

Royal Mint Annual Report 2003-04

Royal Mint Board of Directors and Management Structure

As at 31 March 2004

EXECUTIVE DIRECTORS

Gerald Sheehan

Chief Executive

Tony Burnell

Director of Human Resources – appointed 1 May 2003

Keith Cottrell

Director of Sales

Huw Edwards

Director of Finance – appointed 1 October 2003

Michael Slater

Director of Circulating Coin Production

Alan Wallace

Director of Collector Coin

NON-EXECUTIVE DIRECTORS

Hugh Beevor

Non-Executive Chairman – appointed 1 March 2004

Robert Guy *

Non-Executive Director – appointed 15 March 2004

Jan Smith

Non-Executive Director – re-appointed 15 March 2004

David Wertheim **

Non-Executive Director – appointed 15 March 2004

* Chair of the Audit Committee

** Chair of the Remuneration Committee

BOARD SECRETARY

Martin Cragg

Royal Mint, Llantrisant CF72 8YT

Telephone: 01443 623058

E-mail: informationoffice@royalmint.gov.uk

Website: www.royalmint.com

Bankers

Bank of England

External Auditors

Comptroller and Auditor General

Internal Auditors

Mazars, Chartered Accountants



The Accounts of the Royal Mint Trading Fund as at 31 March 2004, 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 821 of 2002-03.) Presented pursuant to Act 1973, c.63, s.4(6).

Contents

Review of the Year

Message from the Chairman	3
Chief Executive's Report	4
Financial Summary	5
United Kingdom Circulating Coinage	7
Overseas Circulating Coins and Blanks	9
Collector Coin	11
Medals	13
People	14
Royal Mint Advisory Committee, 2003-04	16

Royal Mint Trading Fund

Financial and General Reports	20
Statement of Trading Fund's and Accounting Officer's Responsibilities	22
Corporate Governance – Statement on Internal Control	22
The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	25
Operating Account	26
Balance Sheet	28
Cash Flow Statement	29
Notes to the Accounts	30



Message from the Chairman

Two-thirds of the Mint's sales are earned in commercial markets, the toughest of which is the important overseas circulating coin and blank business where there are some highly-efficient competitors. Management under Gerald Sheehan has brought considerable realism to raising the Mint's efficiency towards best practice, involving all employees in appreciating the size of this challenge. Great progress in reducing costs has been made but competitors also improve their efficiency, so much still remains to be done at Llantrisant. The Board thanks all employees for their valuable efforts in raising standards and serving customers well.

As a Trading Fund, responsibility to Parliament through Ministers rests with the Accounting Officer, Gerald Sheehan. However, it has been both his intention and the wish of Ministers that the Mint's Corporate Governance should be modern with a strong Board of Directors exercising effective supervision of management.

David Stark, the previous Chairman, started this change process with Gerald Sheehan's help. David Trapnell and Lyndon Haddon retired as Non-Executive Directors during the year. The commitment, enthusiasm and encouragement of all Non-Executive Directors was greatly appreciated by management. The Board was able to retain the services of Jan Smith, with her strong marketing skills, as well as recruiting Robert Guy, with his relevant City experience, and David Wertheim, who has led and managed two large management buy-ins after a long international business career.

The direct relationship of the Mint with the new Shareholder Executive is already proving valuable to the Mint in its fast-moving market. Furthermore, with clear lines of responsibility and focused goals, the Mint is now well placed to show its full potential.

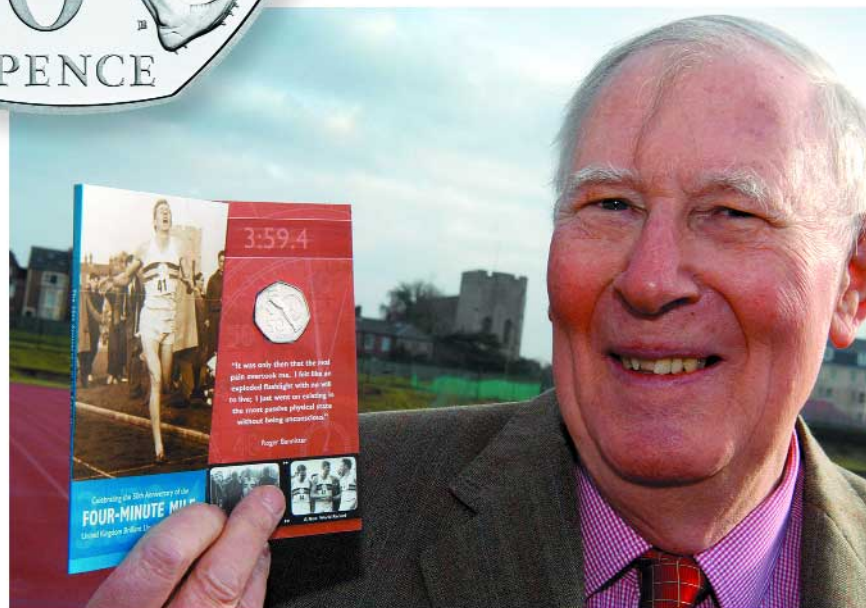
Hugh Beevor

Left: A new series of reverse designs for the one pound coin by Edwina Ellis was inaugurated with the release of the coin for Scotland depicting the Forth Railway Bridge.



Above and right: On 18 February 2004 Sir Roger Bannister helped to launch the fifty pence piece commemorating his remarkable achievement of being the first man to run a mile in under four minutes.

(Photograph courtesy of PA)



Chief Executive's Report

This year the Royal Mint has continued to build on the progress made during the previous year, with operating profit before exceptional items increasing to £2.1 million. The ongoing restructuring programme is focusing on the introduction of flexible working to satisfy the variability in customer and seasonal demand. It is anticipated that the full benefits of the programme will be seen in the second half of 2004-05.

The strategic imperative remains to achieve a strong competitive position in all the Mint's products and to continue to build on the significant improvements made in customer service.

Review of Trading

Sales of £89.9 million were slightly below the previous year (£92.0 million), but higher than anticipated at the beginning of the year.

The significant sales turnover from Golden Jubilee products during 2002-03 was not

repeated because there were no equivalent thematic events during the year. However, the Collector Coin business continues to develop, achieving a higher than planned turnover and profitability.

After a sluggish first half because of poor overseas demand, the Circulating Coin business recovered in the second half of the year, achieving increased sales to overseas markets. Business conditions, however, remain challenging, with sales margins still at historically low levels during the year.

For the first time the operating results have been presented on a segmental basis in line with the recommendations of both the Public Accounts Committee and the Treasury Select Committee.

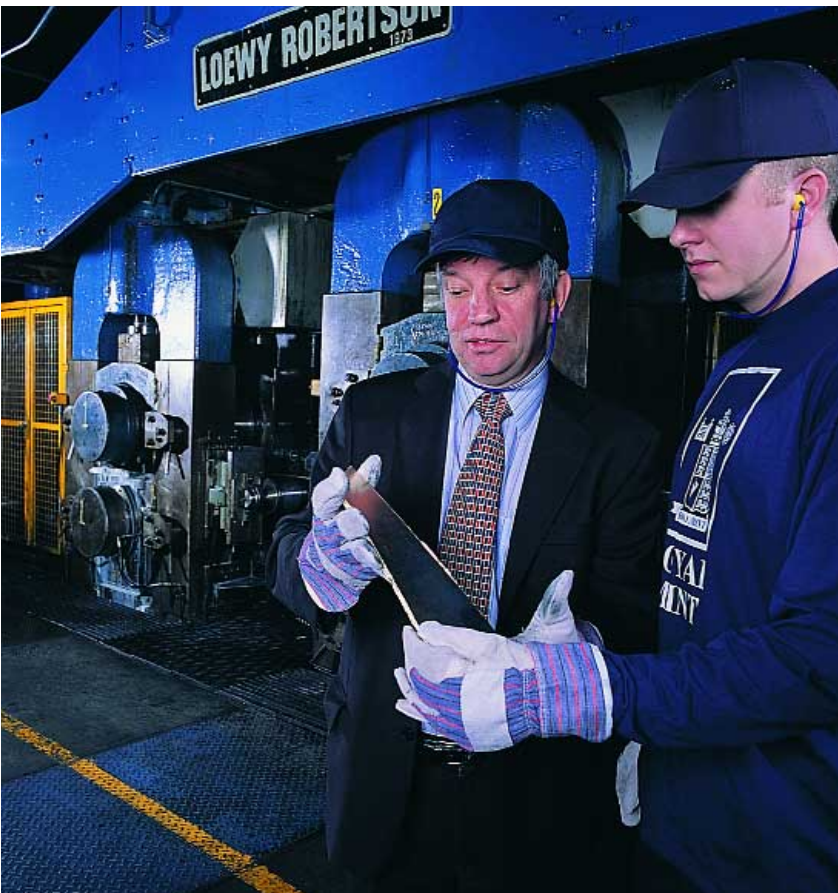
Looking to the Future

The action taken to reduce numbers employed, create clear accountability and the drive to introduce flexible working practices will provide the platform to develop the business further.

For Circulating Coin, recovery is evident in terms of volume and, to take advantage of the extra demand, shift patterns have been increased. Selling prices remain depressed and there is no expectation of any major recovery in this area of the business during the year.

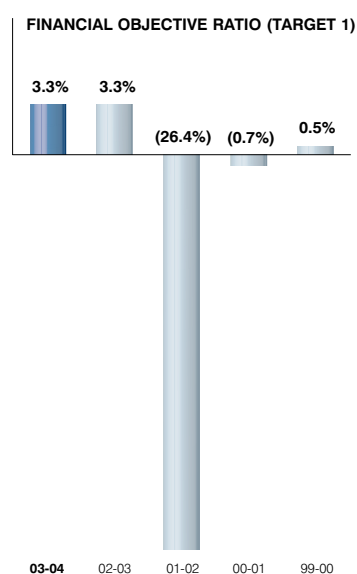
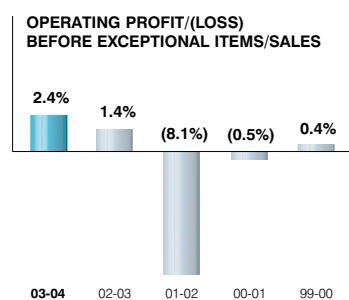
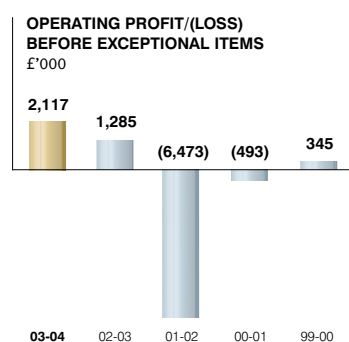
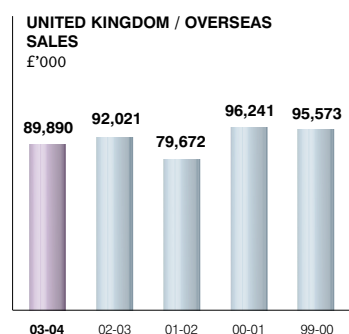
In Collector Coin, the restructuring of the management team will be completed, with a particular focus on product responsibility.

Gerald Sheehan



Left: **Gerald Sheehan** (left) examining a section of metal strip in the Melting, Rolling and Blanking Unit. (Molyneux Associates)

Financial Summary



	2003-04 £'000	2002-03 £'000	2001-02 £'000	2000-01 £'000	1999-00 £'000
MODIFIED HISTORICAL COST BASIS:					
United Kingdom sales	62,161	66,489	54,867	50,492	43,444
Overseas sales	27,729	25,532	24,805	45,749	52,129
	<u>89,890</u>	<u>92,021</u>	<u>79,672</u>	<u>96,241</u>	<u>95,573</u>
Operating profit/(loss) before exceptional items	2,117	1,285	(6,473)	(493)	345
Exceptional items	-	900	(12,000)	-	-
Operating profit/(loss)	<u>2,117</u>	<u>2,185</u>	<u>(18,473)</u>	<u>(493)</u>	<u>345</u>
Profit/(loss) for the year	1,294	1,357	(19,301)	(683)	668
Dividend	(750)	-	-	-	(500)
Retained profit/(loss) for the year	544	1,357	(19,301)	(683)	168
Capital employed at 31 March	63,084	63,278	69,514	70,483	70,445
Operating profit/(loss) before exceptional items/sales	2.4%	1.4%	(8.1%)	(0.5%)	0.4%

Key Ministerial Targets

		2004-05	2003-04	2002-03	2001-02
Target 1					
To achieve an average rate of return on net assets	Target	4.9%	4.0% ^a	11.0% ^b	11.0%
	Outturn	-	3.3%	3.3%	(26.4%)
Target 2					
UK Circulating Coin Delivery of accepted orders from UK banks and Post Office	Target	99.0% within 11 days	99.0% within 11 days	98.0% within 11 days	98.0% within 11 days
	Outturn	-	98.6%	99.8%	98.0%
Target 3					
UK Collector Coin Delivery of orders to individual UK customers, measured from receipt of order or published due date	Target	85.0% within 14 days ^d	95.0% within 14 days ^c	95.0% within 14 days	95.0% within 18 days
	Outturn	-	75.0%	58.0%	68.0%
Target 4					
Medals Orders delivered by agreed delivery date	Target	98.0%	97.0%	97.0%	97.0%
	Outturn	-	98.4%	97.5%	96.9%
Target 5					
Quality Collector products accepted by individual UK customers	Target	99.7%	99.7%	99.7%	99.7%
	Outturn	-	99.2%	99.2%	99.6%

a 9.0% by 2005-06

b Within the five-year period 1 April 2001 to 31 March 2006

c 61% within seven days (target 60%)

d 65% within seven days

In addition to the above, ministerial targets also focus on the cost of producing circulating coins and blanks. This information is commercially sensitive and is reported separately to the Treasury.



United Kingdom Circulating Coinage

ISSUES OF UNITED KINGDOM CIRCULATING COINS 2003-04

Denomination	Face Value £m	Number of Pieces Millions
£2	56.014	28.007
£1	68.031	68.031
50 pence	19.429	38.858
20 pence	28.451	142.255
10 pence	8.461	84.610
5 pence	15.681	313.620
2 pence	8.229	411.450
1 penny	7.275	727.500
Total	211.571	1,814.331

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 2003

Denomination	Face Value £m	Number of Pieces Millions
£2	463.781	232
£1	1,380.147	1,380
50 pence	348.050	696
20 pence	410.852	2,054
10 pence	151.934	1,519
5 pence	173.384	3,468
2 pence	124.185	6,209
1 penny	101.329	10,133
Total	3,153.662	25,691

Issues

- Coin issues during 2003-04 were significantly above the planned targets. Although many factors influence demand for United Kingdom coins, three areas are worthy of particular note.
 - The implementation of ACT (Automated Credit Transfer) of State benefits resulted in a less than expected reduction in coin demand. Benefit payments by cash have fallen by approximately a third and a fall of a further third is expected in the near future. It is estimated, however, that the overall impact of the new system on demand for coin will not be as great as was forecast originally.
 - The expansion in the number of machines that recycle lower denomination coins has so far had less effect on demand for new coins than was projected.
 - Although Cash Centres have improved efficiency and have rationalised their operations, this has been more than offset by the steady increase in demand generated by a robust domestic economy.
- In addition to working towards improving the accuracy of short-term demand estimates, the members of the Association of Payment and Clearing Services have agreed to increase the number of coins that they will take as a guaranteed percentage of their overall forecast.
- The crown piece celebrating the 100th anniversary of the Entente Cordiale between Britain and France was issued through most post offices before the end of March prior to the State visit of the Queen to France at the beginning of April. In addition, the fifty pence commemorative coin for the fiftieth anniversary of Roger Bannister's four-minute mile, and the two-pound coin celebrating the 200th anniversary of the first steam locomotive, will be issued through most banks and post offices during the course of the coming financial year.

Left: The Richard Trevithick two-pound coin was a commemoration not just of the vision of one man but also of the major industrial changes brought about by the advent of steam.

Right: In the Engraving Department traditional modelling and hand-engraving skills are married with the latest computer design software to create a flexible and innovative approach to coin and medal design.

(Molyneux Associates)





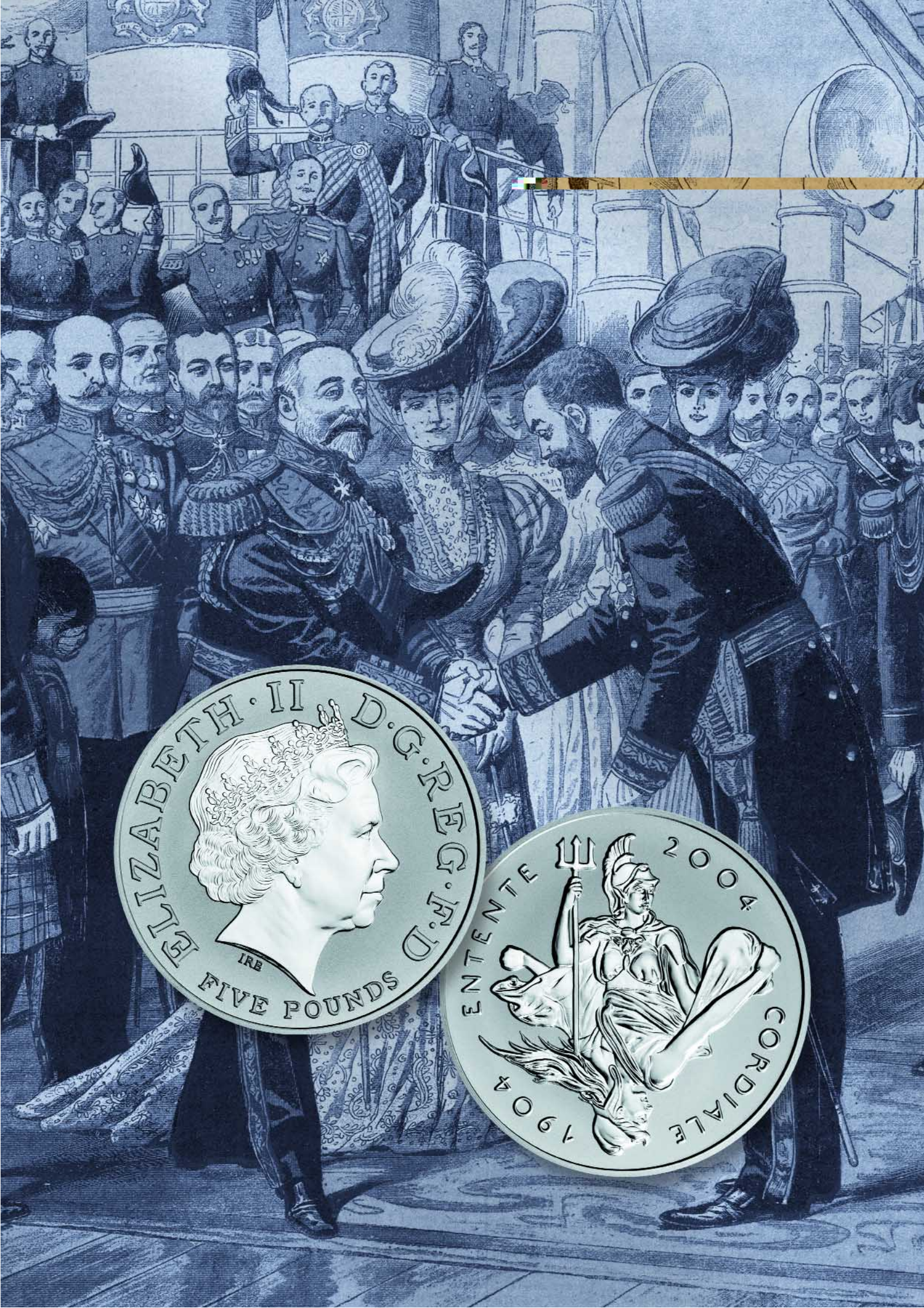
Overseas Circulating Coins and Blanks

- During the year the Mint maintained its high international profile, trading with no fewer than fifty-seven countries. Of these, it was especially gratifying to undertake work for the BCEAO countries (Banque Centrale des États de l'Afrique de l'Ouest, Central Bank of West African States). In Europe the Mint's strong position was reinforced with orders from several countries, including Austria, Germany, Holland and Ireland.
 - One of the key objectives for this year was to improve the competitive position of the Mint in what remains a very challenging international market. Significant progress has been made in meeting this objective, which had to be achieved in the face of a steady increase in demand in the market for coins and blanks. By building on last year's restructuring programme, unit costs have been reduced by 22% and there has also been an improvement in direct employee productivity of 16%.
 - Investment in additional nickel plating capacity and further improvements in the copper and brass plating plants have been made. The strength of the Mint in supplying plated coins and blanks has been recognised for several years. By steadily increasing investment in people and equipment the Mint has now established itself as the leading world supplier in this growing market area.
 - The lead-up to Christmas is always a very busy time, with high demand for United Kingdom coins coinciding with increased activity in all departments. In spite of a short period of selective industrial action during the late autumn, high levels of customer service were maintained. The clear focus on meeting the requirements of our customers will remain fundamental to the Mint's business plans and challenging targets have been set for the coming year.
 - Continually emphasising to all employees the importance of health and safety has resulted in a significant improvement in performance as judged against both internal and external indicators. Regulations on the wearing of protective clothing have been strengthened and thorough site inspections by senior managers are carried out on a regular basis. Safety and a concern for the environment are firmly embedded as part of the accepted culture of the Mint.
- For the coming year:
 - major changes will be introduced with the aim of making working practices more flexible so that the workforce can respond with greater effectiveness to the changing levels of demand during the year;
 - there will be investment in upgrading strip-casting facilities with a view to modernising equipment and improving quality;
 - changes to manufacturing systems will be consolidated to advance the Mint's competitiveness in the world market for circulating coins and blanks.
 - The Mint is in a stronger position than for many years and continues to uphold its reputation as the world's premier exporting mint. The Sales team, with continuing support from De La Rue International Ltd, have been successful in winning orders across the globe, cementing relations with existing customers and looking for new business elsewhere. Reducing costs has helped to sustain this position and the planned changes in the coming year are designed to create a platform for future growth.

Right: **To meet the packaging requirements of some of the Mint's customers a roll-wrapping machine was installed in the Coining Press Room.**
(Molyneux Associates)

Left: **Bi-colour coins for the Central Bank of West African States displayed design elements based on the cultural heritage of the region.**
(Cadmium/Iconotec)





Collector Coin

United Kingdom Coins

- In 2003 the Queen celebrated the 50th anniversary of her Coronation and a crown piece was issued to mark the occasion. This allowed the Mint to build on the remarkable popularity of the Golden Jubilee crown, with the new coin forming part of a twenty-four-coin collection of crowns from a number of countries.
- For 2004 a new two-pound coin celebrating the 200th anniversary of the first railway locomotive was made available and has been well received by the general public and train enthusiasts alike. Designed by Royal Mint Engraver Robert Lowe, the coin's reverse depicts a stylised representation of the locomotive developed and built by Richard Trevithick. In 1804 the engine hauled ten tons of iron, seventy passengers and five wagons from the Iron Works at Penydaren to meet the Merthyr to Cardiff Canal at Abercynon – the first time such a feat had ever been achieved by a steam-powered engine. Healthy sales of gold, silver and base metal collector versions of the coin are already evident.
- To mark the 50th anniversary of Roger Bannister's remarkable achievement of being the first man to run a mile in under four minutes, the Mint has struck a fifty pence piece. The symbolic design, by distinguished sculptor James Butler, features the legs of a

running athlete, alongside a stopwatch recording the record-breaking time in which Roger Bannister ran the race. Many of the Mint's Coin Club members will remember this inspiring sporting event and the coin is expected to have wide public appeal.

- Collector versions of the one pound coin have been an annual favourite since their introduction in 1983. For 2004 a new series of regional designs by Edwina Ellis was initiated representing, in turn over the next four years, Scotland, Wales, Northern Ireland and England. In a refreshing break from tradition, the coin will feature in 2004 the Forth Railway Bridge for Scotland, while next year the reverse design will be Thomas Telford's Menai Straits Bridge for Wales. Sir John Macneill's Egyptian Arch will follow in 2006 for Northern Ireland and the Gateshead Millennium Bridge will complete the series in 2007. As a precursor, a pattern set of all four coins in both gold and silver was struck and was extremely well received by collectors.

New Coin Series

- Following the success of the Golden Jubilee twenty-four-coin series, the Mint drew on its close relationships with other issuing authorities to launch four further programmes during the year.
 - For the Solomon Islands, a thirteen-coin series celebrating the history of flight was directly commissioned by a company based in the United States.
 - Working in partnership with a marketing organisation, a twenty-four-coin series celebrating the history of the Royal Navy was launched.
 - A series of eighteen crown-size coins was developed celebrating the Age of Steam.
 - In conjunction with New Zealand Post and New Line Cinema, a series of New Zealand coins commemorating the characters from the *Lord of the Rings* motion picture trilogy was developed and successfully issued. The 'one ring' coin, by Royal Mint Engraver Matthew Bonaccorsi, was awarded a prize at the Mint Director's Conference for the most beautiful silver commemorative coin.

Left: **To mark the 100th anniversary of the Entente Cordiale between Britain and France the Mint issued for the first time a United Kingdom coin in platinum.**

(Mary Evans Picture Library)

Below: **Improving the standard of customer service is at the heart of the Collector Coin business and the Telesales team play a direct role in cementing relations with customers.**

(Molyneux Associates)



Special Issues

- There were two events during the year that provided for innovative product development with appeal across a number of markets. The 21st birthday of His Royal Highness Prince William saw a kilo coin being produced by the Mint for Guernsey. Struck in 22 carat gold and bearing an officially approved portrait of the Prince, the coin had an appropriate issue limit of twenty-one and every coin was sold within an hour.
- The decommissioning of Concorde provided another historic event to record for posterity through the issue of a commemorative coin, this time for Alderney. Designed by Royal Mint Engraver Emma Noble, it features the distinctive outline of Concorde against a backdrop of the original blueprint for the aircraft. Again it was felt appropriate to issue a kilo coin in 22 carat gold with an issue limit of thirty-four, the number of years this magnificent plane flew in commercial service. On the 65mm silver coin, the famously aerodynamic silhouette of Concorde was sprayed in gold, a process that is technically challenging but nevertheless proved extremely successful.

Below: When Helen Clark, the New Zealand Prime Minister, visited the Mint in the autumn of 2003 she struck one of the first New Zealand coins commemorating the Lord of the Rings motion picture trilogy.



Secondary Market Products

- There was further activity in the area of purchasing and marketing coins and medals obtained from the secondary market. This activity related principally to past sovereign issues and will continue in 2004. Opportunities to broaden this product group will be explored by extending the range to encompass silver coins issued by the Mint over the last few centuries.

Customer Service

- The target of despatching 60% of orders within seven days of receipt was achieved – a significant improvement on last year's performance level. Deliveries within fourteen days reached 75%, falling short of the 95% target, and further improvement on these figures, therefore, remains a particular priority.

Systems

- A new system for handling customers' accounts was developed during the year and implemented in the autumn of 2003. It is now operational and provides a much simpler approach, thereby benefiting staff and customers.

Markets

- Following the successful Golden Jubilee year that saw substantial growth in the Classics jewellery and giftware range, performance was consolidated with further healthy development. Although the overall results fell short of the ambitious target set, Classics has diversified well and growth prospects are encouraging.
- The implementation of a more sophisticated means of analysing the number and type of mailings that are despatched is proving very successful and will form the backbone of future promotional activity. Valuable lessons have been learned concerning responses to different promotions and the knowledge gained has now been translated into an innovative strategy that will stimulate growth in the coming year.
- The telemarketing team achieved substantial sales levels, benefiting from a skills development programme with the Mint's marketing partner in the United States.

Medals

Below: After many years of lobbying, veterans of the action in the Suez Canal in 1956 succeeded in securing the award of medals for the campaign and consequently this year the Mint produced large numbers of Naval General Service Medals.



Official Medals

- The Medal Unit worked to capacity throughout the year, mainly because of orders for the Iraq War Medal, the General Service Medal, the Naval General Service Medal and the Operational Service Medal.
- Shift patterns and employee levels were increased to cope with the large number of orders, all of which were completed on time.
- Whilst satisfying these heavy commitments, care was also taken to meet the requirements of other customers. Significant orders were received from the Central Chancery of the Order of Knighthood, overseas governments and the Police, Fire, Ambulance and Prison Services.

Technology

- Computerised engraving machines were introduced into the department during the year, representing an historic move away from the traditional hand-stamping method of naming individual medals and decorations.
- Laser welding technology was also introduced which has transformed certain aspects of production, making the Medal Unit more efficient and greatly improving its competitive position in the market.

Commercial Medals

- A number of medals have been commissioned for the commercial sector this year, ranging from long-service awards to medals presented at important sporting events.
- The National Security Inspectorate (NSI) ordered medals to present to companies as a recognition of accreditation. The medals were placed in a glass frame and were accompanied by a certificate, an appropriate acknowledgement to those companies achieving the exacting NSI standards.
- The Mint is now responsible for supplying GCHQ with medals for its long service programme. All employees are awarded a medal after serving twenty or thirty years and each medal is engraved with the recipient's name.
- Good progress was made on the strategy to develop new types of medal projects. A medal designed by John Mills, for example, was struck to celebrate the launching of Cunard's new liner the Queen Mary 2. Variants of the medal have been successfully marketed to collectors and cruise passengers, the latter through the chandlers for Queen Mary 2.
- Partnerships formed with the sporting world are now coming to fruition with a number of projects. Notable among these were the popular medals commemorating England's success in the Six Nations Championship of 2003 and in the Rugby World Cup.



Below and left: The introduction of machine engraving technology in the Medal Unit has speeded up the process of naming medals. At the same time, new markets have been opening up for commemorative medals, for example, through on-board sales of the Queen Mary 2 medal. (Molyneux Associates)



People

Employee Relations

- A dispute with the union Amicus over changes to working practices and pay led to strike action by industrial employees in October and November. The dispute was settled before the end of 2003 and resulted in the agreement of a two-year pay deal with the aim of increasing competitiveness and maximising productivity.
- Discussions with all three unions, Amicus, PCS and Prospect, regarding the introduction of Flexible Working Time are progressing well and implementation is planned for the second quarter of the new financial year.

People Strategy

- Significant progress was made on implementing the programme of change aimed at restoring the Mint to long-term competitiveness and profitability.
 - Establishing all permanent employees on monthly pay and on a common annual leave year.
 - Harmonising meal breaks and contracted hours.
 - Implementing a range of productivity improvements.
 - Buying-out allowances and all travelling-time payments.
- In support of the improvements that will be brought about by the implementation of Flexible Working Time, it is planned to introduce a performance management system for all employees. A new pay and reward structure will also provide an incentive scheme to match business requirements.

Employment and Attendance

- On 1 April 2003 the Royal Mint had 802 permanent full-time equivalent employees, whilst on 31 March 2004 the figure was 780.
- Attendance levels improved following the completion of the restructuring programme.

Recruitment and Retention

- Permanent recruitment continued at a low level, with only essential positions being filled.
- Two members of the Executive Board left the Mint: Graham Davies (Finance) and Allan Pearce (Human Resources). The new Director of Finance is Huw Edwards, while Tony Burnell, formerly Head of Human Resources, has taken over as Director of Human Resources.
- The target of an average four-week lead time between agreeing a job description for recruitment and offering an appointment was achieved.
- All appointments are made on merit and on the basis of fair and open competition.

Development and Training

- The average number of training days per employee was eight, slightly lower than last year but still above the Mint's commitment to five days per year.

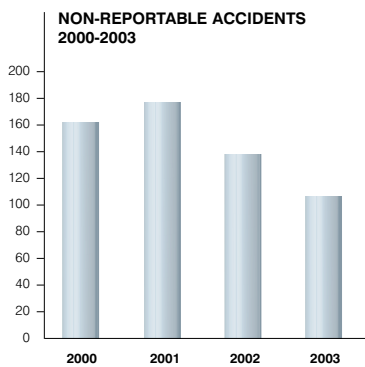
Wales Union Learning Fund (WULF)

- A joint bid for funding from the WULF initiative by the Mint and the three trade unions was successful. The project aims at widening participation in learning in the areas of essential skills and computer literacy for the whole workforce.

Unified Broad Bands	Previous Non-Industrial Grade	Successful (including reserves)		Recruited	
		Male	Female	Male	Female
1	B	1	-	1	-
2	D	1	-	1	-
3	F	3	-	2	-
4	G	3	2	3	1
4	H	1	5	1	3
5	J	1	2	1	-
5	K	4	13	4	11
5	MSB1	-	1	-	1

Safety, Health and Environment (SHE)

- The results of recent external audits revealed that good progress had been made across the site with respect to SHE performance measures. Several areas requiring improvement were identified and action plans have been established in the main departments. Internal auditing continues to improve the effectiveness of procedures and is also ensuring a good level of adherence to standards.
- Steady progress has been made towards ISO 14001 accreditation with the establishment of an Environmental Team and an Energy Committee which meets regularly.
- A review has been completed of both waste disposal and waste treatment across the Mint. This is an ongoing area of activity within the SHE Department in conjunction with the production areas.
- The decline in the number of reportable and non-reportable accidents demonstrates the improvements that have recently been made.
- The revised accident reporting system is working well and has seen major improvements in completion of accident report forms. Two of the Key Performance Indicators are speed of reporting and quality of completion of the initial report.



Right: **John Evans** (right) has worked in the Mint for thirty-two years. He retires in September 2004, after having directed the Medal Unit through one of its busiest and most profitable periods.
(Molyneux Associates)



Royal Mint Advisory Committee, 2003-04

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 examination of all new designs for United Kingdom coins and official medals.

The first meeting of the Committee during the year was held at Cutlers' Hall in London on Wednesday 23 July and towards the end of the year, on 2 December, the Committee met again, this time at Goldsmiths' Hall. A decision to issue a crown piece to mark the 100th anniversary of the Entente Cordiale was not taken until late in the year and it was, therefore, not possible to call members together at such short notice. Consequently, designs were circulated by post and members were very helpful in forwarding their comments in time to meet the tight deadline.

The chief item on the agenda for the meeting in July was the choice of a reverse design for a new campaign medal approved by the Queen for award to those taking part in the campaign in Iraq. With a need to make swift progress it was decided to proceed by way of a direct commission rather than by the normal route of limited competition. Christopher Lawrence was approached partly because of his known ability to collaborate constructively in the design

process and also because of his success working with the Royal Mint and the Bank of England over a number of years.

Preliminary discussions with the Ministry of Defence had generated the idea of using the Lamassu figure, an Assyrian sculpture of a winged bull or lion with a human head. Mr Lawrence prepared designs employing the figure but he also included amongst his submissions an approach that incorporated decorative motifs associated with the region. He very kindly agreed to present his designs to the Committee and of his drawings the one that conveyed a particularly strong representation of the Lamassu figure was thought the most suitable for further development.

At its meeting in December the Committee had a full agenda, considering four new United Kingdom coins. With the 200th anniversary of the Battle of Trafalgar falling in 2005, an event of genuine national significance, it was decided that a pair of crown pieces should be issued – one marking the death of Nelson and the other commemorating the battle itself. For the Nelson crown, nine portrait models were submitted by four artists, each dealing with the iconic character of the man in quite distinct ways. In attempting to encapsulate the drama and importance of the battle, another group of artists worked to encapsulate the essence of a naval conflict from the early nineteenth century.

The other two design competitions that the Committee judged were the 400th anniversary of the Gunpowder Plot and the 250th anniversary

Below: **David Gentleman submitted eight designs for the Entente Cordiale crown competition, four of which symbolised the friendship between Britain and France by combining the figures of La Semeuse and Britannia.**



of the publication of Samuel Johnson's *Dictionary of the English Language*. The drawings submitted for the Gunpowder Plot two-pound coin tackled the many aspects of the subject with admirable tact and imagination. A positive response was also evident with the Samuel Johnson fifty pence piece, with the artists submitting designs that elaborated the themes of learning, books and celebrating the English language. Short-listed designs were suggested for each of the competitions and models were put in hand for the next meeting of the Committee which took place on 1 April, just after the end of the reporting year.

For the crown marking the 100th anniversary of the Entente Cordiale between Britain and France, as well as State symbols such as flags and crests, it was suggested to the four invited artists that they might find inspiration in the symbolic figures of La Semeuse and Britannia. The winning artist David Gentleman, who is well known as a stamp designer, conceived a design that combined these two national female figures in a way that sought to give equal weight to both countries. Indeed, so appropriate was his design that the French Mint subsequently employed it on their own coins issued to commemorate the anniversary.

No new appointments were made during the year but John Porteous retired as a member during December 2003. He was recruited to the

Committee in July 1968 and his strong sense of public service is reflected in the fact that for more than thirty years he missed only one meeting. Alongside a career in the City, he maintained a scholarly interest in the study of European coinages and, as well as benefiting from his considerable numismatic knowledge, the Committee's decisions have been informed by his instinct for what constitutes good design. At the meeting in December the Chairman acknowledged the important contribution Mr Porteous had made over many years. While recognising that his membership could not continue, the Committee proposed that he might occupy the role of Numismatic Consultant, an honour he accepted with pleasure.

Below left: **John Porteous**, whose long and distinguished membership of the Advisory Committee came to an end this year, is pictured here in November 1999.

Below: For the commission to design the reverse of the Iraq Medal, Christopher Lawrence sought to capture in his drawings the power and presence of the massive Assyrian Lamassu figures.



Membership of the Committee
(with dates of appointment)

- Professor Sir Christopher Frayling
(Chairman) *January 2001*
- Mr Gerald Sheehan
(Chief Executive of the Royal Mint and
ex officio Deputy Chairman) *December 2001*
- Mr Michael Harvey, MBE *February 1991,*
re-appointed January 1998
- Mr Mark Jones *March 1994,*
re-appointed April 2001
- Mr Peter Gwynn-Jones, CVO *January 1996*
re-appointed January 2003
- Mr Stuart Devlin, AO, CMG *January 1998*
- Miss Katharine Eustace *January 1998*
- Sir Peter Michael, CBE *March 1999*
- Miss Rosalind Savill, CBE *March 1999*
- The Rt Hon Lord Luce *January 2001*
- Miss MaryAnne Stevens *April 2001*
- Mr John Porteous, OBE
(Numismatic Consultant to the Committee)



Britain's rich naval history was celebrated on a series of twenty-four coins for the Channel Islands, the subjects depicted covering over 1000 years of conflict and exploration. Featuring famous ships, like the Mary Rose and the Golden Hind, and the portraits of well-known figures, like Alfred the Great and Sir Francis Drake, the coins tell dramatic stories that have shaped the history of Britain.

With approval of the Ministry of Defence, each of the coins displayed the White Ensign as part of the reverse designs and, through the application of pad-printing technology, this feature appeared as a colourful element in the overall design. The series has been very well received by collectors. (Society of Apothecaries, London, UK/www.bridgeman.co.uk)



Financial and General Reports

Introduction

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. The operations of the Royal Mint provided for under these orders are the manufacture and supply of coins, medals, seals and similar articles and gifts and collectible items, and any operation incidental or conducive to such manufacture or supply.

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

The Royal Mint has built up a good reputation for quality and today exports coins to countries throughout the world. In addition to producing circulating coinage for the United Kingdom and overseas countries, it provides seals, medals and dies for both official and commercial customers. The production and sale of collector coins and other gifts and collectible items represent an important part of the business activity.

The Master of the 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.

Financial Objective

The Government Trading Funds Act 1973 lays upon the Minister responsible for each fund the duty:

- '(a) 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 account; and
- (b) 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 Treasury concurrence) to be desirable of achievement.'

The Chancellor of the Exchequer has previously determined that a further financial objective desirable of achievement by the Royal Mint for the period 1 April 2001 to 31 March 2006 should be a return of at least 11% within the period. This has not been achieved to date. The return in 2003-04 is 3.3%. For this purpose the annual rate of return is calculated using profit 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).

Financial Review

Sales in the year of £89.9 million include £27.7 million (31%) to overseas customers.

The modified historical cost operating profit for the year was £2.1 million (2002-03: £1.3 million) – before interest and exceptional items.

A dividend of £0.75 million (2003: nil) is payable to the Consolidated Fund.

Capital expenditure of £3.6 million was incurred in the year.

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 consists of metals which are traded on the London Metal Exchange (LME) and whose prices, therefore, are volatile. The 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. The objective of this policy is that the Royal Mint's financial performance should not be affected by movements in metal prices.

Similarly, where collector coins are manufactured for sale through the Royal

Mint's marketing and promotional activities, appropriate hedges are secured using forward contracts or 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 the Executive Directors and the forward cover 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.

Foreign exchange

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

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 2004. In addition, precious metal loans are used to finance the Royal Mint's working capital of gold and silver. The loans are reflected in stock and the corresponding liability is included in trade creditors. All other metal stocks are in respect of sales commitments (see 'Metal prices' above).

General

Details of the Directors at 31 March 2004 are set out on page 1 and details of changes to Board membership are set out in Note 5 to the Accounts. None of the Directors have other directorships or significant interests which conflict with their management responsibilities.

The policy of paying creditors complied with the Better Payment Practice Code. A total of 93% of invoices was paid within either thirty days or the agreed period.

In accordance with the Hallmarking Act 1973, it was established that the assay methods and procedures of the four Assay Offices in London, Birmingham, Sheffield and Edinburgh were satisfactory.

The policy continued of employing and training disabled people, wherever their

aptitudes and abilities allow. Where employees become disabled, the Mint endeavours to continue their employment, provided there are jobs which they can do, bearing in mind not only their handicap or disability but also their experience and skills.

The number of people employed at 31 March 2004 was 977, of which 780 were permanent employees.

Employee communications are an integral element of the Royal Mint's management processes and include regular feedback meetings involving all employees. A copy of the *Annual Report* is available to all employees on request.

Gerald Sheehan

Accounting Officer

5 July 2004

Statement of Trading Fund's and Accounting Officer's Responsibilities

Under section 4(6) of the Government Trading Funds Act 1973 the 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 Agency'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 Agency is required to:

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

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

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 public funds and the Royal Mint's assets, for which I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Royal Mint's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Royal Mint for the year ended 31 March 2004 and up to the date of approval of the *Annual Report* and accounts, and accords with Treasury guidance.

Capacity to handle risk

The leadership of the Royal Mint's risk management process is undertaken by the Risk Management Committee which meets four times a year and includes all of the members of the Executive Board and the Senior Manager for Safety, Health and Environment. The Committee reviews the Risk Register on a half-yearly basis and 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's activities are reported to the Audit Committee, which also reviews the Risk Register twice a year.

The Executive Directors involve the senior management team in their respective areas in the identification and assessment of risk and teams from relevant operational departments review and

update the risk assessment for different areas within the Royal Mint, in conjunction with the internal auditors, on a three-year cyclical basis.

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 conforms 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. In addition, the Risk Register is reviewed twice a year by the Risk Management Committee, supported by representatives of relevant operational departments, who:

- identify the key risks which could impact on the achievement of the Royal Mint's strategic aims and objectives or on compliance with its policies and procedures;
- evaluate the risks based on the likelihood of the risk actually happening and the impact of a particular risk occurring;
- consider the control strategy for each of the significant risks.

Risk appetite is an inherent element of the risk management process and influences management's assessment of the risks and the appropriateness of the associated control systems. The Risk Management Committee defines the risk appetite in relation to each risk category. The Royal Mint's risk priorities in 2003-04 were in the following areas:

- safety, health and the environment;
- demand for and delivery of circulating coin;
- demand for and delivery (customer service) of collector coin;
- security;
- volatility of raw material prices (commodity metals traded on the LME).

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

Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the executive managers within the Royal Mint who have responsibility for the development and maintenance of the internal control framework, the work of the internal auditors 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 by the Board, the Audit Committee and Risk Management Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

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

The members of the Executive Board 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 operates internal audit arrangements to standards defined in the Government Internal Audit Standards. The internal audit function is undertaken by Mazars, Chartered Accountants. Their annual audit plan, and the results of their audit, including recommendations for improvement, are reported to the Director of Finance and myself, and presented to the Audit Committee. They also provide an independent opinion on the adequacy of the Royal Mint's framework of risk management, governance and internal control.

In addition, during 2003-04 an independent security review was commissioned which concluded that the general standard of security was good. Recommendations for improvements in our security arrangements arising from the review are being implemented under the management of the Royal Mint's security forum.

Significant internal control problems

No significant internal control problems or issues have occurred during the year. Action plans have been developed to address all recommendations for improvement in internal control arising during the year.

Gerald Sheehan

Accounting Officer

5 July 2004

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

I certify that I have audited the financial statements on pages 26 to 36 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and stocks and the accounting policies set out on page 30.

Respective responsibilities of the Royal Mint, the Chief Executive and Auditor

As described on page 22, the Royal Mint and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Royal Mint and Chief Executive are also responsible for the preparation of the other contents of the *Annual Report*. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Royal Mint has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 22 to 24 reflects the Royal Mint's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Royal Mint's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Royal Mint and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Royal Mint at 31 March 2004 and of the profit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury; and
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
14 July 2004

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

Operating Account for the year ended 31 March 2004

	Notes	£'000	£'000	2003-04 £'000	2002-03 £'000
TURNOVER	2, 3			89,890	92,021
Change in stocks of finished goods and work in progress			(1,240)		(3,051)
Own work capitalised			34		23
Other operating income			81		57
Raw materials and consumables			(39,150)		(37,055)
Other external charges			(5,474)		(5,089)
Staff costs					
– operating staff costs	5	(22,717)			(24,516)
– exceptional items	6	-			900
			(22,717)		(23,616)
Depreciation and other amounts written off tangible fixed assets	8		(4,212)		(4,670)
Other operating charges			(15,095)		(16,435)
				(87,773)	(89,836)
OPERATING PROFIT					
– operating profit before exceptional items	4			2,117	1,285
– exceptional items	6			-	900
	3			2,117	2,185
INTEREST RECEIVABLE AND SIMILAR INCOME				83	126
INTEREST PAYABLE AND SIMILAR CHARGES	7			(906)	(954)
PROFIT FOR THE YEAR				1,294	1,357
DIVIDEND PAYABLE				(750)	-
RETAINED PROFIT FOR THE YEAR				544	1,357

No activities have been acquired or discontinued during the year.

The notes on pages 30 to 36 form part of the modified historical cost accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003-04 £'000	2002-03 £'000
Profit for the year	1,294	1,357
Unrealised (deficit)/surplus on revaluation of property	(318)	304
Unrealised (deficit)/surplus on revaluation of plant and machinery	(58)	568
Unrealised surplus/(deficit) on revaluation of uncommitted metal	1,699	(132)
Total recognised gains and losses relating to the year	<u>2,617</u>	<u>2,097</u>

HISTORICAL COST PROFITS AND LOSSES

	2003-04 £'000	2002-03 £'000
Reported profit for the year	1,294	1,357
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	198	208
Historical cost profit for the year	<u>1,492</u>	<u>1,565</u>

MOVEMENTS IN CAPITAL AND RESERVES (Government Funds)

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
As at 1 April 2003	5,500	3,550	39,131	48,181
Movements in the year:				
Revaluations				
Fixed Assets	-	(376)	-	(376)
Stocks	-	1,699	-	1,699
Retained Profit for the year	-	-	544	544
Reclassification to distributable reserves	-	(198)	198	-
As at 31 March 2004	<u>5,500</u>	<u>4,675</u>	<u>39,873</u>	<u>50,048</u>

The notes on pages 30 to 36 form part of the modified historical cost accounts.

Balance Sheet as at 31 March 2004

	Notes	£'000	2004 £'000	2003 £'000
FIXED ASSETS				
Tangible Assets	8		39,733	40,675
CURRENT ASSETS				
Stocks	9	62,952		49,574
Debtors	10	11,699		7,960
Cash at bank and in hand		2,770		3,422
		<u>77,421</u>		<u>60,956</u>
CREDITORS				
Amounts falling due within one year	11	(54,070)		(38,353)
NET CURRENT ASSETS				
			<u>23,351</u>	<u>22,603</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	3		<u>63,084</u>	<u>63,278</u>
FINANCED BY:				
CREDITORS				
Amounts falling due after one year	12		12,510	13,665
PROVISIONS FOR LIABILITIES & CHARGES	13		526	1,432
CAPITAL AND RESERVES				
Public Dividend Capital		5,500		5,500
Revaluation Reserve		4,675		3,550
Profit and Loss Account		<u>39,873</u>		<u>39,131</u>
			<u>50,048</u>	<u>48,181</u>
			<u>63,084</u>	<u>63,278</u>

The notes on pages 30 to 36 form part of the modified historical cost accounts.

Gerald Sheehan
Accounting Officer
5 July 2004

Cash Flow Statement

for the year ended 31 March 2004

	Notes (see below)	2003-04 £'000	2002-03 £'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(a)	(738)	5,073
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		78	122
Interest paid		(887)	(961)
		(809)	(839)
CAPITAL EXPENDITURE		(3,629)	(1,787)
CASH FLOW BEFORE FINANCING		(5,176)	2,447
FINANCING			
Transfer from non-coin operations vote		-	80
		-	80
Borrowing			
Long-term loan principal repaid		(545)	(512)
Movement in short-term loans		5,000	(3,000)
		4,455	(3,512)
NET CASH FLOW FROM FINANCING		4,455	(3,432)
DECREASE IN CASH IN THE YEAR	(b)	(721)	(985)
(a) RECONCILIATION OF OPERATING PROFIT WITH THE NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		£'000	£'000
Operating profit		2,117	2,185
Depreciation charge		4,212	4,670
Movements in			
Stocks		(11,679)	(646)
Debtors		(3,734)	838
Creditors (excluding dividend payable)		8,416	(1,946)
Currency translation difference		(70)	(28)
		(738)	5,073
(b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000
Decrease in cash in the year		(721)	(985)
Currency translation difference		70	28
Cash flow from movements in borrowings		(4,455)	3,512
Movement in net debt		(5,106)	2,555
Net debt at start of year		(7,851)	(10,406)
Net debt at end of year		(12,957)	(7,851)
(c) ANALYSIS OF NET DEBT		£'000	£'000
Cash at bank and in hand		2,770	3,422
Debt due within one year		(5,580)	(545)
Debt due after one year		(10,147)	(10,728)
		(12,957)	(7,851)

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. 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 payments to Issuing Authorities and Value Added Tax.

(c) Value Added Tax

Income and expenditure are shown net of recoverable Value Added Tax. Irrecoverable Value Added Tax 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 on 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;
- 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
Plant and machinery	5-10

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 2004. 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.

(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 on 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 Civil Service pension arrangements which 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 Civil Service Pension Schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the Civil Service Pension Schemes. Further information is given in Note 14.

Note 2

TURNOVER

Turnover is attributable to the manufacture and supply of coins and similar articles and the supply of gifts and collectible items. All of the turnover originated in the United Kingdom.

	2003-04 £'000	2002-03 £'000
United Kingdom	62,161	66,489
Overseas	27,729	25,532
	<u>89,890</u>	<u>92,021</u>

Note 3

SEGMENTAL REPORTING

ANALYSIS BY CLASS OF BUSINESS

	2003-04 £'000	2002-03 £'000
Turnover		
Circulating coin		
UK	26,643	23,540
Overseas	18,697	18,569
	<u>45,340</u>	<u>42,109</u>
Collector		
UK	35,518	42,949
Overseas	9,032	6,963
	<u>44,550</u>	<u>49,912</u>
Total Turnover	<u>89,890</u>	<u>92,021</u>
Operating profit/(loss)		
Circulating coin	2,222	(1,434)
Collector	6,604	10,695
Common costs	(6,709)	(7,976)
Exceptional item	-	900
Total Operating Profit	<u>2,117</u>	<u>2,185</u>
Net operating assets		
Circulating coin	49,928	49,495
Collector	19,183	15,126
Unallocated net liabilities	(6,027)	(1,343)
Total assets less current liabilities	<u>63,084</u>	<u>63,278</u>

The unallocated net liabilities comprise cash at bank and in hand, short-term 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

	2003-04 £'000	2002-03 £'000
Operating profit is stated after charging:		
Sub-contracted work and semi-processed material	5,474	5,089
Audit fees	48	96
Hire of plant and machinery	79	111
Travel and subsistence	536	466
	<u>6,537</u>	<u>5,762</u>

Note 5

REMUNERATION AND EMPLOYMENT

The salary and pension entitlements of the Chief Executive and Directors were as follows.

	Remuneration including performance pay (2002-03 remuneration) £'000	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60 at 31 March 2004 and related lump sum £'000	CETV 31 March 2003 £'000	CETV 31 March 2004 £'000	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Executive Directors						
Gerald Sheehan Chief Executive	125-130 (120-125)	0-2.5	0-5	11	34	20
Keith R Cottrell Director of Sales	60-65 (60-65)	0-2.5 plus 2-2.5 lump sum	10-15 plus 30-35 lump sum	165	185	12
Allan E Pearce (resigned 31 May 2003) Director of Human Resources		Consent to disclosure withheld				
Graham J Davies (retired 31 May 2003) Director of Finance		Consent to disclosure withheld				
Alan Wallace Director of Collector Coin		Consent to disclosure withheld				
Michael Slater Director of Circulating Coin Production	60-65 (50-55)	0-2.5 plus 5.5-6.0 lump sum	15-20 plus 55-60 lump sum	286	336	33
Tony Burnell (appointed 1 May 2003) Director of Human Resources	55-60 (n/a)	0-2.5 plus 3.5-4.0 lump sum	0-5 plus 10-15 lump sum	48	68	17
Huw Edwards (appointed 1 October 2003) Director of Finance	30-35 (n/a)	0-2.5	0-5	-	5	3

Remuneration includes salary, performance pay and all other benefits. Pension benefits are provided through the Civil Service Pension (CSP) arrangements. Details of these arrangements are set out in Note 14.

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 being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute of Faculty of Actuaries.

Note 5 continued

Non-Executive Directors	Age	Fees (£'000)
Lyndon Haddon (retired 1 September 2003)	62	0-5
David Stark (retired 28 February 2004)	64	5-10
Jan Smith	56	5-10
David Trapnell (retired 28 February 2004)	59	5-10
Hugh Beevor (appointed 1 March 2004)	60	0-5
Robert Guy (appointed 15 March 2004)	60	0-5
David Wertheim (appointed 15 March 2004)	59	0-5

TOTAL STAFF COSTS	2003-04 £'000	2002-03 £'000
Wages and salaries	19,016	20,578
Social security costs	1,412	1,357
Other pension costs	2,211	2,529
Staff on secondment	78	52
	<u>22,717</u>	<u>24,516</u>

AVERAGE NUMBER EMPLOYED	2003-04	2002-03
Production	675	746
Sales and marketing	80	84
Administration	118	123
	<u>873</u>	<u>953</u>

All employees are Civil Servants. Three people retired early on ill-health grounds; the total additional accrued pension liabilities amounted to £3,525.

Note 6

EXCEPTIONAL ITEMS	2003-04 £'000	2002-03 £'000
Release of provision for restructuring costs (see Note 13)	-	900

Note 7

INTEREST PAYABLE AND SIMILAR CHARGES	2003-04 £'000	2002-03 £'000
On loans repayable within five years	203	217
On loans payable by instalments over more than five years	703	737
	<u>906</u>	<u>954</u>

Note 8

TANGIBLE FIXED ASSETS	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Valuation			
At 1 April 2003	13,510	71,210	84,720
Additions	482	3,164	3,646
Disposals	(5)	(442)	(447)
Revaluation	(701)	(117)	(818)
At 31 March 2004	<u>13,286</u>	<u>73,815</u>	<u>87,101</u>
Depreciation:			
At 1 April 2003	-	44,045	44,045
Charge for year	388	3,824	4,212
Disposals	(5)	(442)	(447)
Revaluation	(383)	(59)	(442)
At 31 March 2004	<u>-</u>	<u>47,368</u>	<u>47,368</u>
Net book value at 31 March 2004	<u>13,286</u>	<u>26,447</u>	<u>39,733</u>
Net book value at 1 April 2003	<u>13,510</u>	<u>27,165</u>	<u>40,675</u>

Note 8 continued

Land and buildings are stated at open market current use valuation at 31 March 2004 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation, totalling £17,146,000, was provided by Chesterton International Property Consultants plc 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 during the years ending 31 March 2003 and 31 March 2004.

If fixed assets had not been revalued they would have been included at the following amounts:

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
At 31 March 2004			
Cost	16,643	62,588	79,231
Accumulated depreciation	(4,962)	(36,471)	(41,433)
Net book value at 31 March 2004	<u>11,681</u>	<u>26,117</u>	<u>37,798</u>
Net book value at 1 April 2003	<u>11,587</u>	<u>26,605</u>	<u>38,192</u>

Note 9

	2004 £'000	2003 £'000
Stocks		
Metal stocks	37,887	24,772
Work in progress (excluding metal)	5,274	5,490
Stores and packing materials	2,151	2,013
Finished goods	17,640	17,299
	<u>62,952</u>	<u>49,574</u>

Metal stocks of £37,887,000 (2003: £24,772,000) include a base stock of copper and nickel with a net realisable value of £4,484,000 at 31 March 2004 (2003: £2,784,000) and £31,232,000 (2003: £18,693,000) 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

	2004 £'000	2003 £'000
Debtors		
Trade debtors	10,263	6,943
Other debtors	1,006	688
Prepayments and accrued income	430	329
	<u>11,699</u>	<u>7,960</u>

Note 11

	2004 £'000	2003 £'000
Creditors: amounts falling due within one year		
Short-term fixed rate NLF loans	5,000	-
Long-term NLF loans (see Note 12)	580	545
Trade creditors	36,744	23,854
Other creditors	1,740	4,047
Payments received on account	7,149	7,958
Taxation and social security	551	473
Proposed dividend	750	-
Accruals and deferred income	1,556	1,476
	<u>54,070</u>	<u>38,353</u>

Included in other creditors is £1,576,000 (2003: £3,747,000) in respect of redundancy and early retirement.

Note 12	2004	2003
CREDITORS: amounts falling due after one year	£'000	£'000
Amounts in respect of redundancy and early retirement		
Between one and two years	748	787
Between two and five years	1,505	1,612
After five years	110	538
	<u>2,363</u>	<u>2,937</u>
Loans repayable:		
Between one and two years	618	580
Between two and five years	2,102	1,976
After five years	7,427	8,172
	<u>10,147</u>	<u>10,728</u>
	<u>12,510</u>	<u>13,665</u>

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

Loan	Interest rate	Date drawn	Amount Due	Amount Due
£'000	%		within 12 months	after 12 months
			(see note 8 above)	(above)
			£'000	£'000
10,500	6.347	20 September 2001	509	8,847
1,500	6.305	2 October 2001	71	1,300
			<u>580</u>	<u>10,147</u>

Note 13
PROVISION FOR LIABILITIES AND CHARGES

	Restructuring
	Provision
	£'000
As at 1 April 2003	1,432
Payments	(568)
Reclassification to creditors	(338)
As at 31 March 2004	<u>526</u>

The restructuring provision relates to restructuring redundancy and early retirement costs. The balance at 31 March 2004 is expected to be utilised in the next year. Those elements of provision, where the value and timing of the liability has been confirmed, have been reclassified as short and long-term creditors.

Note 14
PENSION COSTS

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, Civil Servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account). Royal Mint employees participate in the Classic, Premium and Classic Plus 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. 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.

Note 14 continued**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 2.25 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. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths of 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 sixty.

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.

Pensions payable under the Classic, Premium and Classic Plus are increased in line with the Retail Price Index. These are unfunded multi-employer defined benefit schemes and the Royal Mint is unable to identify the share of the underlying assets and liabilities. A full actuarial valuation of the Civil Service Pension arrangements was carried out on 31 March 2003. Details can be found in the resource account of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk/downloads/PCSPS/2002-2003.pdf)

For 2003-04 employers' contributions of £2.216 million were paid to the Civil Service Pension Scheme (2002-03 £2.524 million) at rates in the range 12% to 20.2% of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revaluation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Scheme Actuary. The contributions reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 15

	2004	2003
	£'000	£'000
CAPITAL COMMITMENTS		
Commitments in respect of contracts	635	291

Note 16

RELATED PARTY TRANSACTIONS

The Royal Mint is an Executive Agency and Trading Fund.

HM Treasury is regarded as a related party. During the year the Royal Mint has had a number of transactions with that Department.

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 transactions with the Royal Mint.

Note 17

NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Hedges

As explained in the Financial and General Reports on pages 20 and 21, the Royal Mint's policy is to hedge the exposures set out below.

Metal Price Risk

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

Currency Risk

The forward exchange contracts which were outstanding at 31 March 2004 amounted to £12.5 million (2003: £4.3 million). If these contracts were translated at the year-end rate, there would have been a loss of £1.1 million (2003: loss of £0.006 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 2005.

Note 18

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.

The Royal Mint considers that there is no basis to this claim and is contesting it vigorously.

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

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers



Royal Mint, Llantrisant CF72 8YT, United Kingdom
www.royalmint.com