



Royal Mint Management Structure

As at 31 March 2003

Gerald Sheehan
Chief Executive

EXECUTIVE DIRECTORS

Keith Cottrell
Director of Sales

Graham Davies
Director of Finance

Allan Pearce
Director of Human Resources and Corporate Affairs

Michael Slater
Director of Circulating Coin Production

Alan Wallace
Director of Collector Coin

NON-EXECUTIVE DIRECTORS

David Stark (Chairman)

Lyndon Haddon

Jan Smith

David Trapnell

Bankers Bank of England

External Auditors Comptroller and Auditor General

Internal Auditors PricewaterhouseCoopers LLP

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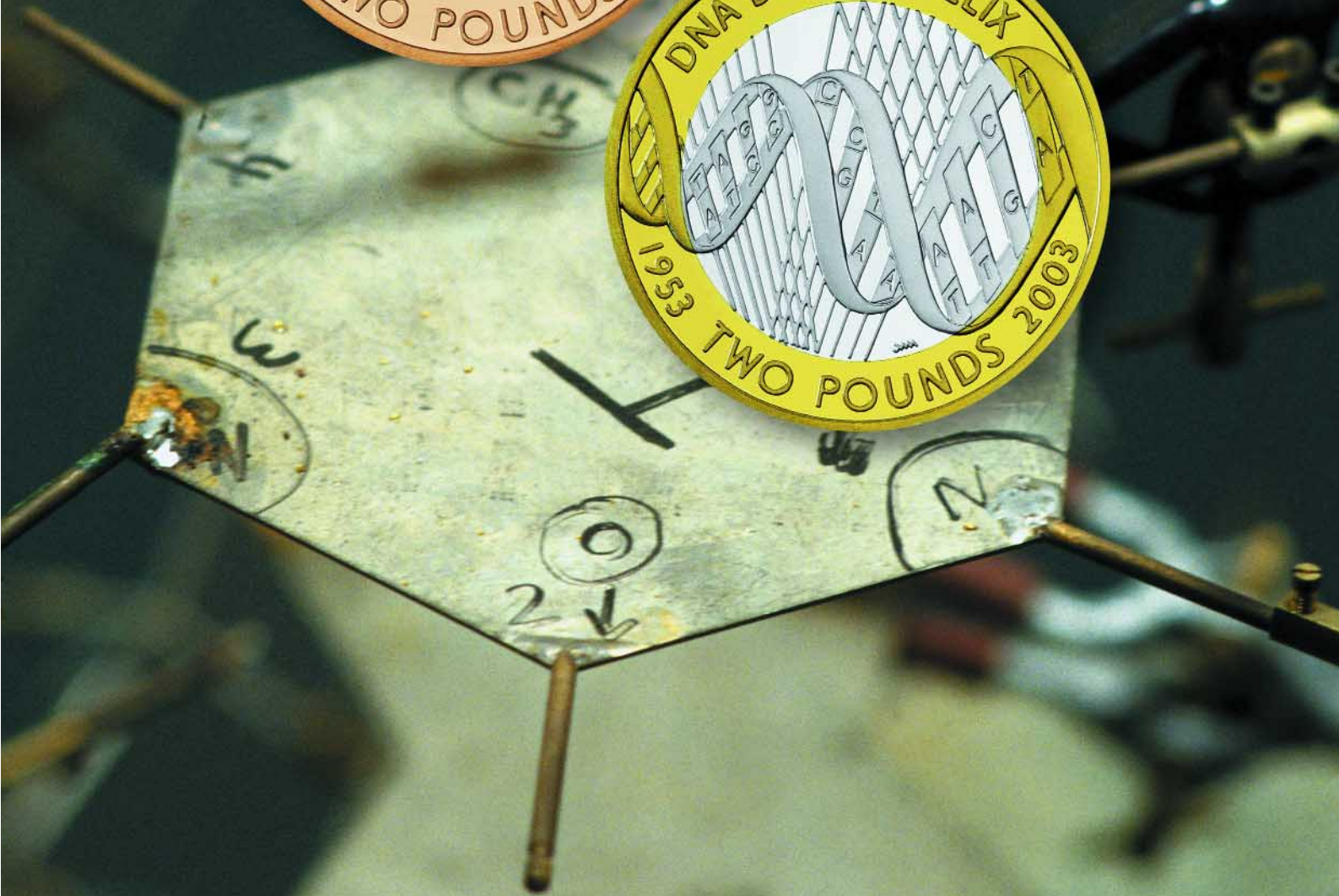
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Chief Executive's Report

After the heavy losses suffered in 2001-02 of £6.5 million before exceptional costs and interest, this year shows a return to profitability - £1.3 million before exceptional items and interest. This significant turnaround is testimony to the commitment of all employees in embracing change. The first stage of the restructuring process was completed as planned. Next year, however, will be at least as challenging.

Our key objectives remain: to improve productivity, to reduce the cost base and to achieve excellent customer service.

A review of our Corporate Governance has been a priority for most of the year, culminating in the publication of the Royal Mint Code of Practice. This has been circulated and communicated to employees and agents. The document was prepared after researching best practice both in the public and private sectors.

The past year has seen a number of changes with regard to the Management Board. Of the Non-Executive Directors, Lucy Woods resigned in September 2002 and David Trapnell replaced David Stark as Chairman of the Audit Committee in January 2003. David Stark remains Chairman of the Management Board.

Of the Executive Directors Geoff Payne, Director of Engineering Services, retired in June 2002. Two further Directors left the Management Board in May 2003. Graham Davies, Director of Finance took early retirement, and Allan Pearce, Director of Human Resources and Corporate Affairs, also left the Mint. I would like to take this opportunity to acknowledge the support and commitment they have provided throughout their time here and wish them well for the future.

Huw Edwards, currently on secondment to the Royal Mint as Acting Director of Finance, has been appointed to the position with effect from 1 September 2003, and Tony Burnell was appointed Director of Human Resources with effect from 1 May 2003.

Review of Trading

Sales of £92 million were 15% higher than last year. Collector Coin sales were £49.9 million. Circulation Coin sales of £42.1 million were affected by the policy of reducing United Kingdom circulating coin stock levels, which on average were 23% lower than in the previous year.

A progressive reduction in employee levels, as well as a number of initiatives to reduce costs further, was necessary as selling prices for overseas circulating coins and blanks remained flat. The full benefit of these savings will be seen next year and will be accompanied by other cost reduction initiatives.

The Mint has continued to be involved in planning for a possible changeover to the euro should the Government, Parliament and the people, in a referendum, decide to join.

Opposite: **Gold and silver commemorative versions of the £2 coin were issued to mark the 50th anniversary of the discovery of the structure of DNA. The reverse design is by the distinguished sculptor John Mills.**

(Background image: part of the original model of the DNA structure by Francis Crick and James Watson courtesy of the Science Museum)



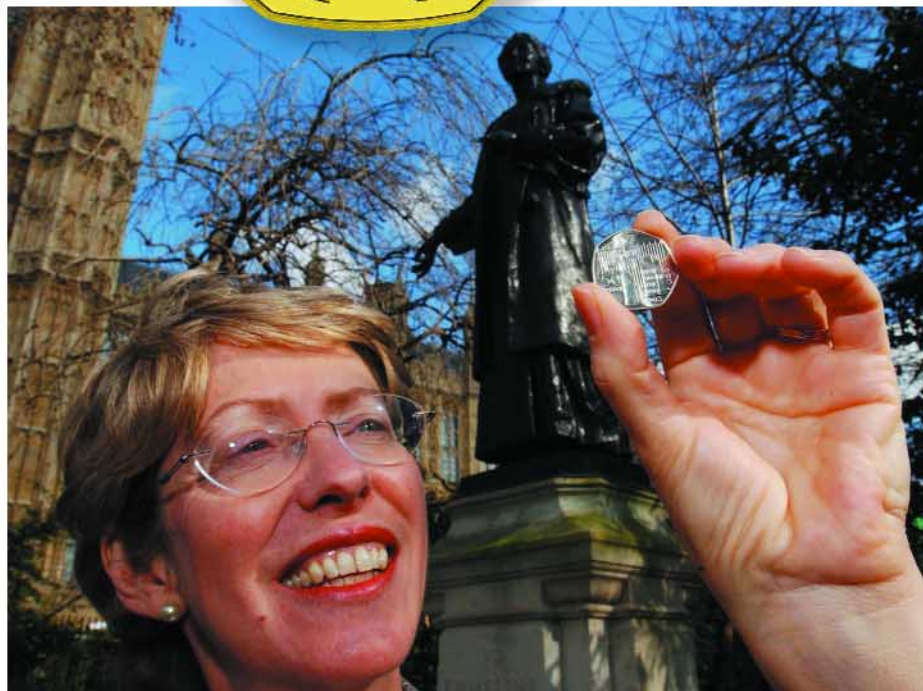
Left: **Furnaces melting base metal for coinage.**
(Molyneux Associates)

Looking to the Future

The main objectives during the year were to improve customer service, complete the first stage of restructuring, meet cost reduction targets and improve cash flows. Significant progress has been made in all areas, but the continuing drive to match the best of our competitors must be maintained.

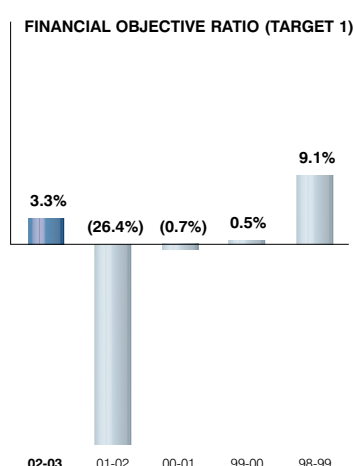
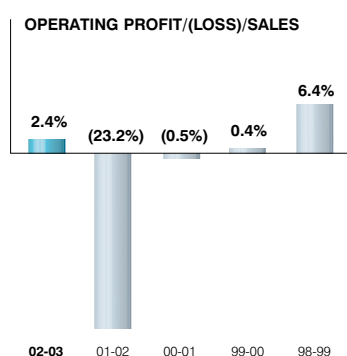
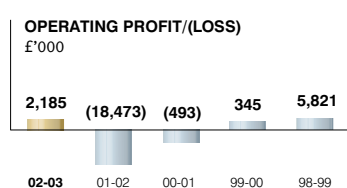
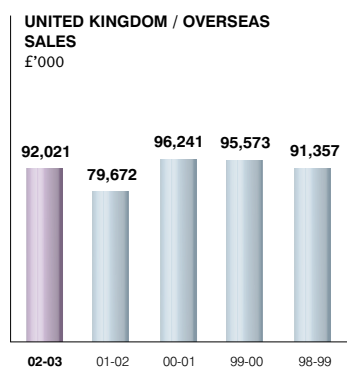
We are discussing with our unions the next stage of restructuring, focusing on changes to working practices, flexible working patterns and a number of other initiatives that will improve our competitive position. These changes are vital to ensure we maintain as far as possible our manufacturing infrastructure.

Right and below: **Continuing her remarkable record of success, Mary Milner Dickens designed the reverse of the 50p commemorating the 100th anniversary of the Womens Social and Political Union (WSPU).**



Right: **Patricia Hewitt MP, Secretary of State for Trade and Industry, with the 50p coin beside the statue of Emmeline Pankhurst, founder of the WSPU, on International Women's Day, 7 March 2003.** (Photograph courtesy of PA)

Financial Summary



	2002-03 £'000	2001-02 £'000	2000-01 £'000	1999-00 £'000	1998-99 £'000
MODIFIED HISTORICAL COST BASIS:					
United Kingdom sales	66,489	54,867	50,492	43,444	33,714
Overseas sales	25,532	24,805	45,749	52,129	57,643
	<u>92,021</u>	<u>79,672</u>	<u>96,241</u>	<u>95,573</u>	<u>91,357</u>
Operating profit/(loss)	2,185	(18,473)	(493)	345	5,821
Profit/(loss) for the year	1,357	(19,301)	(683)	668	6,289
Dividend	-	-	-	500	-
Retained profit/(loss) for the year	1,357	(19,301)	(683)	168	6,289
Capital employed at 31 March	63,278	69,514	70,483	70,445	66,960
Operating profit/(loss)/sales	2.4%	(23.2%)	(0.5%)	0.4%	6.4%

Key Ministerial Targets

		2003-04	2002-03	2001-02	2000-01
Target 1					
To achieve an average rate of return on net assets	Target	4.0% [#]	11.0% [*]	11.0%	7.0%
	Outturn	-	3.3%	(26.4%)	(0.7%)
Target 2					
UK circulating coin	Target	99.0%	98.0%	98.0%	97.0%
Delivery of accepted orders from UK banks and Post Office		within 11 days	within 11 days	within 11 days	within 11 days
	Outturn	-	99.8%	98.0%	99.6%
Target 3					
UK collector coin	Target	95.0%	95.0%	95.0%	95.0%
Delivery of orders from individual UK customers, measured from receipt of order or published due date		within 14 days ^{**}	within 14 days	within 18 days	within 25 days
	Outturn	-	58.0%	68.0%	88.0%
Target 4					
Medals	Target	97.0%	97.0%	97.0%	97.0%
Orders delivered by agreed delivery date		-	97.5%	96.9%	97.5%
	Outturn	-	97.5%	96.9%	97.5%
Target 5					
Quality	Target	99.7%	99.7%	99.7%	99.7%
Collector products accepted by individual UK customers		-	99.2%	99.6%	99.5%
	Outturn	-	99.2%	99.6%	99.5%

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

** 60% within seven days

9.0% by 2005-2006

In addition to the above, Ministerial targets for 2003-04 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 2002-03

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	45.016	22.508
£1	60.125	60.125
50 pence	18.676	37.352
20 pence	24.900	124.500
10 pence	8.164	81.640
5 pence	13.200	264.000
2 pence	6.654	332.675
1 penny	6.626	662.588
Total	183.361	1,585.388

ESTIMATED NUMBER OF COINS IN CIRCULATION 31 December 2002

Denomination	Face Value (£m)	Number of Pieces (Millions)
£2	410	205
£1	1341	1341
50 pence	333	666
20 pence	391	1955
10 pence	149	1490
5 pence	168	3360
2 pence	119	5940
1 penny	98	9800
Total	3009	24,757

Opposite: **The obverse and reverse designs for the Coronation Anniversary Crown were conceived by Royal Academician Tom Phillips. The lively graphic style is a deliberate departure from designs usually associated with royal commemorative themes.**

(Background image: 'Cloak of Mercury' by Tom Phillips)



Issues

■ The figure of 1.6 billion coins issued during 2002-03 was lower than planned due to the growth in volume of low denomination coins deposited in change machines, and also to reduced demand from the banks and the Post Office as a result of improved efficiency and rationalisation.

■ We expect issues during 2003-04 to be less than 2002-03 because of the ongoing impact of the above two factors and also the implementation of Automated Credit Transfer of United Kingdom State Benefits.

■ Currently, the Post Office handles the State Benefits of 11 million claimants by current account direct credit, a further 3 million by Post Office card account and 11 million in cash. When this last group is paid by direct credit, it is expected that demand for coin by the Post Office will decline possibly by up to 30% during 2003. A reduced number of coins issued from post offices, however, is expected to lead to increased demand for coin from high street banks, especially by the smaller retailers.

■ Forecasting demand for 2003-04 has been difficult, but the members of the Association for Payment Clearing Services have agreed to maintain the current minimum guaranteed order percentage, which averages 70% of forecast demand for each denomination.

Commemorative Coins

■ 2002 saw the production of a commemorative £2 coin for the Commonwealth Games and two commemorative crowns, one to mark the Queen's Golden Jubilee, and the other to mark the death of the Queen Mother. A further three commemorative coins are scheduled for issue in 2003:

- the Coronation Anniversary crown issued through most post offices and available by mail order from many banks;
- a £2 coin marking the 50th Anniversary of the discovery of the structure of DNA; and
- a 50p coin commemorating the 100th Anniversary of the foundation of the Women's Social and Political Union will also be available during the year.

Left: **The most recent series of £1 coin reverse designs by Norman Sillman, representing the constituent parts of the United Kingdom, came to an end in 2002.**



Overseas Circulating Coins and Blanks

- The Royal Mint exported coins and ready-for-striking blanks to fifty-one countries during the year, significantly more than any of our competitors, and we have maintained our position as the world's premier exporting mint.
 - There is over capacity in the global minting industry and competition is fierce. As a result a number of mints and blank suppliers both in North America and Europe have withdrawn from the market on either a permanent or temporary basis.
 - Several coin and blank producers are also reducing shift patterns and initiating redundancy programmes.
 - Although further rationalisation within the industry may support improved margins in the future, challenging trading conditions are expected to continue.
 - During the year we formalised our business relationship with De La Rue International Ltd. and they continue to make a valuable contribution to our export business.
- Improving future performance**
- A decline in demand in both United Kingdom and international markets has put significant pressures on operational performance. During 2002-03 we have responded by restructuring manufacturing operations and pursuing a continuous improvement programme.
 - Accountability and effectiveness have been improved by moving to a devolved structure of self-contained operational units, comprising flexible, multi-skilled teams who, as well as meeting production targets, engage in continuous improvement of their areas. At the same time, labour costs have been significantly reduced.
 - Our continuous improvement programme focuses on the following areas:
 - improving production process capability, especially casting yellow coin alloys;
 - establishing, embedding and standardising working methods and procedures, focusing on health, safety and environmental requirements;
 - extending the measurement, targeting and monitoring of customer service and right first time performance;
 - upgrading manufacturing information and planning systems;
 - introducing new products right first time with short lead times.
 - These initiatives are already bearing fruit. Significant improvements are being made in customer service, productivity and unit costs, all of which help strengthen the competitive position of the Circulating Coin business.

Opposite and below: A selection of coins that the Royal Mint has struck for its overseas customers this year.





Collector Coin

United Kingdom Coins

- The enthusiasm that surrounded the Golden Jubilee celebrations in the United Kingdom and the Commonwealth in 2002 was reflected in the popularity of the commemorative Golden Jubilee crown in all its versions, from circulation quality £5 coins to the limited issue gold crowns and Jubilee sovereigns. The Queen's tour of the country maintained a high level of interest in the Jubilee throughout the year and this again was reflected in sales.
- Complementing the Golden Jubilee crown, a further commemorative crown is being issued in 2003 to mark the 50th Anniversary of the Coronation. The designs, by the distinguished artist and Royal Academician Tom Phillips, show on the obverse a stylised profile of the Queen and on the reverse a lively representation of the words 'God Save The Queen'. The radically different appearance of this coin was a deliberate departure from designs usually associated with royal commemorative themes.
- A twenty-four coin international collection celebrating the Jubilee in 2002 and the 50th Anniversary of the Coronation in 2003 has proved to be extremely popular with collectors at home and overseas. The special technique of gold spraying the Queen's effigy on the obverses anchored the theme of the commemorative coin programme.
- A new £2 coin was made available to the public marking the 50th Anniversary of the discovery by Francis Crick and James Watson of the structure of DNA. The precious metal versions of the coin were well received by collectors, with the gold proofs generating particular interest.
- The Women's Social and Political Union is recognised on the coinage this year with a new 50p for the 100th anniversary of its foundation. Designed by Mary Milner Dickens, it emphasises motifs associated with the movement and it is likely that this issue will appeal to serious collectors.

Customer Service

- The exceptional volume of orders generated by products commemorating the Golden Jubilee, together with problems experienced with the initial implementation of a new order processing system, contributed to a disappointing level of customer service in the early part of the year.
- The overall figure for the year was 58% of issues within target. Significant improvements, however, were made during the latter half of the year and in the final month, 84% of orders were shipped within fourteen days, with 60% being despatched within seven days. This is approaching our new targets for 2003-04 of 95% within fourteen days and 60% within seven days.

Opposite: **The reverse of the gold and silver Britannia coins for 2003 features a powerful new design by Philip Nathan.**



Left: **A new venture for the Royal Mint was the opening, a few weeks before Christmas 2002, of an outlet at the David Morgan department store, Cardiff.**

Systems

- Much work has been done this year on introducing improved planning systems, borne out by the higher standard of service to customers towards the end of the year. Development continues with the implementation of an advanced scheduling package that links with the Enterprise Resource Planning system, and will lead to clearer identification of capacity constraints. As a result, more accurate information on product availability can be provided to customers and potential fulfilment difficulties can be identified at an earlier stage.

Website

- The website has continued to develop during the year with the emphasis on customer service, the provision of information and improving awareness of the site as an ordering medium. The ordering system has been reviewed and improved and is now more streamlined, allowing for a faster turn round of orders and offering additional customer facilities.
- Also launched during the year was an on-line product library for use by trade customers and the coin media.

Development Partnerships and Products

- A refined brand strategy was introduced to Royal Mint Classics, the area of non-coin jewellery and collectibles. It saw revenue increase by 93%, and this area now makes a significant contribution to the overall business.
- At the same time partnerships with external suppliers were broadened providing an improvement in operating margins. Gold and silver jewellery, together with selected gift ware and collectible items, have achieved excellent results through both media and catalogue based campaigns. Further progress in this market remains a key focus in order to gain access to a wider customer base.
- The partnership with the Royal Mail through the British Philatelic Bureau remains an important and successful collaboration. A number of initiatives have been introduced which have increased further the range of projects and opportunities.
- Offering older coins obtained from the secondary market continued during the year. Sets ranging from base metal pounds, shillings and pence in specially designed and educational packaging, to collections of gold sovereigns have generated a lot of interest.

North America

- The USA retail business underwent a review and a new marketing partner was appointed in January 2003. In view of their previous experience and proactive approach, it is anticipated that business in the USA will increase.

Below: **The gifted silversmith Christopher Lawrence has prepared a silver rosebowl for Royal Mint Classics on a theme that combines the eras of Elizabeth I and Elizabeth II.**



People

Employee Relations

- The announcement in March 2002 of a voluntary redundancy programme for up to 220 employees, and the restructuring that followed, dominated employee relations during the year.
- During April and May management and employee representatives discussed and agreed the criteria and process for those wishing to be considered for redundancy. With over 300 applications, individuals were selected against the criteria of maintaining skills and minimising costs.
- The resulting restructuring exercise has reduced our workforce by over 20% across all departments.
- Notably, the Engineering Services department was integrated into the main production areas, providing each business with its own engineering and assay resources as part of the Mint's plan to improve efficiency and customer service.
- Management briefed the workforce on the difficult year ahead and confirmed a 'pay pause' to maintain employment cost levels.

The Way Ahead – People Strategy

- A team was established in December 2002 comprising three managers and a Mint representative from each of the three site unions (Amicus, PCS and Prospect).
- The purpose of this team is to agree an overall programme of change aimed at restoring the Mint to long-term competitiveness and profitability. It has developed a plan and agreed in principle to the implementation of changes that will improve our competitive position.
- Many matters require further consultation and negotiation, but some of the planned changes are listed below:
 - introduction of flexible working schemes and annual hours;
 - harmonisation of differences in terms and conditions between industrial and non-industrial employees;
 - elimination of barriers to flexibility;
 - introduction of a performance management system for all employees;
 - inclusion of all employees in a new pay and reward structure and provision of an incentive scheme to match business requirements;
 - movement of all employees to monthly pay.

Employment and Attendance

- Restructuring has significantly reduced the number of permanent full-time equivalent employees. On 1 April 2002 the Royal Mint had 984 full-time equivalent employees, while on 31 March 2003 the figure was 802.
- Attendance levels did not improve in 2002-03, reflecting the impact of the restructuring and redundancy programme.



Left: The wearing of personal protective equipment, such as the ear protectors and safety goggles seen here, is mandatory in many areas of the Mint.

External Recruitment Activity 2002-03

Unified Broad Bands	Previous Non-Industrial Grade	Successful (includes reserves)		Ethnicity	Disability	Recruited	
		Male	Female			Male	Female
5	K	9	30	-	-	5	19
5	J	2	-	-	-	1	-
4	H	2	-	-	-	1	-
4	G	-	2	-	-	-	1

Recruitment and Retention

- Levels of recruitment in most areas were low because of the restructuring and redundancy programme. An exception was the Customer Services, Customer Contact and Telemarketing Centre in Collector Coin where, because of increased business and much needed improvements to customer service, an additional twelve people were recruited.
- 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. This is ensured by the Mint's human resources systems, which conform to statutory requirements and are audited by the Civil Service Commission.

Communication and Involvement

- The Mint continues to work to improve communication and involvement. Business issues are discussed on a monthly basis through a joint management/employee forum. The Team Brief system provides regular opportunities for management and staff to exchange views and generate feedback. A joint management/employee advisory group also meets regularly to review and improve communications.
- Employees are briefed once each year by the Chief Executive on the Corporate Plan. This two-way process allows individuals the opportunity to contribute to business direction and have questions answered.

Development and Training

- The Mint is committed to the aim of creating a continuous improvement environment in which everyone's abilities are recognised and where all are encouraged to develop and use their talents to the full.
- Significant commitment has been made over the year to training initiatives particularly in the areas of health and safety, team development, and team leader coaching. Overall, the average number of training days per employee (including on-the-job training) was 9.4 days, compared to 12.7 days last year and the Mint's minimum commitment of 5 days per year.
- Looking forward, development and training support continues for several initiatives including performance management at shop floor level, planning and forecasting improvements and new technology.



- A partnership enterprise bid by all three trade unions and the Mint to the Wales Union Learning Fund has been successful, resulting in funding being obtained for the guidance and support of learning for all employees at the Royal Mint.

Safety, Health and Environment

- As part of the restructuring of Engineering Services, the Safety, Health & Environment (SHE) function was transferred to the Human Resources Department from July 2002. A Senior Management appointment dedicated to SHE was made as part of the Mint's ongoing commitment to improvements in this vital area.
- A regular external audit against best practice was introduced to assess and measure SHE performance and to identify areas for further improvement. There is also regular independent internal auditing to ensure the effective operation of procedures and adherence to relevant standards. In addition, a structured approach to developing plans, focusing effort and measuring performance has been established.
- A Risk Management Committee has been established to focus on and manage business risks, especially those relating to SHE.

- An extensive development programme of Risk Assessments and Safe Working Procedures has been undertaken. Training coupled with assessments against Safe Working Procedure has led to a decrease in accidents.
- Senior Management inspections of the workplace are now carried out every week to promote leadership and commitment and to raise the profile of Safety, Health and Environmental issues.
- A new accident reporting system has been introduced with the objective of investigating and reporting all accidents within twenty-four hours.
- Environmental objectives and targets have been established as part of the Mint's progress towards ISO 14001 compliance.

Accident Type	2001	2002
Reportable	34	26
Non Reportable	179	143
Total	213	169



Left: **Robert Rennie, Ross Davies and Mark Bowden (left to right) with their Diplomas in Production and Inventory Management from the Institute of Operations Management.**



Medals

Official Medals

- The Medal Unit was fully stretched for the whole of 2002-03 to complete the order for the official Queen's Golden Jubilee medal. Members of the Armed Forces and the Police, Fire and Ambulance Services were eligible for the medal.
- The Unit increased its shift pattern to cope with the order which was completed in March 2003. Much to its credit, all individual orders and delivery requirements were completed on time and in full during the eighteen-month period of production and delivery.
- While satisfying this commitment, it was also important that all other customers were supplied with their regular requirements and this was also successfully achieved. Other important orders included those received from overseas governments, the Army Medal Office, the Central Chancery of Knighthood and the Fire, Police, Ambulance and Prison Services.

Commemorative Jubilee Medals

- The commemorative Golden Jubilee medal continued its success throughout 2002 with many new orders being taken well into 2003. Such was the popularity that many customers returned for additional quantities.

Commercial Medals

- Among the many projects successfully brought to fruition, two serve to illustrate much of the work undertaken:
 - Letchworth Garden City celebrated its centenary early in 2003 with a set of commemorative medals in nickel brass, toned bronze, sterling silver and gold. The design created by artist John Mills, features an image of the city creator Ebenezer Howard on the obverse and a symbolic design representing the garden city on the reverse.
 - For the United Kingdom division of Sony a commemorative medal was designed and struck for their staff in South Wales to mark the 30th anniversary of Sony opening its first manufacturing plant in Wales.
- Recently a number of important partnerships have been formed with the sporting world which will provide the framework for much greater activity into this sizeable market during the forthcoming financial year.

Opposite: **Completing the order for the production of the official Golden Jubilee medal was a significant achievement for the Medal Unit.**

Below and right: **Medals commemorating the discovery of the structure of DNA were struck in 2003. Bronze and silver medals designed by John Maine were also produced to mark the 250th anniversary of the foundation of the British Museum.**







MINT CLASSICS—



Many products from the Classics range draw on the heritage of the Royal Mint and the coinage and their beauty and quality is reflected in the positive reception they have received.

Royal Mint Advisory Committee, 2002-03

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.

Having undertaken a heavy programme of deliberations last year, the Committee's first meeting this year did not take place until 11 December 2002 when it once again enjoyed a friendly welcome at Goldsmiths' Hall. On 27 February the Committee held its second and final meeting of the year at Cutlers' Hall, after which members were joined at the Hall by several artists and the former President of the Committee, His Royal Highness Prince Philip, to mark the retirement of Graham Dyer as Secretary of the Committee.

At its meeting in December designs were submitted for two commemorative coins for 2004, a £2 coin to celebrate the 200th anniversary of the first railway locomotive, built by Richard Trevithick, and a 50p piece for the 50th anniversary of the first four-minute mile by Roger Bannister. Special reverse designs were required for both coins and, as has been the practice in recent years, competitions were

organised involving a limited number of artists. Members of the Royal Mint Engraving Department are invited to take part in these competitions and success in recent years for Robert Evans and Matthew Bonaccorsi was matched this year by Robert Lowe, whose designs for the locomotive £2 coin were very well received. At the December meeting his drawing featuring a detailed view of Trevithick's locomotive, was thought the strongest in the field and, subject to one or two minor amendments, was effectively the outright winner.

Artists approached to take part in competitions for new United Kingdom coins and official medals are drawn from many disciplines, embracing sculpture and graphic design, jewellery and silversmithing, painting and engraving. Alongside established coin and medal designers, artists entirely new to this field are sought and this year was no exception. Whoever the artist, though, in order to ensure impartiality, drawings and plaster models submitted to the Committee contain no marks of identification and it is not until a final recommendation is made that the name of the winning artist is announced. In the case of the Roger Bannister coin the Committee were not to know, therefore, that the two artists who had been short-listed at the meeting in December were the distinguished sculptors and old friends James Butler and John Mills. The remarkable success that John Mills has achieved as a numismatic artist since 1994 was not repeated on this occasion, the Committee instead choosing

Below and opposite: **The lunch that was arranged at Cutlers' Hall for the Advisory Committee in February 2003 was a memorable occasion for all who were there.**

Far right: **At the meeting which preceded the lunch the Committee selected designs by the wood engraver Edwina Ellis for a new series of reverse designs for the £1 coin.**



the sculptural grace of James Butler's work. As the artist who last year designed the new Great Seal, James Butler has now therefore been able to add a coin to his numismatic portfolio.

The most significant subject that the Committee had to discuss during the year was a new series of reverse designs for the £1 coin representing the constituent parts of the United Kingdom. With the existing four-year series by Norman Sillman having come to an end in 2002, new designs were required which will be in use from 2004. From an interesting selection the Committee chose the work of two artists to go forward to the meeting in February, one representing a traditional heraldic approach and the other adopting the unusual theme of bridges. Although there will always be a place for heraldry on the British coinage, the Committee thought the bridge designs by wood engraver Edwina Ellis were attractive and represented an intelligent solution to what has always proved to be a very challenging theme.

The February meeting of the Committee was not only important in view of the decision that was taken with respect to the new series of designs for the £1 coin but also because it was the last meeting of the Committee to be attended by Graham Dyer, who from the end of March was to retire as Curator of the Royal Mint Museum and as Secretary to the Committee. Understanding instinctively the need for an independent design committee, he has for over twenty-five years,

first as Assistant Secretary and then Secretary, run the Committee, displaying a combination of administrative skill and intuitive sympathy with the needs of artists. After the meeting in February a lunch was held at Cutlers' Hall, partly to thank the Committee for its continued and much appreciated efforts but primarily to acknowledge Graham Dyer's singular contribution to the work of the Committee. In his own gesture of gratitude, Prince Philip, at very short notice, graciously agreed to attend, and in doing so demonstrated his continued interest in the important role of the Committee.

Membership of the Committee

(with dates of appointment)

Professor Sir Christopher Frayingling
(Chairman) *January 2001*

Mr Gerald Sheehan
(Chief Executive of the Royal Mint and
ex officio Deputy Chairman) *December 2001*

Mr John Porteous, OBE *July 1968*

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*



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 high reputation for quality and continues to export 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 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 financial target reflected in the 2003-04 Corporate plan is a return of 4% in 2003-04 increasing to 9% by 2004-05. For this purpose the annual rate of return is calculated using modified historical cost operating profit as a percentage of the average net assets (total assets less current liabilities) at modified historical cost.

Financial Review

Sales in the year of £92 million include £25.5 million (28%) to overseas customers.

The modified historical cost operating profit for the year, before interest and exceptional items was £1.3 million.

The 2001-02 accounts included an exceptional item of £12 million in relation to costs which would be incurred as an integral part of the restructuring exercise. These costs relate to redundancy, early retirement payments and restructuring costs which have been substantially incurred during 2002-03. A release of £0.9 million, representing the elements of the provision which are surplus to requirements, is reflected in the 2002-03 accounts.

Capital expenditure of £1.5 million was incurred in the year.

Collector Coin

Due to the Treasury requirement for new trading fund services to be carried out on-Vote for a reasonable period, a token estimate (Class XVI Vote 16) was introduced in 2000-01 to enable the Royal Mint to develop its non-coin operations.

These activities have been included within the trading fund activities from 1 April 2002 and are included in the 2002-03 Financial Statements.

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.

In addition, the Royal Mint faces liquidity risks following recent trading deficits. This risk has been addressed through the negotiation of appropriate facilities with the Treasury in the light of current trading forecasts.

Other than precious metal loans, which are subject to interest at floating rates and are referred to below, the Royal Mint's financial liabilities carry fixed or nil rates of interest.

Metal prices

A significant proportion of the Royal Mint's raw materials consists of metals which are traded on the London Metal Exchange 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 promotions 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 2003. 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

The policy of paying creditors complied with the Better Payment Practice Code. 92% of invoices were 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.

It was reported last year that the Serious Fraud Office were investigating a number of possible improper payments made by the Royal Mint in previous years. This investigation has not yet been concluded.

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 at 31 March 2003 was 802.

Employee communications are an integral element of the Total Productive Manufacturing programme and include the issue of a monthly newsletter and regular feedback meetings involving all employees. A copy of the *Annual Report* is available to all employees on request.

Gerald Sheehan

Accounting Officer
11 July 2003

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

Under section 4(6) of the Government Trading Funds Act 1973 the Treasury have 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 to disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the 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

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 system of internal control is designed to manage rather than eliminate the 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 that identifies the principal risks to the achievement of the Royal Mint's policies, aims and objectives, evaluates the nature and extent of those risks and manages them efficiently, effectively and economically.

The Royal Mint has had a risk management framework and risk register in place for a number of years. During 2002-03, the framework and register have been reviewed and updated to reflect the guidance published by HM Treasury in January 2001: *Management of Risk - A Strategic Overview*. In particular, risk management has been embedded in the ongoing planning and strategy process and has focused on the identification of the key risks which could impact the achievement of the Royal Mint's strategic objectives and the control strategy for each of the significant risks. There is a process in place for the risk assessments to be reviewed and updated on a regular basis.

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 Executive and Management Boards;
- regular reviews by the Executive and Management Boards 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;
- as appropriate, formal project management disciplines;
- formal security arrangements.

The Royal Mint operates internal audit arrangements to standards defined in the Government Internal Audit Manual. We are in the process of reviewing and restructuring these arrangements in accordance with the requirements of Government Internal Audit Standards issued by HM Treasury. In particular, the arrangements in relation to the 'Head of Internal Audit' will be changed in 2003-04.

Elements of the internal audit for 2002-03 were undertaken respectively by the Royal Mint management and by PricewaterhouseCoopers who, in particular, undertook a review on an annual basis of the Royal Mint's system of internal financial control. 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.

In addition, following a theft of bank notes in 2001 and allegations of improper payments having been made in previous years, Grant Thornton were commissioned to undertake an independent review of the internal financial control systems. Grant Thornton made a number of recommendations for improvements in our governance and internal control arrangements. Grant Thornton's recommendations have been accepted by the Mint's management and have been substantially implemented. Recommendations in relation to our governance and internal control arrangements were also made during the year by the Public Accounts Committee. Appropriate actions have been undertaken in relation to these recommendations.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the executive managers who have responsibility for the development and maintenance of the internal control framework, and who provide me with written confirmation in relation to the effectiveness of the system of internal control in their area of responsibility, the work of the internal auditors and comments made by the external auditors in their management letter and other reports.

During the year difficulties occurred in relation to the implementation of new sales order and stock recording systems which impacted upon the effectiveness of our internal control processes in this area. Action plans were developed to address these issues and corrective action has been undertaken.

Gerald Sheehan

Accounting Officer

11 July 2003

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

I certify that I have audited the financial statements on pages 27-36 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 31.

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

As described on page 24, 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 24 and 25 reflects the Royal Mint's compliance with Treasury's guidance 'Corporate governance: 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.

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 2003 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
15 July 2003

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

Operating Account for the year ended 31 March 2003

	Notes	£'000	£'000	2002-03 £'000	2001-02 £'000
TURNOVER	2			92,021	79,672
Change in stocks of finished goods and work in progress			(3,051)		2,156
Own work capitalised			23		8
Other operating income			57		750
Raw materials and consumables			(37,055)		(36,986)
Other external charges			(5,089)		(5,186)
Staff costs					
Operating staff costs	4	(24,516)			(28,255)
Exceptional items	5	900			(12,000)
			(23,616)		(40,255)
Depreciation and other amounts written off tangible fixed assets	7		(4,670)		(5,028)
Other operating charges			(16,435)		(13,604)
				(89,836)	(98,145)
OPERATING PROFIT/(LOSS)	3				
Operating profit/(loss) before exceptional items				1,285	(6,473)
Exceptional items	5			900	(12,000)
				2,185	(18,473)
INTEREST RECEIVABLE AND SIMILAR INCOME				126	139
INTEREST PAYABLE AND SIMILAR CHARGES	6			(954)	(967)
PROFIT/(LOSS) FOR THE YEAR				1,357	(19,301)
DIVIDEND PAYABLE TO THE CONSOLIDATED FUND				-	-
RETAINED PROFIT/(LOSS) FOR THE YEAR				1,357	(19,301)

No activities have been discontinued during the year.

The notes on pages 31 to 36 form part of the modified historical cost accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002-03 £'000	2001-02 £'000
Profit/(Loss) for the year	1,357	(19,301)
Unrealised surplus/(deficit) on revaluation of property	304	(3,077)
Unrealised surplus/(deficit) on revaluation of plant and machinery	568	(433)
Unrealised (deficit)/surplus on revaluation of uncommitted metal	(132)	63
Total recognised gains and losses relating to the year	<u>2,097</u>	<u>(22,748)</u>

HISTORICAL COST PROFITS AND LOSSES

	2002-03 £'000	2001-02 £'000
Reported profit/(loss) for the year	1,357	(19,301)
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	208	208
Historical cost profit/(loss) for the year	<u>1,565</u>	<u>(19,093)</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 2002	5,500	3,018	37,486	46,004
Movements in the year:				
Revaluations				
Fixed Assets	-	872	-	872
Stocks	-	(132)	-	(132)
Transfer from non-coin operations vote	-	-	80	80
Profit for the year	-	-	1,357	1,357
Reclassification of distributable reserves	-	(208)	208	-
As at 31 March 2003	<u>5,500</u>	<u>3,550</u>	<u>39,131</u>	<u>48,181</u>

The notes on pages 31 to 36 form part of the modified historical cost accounts.

Balance Sheet as at 31 March 2003

	Notes	£'000	2003 £'000	2002 £'000
FIXED ASSETS				
Tangible Assets	7		40,675	42,978
CURRENT ASSETS				
Stocks		49,574		49,060
Debtors		7,960		8,794
Cash at bank and in hand		3,422		4,379
		<u>60,956</u>		<u>62,233</u>
CREDITORS				
Amounts falling due within one year		<u>(38,353)</u>		<u>(35,697)</u>
NET CURRENT ASSETS	8		<u>22,603</u>	<u>26,536</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>63,278</u>	<u>69,514</u>
FINANCED BY:				
CREDITORS				
Amounts falling due after more than one year	9		13,665	11,273
PROVISIONS FOR LIABILITIES & CHARGES	10		1,432	12,237
CAPITAL AND RESERVES				
Public Dividend Capital		5,500		5,500
Revaluation Reserve		3,550		3,018
Profit and Loss Account		<u>39,131</u>		<u>37,486</u>
			<u>48,181</u>	<u>46,004</u>
			<u>63,278</u>	<u>69,514</u>

The notes on pages 31 to 36 form part of the modified historical cost accounts.

Gerald Sheehan
Accounting Officer
11 July 2003

Cash Flow Statement

for the year ended 31 March 2003

	Notes	2002-03 £'000	2001-02 £'000
NET CASH FLOW FROM OPERATING ACTIVITIES	(a)	5,073	(3,843)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		122	154
Interest paid		(961)	(1,009)
		(839)	(855)
CAPITAL EXPENDITURE		(1,787)	(2,730)
CASH FLOW BEFORE FINANCING		2,447	(7,428)
FINANCING			
Buyback of Public Dividend Capital		-	(1,500)
Transfer from non-coin operations vote		80	-
		80	(1,500)
Borrowings:			
Long Term Loan (NLF)		-	12,000
Long Term Loan principal repaid		(512)	(215)
Movement in Short Term Loans		(3,000)	(2,000)
		(3,512)	9,785
NET CASH FLOW FROM FINANCING		(3,432)	8,285
(DECREASE)/INCREASE IN CASH IN THE YEAR	(b)	(985)	857
(a) RECONCILIATION OF OPERATING PROFIT WITH THE NET CASH FLOW FROM OPERATING ACTIVITIES		£'000	£'000
Operating profit/(loss)		2,185	(18,473)
Depreciation charge		4,670	5,028
Movements in			
Stocks		(646)	118
Debtors		838	(750)
Creditors (including provisions)		(1,946)	10,248
Currency translation difference		(28)	(14)
		5,073	(3,843)
(b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000
(Decrease)/Increase in cash in the year		(985)	857
Currency translation difference		28	14
Cash flow from movements in borrowings		3,512	(9,785)
Movement in net debt		2,555	(8,914)
Net debt at start of year		(10,406)	(1,492)
Net debt at end of year		(7,851)	(10,406)
(c) ANALYSIS OF NET DEBT		£'000	£'000
Cash at Bank and in hand		3,422	4,379
Debt due within one year		(545)	(3,512)
Debt due after one year		(10,728)	(11,273)
		(7,851)	(10,406)

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 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;
- 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 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 reach depreciated historic 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 London Metal Exchange prices ruling at 31 March 2003. 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 11.

Note 2

TURNOVER

Turnover is wholly attributable to the manufacture and sale of coins and similar articles.

	2002-03 £'000	2001-02 £'000
United Kingdom	66,489	54,867
Overseas	25,532	24,805
	<u>92,021</u>	<u>79,672</u>

Note 3

OPERATING PROFIT/(LOSS)

	2002-03 £'000	2001-02 £'000
Operating profit/(loss) is stated after charging:		
Sub-contracted work and semi-processed material	5,089	5,186
External Audit fees	96	65
Hire of plant and machinery	111	131
Travel and subsistence	466	490

Note 4

REMUNERATION AND EMPLOYMENT

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

	Age	Remuneration including performance pay £'000	Real increase in pension @ 60 £'000	Total accrued pension @ 60 £'000
Executive Directors				
Gerald Sheehan				
Chief Executive	53	120-125	0-2.5	0-5
Keith R Cottrell				
Director of Sales	54	60-65	0-2.5	5-10
Allan E Pearce				
Director of Human Resources	53	60-65	0-2.5	5-10
Graham J Davies				
Director of Finance	57	55-60	0-2.5	20-25
Alan Wallace				
Director of Collector Coin	59	60-65	0-2.5	30-35
Geoff Payne				
Director of Engineering Services (retired 30 June 2002)	59	30-35	0-2.5	25-30
Mick Slater				
Director of Circulating Coin Production	52	50-55	0-2.5	0-5

Remuneration includes salary, performance pay and all other benefits.

Graham Davies and Allan Pearce retired on 31 May 2003.

Pension benefits are provided through the Civil Service pension arrangements. Details of the pension arrangements are set out in Note 11.

Non-Executive Directors	Age	Fees (£'000)
Lyndon Haddon	61	5-10
David Stark	63	5-10
Jan Smith	55	5-10
David Trapnell	58	5-10
Lucy Woods (resigned September 2002)	44	0-5

	2002-03 £'000	2001-02 £'000
TOTAL STAFF COSTS		
Wages and salaries	20,578	23,813
Social Security costs	1,357	1,644
Other pension costs	2,529	2,798
Staff on secondment	52	-
	<u>24,516</u>	<u>28,255</u>

Note 4 (continued)

AVERAGE NUMBER EMPLOYED	2002-03	2001-02
Production	746	829
Sales and Marketing	84	82
Administration	123	140
	<u>953</u>	<u>1,051</u>

The total number of persons employed at 31 March 2003 was 802.

Note 5

EXCEPTIONAL ITEMS	2002-03 £'000	2001-02 £'000
Provision for restructuring costs (see Note 10)	(900)	12,000

Note 6

INTEREST PAYABLE AND SIMILAR CHARGES	2002-03 £'000	2001-02 £'000
On loans repayable within five years	217	567
On loans payable by instalments over more than five years	737	400
	<u>954</u>	<u>967</u>

Note 7

TANGIBLE FIXED ASSETS	Freehold Land and buildings £'000	Plant and Machinery £'000	Total £'000
Valuation			
At 1 April 2002	13,240	69,520	82,760
Additions	351	1,145	1,496
Disposals	(85)	(590)	(675)
Revaluation	4	1,135	1,139
At 31 March 2003	<u>13,510</u>	<u>71,210</u>	<u>84,720</u>
Depreciation:			
At 1 April 2002	-	39,782	39,782
Charge for year	383	4,287	4,670
Disposals	(85)	(590)	(675)
Revaluation	(298)	566	268
At 31 March 2003	<u>-</u>	<u>44,045</u>	<u>44,045</u>
Net book value at 31 March 2003	<u>13,510</u>	<u>27,165</u>	<u>40,675</u>
Net book value at 1 April 2002	<u>13,240</u>	<u>29,738</u>	<u>42,978</u>

Land and Buildings are stated at open market current use valuation as at 31 March 2003 or depreciated replacement cost as at that date in the case of buildings of a specialist nature. This valuation totalling £17.370 million was provided by Chesterton International Property Consultants plc in accordance with the guidelines issued by 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 year ended 31 March 2003.

The gross current cost of Plant and Machinery, has been calculated on the basis of indices published by the Office for National Statistics.

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 2003			
Cost	16,166	59,786	75,952
Accumulated Depreciation	(4,579)	(33,181)	(37,760)
Net book value at 31 March 2003	<u>11,587</u>	<u>26,605</u>	<u>38,192</u>
Net book value at 1 April 2002	<u>11,620</u>	<u>29,513</u>	<u>41,133</u>

Note 8

NET CURRENT ASSETS	£'000	2003 £'000	2002 £'000
Current assets			
Stocks			
Metal stocks	24,772		21,708
Work in progress (excluding metal)	5,490		4,466
Stores and packing materials	2,013		2,000
Finished goods	17,299		20,886
		49,574	49,060
Debtors			
Trade debtors	6,943		8,155
Other debtors	688		232
Prepayments and accrued income	329		407
		7,960	8,794
Cash			
Cash at bank	3,420		4,378
Cash in hand	2		1
		3,422	4,379
Current Assets		60,956	62,233
Creditors: amounts falling due within one year			
Short-term fixed rate NLF loans	-		(3,000)
Long-term NLF loans (see Note 9)	(545)		(512)
Trade creditors	(23,854)		(21,494)
Other creditors	(4,047)		(553)
Payments received on account	(7,958)		(8,520)
Taxation and social security	(473)		(660)
Accruals and deferred income	(1,476)		(958)
		(38,353)	(35,697)
NET CURRENT ASSETS		22,603	26,536

Metal stocks of £24.772 million (2002: £21.708 million) include a base stock of copper and nickel with a net realisable value of £2.784 million at 31 March 2003 (2002: £2.916 million) and £18.693 million (2002: £16.483 million) in respect of precious metal held for third parties and reflected in trade creditors.

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

Included in other creditors is £3.747 million (2002: nil) reclassified from the restructuring provision.

Note 9

CREDITORS: amounts falling due after one year	2003 £'000	2002 £'000
Amounts in respect of redundancy and early retirement		
Between one and two years	787	-
Between two and five years	1,612	-
After five years	538	-
	2,937	-
Loans repayable:		
Between one and two years	580	546
Between two and five years	1,976	1,856
After five years	8,172	8,871
	10,728	11,273
	13,665	11,273

Note 9 (continued)

The above loans comprise two fifteen-year fixed rate loans from the National Loans Fund as follows:

Loan £'000	Interest rate %	Date drawn	Amount Due within 12 months (see note 8 above)	Amount Due after 12 months
			£'000	£'000
10,500	6.347	20 September 2001	479	9,357
1,500	6.305	2 October 2001	66	1,371
			<u>545</u>	<u>10,728</u>

Note 10

PROVISION FOR LIABILITIES AND CHARGES

	Early Retirement Provision £'000	Restructuring Provision £'000	Total £'000
As at 1 April 2002	237	12,000	12,237
Payments	(237)	(2,984)	(3,221)
Reclassification to short term creditors	-	(3,747)	(3,747)
Reclassification to long term creditors	-	(2,937)	(2,937)
Released to the operating account	-	(900)	(900)
As at 31 March 2003	<u>-</u>	<u>1,432</u>	<u>1,432</u>

The restructuring provision relates to restructuring redundancy and early retirement costs. The balance at 31 March 2003 is expected to be utilised in the next two years. Those elements of provision established at 31 March 2002, where the value and timing of the liability has been confirmed, have been reclassified as short and long term creditors.

Note 11

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

Note 11 (continued)**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 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 its share of the underlying assets and liabilities. A full actuarial valuation of the Civil Service Pension arrangements was carried out on 31 March 1999. Details can be found in the resource account of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

For 2002-03 employers' contributions of £2.524 million were payable to the Civil Service pension schemes (2001-02 £2.798 million) at rates in the range 12 to 20.2 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 12

CAPITAL COMMITMENTS

Commitments in respect of contracts

2003	2002
£'000	£'000
291	361

Note 13

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 key management staff or other related parties has undertaken any transactions with the Royal Mint.

Note 14

NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Hedges

As explained in the Financial and General Reports on pages 22 and 23, the Royal Mint's policy is to hedge the following exposures:

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 in respect of sales commitments.

Currency Risk

The forward exchange contracts which were outstanding at 31 March 2003 amounted to £4.3 million (2002: £1.8 million). If these contracts were translated at the year-end rate, there would have been a loss of £0.006 million (2002: gain of £0.02 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 2004.

Note 15

CONTINGENT LIABILITY

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.



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