



Royal Mint Annual Report 2005-06

Royal Mint Board of Directors

Hugh Beevor*

Chairman

David Barrass

Chief Executive
(Appointed, 16 January 2006)

Peter Allred

Director of Finance
(Appointed, 10 April 2006)

Tony Burnell

Director of Human Resources

Phil Carpenter

Director of Circulating Coin Production

Keith Cottrell

Director of Sales

Huw Edwards

Director of Finance
(Resigned, 30 April 2006)

Robert Guy*

Chairman of the Audit Committee

Andy Mitchell

Director of Collector Coin Marketing and Sales
(Appointed, 1 June 2006)

Gerald Sheehan

Chief Executive
(Resigned, 31 March 2006)

Jan Smith*

(Re-appointed, 15 March 2006)

Alan Wallace

Director of Collector Coin
(Retired, 31 March 2006)

David Wertheim*

Chairman of the Remuneration Committee

* Non-Executive Directors, all of whom in 2005-06 were members of both the Audit and Remuneration Committees

BOARD SECRETARY

Martin Cragg

Royal Mint, Llantrisant CF72 8YT
Telephone: 01443 623058
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Bankers

Bank of England

External Auditors

Comptroller and Auditor General

Internal Auditors

Mazars LLP, Chartered Accountants



The Accounts of the Royal Mint Trading Fund as at 31 March 2006, 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 242 of 2004-05.) Presented pursuant to Act 1973, c.63, s.4(6).

HC 1432

Ordered by the House of Commons to be printed 18 July 2006.

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Chairman's Statement

Much good progress has been made across the business but the rate of improvement and modernisation has not been rapid enough. The year started well with a good export order book but trading conditions in international markets for Circulating Coin worsened sharply and continuing production problems until after the year end compounded the problem. The below-plan operating profits from continuing activities only covered part of the interest charge and none of the exceptional charges.

A thorough review of measures to increase sales and to raise efficiency has been initiated by the Board. The measures encompass improved training at all levels to equip employees with the tools necessary to achieve their potential efficiency and to embed a continuous improvement programme. They also include a review of brand strategy – a crucial driver of growth in the business.

The process of transforming the Mint from a Civil Service Department into a Government-owned company, called vesting, is well advanced but is on hold pending the appointment of a permanent Chief Executive and the completion of the strategic review.

There have been a number of changes at Board level. The Chief Executive, Gerald Sheehan, resigned early in 2006. Since joining the Mint in December 2001 he established much better labour relations, greatly improved health and safety conditions and all aspects of internal control, and focused the management of the business on raising productivity with clear performance targets. The Board is appreciative of the energy and commitment he brought to his role as Chief Executive.

Alan Wallace, Director of Collector Coin for almost ten years, retired at the end of March. Over the course of a long career at the Mint in several roles, he made an important contribution and the experience he brought to

the Board helped establish Collector Coin on a firm footing. The Director of Finance, Huw Edwards, left the Mint just after the end of the financial year to further his career. Having someone of his calibre and breadth operating at a senior level has been of significant benefit.

With these changes happening in relatively quick succession, it was necessary to make some interim appointments. David Barrass has occupied the position of Chief Executive since January and from 1 May also became Accounting Officer. He has already been influential in taking forward the business review and has worked hard with the senior management team to improve the planning of the business and to maximise performance. The recruitment process for choosing the permanent Chief Executive is underway. Two new interim Executive Directors have also been appointed to the Board, Peter Allred as head of Finance and Andy Mitchell to lead the Collector Coin team. They both have the right experience and personality for the Mint and I am confident that they will contribute significantly.

Very interesting and challenging times lie ahead for the two main businesses of the Royal Mint. Its leading position in the world market for the supply of coins and medals of all descriptions can be sustained and improved upon but it will require the focused efforts of all concerned. Only then will it be possible to see a return to the business performance that established the Mint's high reputation in the first place.

Hugh Beevor

Chief Executive's Report

The results for the year have been well below expectations. An operating loss of £0.3 million reveals a performance that has failed to show any material improvement on the previous year and is a reflection of continuing market instability, particularly for circulating coins and blanks, and operational difficulties experienced during the year.

Despite disappointment with the headline results, the Mint continued to discharge successfully its chief responsibility for supplying the United Kingdom with its circulating coinage, and at 1.4 billion coins, the same figure as last year, it is evident that demand for coins in the domestic market is levelling off. Internationally, sixty-one countries chose the Royal Mint as their supplier for coins and blanks which secured for the Mint roughly 15% of the global market. This aspect of the Mint's activities remains important but over the course of the last five years there has been volatility throughout the world in capacity and pricing, sometimes operating to the Mint's advantage but often acting against its commercial interests. The trend of government-supported national mints seeking to establish for themselves market share in the area of coins and ready-for-striking blanks is likely to remain an important factor affecting market dynamics for some years.

As well as broader market conditions, operational difficulties, especially in the second half of the year, impacted adversely on the performance of Circulating Coin. Target volumes were reduced in several areas and the resolution of process and quality problems tied up significant resources. The installation of new furnaces has resulted in productivity improvements but outstanding technical issues have led to delays in fully achieving the anticipated efficiency gains and cost savings. Yet within production areas there have been important initiatives which will have a long-term impact on efficiency and quality standards. Capital investment in the packing area to automate a number of processes has increased throughput, and targeted investment in certain plating plants will have a positive environmental influence and will result in cost savings across a range of products.

Collector Coin has had a largely successful year. Although the performance targets set out at the beginning of last year projected only modest growth, those targets have been met and business prospects continue to look healthy. Major investment in a new customer acquisition strategy involving the targeting of 8.5 million households has been a key initiative. The results to date have far exceeded expectations with over 100,000 new customers having been generated and the intention will be to establish a lasting relationship with as many as possible. The Classics range too has seen some recovery from last year and successful partnerships have

been established. Competition for market share in the giftware and collectables sector, however, is a constant and serious concern, and the nature of the Mint's presence in this area will be strongly influenced by the findings of a brand strategy review.

Sales of £114.6 million were higher than last year but further moves to reduce costs will be pursued in the next twelve months, with a particular focus on controlling more tightly the levels of working capital. Through more effective and disciplined management the Mint's reputation as a reliable manufacturer of high-quality products can be enhanced.

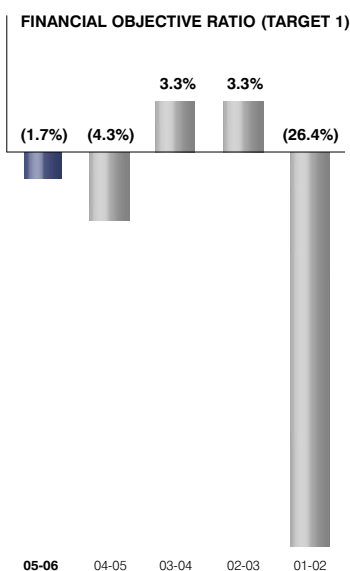
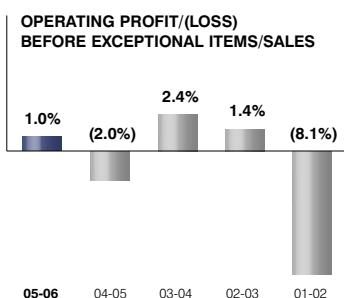
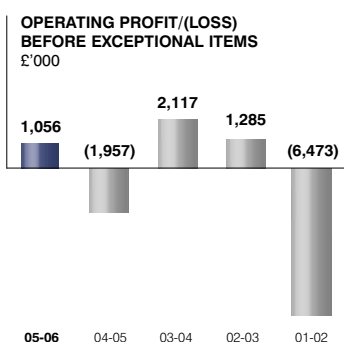
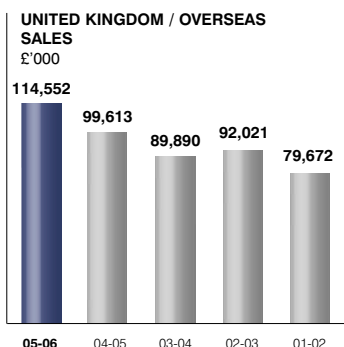
One of the challenges for the future is to ensure that the Mint understands the singular position it occupies as an historic national institution and also a modern business looking to compete in traditional manufacturing sectors and commercial collector markets. The last few years have seen a decline in profitability and a need to reassess the Mint's position. Responding to business conditions which are themselves fluid has proved difficult and, although major advances have been made in cutting costs and improving efficiency, much more still needs to be done. It is in this context that a wide-ranging business review has been undertaken. With the assistance of external consultants, all areas of the business have been examined in depth including structures, systems and performance. The recommendations, and how they might best be implemented, are currently being considered.

The first phase of a brand strategy review is nearing completion and the results will be studied very carefully before moving on to the implementation phase. It is anticipated that the outcome of the review, if followed through in full, will provide especially useful direction for the future strategy of Collector Coin. It is important at this point in the Mint's development that a brand review has been undertaken to act as a catalyst for seizing business and marketing opportunities.

I would like to thank my Board colleagues for their support and advice. It is only by working as a team right across the organisation that the Mint can progress. I would also like to thank the workforce as a whole for their strenuous efforts during another challenging year. Historically the Mint has prided itself on enjoying the loyalty of its staff and the current generation of employees is no less committed and able than those who have gone before.

David Barrass

Financial Summary



MODIFIED HISTORICAL COST BASIS:

	2005-06 £'000	2004-05 £'000	2003-04 £'000	2002-03 £'000	2001-02 £'000
United Kingdom sales	59,323	55,311	62,161	66,489	54,867
Overseas sales	55,229	44,302	27,729	25,532	24,805
	114,552	99,613	89,890	92,021	79,672
Operating profit/(loss) before exceptional items	1,056	(1,957)	2,117	1,285	(6,473)
Exceptional items	(1,344)	-	-	900	(12,000)
Operating profit/(loss)	(288)	(1,957)	2,117	2,185	(18,473)
Profit/(loss) for the year	(1,600)	(3,245)	1,294	1,357	(19,301)
Dividend	-	-	(750)	-	-
Retained profit/(loss) for the year	(1,600)	(3,245)	544	1,357	(19,301)
Capital employed at 31 March	59,887	59,564	63,084	63,278	69,514
Operating profit/(loss) before exceptional items/sales	1.0%	(2.0%)	2.4%	1.4%	(8.1%)

Key Ministerial Targets

		2006-07 ^a	2005-06	2004-05	2003-04
Target 1					
To achieve an average rate of return on net assets	Target	2.9%	2.9%	4.9%	4.0%
	Outturn	-	(1.7%)	(4.3%)	3.3%
Target 2					
UK Circulating Coin	Target	99.0%	99.0%	99.0%	99.0%
Delivery of accepted orders from UK banks and Post Office	Outturn	within 11 days -	within 11 days 99.2%	within 11 days 99.3%	within 11 days 98.6%
Target 3					
UK Collector Coin	Target	85.0%	85.0%	85.0%	95.0%
Delivery of orders to individual UK customers, measured from receipt of order or published due date	Outturn	within 14 days -	within 14 days 87.0%	within 14 days 83.0%	within 14 days 75.0%
	Target	65.0%	65.0%	65.0%	60.0%
	Outturn	within 7 days -	within 7 days 67.0%	within 7 days 70.0%	within 7 days 61.0%
Target 4					
Medals	Target	98.0%	98.0%	98.0%	97.0%
Orders delivered by agreed delivery date	Outturn	-	99.6%	99.3%	98.4%
Target 5					
Quality	Target	99.7%	99.7%	99.7%	99.7%
Collector products accepted by individual UK customers	Outturn	-	99.6%	99.3%	99.2%

^a Targets to be reviewed and agreed with the Royal Mint following the appointment of a new permanent Chief Executive.

Management Commentary

for the year ended 31 March 2006

The Royal Mint's activities consist of:

- the manufacture and distribution of United Kingdom circulating coins under a contract with HM Treasury;
- the manufacture of circulating coins and blanks for overseas mints and central banks;
- the manufacturing, marketing and distribution (both retail and wholesale) of United Kingdom and overseas collector coins and medals;
- the manufacture of official medals; and
- the sale of jewellery and non-coin gifts and collectables under the Royal Mint Classics brand.

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

As a Trading Fund, the Royal Mint operates on commercial lines and is required under Section 4(i) of the Government Trading Funds Act 1973 to '*manage the funded operations so that the 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.

In addition, the Mint is also required under the 1973 Act to achieve such further financial objectives as the responsible Minister may determine. For the period 1 April 2001 to 31 March 2006, the financial target set by the Chancellor of the Exchequer required the Mint to achieve a rate of return of 11% within the period. The Mint has experienced difficulties in meeting this financial target.

The causes of these difficulties are discussed below. The Mint's performance in the year ended 31 March 2006 compared with the financial target and other key ministerial targets is set out on page 4.

Objectives and strategy

Trading conditions in the overseas circulating coins and blanks market declined significantly following the millennium, with worldwide overcapacity amongst producers and, as a result, a significant decrease in prices. In addition, the terms of the Mint's contract with HM Treasury for the production of United Kingdom coinage results in the prices received by the Mint decreasing in real terms each year.

Coin manufacture has historically been a capital-intensive industry that tends to carry a high proportion of fixed and semi-fixed costs. The strategy adopted in relation to circulating coin in recent years has been based on reducing the cost base in order to compete effectively in the increasingly competitive world market. The strategic objectives for the Circulating Coin business are to:

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

A wide-ranging restructuring programme was implemented in March 2002 involving initially the loss of 200 staff through voluntary redundancies and, more recently, changes to the working practices of the remaining employees. In addition, the Mint has continued to implement a capital investment strategy directed at cost reduction.

The primary responsibility of the Royal Mint is the provision and maintenance of the United Kingdom coinage. In practice therefore the 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. In all these respects, this year the Mint fulfilled its objectives.

ISSUES OF UNITED KINGDOM CIRCULATING COINS 2005-06

Denomination	Face Value £m	Number of Pieces Millions
£2	41.014	20.507
£1	70.763	70.763
50 pence	18.063	36.125
20 pence	20.803	104.016
10 pence	8.984	89.839
5 pence	13.221	264.412
2 pence	4.867	243.325
1 penny	5.849	584.916
Total	183.564	1,413.903

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 2005

Denomination	Face Value £m	Number of Pieces Millions
£2	536.034	268
£1	1,451.956	1,452
50 pence	384.320	769
20 pence	437.947	2,190
10 pence	158.710	1,587
5 pence	182.965	3,659
2 pence	128.423	6,421
1 penny	105.757	10,576
Total	3,386.112	26,922

The Collector Coin business has continued to implement its strategy directed at:

- reducing its reliance on major event-driven products;
- achieving consistent growth in sales and profitability through product development and the growth of its customer database;
- maintaining a high level of customer service; and
- improving productivity and reducing costs.

Performance in the year ended 31 March 2006

The Mint has experienced a difficult trading year incurring an operating loss of £0.3 million.

	2005-06 £m	2004-05 £m
Turnover:		
Circulating coin		
UK	27.3	25.0
Overseas	43.4	34.5
Collector coin	43.8	40.1
	114.5	99.6
Operating costs:		
Metal and bought-in costs	(55.4)	(44.5)
Staff costs	(25.2)	(24.1)
Other costs	(32.8)	(33.0)
Operating profit/(loss) before exceptional items	1.1	(2.0)
Exceptional items		
Costs associated with transfer to Government-owned company	(1.1)	-
Costs associated with the resignation of the Chief Executive	(0.3)	-
Operating loss	(0.3)	(2.0)

Turnover has increased by 15% compared with the year ended 31 March 2005. However, this is largely as a result of higher metal costs being recovered in selling prices. Metal prices have increased significantly during the year: from April 2005 to March 2006 the price of gold increased by 48%, silver by 77% and copper by 62%.

United Kingdom sales, excluding the impact of higher metal costs, were consistent with sales in the year ended 31 March 2005. Sales in the last two years have been 20% lower than the average sales in the previous three years, 2001-04. Given the high fixed cost of the business, this decrease in volume had a significant impact on profitability.

Overseas sales, excluding the impact of metal costs, increased by 26% compared with the year ended 31 March 2005. This reflected buoyant market conditions

in the early part of the year when a number of large overseas contracts were secured. Market conditions became more difficult during the second half of the year. The business benefited from a strong overseas order book but was unable to secure the full benefits as difficulties were experienced in achieving the planned production output as a result of:

- difficulties with the operation of the melting furnaces upgraded in the fourth quarter of the year ended 31 March 2005, a set back which particularly affected the first half of the year; and
- problems in attaining the required quality for plated orders in the fourth quarter of the year.

Cost reduction initiatives continued to be pursued vigorously. Resistance by employees to adopt changes in working practices, designed to improve flexibility and customer services whilst also providing benefits to the employees, were encountered throughout the year.

In addition, significant increases in pension, energy and waste disposal costs were experienced during the last twelve months.

The profitability of the Collector Coin business is consistent with that achieved in 2004-05. This reflected a quiet first half of the year with the absence of a major thematic event adversely affecting the demand for coin products. Sales, however, increased significantly in the second half year and promotional activity targeted at generating new customers was very successful. The Collector Coin business is well placed to benefit from strong thematic events in the next few years and from the product development work being undertaken.

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. Work on vesting is currently well advanced, but is currently on hold pending the recruitment of the new Chief Executive and the next stage in the Mint's strategic development. Vesting will help the business develop by making it a corporate entity separate from Government, and with a standard company governance framework.

The loss after interest was £1.6 million compared with a loss of £3.2 million for the year ended 31 March 2005. The impact of the loss incurred in the year, together with an increase in working capital, resulted in an increase in the net debt from £15 million to £20 million.

Safety, Health and Environment

As a responsible business the Royal Mint continues to seek to achieve high standards of business ethics and is fully committed to meeting its safety, health and environmental requirements and responsibilities. It recognises that business success brings with it obligations of effective stewardship and responsible behaviour. The Mint's safety, health and environmental management systems aim for continuous improvement beyond basic legal compliance. This involves placing strong emphasis on working with and looking after the workforce, being environmentally responsible and maintaining a commitment to sustainable development.

The following performance measures indicate the Mint's continuing progress towards these goals:

- the results of external safety, health and environmental audits indicate that the Mint is achieving continuous improvement from previous performance and the targets that have been set;
- there has been a decrease in both the total number and the reportable number of accidents recorded. The number of reportable accidents continues to be below the HSE's national incident rate for manufacturing industry;
- the Mint continues to work to the stringent controls of its Pollution, Prevention and Control (PPC) Permit which is regulated by the Environment Agency;
- within its status as a Top Tier Site, as defined under the Control of Major Accident Hazards (COMAH) Regulations, the Mint continues to co-operate with the competent authorities in order to ensure that compliance to the regulations is maintained; and
- during the period the Mint successfully gained accreditation to the International Environmental Management Standard of ISO 14001.

As detailed last year, however, one reportable environmental incident occurred in May 2005 where water containing a high level of chlorine was discharged to a river. A second incident occurred in December 2005 where a fracture to a containment tank of mild acid resulted in a leakage to land within the Mint site. The Mint co-operated fully with the Environment Agency to take mitigating and corrective action.

Looking to the future

Market conditions for circulating coins and blanks are expected to remain difficult and competitive. The increased demand for plated-steel products, where the Royal Mint is the market leader, is expected to continue.

Product development initiatives and the continuing growth of the customer database, together with strong thematic events, will enable the Collector Coin business to achieve sustainable growth in sales and profitability.

A business review has recently been undertaken and ways in which the recommendations might best be implemented are currently being considered.

The review is planned both to strengthen the effectiveness of sales and marketing as well as to reposition the cost base and thereby make possible a return to a level of profitability appropriate to the capital employed.

Royal Mint Advisory Committee, 2005-06

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.

During the year the Committee met on six occasions in London: five times at Cutlers' Hall and once at Goldsmiths' Hall. It examined designs for one official medal as well as a range of coins marking significant anniversaries in the history of Britain, but the most important business to come before the Committee was the redesigning of the six denominations of United Kingdom coins from the penny to the fifty pence. That there have been more meetings of the Committee this year than is usually the case is a direct consequence of the work involved in resolving designs for the new definitive reverses and the Deputy Chairman of the Committee would like to express his sincere thanks to members who have continued to give freely and willingly of their time.

With the exception of the twenty pence piece, which was introduced in 1982, the reverses of the coins from the penny to the fifty pence were designed by Christopher Ironside in the lead up to decimalisation almost forty years ago. It was felt that the time had now come to introduce a new series of designs and a public competition was announced in August 2005. Invitations were also sent to several professional artists who were either well-established numismatic designers or who it was judged would respond imaginatively to the challenge. By the closing date of 14 November more than 4000 designs had been received from 500 designers, and the Committee embarked upon the daunting prospect of selecting a short list. The process has some months yet to run with five artists left in the field and nearly two dozen designs still under consideration. An announcement of the winning designs is expected during 2007.

Other projects that have come before the Committee in the last twelve months include designs for the medal and the coins listed below.

Iraq Civilian Medal
 Victoria Cross fifty pence, 2006
 Diamond Wedding crown, 2007
 Abolition of the Slave Trade two-pound coin, 2007
 Scouting Centenary fifty pence, 2007
 Britannia bullion coins, 2007

There have been no new appointments to the Committee but two members, Sir Peter Michael CBE and Rosalind Savill CBE, have had their terms of membership extended beyond the initial period of seven years.

Membership of the Committee

(with dates of appointment)

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

Mr David Barrass
 (Chief Executive of the Royal Mint
 and *ex officio* Deputy Chairman) *May 2006*

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

Mr Stuart Devlin AO CMG *January 1998*
re-appointed, January 2005

Miss Katharine Eustace *January 1998*
re-appointed, January 2005

Sir Peter Michael CBE *March 1999*
re-appointed, March 2006

Miss Rosalind Savill CBE *March 1999*
re-appointed, March 2006

The Rt Hon Lord Luce *January 2001*

Miss MaryAnne Stevens *April 2001*

Professor David Cannadine *September 2004*

Miss Diana Condell *September 2004*

Mr John Maine RA *September 2004*

Mr Stephen Raw *January 2005*

Mr John Porteous OBE
 (Numismatic Consultant to the Committee)

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 collectable items, and any operation incidental or conducive to such manufacture or supply.

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

The Royal Mint has built up a high reputation for quality and today exports coins and blanks 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 collectable items represent an important part of the business activity.

The Master of the Mint is the Chancellor of the Exchequer. In normal circumstances, the Chief Executive and Accounting Officer of the Royal Mint is the Deputy Master and Comptroller. Following the departure of the Chief Executive in January 2006, the Finance Director was appointed as acting Deputy Master and Accounting Officer for the period 16 January 2006 to 30 April 2006. The interim Chief Executive took on the role of Deputy Master and Accounting Officer with effect from 1 May 2006.

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 HM 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 within the period 1 April 2001 to 31 March 2006 should be a return on net assets of 11%. This has not been achieved. The return in 2005-06 is negative 1.7%. 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).

Financial review

Sales in the year of £114.6 million include £55.2 million (48%) to overseas customers.

The modified historical cost operating loss for the year was £0.3 million (2004-05: loss of £2 million).

There is no dividend payable to the Consolidated Fund.

Capital expenditure of £1.7 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 non-ferrous metals which are traded on the London Metal Exchange (LME) and whose prices are therefore 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.

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 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. 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 2006. 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).

Credit payment policy

The policy of paying creditors complied with the Better Payment Practice Code. A total of 85% of invoices was paid within either thirty 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 policy continued of employing and training disabled persons, wherever their aptitudes and abilities allow. Where employees become disabled the Royal Mint endeavours to continue their employment, provided there are jobs which they can do, bearing in mind not only their handicap or disability but their experience and skills.

The number of people employed (permanent and casual staff) at 31 March 2006 was 915.

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.

Directors

Details of the Directors are set out on page 1. 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.

Change in status

The Chancellor of the Exchequer announced in December 2004 that the Government intended to transform the Royal Mint from a Trading Fund into a Government-owned company in order to provide a more appropriate corporate governance structure and the opportunity for the Royal Mint to improve its performance. Professional advisers have been appointed to assist with this process and the costs incurred to date are detailed in Note 6.

The process of incorporating the Royal Mint's activities into a company is continuing. The Accounts have been prepared on a going-concern basis and no adjustments have been made to the values at which assets and liabilities are reflected in the Balance Sheet on the basis that the assets and liabilities are expected to be transferred to the Government-owned company at the values recorded in the Accounts.

David Barrass

Accounting Officer
10 July 2006

Statement of Trading Fund'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 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 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 Agency will continue in operation.

HM 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, for the keeping of proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by HM 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, 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 2006 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 Risk Management Committee which includes all Executive Directors. 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 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. 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 occurring and the impact of a particular outcome (risk) actually happening; and
- 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 2005-06 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; and
- 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.

Governance

Although there is currently no requirement for the Royal Mint to comply with the Combined Code on Corporate Governance, the Directors support high standards of governance and, in so far as is practicable given its size and status, have together with HM Treasury and the Shareholder Executive 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, all of whom are deemed to be independent, having documented terms of reference and chaired by a Non-Executive Director other than the Chairman 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.

On 11 May 2006, Hugh Beever resigned from the Audit Committee in order that the Committee membership should conform to the guidance provided on membership and appointment in the Combined Code. With effect from that date the Committee membership has been: Jan Smith, Robert Guy (Committee Chairman) and David Wertheim.

Board of Directors

The Board currently comprises a Non-Executive Chairman, three independent Non-Executive Directors and six Executive Directors, three of whom are engaged under interim arrangements.

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

The Board met five times in 2005-06 (2004-05: six times). All Executive and Non-Executive Directors attended five Board meetings during the year with the exception of Gerald Sheehan who resigned in March 2006 and David Barrass who took over as interim Chief Executive in January 2006.

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

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

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

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

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

David Barrass

Accounting Officer

10 July 2006

Remuneration Report

In previous years the Royal Mint has made certain disclosures regarding the remuneration of its Directors in the Notes to the Accounts. These are now included in a Remuneration Report, the preparation of which is a new disclosure requirement for Public Sector entities reporting in 2006.

Remuneration Committee

The Board of Directors formally established a Remuneration Committee on 5 July 2004. The Committee is made up of not less than three Non-Executive Directors. The Committee's primary role is to determine, in consultation with the Shareholder Executive, the remuneration of the 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 comprises Hugh Beevor, Robert Guy, Jan Smith and David Wertheim (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; in the past year it met a total of four times (2004-05: three times) and these meetings were attended by all members of the Committee.

During the year, the Committee sought the advice of the Hay Group, as independent remuneration consultants appointed by the Royal Mint, and took the advice of Simmons & Simmons solicitors on employment matters. The Royal Mint also participated in the Monks Partnership Survey of Non-Executive Director Practice and Fees.

Committee remit

The remit is reviewed and updated at least annually; it was last updated in October 2005.

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.

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.

i Basic salary

Following an independent review of Executive Director compensation in September 2004, it was determined that the basic salaries of Executive Directors (other than the Chief Executive) should be increased from April 2005 to a competitive level for the Public Sector.

ii Short-Term Incentive Plan (STIP)

In April 2005 the Remuneration Committee approved the adoption of a STIP for Executive Directors and other key managers. David Barrass does not participate in the STIP. Under the terms of the STIP, annual cash awards may be made to participants dependent upon the achievement of corporate and individual performance targets, such achievement to be agreed by the Remuneration Committee on the recommendation of the Chief Executive.

Performance targets are established annually and are monitored regularly. The maximum level of annual award as a percentage of basic salary for each Executive Director is:

		% of Basic Salary
Gerald Sheehan	(resigned, 31 March 2006)	30
Tony Burnell		20
Phil Carpenter		20
Keith Cottrell		20
Huw Edwards	(resigned, 30 April 2006)	20
Alan Wallace	(retired, 31 March 2006)	20

No payments were made to Executive Directors under the Plan for 2005-06.

iii Civil Service Pension

Each of Messrs Burnell, Carpenter, Cottrell and Wallace are members of the Classic Pension Scheme and Messrs Sheehan and Edwards are members of the Classic Plus Pension Scheme. Please see Note 13 for details.

	Remuneration including performance pay 2005-06 (2004-05) £'000	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60 at 31 March 2006 and related lump sum £'000	CETV 31 March 2005 £'000	CETV 31 March 2006 £'000	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Executive Directors						
Gerald Sheehan Chief Executive (resigned, 31 March 2006)	155-160 (125-130)	0-2.5	5-10	109	183	28
Tony Burnell Director of Human Resources	70-75 (60-65)	5-10	5-10 plus 20-25 lump sum	86	135	26
Phil Carpenter Director of Circulating Coin Production	65-70	5-10	10-15 plus 30-35 lump sum	81	135	30
Keith Cottrell Director of Sales	70-75 (60-65)	5-10	10-15 plus 40-45 lump sum	211	331	51
Huw Edwards Director of Finance (resigned, 30 April 2006)	70-75 (65-70)	0-2.5	0-5	17	40	14
Alan Wallace Director of Collector Coin (retired, 31 March 2006)		Consent to disclosure withheld				

Remuneration includes salary, performance pay and all other benefits. Pension benefits are provided through Civil Service Pension (CSP) arrangements. Details of these arrangements are set out in Note 13.

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

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

Employment agreements

All Executive Directors are employed as Civil Servants with the exception of the incumbent Chief Executive, Director of Finance and the Director of Collector Coin Marketing and Sales. David Barrass was appointed as interim Chief Executive on 16 January 2006 under a contract through a service provider. The total cost of David Barrass' services incurred in the financial year to 31 March 2006 was £66,931. Peter Allred was appointed interim Director of Finance on 10 April 2006 under a contract through a service provider and Andy Mitchell was appointed interim Director of Collector Coin Marketing and Sales on 1 June 2006.

With the agreement of HM Treasury a compensation package (not including remuneration shown in the table above) was settled with Gerald Sheehan. The total cost to the Royal Mint, including legal expenses, will be up to £275,669.

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 otherwise stated elsewhere, the officials covered by this Report hold appointments which are open-ended until they reach the normal retiring age of sixty. 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 two-year or a three-year term under letters of appointment from HM Treasury. Either party can terminate their engagement upon three month's notice.

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

	2005-06	2004-05
	£'000	£'000
Hugh Beevor	22.5	22.5
Robert Guy	9.0	9.0
Jan Smith	9.0	9.0
David Wertheim	9.0	9.0

David Wertheim

Chairman of the Remuneration Committee
10 July 2006

David Barrass

Accounting Officer
10 July 2006

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

I certify that I have audited the financial statements of the Royal Mint for the year ended 31 March 2006 under the Government Trading Funds Act 1973. These comprise the Income and Expenditure 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.

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

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

My responsibility is to audit the financial statements 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 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. I also report to you if, in my opinion, the *Annual Report* is not consistent with the financial statements, 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 11 to 13 reflects the Royal Mint's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control 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 other information comprises only the Chairman's Statement, Chief Executive's Report, Financial Summary, Management Commentary 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 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 judgements made by the Royal Mint and the Chief Executive 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.

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 2006 and of its deficit 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
- 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.

Please see my report on pages 31 and 32.

John Bourn

Comptroller and Auditor General
13 July 2006

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

Operating Account for the year ended 31 March 2006

	Notes	£'000	£'000	2005-06 £'000	2004-05 £'000
TURNOVER	2, 3			114,552	99,613
Change in stocks of finished goods and work in progress			(1,376)		(2,035)
Own work capitalised			29		52
Other operating income			62		165
Raw materials and consumables			(61,557)		(49,928)
Other external charges			(4,749)		(4,795)
Staff costs					
– operating staff costs		(25,264)			
– exceptional staff costs	6	(229)			
	5		(25,493)		(24,070)
Depreciation and other amounts written off tangible fixed assets	8		(4,588)		(4,423)
Other operating charges		(16,053)			
Other exceptional operating charges	6	(1,115)			
			(17,168)		(16,536)
				(114,840)	(101,570)
OPERATING LOSS AFTER EXCEPTIONAL COSTS	4			(288)	(1,957)
INTEREST RECEIVABLE AND SIMILAR INCOME				68	82
INTEREST PAYABLE AND SIMILAR CHARGES	7			(1,380)	(1,370)
RETAINED LOSS FOR THE YEAR				(1,600)	(3,245)

No activities have been acquired or discontinued during the year.

The notes on pages 23 to 30 form part of the modified historical cost accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005-06 £'000	2004-05 £'000
Loss for the year	(1,600)	(3,245)
Unrealised surplus on revaluation of property	813	623
Unrealised surplus on revaluation of plant and machinery	815	128
Unrealised surplus on revaluation of uncommitted metal	1,563	795
Total recognised gains and losses relating to the year	<u>1,591</u>	<u>(1,699)</u>

HISTORICAL COST PROFITS AND LOSSES

	2005-06 £'000	2004-05 £'000
Reported loss for the year	(1,600)	(3,245)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	188	216
Historical cost loss for the year	<u>(1,412)</u>	<u>(3,029)</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 2005	5,500	6,005	36,844	48,349
Movements in the year:				
Revaluations				
Fixed assets	-	1,628	-	1,628
Stocks	-	1,563	-	1,563
Loss for the year	-	-	(1,600)	(1,600)
Reclassification to distributable reserves	-	(188)	188	-
As at 31 March 2006	<u>5,500</u>	<u>9,008</u>	<u>35,432</u>	<u>49,940</u>

The notes on pages 23 to 30 form part of the modified historical cost accounts.

Balance Sheet as at 31 March 2006

	Notes	£'000	2006 £'000	2005 £'000
FIXED ASSETS				
Tangible assets	8		38,648	39,921
CURRENT ASSETS				
Stocks	9	48,737		46,413
Debtors	10	16,551		13,216
Cash at bank and in hand		2,458		2,950
		67,746		62,579
CREDITORS				
Amounts falling due within one year	11	(46,507)		(42,936)
NET CURRENT ASSETS			21,239	19,643
TOTAL ASSETS LESS CURRENT LIABILITIES			59,887	59,564
FINANCED BY:				
CREDITORS				
Amounts falling due after one year	12		9,947	11,215
CAPITAL AND RESERVES				
Public dividend capital		5,500		5,500
Revaluation reserve		9,008		6,005
Profit and loss account		35,432		36,844
			49,940	48,349
			59,887	59,564

The notes on pages 23 to 30 form part of the modified historical cost accounts.

David Barrass
Accounting Officer
10 July 2006

Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-06 £'000	2004-05 £'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(a)	(1,849)	3,522
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		68	82
Interest paid		(1,406)	(1,373)
		(1,338)	(1,291)
CAPITAL EXPENDITURE			
On acquisition of tangible fixed assets		(1,694)	(3,754)
Receipts from sale of tangible fixed assets		7	10
		(1,687)	(3,744)
EQUITY DIVIDEND PAID		-	(750)
CASH FLOW BEFORE FINANCING		(4,874)	(2,263)
FINANCING			
Long-term loan principal repaid		(618)	(580)
Movement in short-term loans		5,000	3,000
NET CASH FLOW FROM FINANCING		4,382	2,420
(DECREASE)/INCREASE IN CASH IN THE YEAR	(b)	(492)	157
(a) RECONCILIATION OF OPERATING LOSS WITH THE NET CASH INFLOW FROM OPERATING ACTIVITIES		£'000	£'000
Operating loss		(288)	(1,957)
Depreciation charge		4,588	4,423
Movements in			
Stocks		(761)	17,334
Debtors		(3,335)	(1,517)
Creditors (excluding dividend)		(2,053)	(14,738)
Currency translation difference		-	(23)
		(1,849)	3,522
(b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000
(Decrease)/Increase in cash in the year		(492)	157
Currency translation difference		-	23
Cash flow from movements in borrowings		(4,382)	(2,420)
Movement in net funds		(4,874)	(2,240)
Net debt at start of year		(15,197)	(12,957)
Net debt at end of year		(20,071)	(15,197)
(c) ANALYSIS OF NET DEBT		£'000	£'000
Cash at bank and in hand		2,458	2,950
Debt due within one year		(13,657)	(8,617)
Debt due after one year		(8,872)	(9,530)
		(20,071)	(15,197)

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 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
Plant, machinery and IT equipment	5-25

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 2006. 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.

Note 1, continued**(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 13.

(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.

	2005-06 £'000	2004-05 £'000
United Kingdom	59,323	55,311
Overseas	55,229	44,302
	<u>114,552</u>	<u>99,613</u>

Note 3**SEGMENTAL REPORTING****ANALYSIS BY CLASS OF BUSINESS**

	2005-06 £'000	2004-05 £'000
Turnover		
Circulating Coin		
United Kingdom	27,301	25,045
Overseas	43,461	34,496
	<u>70,762</u>	<u>59,541</u>
Collector Coin		
United Kingdom	32,022	30,266
Overseas	11,768	9,806
	<u>43,790</u>	<u>40,072</u>
Total Turnover	<u>114,552</u>	<u>99,613</u>
Operating profit/(loss)		
Circulating Coin	4,076	1,489
Collector Coin	4,250	3,699
Common costs	(7,270)	(7,145)
Exceptional items	(1,344)	-
Total operating loss	<u>(288)</u>	<u>(1,957)</u>
Net operating assets		
Circulating Coin	51,273	50,623
Collector Coin	14,742	14,021
Unallocated net liabilities	(6,128)	(5,080)
Total assets less current liabilities	<u>59,887</u>	<u>59,564</u>

Note 3, continued

The unallocated net liabilities 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

	2005-06 £'000	2004-05 £'000
Operating profit is stated after charging:		
Sub-contracted work and semi-processed material	4,749	4,795
Audit fees	72	42
Hire of plant and machinery	71	67
Travel and subsistence	515	486
Foreign exchange (gains)/losses	(51)	53
	<u> </u>	<u> </u>

Note 5

REMUNERATION AND EMPLOYMENT

Details of the salary and pension entitlements of Executive Directors are now included in the Remuneration Report, pages 14 to 16.

TOTAL STAFF COSTS	£'000	2005-06 £'000	£'000	2004-05 £'000
Wages and salaries				
Staff with a permanent contract	18,520		18,209	
Other staff	<u>2,282</u>		<u>2,081</u>	
		20,802		20,290
Social Security costs				
Staff with a permanent contract	1,369		1,369	
Other staff	<u>196</u>		<u>174</u>	
		1,565		1,543
Other pension costs				
Staff with a permanent contract	3,115		2,222	
Other staff	<u>11</u>		<u>15</u>	
		3,126		2,237
		<u>25,493</u>		<u>24,070</u>
AVERAGE NUMBER EMPLOYED		2005-06		2004-05
Production				
Staff with a permanent contract	585		573	
Other staff	<u>147</u>		<u>145</u>	
		732		718
Sales and Marketing				
Staff with a permanent contract	86		85	
Other staff	<u>9</u>		<u>4</u>	
		95		89
Administration				
Staff with a permanent contract	103		111	
Other staff	<u>3</u>		<u>1</u>	
		106		112
		<u>933</u>		<u>919</u>

Note 6

EXCEPTIONAL ITEMS

	2005-06 £'000	2004-05 £'000
Costs associated with vesting	1,069	-
Costs associated with the resignation of the Chief Executive	229	-
Other operating charges associated with the resignation of the Chief Executive	46	-
	<u>1,344</u>	<u>-</u>

Of the above, £929,207 of the costs associated with vesting, and none of the costs associated with the resignation of the Chief Executive, had been paid before 31 March 2006. The balance of expenditure will be paid in the next twelve months.

Note 7

INTEREST PAYABLE AND SIMILAR CHARGES

	2005-06 £'000	2004-05 £'000
On loans repayable within five years	757	693
On loans payable by instalments over more than five years	623	677
	<u>1,380</u>	<u>1,370</u>

Note 8

TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Valuation			
At 1 April 2005	13,529	75,868	89,397
Additions	167	1,520	1,687
Disposals	-	(2,098)	(2,098)
Revaluation	419	1,738	2,157
At 31 March 2006	<u>14,115</u>	<u>77,028</u>	<u>91,143</u>
Depreciation			
At 1 April 2005	-	49,476	49,476
Charge for year	395	4,193	4,588
Disposals	-	(2,097)	(2,097)
Revaluation	(395)	923	528
At 31 March 2006	<u>-</u>	<u>52,495</u>	<u>52,495</u>
Net book value at 31 March 2006	<u>14,115</u>	<u>24,533</u>	<u>38,648</u>
Net book value at 1 April 2005	<u>13,529</u>	<u>26,392</u>	<u>39,921</u>

Land and buildings are stated at open market current use valuation at 31 March 2006 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation totalling £17.9 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 2006; a full review was conducted as at 31 March 2006.

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 2006			
Cost	16,827	65,276	82,103
Accumulated depreciation	(5,752)	(50,610)	(56,362)
Net book value at 31 March 2006	<u>11,075</u>	<u>14,666</u>	<u>25,741</u>
Net book value at 1 April 2005	<u>11,302</u>	<u>25,754</u>	<u>37,056</u>

Note 9

STOCKS	2006 £'000	2005 £'000
Metal stocks	26,788	24,933
Work in progress (excluding metal)	4,227	5,081
Stores and packing materials	2,533	2,547
Finished goods	15,189	13,852
	<u>48,737</u>	<u>46,413</u>

Metal stocks of £26.788 million (2005: £24.933 million) include a base stock of copper and nickel with a net realisable value of £6.322 million at 31 March 2006 (2005: £5.279 million) and £15.951 million (2005: £18.091 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	2006 £'000	2005 £'000
Trade debtors	16,080	12,250
Other debtors	175	635
Prepayments and accrued income	296	331
	<u>16,551</u>	<u>13,216</u>

Debtor balances with other Government bodies	2006 £'000	2005 £'000
Other central Government bodies	1,326	431
Local Authorities	-	-
NHS Trusts	4	8
Public Corporations and Trading Funds	187	-
	<u>1,517</u>	<u>439</u>

Note 11

CREDITORS: amounts falling due within one year	2006 £'000	2005 £'000
Short-term fixed-rate NLF loans	(13,000)	(8,000)
Long-term NLF loans (see Note 12)	(658)	(617)
Trade creditors	(24,528)	(25,004)
Other creditors	(832)	(1,332)
Payments received on account	(6,274)	(6,101)
Taxation and Social Security	(536)	(532)
Accruals and deferred income	(679)	(1,350)
	<u>(46,507)</u>	<u>(42,936)</u>

Included in other creditors is £0.686 million (2005: £0.975 million) in relation to redundancy and early retirement creditors.

Creditors balances with other Government bodies		
Other central Government bodies	553	205
Public Corporations and Trading Funds	-	7,422
	<u>553</u>	<u>7,627</u>

Note 12

CREDITORS: amounts falling due after one year

	2006 £'000	2005 £'000
Amounts in respect of redundancy and early retirement		
Between one and two years	484	620
Between two and five years	591	1,065
After five years	-	-
	<u>1,075</u>	<u>1,685</u>
Loans repayable		
Between one and two years	700	658
Between two and five years	2,382	2,238
After five years	5,790	6,634
	<u>8,872</u>	<u>9,530</u>
	<u>9,947</u>	<u>11,215</u>

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

Loan £'000	Interest rate %	Date drawn	Amount Due within 12 months (see Note 11 above) £'000	Amount Due after 12 months (above) £'000
10,500	6.347	20 September 2001	577	7,727
1,500	6.305	2 October 2001	81	1,145
			<u>658</u>	<u>8,872</u>

Note 13

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 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 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.

(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. 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.

Note 13, continued

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 Prices 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 2005-06 employers' contributions of £3.125 million were paid to the Civil Service Pension Schemes (2004-05 £2.237 million) at rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands. The pension contribution rates increased to a range of 17.1% to 25.5% from 1 April 2006. The contributions reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 14

CAPITAL COMMITMENTS

Commitments in respect of contracts

2006	2005
£'000	£'000
499	495

Note 15

OPERATING LEASE COMMITMENTS

At 31 March 2006 the Royal Mint was committed to the following payments under non-cancellable operating leases

	2006	2005
	£'000	£'000
Within one year	72	-

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 material 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 9 and 10, 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 process. Such contracts are placed solely for sales commitments.

Note 17, continued

Currency Risk

The forward exchange contracts which were outstanding at 31 March 2006 amounted to £16.3 million (2005: £7.1 million).

If these contracts were translated at the year-end rate there would have been a gain of £0.4 million (2005: loss of £0.8 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 2007.

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.

Report by the Comptroller and Auditor General

Introduction

1. The Management Commentary to the Accounts sets out the primary activities of the Royal Mint ('the Mint'). It notes also that, as a Government Trading Fund, the Mint is required to operate on commercial lines and is required under Section 4(i) of the Government Trading Funds Act 1973 '*to manage the funded operations so that the 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 objective has been interpreted to mean that whilst the 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, at least, is achieved.
2. I reported to Parliament on the financial performance of the Mint, following a substantial loss in the year ended 31 March 2002 ¹. The Mint returned to profitability in 2002-03 and 2003-04 but in 2004-05 made a further operating loss. I issued a further report to Parliament in 2005 ² explaining the background to this loss. That report provided an update on the Mint's financial position and commented on its plans to ensure future profitability, in preparation for the conversion of the Royal Mint Trading Fund to a Government-owned company, as announced by the Chancellor of the Exchequer in December 2004 ³.
3. The Mint's performance in 2005-06, as outlined in the Chief Executive's Report included in the Accounts, has been below expectations, registering a loss in the year of £1.6 million. This loss was after taking account of exceptional costs arising in two areas: costs incurred in preparing for future vesting as a Government-owned company (£1.069 million), and costs associated with the resignation during the year of the Chief Executive of the Mint (£275,000). An interim Chief Executive was appointed in January 2006.
4. This report outlines further details of the Mint's activities in the year and going forward, under the following headings: financial and operating performance, exceptional costs incurred in the year, and ensuring future profitability.

Financial and operating performance

5. The Mint's activities are concentrated in two main business areas: Circulating Coin, involving the production of circulating coinage for the United Kingdom and overseas markets; and Collector Coin, involving the production and sale of collectable coins and other items.
6. Following the reported loss of £3.2 million in 2004-05, my report in 2005 outlined the Mint's plans to improve performance and restore profit margins, which included taking advantage of improving markets, introducing new products and making progress in establishing flexible working practices. In the event, as the Chief Executive comments in his own report, overall results for 2005-06 fell below expectations, and did not show any material improvement on the previous year.
7. On the Circulating Coin business, the Mint has continued to meet the obligations of its contract with HM Treasury to supply domestic United Kingdom coin, but it has not made the progress envisaged in establishing flexible working practices. I noted in my report on the Mint's Accounts last year that the outcome of negotiations over the contract for the production of United Kingdom circulating coin would be important for the Mint's future profitability. These negotiations have not yet been concluded. Internationally, the circulating coin market has continued to be highly competitive, with a consequent impact on pricing, margins, and success rates in gaining new contracts. The Mint also experienced operational difficulties due partly to technical problems in the commissioning and installation of new furnaces. This adversely affected performance on Circulating Coin, particularly in the second half of the year.
8. By contrast, the financial performance of the Collector Coin business improved during 2005-06. The Mint hit its performance targets in this area and has invested significantly in a customer acquisition strategy with promising results.
9. Note 3 to the Accounts shows that the Circulating Coin and Collector Coin businesses made operating profits of £4.08 million and £4.25 million respectively during 2005-06. This is, however, before taking into account 'common costs' (i.e. costs incurred by the Mint not directly attributable to either Circulating or Collector Coin, such as finance and IT, human resources, corporate affairs and security) of £7.3 million.

¹ *Royal Mint Annual Report, 2001-02, Report by the Comptroller and Auditor General pp37-44 (HC1181, 2002-03)*

² *Royal Mint Annual Report, 2004-05, Report by the Comptroller and Auditor General pp39-40 (HC242, 2005-06)*

³ Paragraph 6.61, Pre-Budget Report, December 2004 (HM Treasury)

Exceptional costs Incurred in the Year

10. The Mint's Accounts (Note 6) disclose exceptional operating charges incurred in the year of £1.344 million. Further detail on the nature of these exceptional costs is set out below:

- vesting costs – the Mint incurred significant costs in the year in support of its preparations for conversion of the Royal Mint Trading Fund to a Government-owned company (a process known as 'vesting'). These costs, which relate predominantly to legal and financial advice, amounted to £1.069 million in 2005-06. As the Chairman notes in his opening statement to the Annual Report and Accounts, the process of vesting will not be finalised before the appointment of a permanent Chief Executive and the completion of a strategic review. The Mint is in discussion with Ministers, HM Treasury and the Shareholder Executive over the future timetable; and
- Chief Executive's resignation settlement – the Chief Executive formally resigned from his post in March 2006 and the Mint agreed a compensation package with him. Total costs associated with the compensation package, including legal fees, amounted to £275,000. HM Treasury agreed the terms of this package. The Mint appointed an interim Chief Executive in January 2006 and incurred costs of £66,931 for his services up to 31 March 2006.

11. Overall, after allowing for common and exceptional costs, in 2005-06 the Mint made an operating loss of £288,000, rising to a loss of £1.6 million after interest charges.

Ensuring future profitability

12. When I reported in 2005, the Chancellor had recently announced that the Royal Mint Trading Fund would undergo a vesting process and be converted to a Government-owned company. The key objectives of vesting were to allow the Mint to enhance commercial attitudes in its workforce and enable greater focus on meeting the requirements of the various markets in which it operates. HM Treasury, the Shareholder Executive and the Mint had hoped that the conversion would take place by the end of the 2005-06 financial year.
13. Due to the problems in trading and operational performance described elsewhere in my report, the vesting process is currently on hold, pending further consideration by Ministers of an appropriate timetable going forward. In the meantime, and with the assistance of external consultants, the Mint has carried out a wide-ranging business review, as described in the Chief Executive's Report. This covered all aspects of the business, including the systems and structures in place, and the performance of the Circulating and Collector Coin businesses. A review of the Mint's brand strategy is also nearing completion. Senior management at the Mint, in consultation with Ministers, HM Treasury and the Shareholder Executive, are currently considering how recommendations from these reviews might best be taken forward.
14. The interim Chief Executive continues to lead this process. After the year-end, as noted in the Remuneration Report, the Mint appointed an interim Director of Finance in April 2006 and an interim Director of Collector Coin Marketing and Sales in June 2006. Plans are now in place for the recruitment to the permanent post of Chief Executive, with other key senior posts to be filled on a permanent basis once the new Chief Executive is in place.
15. My staff will continue to monitor the Mint's work to improve its trading position and financial performance in preparation for the move to Government-owned company status. I will report further to Parliament in due course, as appropriate, as this work progresses.

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Comptroller and Auditor General
13 July 2006

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