	7,623	1.4759	(222)
Forward contracts – buy £/sell EUR						
Maturing in less than 1 year	770	1.093	19	1,504	1.0764	4
	770	1.093	19	1,504	1.0764	4
Forward contracts – buy £/sell DKK						
Maturing in less than 1 year	121	8.4897	(2)	–	–	–
	121	8.4897	(2)	–	–	–
Forward contracts – buy £/sell NZ$						
Maturing in less than 1 year	–	–	–	419	2.8116	(49)
	–	–	–	419	2.8116	(49)

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 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.

	Closing exchange rate 2010	Effect on net earnings of a 10% decrease 2010 £'000	Closing exchange rate 2009	Effect on net earnings of a 10% decrease 2009 £'000
Euro	1.1211	13	1.0796	38
US Dollars	1.5169	31	1.4334	155
New Zealand Dollars	2.1379	(1)	2.5114	38
		43		231

Note 23 continued

	Closing exchange rate 2010	Effect on net earnings of a 10% increase 2010 £'000	Closing exchange rate 2009	Effect on net earnings of a 10% increase 2009 £'000
Euro	1.1211	(26)	1.0796	(31)
US Dollars	1.5169	(10)	1.4334	(126)
New Zealand Dollars	2.1379	1	2.5114	(31)
		(35)		(188)

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 2010	Value at average price 2010 £'000	Fair value 2010 £'000	Tonnes 2009	Value at average price 2009 £'000	Fair value 2009 £'000
cashflow hedges:						
Copper forwards –						
GBP denominated contracts:						
Maturing in less than 1 year	775	3,484	521	375	907	155
	775	3,484	521	375	907	155
Nickel forwards –						
GBP denominated contracts:						
Maturing in less than 1 year	288	3,378	1,360	204	1,509	(151)
	288	3,378	1,360	204	1,509	(151)
Zinc forwards –						
GBP denominated contracts:						
Maturing in less than 1 year	100	150	8	50	40	7
	100	150	8	50	40	7

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. This does not represent the Statement of Comprehensive Income impact that would be expected from movements in commodity prices.

Note 23 continued

	Closing price/tonne 2010 £	Effect on net earnings of a 10% decrease 2010 £'000	Effect on equity of a 10% decrease 2010 £'000	Closing price/tonne 2009 £	Effect on net earnings of a 10% decrease 2009 £'000	Effect on equity of a 10% decrease 2009 £'000
Copper	5,162	(84)	(317)	2,418	(25)	(87)
Nickel	16,448	(73)	(401)	7,396	(31)	(122)
Zinc	1,556	(6)	(10)	797	(2)	(4)
		(163)	(728)		(58)	(213)

	Closing price/tonne 2010 £	Effect on net earnings of a 10% increase 2010 £'000	Effect on equity of a 10% increase 2010 £'000	Closing price/tonne 2009 £	Effect on net earnings of a 10% increase 2009 £'000	Effect on equity of a 10% increase 2009 £'000
Copper	5,162	90	311	2,418	20	79
Nickel	16,448	79	395	7,396	33	81
Zinc	1,556	6	10	797	–	3
		175	716		53	163

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. Purchases are made in two ways:

(1) For a specific order;

(2) Based on forecasted sales demand over a specified period.

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

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

	Closing price/oz 2010 £	Effect on net earnings of a 10% change 2010 £'000	Closing price/oz 2009 £	Effect on net earnings of a 10% change 2009 £'000
Gold	736.40	9	640.91	9
Silver	11.56	2	9.15	2
Platinum	1,084.00	0	785.75	1
		11		12

Note 23 continued

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

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:			
2010	3,093	164	252
2009	1,381	123	8

Commemorative Coin Wholesale

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

	Between 31 and 60 days £'000	Between 61 and 90 days £'000	Between 91 and 120 days £'000
Wholesale trade receivables:			
2010	366	164	110
2009	518	33	95

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, while 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:			
2010	235	58	316
2009	60	–	307

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 2010 the amount is £21.5 million.

Hierarchy disclosure under IFRS 7

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 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 cashflow against forecasted cashflow. In addition as part of the vesting process the Royal Mint Trading Fund Group has negotiated a revolving credit facility of £36 million. It is anticipated that this will be sufficient to meet future requirements.

The tables below analyse 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 to the contractual maturity date.

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

At 31 March 2009

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings	793	844	2,873	2,917
Derivative financial instruments	453	–	–	–
Bullion overdraft	10,841	–	–	–
Trade and other payables	25,335	–	–	–
Provision for liabilities and charges	–	641	890	292

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 cashflows. The fair value of foreign exchange forward contracts is determined using forward exchange rates at the date of the Statement of Financial Position.

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 2010 £'000	Fair value 2010 £'000	Carrying value 2009 £'000	Fair value 2009 £'000
Financial assets:				
Loans and receivables	21,485	21,485	21,556	21,556
Derivatives used for hedging	2,089	2,089	350	350
Financial liabilities:				
Loans and payables	53,386	53,386	45,426	46,229
Derivatives used for hedging	262	262	453	453

Note 24

INVESTMENT

Investment in Subsidiaries

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

The Royal Mint Limited issued one million ordinary shares for £15 million to the Royal Mint Trading Fund. Subsequently at vesting the Royal Mint Trading Fund transferred its assets and liabilities at book value to The Royal Mint Limited on 31 December 2009 in exchange for the issue of an additional five million ordinary shares. The assets and liabilities transferred are set out below:

Note 24 continued

Royal Mint Trading Fund Assets and Liabilities transferred at 31 December 2009

	£'000
Non-Current Assets	
Property, plant and equipment	30,331
Intangible assets	998
Total Non-Current Assets	31,329
Current Assets	
Inventories	41,815
Derivative financial instruments	852
Trade and other receivables	22,897
Cash and cash equivalents	26,397
Total Current Assets	91,961
Current Liabilities	
Short-term borrowings	(19,941)
Trade and other payables	(32,665)
Derivative financial instruments	(173)
Total Current Liabilities	(52,779)
Net Current Assets	39,182
Non-Current Liabilities	
Long-term borrowings	(6,634)
Provision for liabilities and charges	(4,558)
Net Assets	59,319

Consolidated Income Statement

The Consolidated Income Statement presenting the contribution by the Trading Fund entity (nine months ended 31 December 2009) and The Royal Mint Limited (three months ended 31 March 2010) is set out below:

	For the nine months ended 31 December 2009 £'000	For the three months ended 31 March 2010 £'000	Consolidated Total 2009-10 £'000
Revenue - Continuing	135,370	37,391	172,761
Cost of sales	(105,941)	(27,094)	(133,035)
Gross profit	29,429	10,297	39,726
Administrative expenses	(13,447)	(3,686)	(17,133)
Selling and distribution costs	(11,889)	(4,784)	(16,673)
Other (losses)/gains-net	(858)	196	(662)
Operating profit	3,235	2,023	5,258
Finance income	40	14	54
Finance costs	(492)	(624)	(1,116)
Profit before tax	2,783	1,413	4,196
Tax charge for the year	–	(443)	(443)
Profit for the financial year	2,783	970	3,753

Note 24 continued

The Royal Mint Museum Limited

The Royal Mint Trading Fund is effectively able to govern the financial and operating policies of The Royal Mint Museum Limited, a company limited by guarantee. The Royal Mint Museum Limited is therefore deemed to be a subsidiary of the Royal Mint Trading Fund.

Note 25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DATE OF TRANSITION

The IFRS balance sheet at transition on 1 April 2008 is set out below:

	2008 £'000
Non-Current Assets	
Property, plant and equipment	33,131
Intangible assets	523
Total Non-Current Assets	33,654
Current Assets	
Inventories	48,471
Trade and other receivables	12,492
Cash and cash equivalents	11,932
Total Current Assets	72,895
Current Liabilities	
Short-term borrowings	(11,862)
Trade and other payables	(27,635)
Total Current Liabilities	(39,497)
Net Current Assets	33,398
Non-Current Liabilities	
Long-term borrowings	(7,427)
Provision for liabilities and charges	(1,418)
Net Assets	58,207
Equity	
Public dividend capital	5,500
Revaluation reserve	12,360
Retained earnings	40,347
Total Equity	58,207

There were no material adjustments arising on transition.

Note 26

POST BALANCE SHEET EVENTS

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 26 July 2010.

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