



The
Royal
Mint

The Royal Mint Annual Report
2007-08



**The Royal Mint
Annual Report and Accounts 2007-08**



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

Ordered by the House of Commons to be printed on
19 June 2008

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Annual Report 2007-08

The Royal Mint Board of Directors

(At 31 March 2008)

Mike Davies*
Chairman

Andrew Stafford
Chief Executive
(Appointed 15 October 2007)

Peter Allred
Director of Finance

Caroline Roberts
Director of Human Resources
(Appointed 2 January 2008)

Phil Carpenter
Director of Production

Keith Cottrell
Director of Circulating Coin Sales

Clare Janczewski
Director of Collector Coin Sales

Dave Knight
Director of Collector Coin Marketing
(Appointed 2 January 2008)

Colin Balmer CB*
(Appointed 1 May 2007)

Martin Cragg
Board Secretary

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Banker
Barclays plc

External Auditor
Comptroller and Auditor General

Internal Auditor
Mazars LLP, Chartered Accountants

The Accounts of the Royal Mint Trading Fund as at 31 March 2008, 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 543 of 2006-07.) Presented pursuant to Act 1973, c.63, s.4(6).

HC 570
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* Non-Executive Directors



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Chairman's Statement

It is with great pleasure that I am able to report a year of further progress by the Royal Mint. Operating profit was £9.6 million on sales of £131.8 million. Profit after exceptional items was £7.2 million, compared with £1.2 million for the previous year.

The financial result represents a return on net assets of 11.5%, well ahead of the plan and above the ongoing Ministerial Target of 11% established in 2001. This reflects not only improved profitability but also a real focus on Balance Sheet management, especially working capital.

Reflecting the improved financial performance, the Royal Mint will pay a dividend of £3.9 million to the Consolidated Fund.

The Chief Executive's Report sets out the

of Finance early in the new financial year. For the financial year ended 31 March 2008, Peter Allred remained in post as the interim Director of Finance and I would pay tribute to the improvements in planning and control which he has implemented.

At the end of the financial year we announced the appointment of three Non-Executive Directors following an open competition which attracted almost 200 candidates. The appointees: Mary Chapman and David Harding joined us on 14 April, while Colin Balmer was re-appointed on 1 May and I look forward to their contribution. These appointments followed the ending of Jan Smith's nine-year period as a Non-Executive Director and, on behalf of the Board, I would like to acknowledge and pay tribute to her counsel over so many years.



Diamond Wedding crown, 2007

The portrait of Her Majesty The Queen and His Royal Highness The Duke of Edinburgh was prepared by the sculptor Ian Rank-Broadley FRBS. The reverse depicts the Rose Window at Westminster Abbey and is the work of Emma Noble of the Royal Mint Product Design Department.

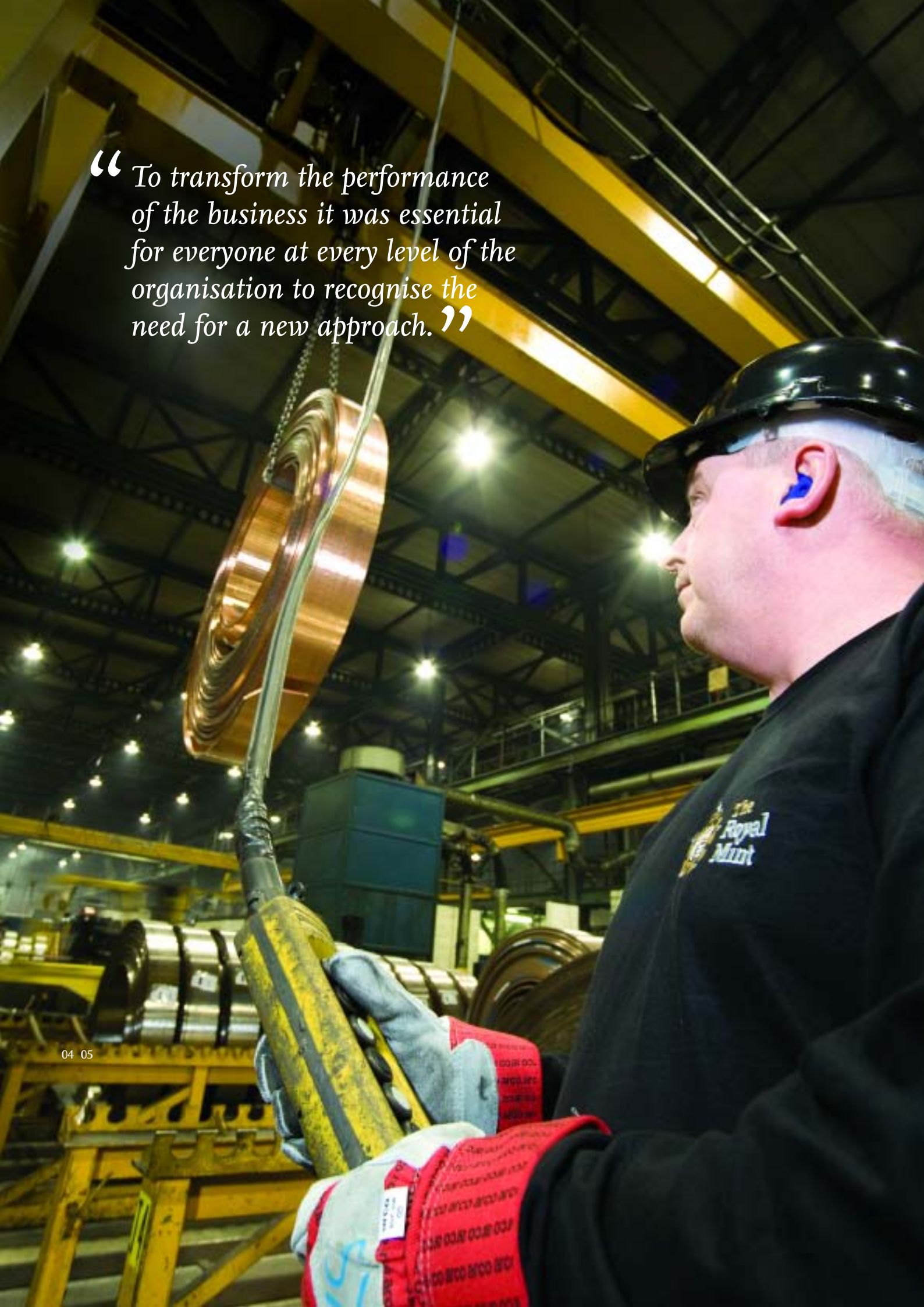
operating detail underpinning the financial results. I would endorse his comments regarding the willingness to change embraced by the employees of the Royal Mint, and am pleased that these efforts have culminated in a rewarding result for all.

A number of senior executive changes took place during the year. Andrew Stafford joined as Chief Executive and Deputy Master in October 2007, and has immediately made a positive impact to the long-term strategy of the Royal Mint. Dave Knight was recruited as the interim Director of Collector Coin Marketing and Caroline Roberts as Director of Human Resources, although Mrs Roberts resigned soon after the year-end. Efforts to recruit permanent senior executives continue and we hope to recruit a Director

The Royal Mint is entering an exciting but challenging period. Whilst its primary function as the supplier of United Kingdom circulating coins remains, it also faces challenges and opportunities, including the Coin Programme for the London 2012 Olympic Games, to enhance its commercial operations for the benefit of Government as its shareholder. These challenges require recruitment and retention into key management roles and the continued development of a performance-related culture. The last two years gives grounds for encouragement and I am sure that I speak for all employees in relishing the challenges ahead.

Mike Davies

“ To transform the performance of the business it was essential for everyone at every level of the organisation to recognise the need for a new approach. ”



Chief Executive's Report

I came to the Royal Mint as Chief Executive and Deputy Master in October 2007 with confidence in what could be achieved and in my first six months that confidence has been bolstered by what I have seen so far.

Coins are an integral part of the fabric of our lives and as the custodian of the institution which makes the nation's coinage, and indeed the coinage of nations, it is my responsibility to ensure that it thrives in the years to come as it has over the past 1,000 years.

In summarising the Royal Mint's achievements over the last 12 months what stands out for me more than anything else is the willingness of my colleagues to embrace change. To transform the performance of the business it was essential for everyone at every level of the organisation to recognise the need for a new approach. Without that realisation it would not have been possible for the Royal Mint to make the very real progress it has – what amounts to a marked resurgence in its profitability and the standards of service it provides to its customers.

Results

Testing financial targets were set at the beginning of 2007-08 and, with an operating profit of £9.6 million, before exceptional costs, those targets have been met and exceeded. As a Trading Fund and an Executive Agency the Royal Mint is run as a commercial enterprise with requirements laid down by Government Ministers to make a return on its assets. The financial Ministerial Target for this year was set at 7.2% and the strength of performance has been such that at 11.5% this too has been achieved. Turnover of £131.8 million was 9% higher than in 2006-07, with the majority of the growth coming from the Circulating Coin business. Collector Coin sales were broadly in line with the prior year, but this in itself was a significant achievement as the business refocused on its core coin products, with the discontinuation of the Royal Mint Classics range. Of particular significance is the improvement in contribution margins achieved in almost all market areas as management attention was focused on selling high added value products, controlling costs and driving productivity improvements.

Whilst it is gratifying to be in a position to post healthy results for this year, this should in no way mask the highly competitive nature of the markets within which the Royal Mint operates. In the face of external pressures that can strongly influence its operations, however, the

key message I would like to convey through this Report is that the Royal Mint is now in a better position than it has been for some years and has excellent opportunities to deliver similarly good results in the future.

Customers

The work of the Royal Mint is to be found in the pockets and purses of 60 million people in the United Kingdom alone. In fact, solely on the basis of this year's activities, the product of the Royal Mint's 35 acre site in South Wales was used by over 500 million people in 52 different countries. It is no exaggeration to point out that, providing as it does one of the fundamental building blocks of all these economies, the Royal Mint's products have one of the largest number of users of any organisation in the world. Our pre-eminent position as the world's leading exporting mint was evidenced by our winning a major contract with the Egypt Mint Authority.



The Customer Services Department of the Royal Mint processes tens of thousands of orders every year and a great deal of care and attention is paid to building personal relations with customers.

We are particularly pleased that, as a result of our performance, the contract has been extended for a second year. It is of primary importance that I and my colleagues remain focused on meeting the requirements of each and every one of our customers.

The Collector Coin business benefited from the popularity of the crown piece issued to celebrate the Queen and Prince Philip's Diamond

◀ Coils of metal weighing 2.5 tonnes being processed in the Melting, Rolling and Blanking Unit.



New reverse design

With one single, elegant idea Matthew Dent has succeeded in creating a series of designs for the United Kingdom's circulating coinage which is beautifully unified in style and symbolism.

Wedding anniversary, but the overall lack of sales growth highlights the need to appeal to new customers, and to reduce our dependency on event-driven products. Work is well advanced in developing a new strategic direction for the Collector Coin business, which will be essential to retain our market-leading position. The awarding of the contract for the Collector Coin Programme for the London 2012 Olympic Games provides the perfect platform to reinvigorate this key element of the business.

Business improvement programme

The wide-ranging business review which was commissioned over two years ago has resulted in significant changes being implemented.

Financial systems now have greater clarity and relevance, a new brand identity has been introduced and, underpinned by the better working programme, the business has been restructured.

Introducing the new financial systems is an ongoing project but important advances have already been made in the way in which performance is measured and monitored. The objective is to have in place a robust system that promotes a more responsive approach to sales opportunities, and that is actively directed at linking together different elements of the business. Through the excellent work already undertaken it has been possible to establish a completely new level of understanding of how the Royal Mint plans and manages its use of metal. Over the course of the next 12 months the transformation will begin to provide a solid foundation for the future.

The new Royal Mint identity was unveiled through the publication of the prior year's Annual Report but the impact of the changes was not realised more fully until the release of the Collector Coin product range in the lead up to Christmas. Changing the packaging and the logo, however, are only part of the process; how the new values will be implemented and realised is one of the challenges the Collector Coin team in particular will be addressing in the coming months.

The restructuring associated with the introduction of the better working programme came to an end during the autumn of 2007 and the benefits of more efficient working practices continue to impact positively on the Royal Mint's financial results. A vital task confronting management will be to ensure that the advances made so far are sustained not just in the year ahead but for several years to come.

New designs for the coinage

A development of truly national significance was the launch at the Tower of London on 2 April 2008 of new designs for seven of the coins in everyday use, the first time such a momentous change has taken place in 40 years. It was especially appropriate for the coins to be unveiled at the Tower, very much the Royal Mint's spiritual home, and it is hoped that renewed contact with the Tower through other projects will work to the benefit of both organisations. Coverage on television and in newspapers was extensive and largely positive, representing the successful culmination of a three-year project to rejuvenate the country's circulating coinage. Indeed, the contemporary

look that young Welsh artist Matthew Dent has given to traditional heraldic devices that make up the new designs has close parallels with the Royal Mint as it is today – an institution with a long and honourable history embracing a contemporary vision for the future.

Success in design was formally recognised through the award by the Mint Directors' Conference to the Royal Mint of Best Circulating Coin for the Brunel £2 coin designed by silversmith Rod Kelly.

Employees

None of what has been achieved in the last two years would have been remotely possible were it not for the commitment of the workforce and I extend to them my sincere thanks for the energy with which they have applied their undoubted skills. In the past 12 months it has been possible to resolve outstanding pay settlements, a situation which will now allow sufficient freedom to lay meaningful plans for the future. Linking pay directly to performance, the proper use of incentives and the introduction of a new assessment system tied to training requirements can all now be developed in ways that had not been possible during the period of restructuring.

Production

New working practices have resulted in production efficiencies across a number of departments but here, as in other areas of the business, the measure of success will be the extent to which the changes can be sustained in the longer term, whilst instigating a culture of continuous improvement. The reclassification of the Royal Mint to lower-tier status with respect to Control of Major Accident Hazards (COMAH) regulations represents an important achievement and will provide the impetus for directing more effort towards establishing new environmental targets over the next 12 months, as we build a sustainability agenda.

Towards the end of the year a serious fire in one of the nickel-plating plants caused a substantial amount of damage. The costs and the disruption caused to production are deeply regrettable, but it is a testament to the soundness of the existing emergency systems that the fire was contained, that there was no environmental impact and, more importantly, that no one was injured.

Vision for the future

Building on the recovery of the last 18 months we have now outlined the new vision for the

Royal Mint to all our employees – **Making Money for Everyone**. This vision clearly sets out our role and responsibilities as an organisation, defining the fundamental nature of what the Royal Mint does and how it contributes to the lives of millions of people. In short, it:

- recognises the cultural and economic significance of coins in society;
- defines our role as a manufacturer of circulating and collector coins;
- emphasises our capability to service a global market;
- focuses on our responsibility to deliver shareholder value; and
- incentivises employees to achieve financial targets.

The Royal Mint Mission Statement has also been rewritten, encapsulating the strategies we will deploy to realise and sustain this vision in the years ahead.

The Royal Mint aims to be the leading global supplier of premium coins whilst maintaining the highest standard of service within the United Kingdom. The business will drive for sustainable profit and cash growth through strong branding, technical innovation, operational excellence, optimum capital utilisation and building our team.

As a business the Royal Mint now has clear objectives and excellent opportunities both domestically and in international markets. As an institution its reputation for quality and innovation is high and its public profile is rising. The last 12 months have seen the rewards of disciplined financial management and good business judgements. With the plans that are now in place for the next 12 months, combined with the efforts of a newly motivated workforce, I am confident that sustained profitability is achievable.

Andrew Stafford



Management Commentary

For the year ended 31 March 2008

Activities and structure

The Royal Mint's principal roles consist of:

- the manufacture and distribution of United Kingdom circulating coins under a Service Level Agreement (SLA) with HM Treasury;
- the manufacture of circulating coins and blanks for overseas central banks and mints;
- the manufacture, marketing and distribution of United Kingdom and overseas collector coins and medals; and
- the manufacture of official medals, seals and dies.

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

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

On 1 April 1990 the Royal Mint became an Executive Agency under the initiative announced by the then Prime Minister in February 1988.

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

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

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 net assets (RONA) as determined by the Chancellor of the Exchequer for 2007-08 was 7.2%. The return in 2007-08 was 11.5%, its highest level since 1997-98 and more importantly above the ongoing target established from 1 April 2001 of 11%. For this purpose the annual rate of return is calculated using profit/loss for the year before interest on long-term loans from the National Loans Fund (NLF) as a percentage of the average capital employed (capital and reserves plus long-term loans from the NLF) of two year-end positions. The Royal Mint thus achieved its main objective on RONA in 2007-08. The performance compared with other key Ministerial Targets is set out on page 20.

The primary responsibility of the Royal Mint is the provision and maintenance of the United Kingdom coinage. In practice therefore the Royal Mint must produce sufficient quantities of each denomination to meet public demand and it must maintain stocks at a level that ensures demand can be met satisfactorily. The Royal Mint fulfilled these objectives.

The business improvement programme, launched in mid 2006, was successfully completed by the autumn of 2007. The programme objectives were to enhance the financial systems, implement the results of a corporate identity review, develop efficient working practices and lower operational costs. All these objectives were achieved; the Royal Mint delivered an operating profit before interest and exceptional costs of £9.6 million (2006-07: £8.7 million), its highest level for ten years and a dividend payable of £3.9 million (2006-07: nil).

The Circulating Coin business strategic objectives are to:

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

.....
◀ The world's first triangular-shaped gold coin weighing one kilo was struck by the Royal Mint for Bermuda during 2007.

The Collector Coin business strategic objectives are to:

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



Britannia bullion coin, 2008

Coins taking Britannia as their theme have been part of the bullion and collector markets since 1987. They remain extremely popular and are now produced in silver, gold and platinum.

Issues of United Kingdom circulating coins 2007-08

Denomination	Face Value £m	Number of Pieces Millions
£2	36.680	18.340
£1	32.980	32.980
50 pence	11.256	22.511
20 pence	20.300	101.500
10 pence	7.488	74.880
5 pence	13.296	265.920
2 pence	4.506	225.300
1 penny	5.772	577.200
Total	132.278	1,318.631

Estimated value and number of coins in circulation 31 March 2008

Denomination	Face Value £m	Number of Pieces Millions
£2	624	312
£1	1,470	1,470
50 pence	410	820
20 pence	463	2,315
10 pence	163	1,625
5 pence	189	3,783
2 pence	132	6,614
1 penny	109	10,920
Total	3,560	27,859

Operating and Financial Review

The Royal Mint, for the second consecutive year, improved its trading performance. Turnover increased by 9% to £131.8 million (2006-07: £120.8 million), sales growth primarily coming from the Circulating Coin market area which achieved sales of £85.0 million, increasing from the prior year by £10.6 million. Collector Coin achieved sales of £46.8 million, broadly similar to the prior year following a cessation of the Royal Mint Classics range and a downsizing of the non-coin business.

The Royal Mint significantly increased its net profitability with a retained profit before dividend of £7.2 million compared to a profit of £1.2 million in 2006-07 and a loss of £1.6 million in 2005-06. This result was achieved after charging £1.3 million of exceptional items, which related to the implementation of the business improvement programme.

Operating margins continued to increase year-on-year across the business, with management concentrating on improving the product mix, controlling costs and implementing the business improvement programme. Contribution to common costs, as a percentage of sales-less-metal, increased from 18.1% to 18.5% in Circulating Coin and from 32.5% to 39.1% in Collector Coin.

A serious fire in one of the plating plants disrupted Circulating Coin production and sales towards the end of the financial year and work is ongoing to return this plant to operation. The Royal Mint is self-insured, and the fire reduced operating profits by £0.9 million in 2007-08, made up of

£0.4 million of asset write-offs and £0.5 million of contribution which will now be earned during 2008-09. Management is pleased with the progress of reconstruction of the affected plant and expects production to resume in early summer.

Total cash flow for the year (before financing) was positive £14.4 million (2006-07: positive £9.4 million). The major contributing factor to this success has been management's actions on controlling working capital. Net debt improved year-on-year with a positive cash balance of £3.8 million (31 March 2008) compared to £10.7 million of debt (31 March 2007).

The Royal Mint's foundry processes in the region of 10,000 tonnes of non-ferrous metal every year.



A 50p piece was issued in 2007 to mark the centenary of the Scouting Movement.

Capital expenditure was £1.5 million (2006-07: £1.4 million). The Royal Mint has continued to implement a selected capital investment strategy directed at product quality, cost reduction and health and safety projects. Investment will be increasing significantly in major projects in support of the business strategy over the coming years.

	2007-08 £m	2006-07 £m
Turnover:		
Circulating Coin		
UK	39.8	36.3
Overseas	45.2	38.1
Collector Coin	46.8	46.4
	131.8	120.8
Operating costs:		
Metal costs	(65.1)	(50.9)
Bought-in costs	(3.4)	(3.8)
Staff costs	(24.4)	(25.4)
Other costs	(29.3)	(32.0)
Operating profit/(loss) before exceptional items	9.6	8.7
Exceptional items		
Restructuring	(1.3)	(6.4)
Operating profit/(loss)	8.3	2.3

The Circulating Coin business delivered its second year of increased profitability with a contribution to common costs of £7.4 million, an increase of £0.1 million over the prior year and significantly ahead of the £4.0 million contribution achieved in 2005-06. Overall coin and blank sales volumes were 3% lower than the prior year mainly due to lower United Kingdom despatches to banks and post offices.

United Kingdom coinage issued to the cash centres totalled 1,319 million coins (2006-07: 1,587 million). This reflected reduced demand in the high street. Working closely with the Association for Payment Clearing Services (APACS) the Royal Mint achieved 99.3% against its Ministerial Target of delivering 99% of accepted orders from banks and post offices within 11 days.

Delivery of United Kingdom coin was fully converted to bulk packaging, which is more cost effective for the cash centres to process and reduces the amount of packaging material. The ongoing efforts to improve forecasting of United Kingdom coin demand continue and it is a notable achievement of APACS that their members are able to guarantee to draw at least 80% of their annual forecast for each denomination. The start of the next financial year will see the cost of transporting United Kingdom coin from the Royal Mint to the

cash centres transferred to banks and post offices. We would like to record our thanks to APACS for their positive and constructive work in formulating an equitable sharing of costs amongst their members.

A new SLA was negotiated with HM Treasury covering the period from 1 April 2007 to 31 March 2009. The main changes from the previous SLA were:

- HM Treasury now pays the Royal Mint for United Kingdom circulating coins in the month after they have been produced. As part of this change, HM Treasury purchased the existing stock of finished coins in November 2007.
- the new SLA provides that coins produced will conform to our agreed schedule. The production schedule will be reviewed on a quarterly basis and amended if HM Treasury's requirements change.
- a revised pricing schedule, and associated discount, reflecting the transfer of stock financing costs.

The Royal Mint has for a number of years conducted surveys to monitor counterfeit levels notably of the £1 coin which recently has attracted a growing amount of criminal activity. During this year two surveys were conducted with the assistance of the members of APACS who gathered a representative sample base. After analysis at the Royal Mint, the results confirmed an upward trend. The methodology used has been discussed with the Office of National Statistics and the findings shared with the Police who have had some notable successes in closing down illegal operations during the year. As we look forward, the cash centres will be increasing their vigilance to identify and withdraw counterfeit coins and the Royal Mint will continue the current practice of conducting a survey every six months so that we have an up to-date assessment of the situation.

An exercise was commenced during the year with a view to determining how well the £2 coin is wearing. After ten years in circulation, of particular interest is the longevity of the centrally located latent feature. The collection of the sample coins has been completed and the testing will be conducted during the summer and autumn.

For Circulating Coin overseas markets, a total of 52 countries chose the Royal Mint as their preferred supplier of circulating coins and ready-for-striking blanks; the Royal Mint was

also appointed consultants in support of upgrading two state mints (Nigeria and Egypt) and we continued to offer the service of securely smelting customers' old coinage. This maintained our position as the leading exporting mint in the world, with approximately 15% of the available market worldwide, and consolidated our status as a major supplier of steel-plated coinage products.


Shortly after completion during the year of the Nigerian blank order, we were delighted and honoured with the award of a major order from the Egypt Mint Authority for both coins and blanks. Of particular note was the award of a contract by Rwanda for their new 100 fils coin. During the year we exported circulation coins to 38 countries and ready-for-striking blanks to 14 countries. Other major coin orders included those secured from Trinidad & Tobago, Eastern Caribbean Central Bank (ECCB) and Macau; we also exported collector coins to 15 issuing authorities worldwide. We would like to thank several overseas customers for their understanding and flexibility in adjusting



For despatch, a number of countries prefer their coins to be wrapped in paper tubes and the Royal Mint has invested in a dedicated machine to pack coins according to this requirement.

delivery schedules following the fire in one of our plating plants. Their willingness to reschedule deliveries has been greatly appreciated.

Circulating Coin production volumes were broadly similar to the prior year and spending on production overheads was held constant year-on-year with savings covering the costs of inflation. All production areas implemented



“ For overseas markets, a total of 52 countries chose the Royal Mint as their preferred supplier of circulating coins and ready-for-striking blanks. ”

and built upon the changes identified during the business improvement programme. This resulted in significant gains in operating efficiencies and enhanced control over operating costs. The work has continued across the business, utilising the continuous improvement team to co-ordinate ongoing advances in key areas. Circulating Coin production volumes were ahead of those planned in the majority of areas with improvements in stock management throughout the year.

Significant capital investment was undertaken within the plating area, increasing the capacity for brass plating and reducing the COMAH status of the Royal Mint from the top category to the lower tier.

The Collector Coin business delivered another successful year with an increase in profitability, generating a £10.5 million contribution compared to £9.7 million in 2006-07 and significantly ahead of the £4 million contribution achieved in 2005-06. The crown piece issued to commemorate the Queen and Prince Philip's Diamond Wedding anniversary in 2007 proved to be extremely popular amongst key customers and was instrumental in driving profitability. The constantly rising precious metal prices are a concern, gold having increased by 39% and silver 33% in the year. Careful management of margins is ongoing and we successfully maintained our gross profit margins to be broadly in line with plan during the year.

Some supply chain issues were experienced which had a negative impact on sales and standards of customer service; this is currently being addressed through a major project covering the entire 'concept to customer' process and we expect this to yield significant improvements to customer service during 2008-09. The October postal strike meant cancellation of planned door-drop activities in the Business-to-Consumer market area and the subsequent loss of sales was not recovered. In Business-to-Business there was high demand from overseas governments such as Australia, Jamaica, Gibraltar and other Commonwealth countries, which boosted Medal Unit sales despite demand from its main customer, the Ministry of Defence, slowly declining during the year. Within the Retail market area the key relationship between the Royal Mint and

Royal Mail has been further strengthened with six product offerings in the last 12 months.

The corporate and brand identity review started in 2006-07 was adopted with the key principles communicated both to internal and external stakeholders. There is now a consistent approach to communications with clear guidelines to prevent misuse and dilution of the brand.

Four of the five Ministerial Targets were achieved. We were successful in exceeding the Ministerial Target for fulfilment of United Kingdom Collector Coin orders to individual customers in the United Kingdom and successful in the medals delivery target. The quality target – 99.7% of products accepted by individual customers – was missed, with an outturn of 99.0%.

Exceptional items

Exceptional costs in the year were £1.3 million – one-off costs associated with the completion of the business improvement programme. These costs are now finalised, with a total cumulative charge to the profit and loss account of £7.7 million (2007-08: £1.3 million and 2006-07: £6.4 million). The main elements of them relate mainly to consultancy costs, early retirement costs and voluntary redundancy costs. Of the above, £1.5 million (2006-07: £4.4 million) is included in provisions and creditors to cover the balance of the early retirement payments to be paid over the next nine years.

Dividends

The Royal Mint generated sufficient funds to declare a dividend for the year of £3.9 million.

Vesting

In December 2004 the Chancellor of the Exchequer announced an intention that the Royal Mint's business operations would be vested into a Companies Act company, wholly owned by Government. Vesting was put on hold in 2006 pending the recruitment of the new Chief Executive. The case for vesting is being considered further.

Derivative financial instruments

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

movements in commodity metal prices and foreign currency.

Metal prices

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

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

Metal prices have changed significantly during the year: gold increased by 39%, silver by 33%, copper by 21%, nickel has reduced by 35% and zinc reduced by 31%. All of these metals are purchased in United States dollars, which weakened in the year by 1.2%, partially compensating for the above increases. More recently steel suppliers have sharply increased their prices and these increases will be factored into future Circulating Coin contract tenders.

Higher LME metal costs are recovered in circulating coin and blank selling prices and therefore do not adversely affect the operating profit. Metal price inflation does however affect working capital, loan funding and interest charges. Due to the hedging policy of the Royal Mint the full impact of these LME metal price changes takes several months to be realised. Collector Coin stock is primarily held in precious metals and valued on the basis of purchase price.

The cash flow impact of changes in metal prices in 2007-08 has been estimated based on the stock held 31 March 2008, comparing metal stock prices at 31 March 2007 to 31 March 2008. Circulating Coin stock values are broadly similar year-on-year – with the rise in the price of copper compensated for by a fall in the nickel price. Changes in precious metal prices have



Orders secured from countries throughout the world remain a very important part of the Royal Mint's turnover and of particular note in the last 12 months was work undertaken on major recoinages for Nigeria and Egypt.

increased the value of Collector Coin stocks by £4.5 million year-on-year.

Metal stocks

The Royal Mint's metal stocks include a base stock of copper and nickel, which is included at a valuation based on the LME prices at 31 March 2008. In addition, precious metal loans are used to finance the Royal Mint's working capital of gold and silver. The loans are reflected in stocks and the corresponding liability is included in trade creditors. All other metal stocks are in respect of sales commitments (see Metal prices above).

Foreign exchange

The Royal Mint hedges its expected future trading cash flows using forward contracts. The objective of the hedging policy is to minimise the effect of fluctuations in exchange rates on future transactions and cash flows.

Credit payment policy

The policy of paying creditors complied with the Better Payment Practice Code. A total of 87% (2006-07: 85%) of invoices was paid within either 30 days or the agreed period.

Assay

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

People

The Royal Mint believes that all employees have an important contribution to make to the working and development of the organisation. The aim is to create an environment in which everyone's abilities are recognised and one where all are encouraged to develop and use their talents to the full. It is our wish to create a culture which encourages and rewards excellence in performance. To this end a new Performance Review system has been prepared and will be rolled out within the organisation, with clear emphasis on personal development and training needs.

In-house pay negotiations were successfully concluded, with a fundamental review of the overall pay structure due in 2008.

The voluntary redundancy programme was satisfactorily concluded as at 31 August 2007.

The number of people employed (permanent and casual staff) at 31 March 2008 was 765 (2007-762). The average number of people employed in the year was 754 compared with 861 in 2006-07.

Directors

Details of the Directors are set out in the Remuneration Report on page 30. None of the Directors has interests that conflict with their responsibilities.

Auditor

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

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

Safety, Health and Environment

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

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

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

lower tier COMAH status, having previously been categorised as a top-tier site. By moving to this new status the Royal Mint demonstrated that it has played an active part in reducing the risk of chemical hazards on site.

In relation to the fire in one of the nickel-plating plants on 3 March the fire brigade were in attendance and all staff were safely evacuated from the area affected. There was no adverse environmental impact but the plant was seriously damaged. The cause of the fire was an electrical fault and the Royal Mint is currently reviewing how it can prevent a similar incident from happening again to minimise the impact on the business. Due to the efforts of the staff and the robust recovery systems in place the impact has been minimised.

Outlook

Collector Coin outlook for 2008-09 will be adversely affected by the absence of major themed events; in terms of product range, the Queen's 80th Birthday in 2006 and the Diamond Wedding anniversary in 2007 proved to be extremely popular amongst key customers. The anniversaries to be commemorated on the United Kingdom coinage in 2008 and 2009 are unlikely to have the same mass appeal. This over-dependence on event-driven product development has already been highlighted as a key business risk and so the challenge going forward will be to broaden the appeal of Collector Coin products generally, both within the United Kingdom and overseas.

Despite the strong Collector Coin performance in 2007-08, some of the underlying trends are negative, with reducing returns being experienced from sales and marketing activities. Major work is, therefore, being undertaken to develop a new vision and strategy for the business, and new approaches are being tested and implemented; this includes introducing new ways of acquiring new customers. The sharp rises in precious metal prices are a concern but sales have been robust and margins will remain under close scrutiny. The Collector Coin Programme for the London 2012 Olympic Games commences from Summer 2008 and will be developed further over the course of the next four years.

On 2 April 2008 we had a successful major launch of the new reverse designs for the United Kingdom coins – 1p to £1 inclusive. This is the biggest change to United Kingdom

coinage since decimalisation almost 40 years ago. The launch was extremely well planned and well received, and the main sales effect will be seen in 2008-09. The coming year will be one of transition as the Collector Coin business strengthens its foundations and exploits substantial opportunities that lie ahead.

Circulating Coin overseas orders are already secured at about 80% of the plan for 2008-09. Additional nickel-plating capacity will be available by early summer 2008 following the conversion of one of the existing plating lines. Additional capital investment in the plating line affected by the fire is under way and the plant will have additional safety systems, as well as being more productive than before. The key for the Circulating Coin business remains to develop and maintain profitable pricing of overseas contracts.

Metal prices continue to be volatile and may drive working capital levels higher. Using 31 March 2008 metal prices, currency rates and



Traditional skills, such as engraving direct into steel, remain fundamental to the preparation of high-quality modern coins and medals.

stock volumes, working capital on Circulating Coin would increase in value by a further £2.5 million. Recent increases in steel prices are a concern and a strategic review will be commenced to minimise the impact on Circulating Coin margins. Management will be focused on specific planned actions that where possible will drive working capital levels lower and mitigate any adverse metal price fluctuations.

The planned 2008-09 targets are to deliver a sustainable retained profit and a positive return on capital employed at least equivalent to the Ministerial Target. For the financial

year 2008-09 the key Ministerial Target (number 1) is to be calculated on a revised method that better reflects management control of both profit and Balance Sheet. This revised target is the Return on Average Capital Employed (ROACE); profit (operating profit after exceptional costs before interest and dividend) is expressed as a percentage of the 12 month average of each period end capital employed (fixed & current assets less liabilities excluding all loans and cash). On this basis the Ministerial Target number 1 for 2008-09 is 5.1%.

In 2008-09 we will consolidate the work already completed within the business improvement programme embedding future actions into continuous improvement programmes and further enhancing operational efficiencies. The Circulating Coin and Collector Coin business areas must stay focused on their strategic objectives and successfully manage all critical resources and relationships; the planned 2008-09 targets are stretching but achievable.

Andrew Stafford
Accounting Officer
9 June 2008



In 1908 Britain hosted the Olympic Games, and the Royal Mint has commemorated the 100th anniversary of this momentous event with the issue of £2 coin designed by Thomas T Docherty of the Royal Mint Product Design Department.

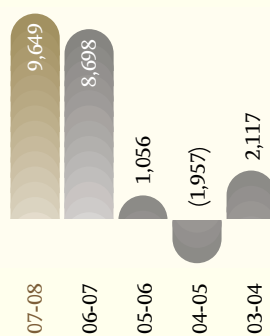
Financial Summary

	2007-08 £'000	2006-07 £'000	2005-06 £'000	2004-05 £'000	2003-04 £'000
United Kingdom sales	84,989	73,165	59,323	55,311	62,161
Overseas sales	46,790	47,700	55,229	44,302	27,729
	131,779	120,865	114,552	99,613	89,890
Operating profit/(loss) before exceptional items	9,649	8,698	1,056	(1,957)	2,117
Exceptional items	(1,325)	(6,385)	(1,344)	-	-
Operating profit/(loss)	8,324	2,313	(288)	(1,957)	2,117
Profit/(Loss) for the year	7,174	1,238	(1,600)	(3,245)	1,294
Dividend	(3,940)	-	-	-	(750)
Retained profit/(loss) for the year	3,234	1,238	(1,600)	(3,245)	544
Total assets less current liabilities at 31 March	67,052	65,580	59,887	59,564	63,084
Operating profit/(loss) before exceptional items as a percentage of sales	7.3%	7.2%	1.0%	(2.0%)	2.4%
Operating profit/(loss) as a percentage of sales	6.3%	1.9%	-	(2.0%)	2.4%

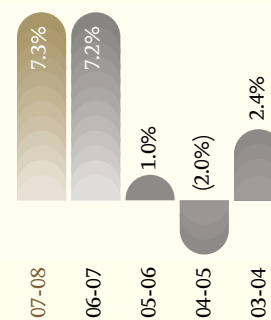
Total Sales £'000



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



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



Key Annual Ministerial Targets

		2008-09	2007-08	2006-07	2005-06	2004-05
Target 1						
¹ To achieve a rate of return on average capital employed	Target	5.1%	-	-	-	-
	Outturn	-	-	-	-	-
² To achieve average rate of return on net assets	Target	-	7.2%	2.9%	2.9%	4.9%
	Outturn		11.5%	3.0%	(1.7%)	(4.3%)
Target 2						
UK Circulating Coin						
Delivery of accepted orders from UK banks and Post Office within 11 days	Target	99.0%	99.0%	99.0%	99.0%	99.0%
	Outturn		99.3%	99.3%	99.2%	99.3%
Target 3						
UK Collector Coin						
Delivery of orders to individual UK customers within 14 days, measured from receipt of order or published due date	Target	85.0%	85.0%	85.0%	85.0%	85.0%
	Outturn		86.9%	81.0%	87.0%	83.0%
Delivery of orders to individual UK customers within seven days, measured from receipt of order or published due date	Target	65.0%	65.0%	65.0%	65.0%	65.0%
	Outturn		77.9%	72.0%	67.0%	70.0%
Target 4						
Medals						
Orders delivered by agreed delivery date	Target	98.0%	98.0%	98.0%	98.0%	98.0%
	Outturn		98.3%	99.6%	99.6%	99.3%
Target 5						
Quality						
Collector Coin products accepted by individual UK customers	Target	99.7%	99.7%	99.7%	99.7%	99.7%
	Outturn		99.0%	99.6%	99.6%	99.3%

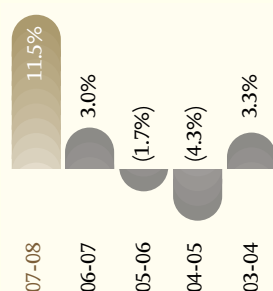
¹ Return on Average Capital Employed (ROACE)

The target for 2008-09 will be based upon a revised calculation, return on average capital employed. This is calculated by expressing profit as a percentage of average capital employed. Profit for this calculation will be taken as operating profit after exceptional costs before interest and dividend. Average capital employed will be taken as the 12 month average of capital employed at the end of each period (fixed and current assets less liabilities excluding all loans and cash).

² Return on Net Assets (RONA)

The average rate of return on net assets is calculated by expressing profit as a percentage of average net assets. Profit for this calculation is taken as the retained profit plus long-term loan interest. Net assets are taken as the average of the opening and closing Balance Sheet capital employed plus long-term loans outstanding.

Financial Objective Ratio (Target 1)



Comparison of RONA (return on net assets) with the equivalent ROACE (return on average capital employed) for the last three years is summarised below.

	2007-08	2006-07	2005-06	2004-05
RONA	11.5%	3.0%	(1.7%)	(4.3%)
ROACE	11.2%	2.7%	(0.3%)	(2.0%)



“ It is hoped that links with the wider art and design community will help raise the profile of numismatic design in Britain. ”



The Royal Mint Advisory Committee, 2007-08

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

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

Five meetings were held in the last 12 months, three at Cutlers' Hall, one at the Royal Academy of Arts and one at Buckingham Palace. In addition members of the Committee visited the Royal Mint for a tour of the site, affording them a valuable opportunity to see some of the latest developments. On 2 April 2008 a three-year project to redesign the reverses of the

In relation to the commemorative programme for 2008, work on the crown piece marking the 60th birthday of the Prince of Wales was completed, with His Royal Highness very generously finding time for two personal sittings with the sculptor Ian Rank-Broadley FRBS. The result is a classic coinage portrait and no less than what would be expected of a sculptor with the reputation and standing of Mr Rank-Broadley. Designs were also secured from the silversmith Rod Kelly for the Queen Elizabeth I anniversary crown and from Thomas T Docherty for a £2 coin to commemorate the 100th anniversary of the London Olympic Games of 1908. It was particularly gratifying to see Mr Docherty, a member of the Royal Mint Product Design Department, come through a limited competition to succeed in designing his first United Kingdom coin. A programme of annual design changes for Britannia bullion coins was instituted a couple of years ago and for 2008 a stylised



The sculptor Ian Rank-Broadley FRBS prepared drawings and a low-relief model of his portrait of the Prince of Wales for the crown piece issued to mark the 60th birthday of the heir to the throne.

seven coins from the 1p to the £1 was brought to a conclusion with the unveiling at the Tower of London of the winning series by the young graphic designer Matthew Dent. Resolving a visual language through which to symbolise Britain on the coinage has taxed artists for hundreds of years and the Committee, too, found it no less of a challenge. At one time or another the answer has been found in ships and patron saints, plants and crowns, birds and bridges. More often than not, however, it has been through the use of emblems, and more particularly heraldry, that the identity of the nation has been expressed. By dividing a single view of the Shield of the Royal Arms across six of the coins, the great success of Mr Dent's solution has been in treating the most traditional of heraldic devices in an entirely contemporary manner.

interpretation of Britannia by the sculptor John Bergdahl was selected.

A deliberate effort was made during the year to bring forward the timetable for obtaining designs. Rather than looking at designs for 2009 in the autumn of 2007, which would have been the more usual time-frame, it was resolved to brief artists for a number of competitions before the summer of 2007, thereby allowing them several weeks to reflect on the chosen themes but, more importantly, providing greater flexibility in planning the production of the coins. For the 2009 programme, designs have therefore now been recommended for a crown piece to mark 500 years since the accession of Henry VIII, a £2 coin to celebrate the 200th anniversary of the birth of Charles Darwin, another £2 coin to

honour the 250th anniversary of the birth of Robert Burns and a 50p piece to mark 250 years since the founding of the Royal Botanic Gardens at Kew. Approval is now being sought for the recommended designs through the Chancellor of the Exchequer and Her Majesty The Queen, and details of the successful artists will be made public towards the end of 2008.

The manner in which artists submit their initial ideas was discussed at a number of meetings, a key issue being the degree to which it should be necessary for the Committee to visualise how designs will appear as struck coins. Giving clear direction at the briefing stage is crucial and the use that is being made by some artists of three-dimensional design packages may become increasingly important in the future. Links between the Royal Mint and the Royal Academy have historically been strong and more Academicians than ever before are now taking an interest in designing coins. Contact with the Society of Portrait Sculptors has also developed during the last eighteen months and it is hoped that these and other links with the wider art and design community will help raise the profile of numismatic design in Britain.

One of the most important programmes for the Royal Mint over the next few years will be the London 2012 Olympic Games. Much of the initial sifting of designs will be undertaken by a Sub-Committee which will include seconded representatives of the London Organising Committee of the Olympic Games. The time that Bill Morris and Debbie Jevans from that organisation have already devoted to developing the programme has been of enormous value. Work on designing the first of the coins in the programme is already underway and it will be fascinating to see how the programme takes shape over the course of the next few years.

Two members of the Committee, Stuart Devlin and Katharine Eustace, stepped down after ten years of service. As an artist who has designed coins for many countries, Mr Devlin brought to the Committee's deliberations invaluable knowledge, while the scholarship and judgement of Miss Eustace ensured the decisions taken were always well informed. New members of the Committee were recruited at the beginning of 2008: Tim Knox, Director of Sir John Soane's Museum, and Jana Khayat, Chairman of Fortnum & Mason. Both having attended one meeting it is already clear they

will bring to the Committee distinctive and valuable perspectives.

Chairing meetings of a body that selects designs for new United Kingdom coins and official medals is a role that requires tact, sound aesthetic judgement and a clear sense of direction. Sir Christopher Frayling has demonstrated these and other admirable qualities in abundance in the seven years he has so far served as Chairman. It is through his skilful handling that the care taken by



Matthew Dent, the designer of the new United Kingdom coins, is pictured here at the launch of the designs at the Tower of London on 2 April. He won a public competition in which over 4000 designs were submitted and the solution he devised has been widely praised in the design world.

members over the recommendations made is channelled intelligently. But what is also important is the advice and guidance offered by members between meetings, whether this be on possible themes for future coins, the style and form of lettering or on artists who might in the future be approached to design a coin or medal. Members give of their time with a generous spirit and the Royal Mint is extremely grateful for all their efforts over the last 12 months.



The respected silversmith Rod Kelly has worked on many high-profile commissions in his career and his design for the reverse of the crown piece issued to mark the 450th anniversary of the accession of Elizabeth I is his second United Kingdom coin.

Membership of the Committee at 31 March 2008 (with dates of appointment)

Professor Sir Christopher Frayling
Chairman
(January 2001, re-appointed January 2005)

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

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

Miss MaryAnne Stevens
(April 2001)

Professor David Cannadine
(September 2004)

Mr John Maine RA
(September 2004)

Mr Stephen Raw
(January 2005)

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

Mrs Jana Khayat
(February 2008)

Mr Tim Knox
(February 2008)

Mr John Porteous OBE
(Numismatic Consultant to the Committee)

Kevin Clancy
Secretary to the Committee



“Resolving a visual language through which to symbolise Britain on the coinage has taxed artists for hundreds of years.”

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

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

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

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

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

Corporate Governance – Statement on Internal Control

Scope of responsibility

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Mint's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically. The system has been in place in the Royal Mint for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts. It accords with HM Treasury guidance.

Capacity to handle risk

The leadership of the Royal Mint's risk management process is undertaken by the Management Team comprising Executive Directors and the Board Secretary who meet formally on a regular basis and not fewer than ten times a year. The Management Team

focuses on the identification and management of the key risks which could impact on the achievement of the Royal Mint's policies, aims and objectives, and the control strategy for each of the significant risks.

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

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

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

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

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

The risk and control framework

Risk management is embedded in the ongoing planning and strategy process and focuses on the identification of the key risks which could impact on the achievement of the Royal Mint's strategic objectives. A register of key corporate risks is maintained together with a series of operational risk registers covering each of the areas of responsibility of the Management Team. These were subject to extensive review and update during 2007-08 and in April 2008. A review of data-handling procedures has recently been undertaken. No personal data-related incidents were identified.

The Risk Management Committee is responsible for ensuring that:

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

The Committee also:

- ensures that the Royal Mint has a risk management policy and framework which accords with best practice and meets business needs;
- considers periodically all of the operations and activities of the Royal Mint in relation to its objectives and identifies the associated risks, including potential new risks;
- evaluates significance of risks;
- reviews the progress of action plans;
- assigns ownership (allocating to an appropriate Executive Director/Senior Manager) of all key risks;
- challenges the management of risk and monitors the effectiveness of the responses to risks;
- receives presentations from risk and control owners on significant risks; and
- reviews the annual Statement on Internal Control for recommendation to the Accounting Officer.

Governance

Although there is currently no requirement for the Royal Mint to comply with the Combined Code on Corporate Governance, the Directors support high standards of governance and, in so far as is practicable given the Royal Mint's size and status, have together with HM Treasury and the Shareholder Executive established the following governance provisions:

- a Non-Executive Chairman of the Board and three other Non-Executive Directors, thus providing the Board with four Non-Executive Directors;
- an Audit Committee, comprising Non-Executive Directors, other than the Chairman, all of whom are deemed to be independent, having documented terms of reference and chaired by a Non-Executive Director with recent and relevant financial experience; and
- a Remuneration Committee, comprising all Non-Executive Directors, all of whom are considered to be independent except the Chairman, having documented terms of reference and chaired by an independent Non-Executive Director.

The Royal Mint does not have a Nominations Committee and it has therefore been agreed by the Board that the Remuneration Committee should undertake this role in respect of Executive Director nominations.

There is a clear division of responsibilities between the Non-Executive Chairman and the Chief Executive.

The composition of the Board changed significantly during 2007-08 (see page 30 for further details).

The Board met five times in 2007-08 (2006-07: seven times). David Barrass attended three meetings and Andrew Stafford two. Joanne Jeynes and Andy Mitchell both attended four meetings, and Dave Knight and Caroline Roberts attended one meeting. The remaining members attended all five meetings.

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

Review of effectiveness

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

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

In particular, it includes:

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

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

The Royal Mint's risk priorities in 2007-08 continued to be in the following areas:

- safety, health and the environment;
- demand for and delivery of circulating coins;
- demand for and delivery (customer service) of collector coins;
- security;
- volatility of raw material prices; and
- management of the business improvement programme.

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.

As noted in the Management Commentary (p10 and p17) a serious fire occurred towards the end of the financial year.

During 2007-08 further improvements were made in control processes. A project was completed to review processes and systems in relation to metal and bullion accounting, purchasing and treasury hedging; and new processes were progressively implemented. Those processes in respect of hedging have yet to be fully documented, but this will be completed during the early part of 2008-09. An independent review of the effectiveness of these new systems and processes will be a key focus for early 2008-09.

A number of senior management changes occurred during and immediately after the end of the year (see p30 - Remuneration Report). During such a period of rapid and significant change, there is a risk that control processes may not function as anticipated. The key risks have been identified and plans drawn up to mitigate those risks.

The Royal Mint operates internal audit arrangements to standards defined in the Government Internal Audit Standards. The internal audit function during 2007-08 was undertaken by Mazars LLP, Chartered Accountants. Their annual audit plan, the results of their audit, including recommendations for improvements, are reported to the Director of Finance and myself, and presented to the Audit Committee. They also provide an independent opinion on the adequacy of the Royal Mint's system of internal control.

Andrew Stafford
Accounting Officer
9 June 2008

Remuneration Report

Remuneration Committee

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

The Committee for the financial year 2007-08 comprised Mike Davies, Colin Balmer and Jan Smith (Committee Chairman). 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 once in 2007-08 (2006-07: four times). The meeting was attended by all members of the Committee.

Committee remit

The remit is normally reviewed at least annually; it was last updated in November 2006. The remit can be accessed on the Royal Mint website.

Remuneration policy

The Royal Mint's policy is to maintain levels of remuneration commensurate with the Public Sector so as to motivate and retain Executive Directors of a high calibre who can effectively contribute their experience and views to the business.

Board of Directors

The Board currently comprises a Non-Executive Chairman, three independent Non-Executive Directors and seven Executive Directors, two of whom are engaged under interim arrangements. Andrew Stafford replaced David Barrass as Chief Executive in October 2007. Tony Burnell retired as Director of Human Resources in May 2007 and was replaced on an interim basis by Joanne Jeynes until the appointment of Caroline Roberts in January 2008 who subsequently resigned on 16 May. Andy Mitchell, who had been appointed as an interim Director of Collector Coin Marketing in June 2006, left in January 2008 and was replaced by Dave Knight who was also appointed on an interim contract. Clare Janczewski, Director of Collector Coin Sales, has been on maternity leave since late March and during her period of absence Dave Knight has taken on responsibility for this area of the business. The term of appointment of one Non-Executive Director, Jan Smith, came to an end in March 2008. Subsequent to the end of the year Mary Chapman and David Harding were appointed as Non-Executive Directors, and Colin Balmer was re-appointed as a Non-Executive Director in May 2008 following an initial one-year appointment.

Executive Directors' terms, conditions and remuneration

The remuneration package for the Executive Directors consists of basic salary, a Short-Term Incentive Plan in the form of a performance-linked annual cash bonus and Civil Service Pension (CSP).

i. Basic salary

The basic starting salary of Executive Directors is determined as part of their recruitment and selection process. Thereafter it is subject to regular review. During 2006-07 the Remuneration Committee agreed to an increase in the basic salary of Phil Carpenter.

ii. Short-Term Incentive Plan (STIP)

The Remuneration Committee agreed a STIP for 2007-08 the purpose of which was to recognise and reward outstanding team performance against planned business targets and as such is subject to the following conditions. The bonus scheme applied to Executive Directors and the maximum bonus payable was 25% of salary earned during the financial year. The bonus scheme applied to Functional Managers (a group of up to 18 Senior Managers) and the maximum bonus payable to this group was 15% of salary earned as a Functional Manager during the financial year.

iii. Civil Service Pension

Clare Janczewski and Messrs Burnell, Carpenter and Cottrell are members of the Classic Pension Scheme. Andrew Stafford is a member of the Nuvo Pension Scheme, as was Caroline Roberts until her resignation in May 2008. See Note 14 for details.

The following table is subject to audit.

Executive Directors	Remuneration 2007-08 (2006-07) £'000	Real increase in pension and related lump sum at pension age £'000	Total accrued pension at retirement age at 31 March 08 and related lump sum £'000	CETV 31 March 2007 £'000	CETV 31 March 2008 £'000	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Andrew Stafford ¹ (Appointed 15 October 2007) Chief Executive Full-Year Equivalent	85-90 180-185	0-3 lump sum N/A	0-3 lump sum N/A	N/A	35	32
Tony Burnell ² (Early retirement 31 May 2007) Director of Human Resources	10-15 (70-75)	0-1 lump sum 0-1	5-10 plus 25-30 lump sum	148	146	2
Phil Carpenter Director of Production	70-75 (65-70)	0-1 lump sum 0-2	10-15 plus 35-40 lump sum	141	173	4
Keith R Cottrell Director of Circulating Coin Sales	70-75 (70-75)	0-1 lump sum 0-1	15-20 plus 45-50 lump sum	354	406	6
Clare Janczewski Director of Collector Coin Sales	65-70 (15-20)	0-3 lump sum 5-10	5-10 plus 25-30 lump sum	72	116	29
Andy Mitchell ³ (Resigned 4 January 2008) Director of Collector Coin Marketing	75-80 (85-90)	0-1	0-5	13	28	11
Caroline Roberts ⁴ (Appointed 2 January 2008) Director of Human Resources Full-Year Equivalent	15-20 75-80	0-1 lump sum N/A	0-3 lump sum N/A	N/A	5	5

¹ Andrew Stafford was appointed on a fixed-term three-year contract.

² Tony Burnell received early retirement compensation of £35,583.

³ Andy Mitchell, Director of Collector Coin Marketing, was appointed on a fixed-term contract providing a three-month notice period. His remuneration includes accommodation and travel costs.

⁴ Caroline Roberts was appointed on a one-year contract.

Remuneration includes salary payable, bonuses paid and all other benefits. Pension benefits are provided through CSP arrangements. Details of these arrangements are set out in Note 14.

Bonuses are disclosed in the year they are paid; no bonuses were paid in 2007-08. Bonuses payable in 2007-08 have not been finalised and will be fully disclosed when paid in 2008-09.

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

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

Employment agreements

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

Executive Director	2007-08	2006-07
David Barrass Chief Executive (Contract ended 15 October 2008)	285,753	319,117
Peter Allred Director of Finance	244,766	225,315
Joanne Jeynes Director of Human Resources (Appointed 17 April 2007, contract ended 21 December 2007)	103,813	-
Dave Knight Director of Collector Coin Marketing (Appointed 2 January 2008)	40,206	-

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

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code which requires appointments to be on merit on the basis of fair and open competition, but also includes the circumstances when appointments may otherwise be made. Unless stated elsewhere, the officials covered by this Annual Report hold appointments which are

open-ended until they reach retirement age. Early termination, other than for misconduct and persistent poor performance, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Non-Executive Directors' terms, conditions and fees

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

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

The following information is subject to audit.

	*2007-08 £'000	2006-07 £'000
Hugh Beevor	-	20.6
Mike Davies	55	3
Robert Guy	-	8.6
Jan Smith	19	9
David Wertheim	-	8.6
Colin Balmer	22	-

* Remuneration in 2007-08 includes travel costs

Andrew Stafford
Accounting Officer
9 June 2008

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Royal Mint for the year 31 March 2008 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Royal Mint, Accounting Officer and Auditor

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

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

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

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

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

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

Basis of audit opinion

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

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

I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Royal Mint's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises only the Management Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
13 June 2008

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

Profit and Loss Account

For the year ended 31 March 2008

	Notes	£'000	£'000	2007-08 £'000	2006-07 £'000
TURNOVER	2, 3			131,779	120,865
Change in stocks of finished goods and work in progress			(1,007)		(1,427)
Own work capitalised			-		-
Other operating income			-		30
Raw materials and consumables		(75,700)			(62,438)
Exceptional raw materials and consumables	6	-			(14)
			(75,700)		(62,452)
Other external charges			(3,428)		(3,815)
Staff costs	5	(24,163)			(25,391)
Exceptional staff costs	6	(237)			(4,907)
			(24,400)		(30,298)
Depreciation and other amounts written off tangible fixed assets	4, 8	(4,439)			(4,112)
Exceptional depreciation	6	-			(81)
			(4,439)		(4,193)
Other operating charges		(13,393)			(15,014)
Other exceptional operating charges	6	(1,088)			(1,383)
			(14,481)		(16,397)
				(123,455)	(118,552)
OPERATING PROFIT/(LOSS)	4				
Operating Profit before exceptional items			9,649		8,698
Exceptional Items	6		(1,325)		(6,385)
				8,324	2,313
INTEREST RECEIVABLE AND SIMILAR INCOME				280	153
INTEREST PAYABLE AND SIMILAR CHARGES	7			(1,430)	(1,228)
PROFIT FOR THE YEAR				7,174	1,238
DIVIDEND PAYABLE TO THE CONSOLIDATED FUND				(3,940)	-
				3,234	1,238

No activities have been acquired or discontinued during the year.
The Notes on pages 40 to 49 form part of the Accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007-08 £'000	2006-07 £'000
Profit for the year	7,174	1,238
Unrealised surplus on revaluation of property	-	644
Unrealised surplus on revaluation of plant and machinery	23	423
Unrealised (loss) surplus on revaluation of uncommitted metal	(567)	3,272
Total recognised gains and losses relating to the year	<u>6,630</u>	<u>5,577</u>

MOVEMENTS IN CAPITAL AND RESERVES (Government Funds)

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1 April 2007	5,500	13,145	36,872	55,517
Movements in the year:				
Revaluations				
Fixed assets	-	23	-	23
Stocks	-	(567)	-	(567)
Profit for the year	-	-	7,174	7,174
Dividend	-	-	(3,940)	(3,940)
Transfers relating to depreciation	-	(241)	241	-
At 31 March 2008	<u>5,500</u>	<u>12,360</u>	<u>40,347</u>	<u>58,207</u>

The Notes on pages 40 to 49 form part of the Accounts.

Balance Sheet

At 31 March 2008

	Notes	£'000	2008 £'000	2007 £'000
FIXED ASSETS				
Tangible assets	8		33,654	36,927
CURRENT ASSETS				
Stocks	9	48,471		57,712
Debtors	10	12,492		11,133
Cash at bank and in hand		11,932		4,184
		<u>72,895</u>		<u>73,029</u>
CREDITORS: Amounts falling due within one year	11	(39,497)		(44,376)
NET CURRENT ASSETS			<u>33,398</u>	<u>28,653</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>67,052</u>	<u>65,580</u>
CREDITORS: Amounts falling due after more than one year	12		(7,427)	(8,172)
PROVISIONS FOR LIABILITIES AND CHARGES	13		<u>(1,418)</u>	<u>(1,891)</u>
NET ASSETS			<u>58,207</u>	<u>55,517</u>
FINANCED BY:				
CAPITAL AND RESERVES				
Public dividend capital			5,500	5,500
Revaluation reserve			12,360	13,145
Profit and loss account			40,347	36,872
CAPITAL EMPLOYED			<u>58,207</u>	<u>55,517</u>

The Notes on pages 40 to 49 form part of the Accounts.

Andrew Stafford
Accounting Officer
9 June 2008

Cash Flow Statement

For the year ended 31 March 2008

	Notes	2007-08 £'000	2006-07 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	17,095	11,881
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		257	145
Interest paid		(1,437)	(1,238)
		<u>(1,180)</u>	<u>(1,093)</u>
CAPITAL EXPENDITURE			
On acquisition of tangible fixed assets		(1,467)	(1,405)
Receipts from sale of tangible fixed assets		-	-
		<u>(1,467)</u>	<u>(1,405)</u>
CASH FLOW BEFORE FINANCING		14,448	9,383
FINANCING			
Long-term loan principal repaid		(700)	(657)
Movement in short-term loans		(6,000)	(7,000)
NET CASH FLOW FROM FINANCING		<u>(6,700)</u>	<u>(7,657)</u>
INCREASE IN CASH IN THE YEAR	(b)	7,748	1,726
(a) RECONCILIATION OF OPERATING PROFIT WITH THE NET CASH INFLOW FROM OPERATING ACTIVITIES		£'000	£'000
Operating profit		8,324	2,313
Depreciation charge		4,439	4,193
Movements in:			
Stocks		8,674	(5,703)
Debtors		(1,336)	5,426
Creditors (excluding dividend)		(2,533)	4,836
Provision for liabilities and charges		(473)	816
		<u>17,095</u>	<u>11,881</u>
b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000
Increase in cash in the year		7,748	1,726
Cash flow from movements in borrowings		6,700	7,657
Movement in net debt		14,448	9,383
Net debt at start of year		(10,688)	(20,071)
Net funds/(debt) at end of year	20	<u>3,760</u>	<u>(10,688)</u>

The Notes on pages 40 to 49 form part of the Accounts.

Notes to the Accounts

Note 1

PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Accounting

The Accounts are prepared under the historical cost convention modified by the revaluation of tangible fixed assets and stocks of uncommitted metal and in accordance with the Government Financial Reporting Manual. They conform with the accounting and disclosure requirements of the Companies Act 1985 and applicable accounting standards issued or adopted by the Accounting Standards Board as far as those requirements are appropriate.

(b) Turnover

This consists of the invoiced price of goods and services supplied, excluding royalty and license payments and Value Added Tax (VAT).

(c) Value Added Tax

Income and expenditure are shown net of recoverable VAT. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to fixed assets.

(d) Tangible Fixed Assets

Tangible fixed assets are included at their value to the business by reference to current cost.

The valuation is based upon the following:

- i land and buildings are stated at the open market current use valuation or, in the case of specialist buildings, depreciated replacement cost; and
- ii plant and machinery are stated at their cost uprated by indices published by the Office for National Statistics.

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

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

(e) Depreciation

Depreciation charged represents the value to the business of fixed assets consumed in the year and is provided on the value of fixed assets on a straight-line basis over their expected useful lives. The principal rates used for this purpose are:

	%
Buildings	2
Delicate and electrical plant and machinery	10
Robust mechanical plant	4-6
IT hardware and software and motor vehicles	12.5 - 33.3

No depreciation is provided in respect of land.

(f) Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost (or net current replacement cost where materially different) and estimated net realisable value. Cost consists of direct materials, labour and production overheads. The net current replacement cost of the metal element of stocks and work in progress less commitments to and advances received from customers has been revalued on the basis of LME prices ruling at 31 March 2008. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a finished condition. Provision is made for obsolescent, slow moving and defective stocks.

Note 1 continued

(g) Foreign Exchange

Revenue and expenditure incurred in foreign currencies which are not covered by a forward contract are translated at the rate of exchange ruling at the date of the transaction. Balances held in foreign currencies not covered by forward contracts are translated at the rate of exchange ruling at the Balance Sheet date. Transactions and balances covered by forward contracts are translated at the contract rate.

(h) Insurance

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

(i) Pension Scheme

Employees are covered by the provisions of the CSP arrangements which mainly comprise final-salary defined-benefit schemes that are unfunded. The Royal Mint recognises the expected cost of providing pensions on a systematic basis over the period in which it benefits from employees' services by payment to the CSP Schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the CSP Schemes. Further information is given in Note 14.

(j) Leases

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

Note 2

TURNOVER

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

All turnover originated in the United Kingdom. Analysis of turnover by destination is set out below:

	2007-08 £'000	2006-07 £'000
United Kingdom	76,467	73,165
Overseas	55,312	47,700
	<u>131,779</u>	<u>120,865</u>

Note 3

SEGMENTAL REPORTING

ANALYSIS BY CLASS OF BUSINESS

	2007-08 £'000	2006-07 £'000
Turnover		
Circulating Coin		
United Kingdom	39,836	36,317
Overseas	45,153	38,132
	<u>84,989</u>	<u>74,449</u>
Collector Coin		
United Kingdom	36,631	36,848
Overseas	10,159	9,568
	<u>46,790</u>	<u>46,416</u>
Total Turnover	<u>131,779</u>	<u>120,865</u>

Note 3 continued

	2007-08 £'000	2006-07 £'000
Operating profit/(loss)		
Circulating Coin	7,364	7,248
Collector Coin	10,557	9,731
Common costs	(8,272)	(8,281)
Exceptional items	(1,325)	(6,385)
Total operating profit	<u>8,324</u>	<u>2,313</u>
Net operating assets		
Circulating Coin	37,604	52,864
Collector Coin	14,961	12,389
Unallocated net assets	14,487	327
Total assets less current liabilities	<u>67,052</u>	<u>65,580</u>

The unallocated net assets comprise cash at bank and in hand, NLF loans and debtor and creditor balances which are not specifically attributed to either segment.

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

Note 4**OPERATING PROFIT**

	2007-08 £'000	2006-07 £'000
Operating profit is stated after charging:		
Sub-contracted work and semi-processed material	3,428	3,815
Hire of plant and machinery	86	103
Travel and subsistence	462	426
Foreign exchange loss/(gains)	298	(271)
Loss on disposal of assets as a result of fire	440	-
Auditors' Remuneration		
Audit of these financial statements	60	55

Note 5**REMUNERATION AND EMPLOYMENT**

Details of the salary and pension entitlements of Executive Directors are included in the Remuneration Report, pages 30 to 33.

TOTAL STAFF COSTS	£'000	2007-08 £'000	£'000	2006-07 £'000
Wages and salaries				
Staff with a permanent contract	18,837		18,187	
Other staff	838		2,651	
	<u>19,675</u>	19,675	<u>20,838</u>	20,838
Social Security costs				
Staff with a permanent contract	1,334		1,289	
Other staff	70		170	
	<u>1,404</u>	1,404	<u>1,459</u>	1,459

Note 7**INTEREST PAYABLE AND SIMILAR CHARGES**

	2007-08 £'000	2006-07 £'000
On loans repayable within five years	785	732
On loans payable by instalments over more than five years	548	590
Unwinding of discount on provision for early retirement (Note 13)	97	45
Adjustment to provision	-	(139)
	<u>1,430</u>	<u>1,228</u>

Note 8**TANGIBLE FIXED ASSETS**

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Valuation			
At 1 April 2007	14,560	78,444	93,004
Additions	135	1,008	1,143
Disposals	-	(1,236)	(1,236)
Revaluation	-	232	232
At 31 March 2008	<u>14,695</u>	<u>78,448</u>	<u>93,143</u>
Depreciation			
At 1 April 2007	-	56,077	56,077
Charge for year	394	3,605	3,999
Disposals	-	(796)	(796)
Revaluation	-	209	209
At 31 March 2008	<u>394</u>	<u>59,095</u>	<u>59,489</u>
Net book value at 31 March 2008	<u>14,301</u>	<u>19,353</u>	<u>33,654</u>
Net book value at 1 April 2007	<u>14,560</u>	<u>22,367</u>	<u>36,927</u>

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

The valuation has been reduced by the impairment provision made in the year ended 31 March 2002. There has been no change in the impairment provision between the years ending 31 March 2003 and 31 March 2008; a review was conducted as at 31 March 2008.

Note 9**STOCKS**

	2008 £'000	2007 £'000
Metal stocks	30,104	36,240
Work in progress (excluding metal)	4,664	4,294
Stores and packing materials	2,574	2,572
Finished goods	11,129	14,606
	<u>48,471</u>	<u>57,712</u>

Note 9 continued

Metal stocks of £30.104 million (2007: £36.240 million) include a base stock of copper and nickel with a net realisable value of £9.362 million at 31 March 2008 (2007: £10.14 million) and £11.12 million (2007: £17.31 million) in respect of precious metal held for third parties and reflected in trade creditors (See Note 11).

The current replacement cost of other stocks and work in progress is not significantly different from the Balance Sheet values.

Note 10

DEBTORS	2008 £'000	2007 £'000
Trade debtors	12,283	10,502
Other debtors	27	444
Prepayments and accrued income	182	187
	<hr/>	<hr/>
	12,492	11,133

Included within the debtors are the following:

	2008 £'000	2007 £'000
Balances with other Government bodies		
Other central Government bodies	1,516	852
Local Authorities	1	-
NHS Trusts	5	2
Public Corporations and Trading Funds	113	1
	<hr/>	<hr/>
	1,635	855

Note 11

CREDITORS: amounts falling due within one year	2008 £'000	2007 £'000
Short-term fixed-rate NLF loans	-	6,000
Long-term NLF loans (See Note 12)	745	700
Trade creditors	20,612	25,609
Other creditors	2,077	4,512
Payments received on account	10,352	5,824
Taxation and Social Security	937	524
Proposed Dividend	3,940	-
Accruals and deferred income	834	1,207
	<hr/>	<hr/>
	39,497	44,376

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

Early retirement (See Note 13)	734	785
Redundancy (See Note 13)	67	2,768

Included within the creditors are the following:

Balances with other Government bodies not shown separately above		
Other central Government bodies	182	732

Note 12

CREDITORS: amounts falling due after more than one year	2008 £'000	2007 £'000
Loans repayable:		
Between one and two years	793	745
Between two and five years	2,699	2,536
After five years	3,935	4,891
	<u>7,427</u>	<u>8,172</u>

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

Loan £'000	Interest rate %	Date drawn	Amount due within 12 months (see Note 11) £'000	Amount due after 12 months (above) £'000
10,500	6.347	20 September 2001	654	6,458
1,500	6.305	2 October 2001	91	969
			<u>745</u>	<u>7,427</u>

Note 13**PROVISIONS 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 2008 and 2018. The provision has been assessed at current prices at the Balance Sheet date, and in accordance with Financial Reporting Standard 12, has been discounted at a real rate of 2.2%, with the unwinding of the discount treated as an interest charge on the Operating Account.

	Redundancy £'000	Early Retirement £'000
At 1 April 2007	2,768	2,676
Provision made in year	-	84
Unwinding of discount on provision	-	97
Payments offset against the provision	(2,701)	(705)
At 31 March 2008	67	2,152
Less amount payable within one year (included in creditors - see Note 11)	(67)	(734)
Amount payable after one year	<u>-</u>	<u>1,418</u>

Note 14

PENSION COSTS

Pension benefits are provided through the CSP arrangements. From 30 July 2007 Civil Servants may be in one of four statutory based defined-benefit schemes (Classic, Premium, Classic Plus and Nuvos). New entrants after 30 July 2007 may choose between membership of Nuvos or joining a good quality 'money purchase' stakeholder-based arrangement with an employer contribution that increases with age up to a maximum of 15.5% (partnership pension account). Royal Mint employees participate in the Classic, Premium, Classic Plus and Nuvos schemes. Details of these schemes are set out below.

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. The Classic Scheme pension age is 60. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of pensionable salary for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or two and a quarter times pension if greater. The commutation rate is £12 of lump sum for each £1 of pension given up. Members pay contributions of 3.5% of pensionable earnings. The Premium Scheme pension age is 60.

On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill-health.

Where the member's health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic Plus Scheme

This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

(d) Nuvos Scheme

Benefits accrue in a different way from the other schemes. The pension is not based on final salary, instead the pension is built up each year at 2.3% of pensionable earnings. Each year the pension built up is increased in line with the Retail Price Index (RPI). The current Nuvos pension age is 65. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of the pension multiplied by 30 and divided by seven. The commutation rate is £12 of lump sum for each £1 of pension given up. Members pay contributions of 3.5% of pensionable earnings.

On death, pensions are payable to the surviving spouse or eligible partner at a rate of 37.5% of the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of twice pensionable earnings and also provides a service enhancement on computing the spouse's pension. Medical retirement is possible in the event of serious ill-health.

Pensions payable under the Classic, Premium, Classic Plus and Nuvos schemes are increased in line with the RPI.

Note 14 continued

These are unfunded multi-employer defined-benefit schemes and the Royal Mint is unable to identify its share of the underlying assets and liabilities. A review of the Accruing Superannuation Liability Charges assessment as at 31 March 2007 by the scheme actuary was completed and a report was published in December 2007 which can be found at (http://www.civilservice-pensions.gov.uk/facts_and_figures.aspx). Further details can be found in the resource account of the Cabinet Office: Civil Superannuation (<http://www.civilservice-pensions.gov.uk/publications.aspx>).

For 2007-08, employers' contributions of £3.078 million were paid to the CSP schemes (2006-07: £3.114 million) at rates in the range of 17.1% to 25.5% of pensionable pay, based on salary bands. The contributions reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 15

CAPITAL COMMITMENTS	2008 £'000	2007 £'000
Commitments in respect of contracts	478	526

Note 16

OPERATING LEASE COMMITMENTS	2008 £'000	2007 £'000
Operating lease rentals due within the next year	56	82
Leases expiring:		
Between one and five years	61	30
After five years	-	-

Note 17

RELATED-PARTY TRANSACTIONS

The Royal Mint is an Executive Agency and Trading Fund.

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

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

Note 18

NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Hedges

As explained in the Management Commentary on pages 8 to 18, the Royal Mint's policy is to hedge the exposures detailed below.

Metal Price Risk

The metal contracts relate entirely to the purchase of raw materials for use by the Royal Mint in its manufacturing processes. Such contracts are placed solely for sales commitments.

Liquidity and Interest Risk

The only borrowing facility for both short and long-term debt is the NLF. All borrowings with the NLF are fixed rates. There is currently no overdraft facility at any of the Royal Mint's banks. See Note 11 (short term) and Note 12 (long term).

Currency Risk

The forward exchange contracts which were outstanding at 31 March 2008 consisted of forward foreign currency purchases of £18.7 million (2007 £12.2 million) and forward foreign currency sales of £16.4 million (2007 £30.5 million). If these contracts were translated at the year-end rate there would have been a gain of £0.434 million (2007: gain of £0.025 million). All of these contracts are in respect of transactions or commitments of the Royal Mint and they are all due to mature during the year ending 31 March 2009.

Note 19

CONTINGENT LIABILITIES

In June 2002 the Birmingham Mint Limited issued a claim in the High Court against HM Treasury seeking damages in excess of £5.4 million in respect of an alleged breach of contract by the Royal Mint. Since then the Royal Mint has been notified that the claim has been assigned to a former Director of Birmingham Mint Limited.

The Royal Mint considers that there is no basis to this claim.

Note 20

ANALYSIS OF CHANGE IN NET (DEBT)/FUND

	At 1 April 2007	Cash Flow	Other Movements	At 31 March 2008
Cash at bank and in hand	4,184	7,748	-	11,932
Short-term loans	(6,000)	6,000	-	-
Long-term loans due within one year	(700)	700	(745)	(745)
Long-term loans due after more than one year	(8,172)	-	745	(7,427)
Net (debt)/funds	(10,688)	14,448	-	3,760

Note 21

DATE OF AUTHORISATION OF ACCOUNTS

The Accounts were authorised to be issued on 19 June 2008.



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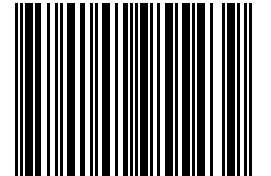
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