

Annual Report 2006-07

The Royal Mint Board of Directors

(At 31 March 2007)

Mike Davies*
Chairman
(Appointed 7 March 2007)

David Barrass
Chief Executive

Peter Allred
Director of Finance
(Appointed 10 April 2006)

Tony Burnell
Director of Human Resources
(Early retirement 31 May 2007)

Phil Carpenter
Director of Production

Keith Cottrell
Director of Circulating Coin Sales

Clare Janczewski
Director of Collector Coin Sales
(Appointed 11 December 2006)

Andy Mitchell
Director of Marketing
(Appointed 1 June 2006)

Jan Smith*
* Non-Executive Directors

Martin Cragg
Board Secretary

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Banker
Barclays plc

External Auditor
Comptroller and Auditor General

Internal Auditor
Mazars LLP, Chartered Accountants

Board changes in the year

Peter Allred replaced Huw Edwards as Director of Finance in April 2006. Hugh Beevor stood down as Chairman in February 2007 and Mike Davies was appointed to succeed him in March 2007. The terms of appointment of two Non-Executive Directors, David Wertheim and Robert Guy, came to an end in March 2007. Subsequent to the end of the year Colin Balmer was appointed as a Non-Executive Director.

The Accounts of the Royal Mint Trading Fund as at 31 March 2007, 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 1432 of 2005-06.) Presented pursuant to Act 1973, c.63, s.4(6).

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**The
Royal
Mint**

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Chairman's Statement

The twelve months covered by this Report have seen substantial developments on three fronts. The Royal Mint has reported a significant improvement in financial performance, there has been structural change in the way the business operates, and a number of changes amongst its senior management have been made.

The financial result, a profit after exceptional costs of £2.3 million, represents a marked improvement on recent years and, significantly, the Royal Mint achieved its key ministerial financial target. The turnaround in performance reflects both improved trading during the year, but also increased focus on managing costs.

During the year the Royal Mint launched the business improvement programme, an initiative aimed at modernising the organisation structure and reviewing many of the work methods. The programme has resulted in a reduction in the number of employees but, to the credit of everyone involved, the reductions were achieved wholly on a voluntary basis. The new structure increases the focus on the individual business units and will stand the Royal Mint in good stead in the years ahead. Importantly, the changes have also focused on the development of the Royal Mint brand which we regard as an important world-wide asset. One manifestation has been the creation of a new identity, seen for the first time on the cover of this *Annual Report*.

There have been further changes among senior executives of the Royal Mint. Tony Burnell, Director of Human Resources, left the business at the end of May 2007, whilst Clare Janczewski was appointed as Director of Collector Coin Sales in December 2006.

This extensive programme of change and improvement has been led by our interim Chief Executive, David Barrass, supported by the interim Director of Finance, Peter Allred. Substantial achievements have been made during their tenure and, whilst we intend to recruit permanent replacements in the coming months, I am pleased that we have secured continuity in the leadership throughout the intervening period.

The terms of office of a number of Non-Executives came to an end during the year. Hugh Beevor stood down as Chairman in February and Robert Guy (Chair of the Audit Committee) and David Wertheim (Chair of

the Remuneration Committee) left in March. On behalf of the Royal Mint I thank them for their counsel over the years. Jan Smith continues as a Non-Executive Director and I am pleased to report the appointment of Colin Balmer, formerly Managing Director of the Cabinet Office, as a Non-Executive Director, who will Chair the Audit Committee.

The outlook for the Royal Mint is demanding but positive. Changes in circulating and collector coin markets will present both opportunities and challenges. The Royal Mint has demonstrated its world-wide reputation and ability to service overseas markets, and the increased focus on the Royal Mint brand will create further sales opportunities for our Collector Coin division. Cost pressures from metal prices and competition from excess global capacity will remain intense, thus maintaining the need for continued improvements. Change is never easy but has to be embraced. I thank all of the employees of the Royal Mint for the manner in which they have embraced the changes of the past year.

It is a privilege to take on the role of Chairman at the Royal Mint and I look forward to supporting the Executive team as they seek to build on the progress of the last twelve months.

Mike Davies

Chief Executive's Report

The performance of the Royal Mint during the year points to a marked improvement across the business. An operating profit before exceptional items of £8.7 million is well ahead of the Corporate Plan and at 3.0% the return on net assets is above the ministerial target. An important step has at last been taken along the road to recovery but one year of good results should not deflect attention away from the scale of the progress that still has to be made to secure sustained profitability.

Last year in my Report I referred to the commissioning of a wide-ranging business review. It was clear at that time that the pace of modernisation had to be accelerated and putting into practice the recommendations that emerged from the review has in many respects dominated the year. A thorough-going business improvement programme has been set in motion directed at overhauling completely the financial systems, implementing the results of the brand strategy review and, most importantly, initiating a restructuring of the business backed by the introduction of more efficient working practices.

Progress to date has been swift and productive. Compared to the situation in the spring of 2006, there is now much greater clarity in the operation of financial systems and the greater understanding this fosters has actively been promoted throughout the organisation. Line managers are more accountable and more aware of the financial impact of the decisions they make and across several fronts, including the control of operational overheads, improved cash flow and a more disciplined approach to capital expenditure, excellent progress has been made. The wide-ranging restructuring has meant that a number of people have left the organisation through early retirement or voluntary redundancy. Coupled with the application of new working methods, significant efficiency savings are projected and it will be incumbent upon management to ensure that the benefits of these changes are embedded for years to come. The workforce has co-operated fully with the review and I would like to extend to every employee my sincere thanks for their resolve and commitment to the vision of a rejuvenated business.

The Royal Mint's prime responsibility to supply the United Kingdom with its circulating coinage was discharged admirably in the context of an increase in demand from the

banking sector to 1.6 billion pieces. The historical trend, which has suggested a flattening of demand, was reversed and the enhanced flexibility within the organisation meant the additional volumes could be accommodated without serious disruption. As well as meeting the circulating coin and blank requirements for fifty-three countries around the world, a position consistent with the Royal Mint's established share of the international market, a substantial coin order from Nigeria was completed. Major orders were also shipped to Sri Lanka and Mozambique, and it was particularly pleasing for the Royal Mint to win its first order from Georgia.

Production departments have benefited from important structural changes which have seen the collector and circulating coin facilities brought under the same Executive Director. It is already apparent that the new system will foster greater flexibility and act as a driver for improved productivity. Long-running technical problems with the installation of new furnaces have been resolved and the improvements in throughput will be closely monitored to ensure that maximum benefit is secured from this important capital project. More generally, there has been a good appetite within production departments to review long-established processes. Improvements and changes in processes relating to the electroplating plants have reduced the potential environmental impact of the Royal Mint's operations and are expected to secure for the Royal Mint a lower-tier Control of Major Accident Hazards (COMAH) status.

The Collector Coin business has consolidated its position and built on last year's healthy performance with successful programmes in the United Kingdom and overseas. A review of the giftware and collectables business resulted in a major reduction in the number of items being offered for sale, and the intention for the future will be to develop a limited and more exclusive range of products. The new name acquisition strategy of 2005-06 exceeded planned targets and the Collector Coin team has been able to use the initiative to revitalise the customer journey for collectors of modern coins and medals. Changes to the senior management structure of Collector Coin resulted in the creation of a new Executive post – Director of Collector Coin Sales. Combined with other important shifts in responsibilities, the foundations are now in place for a better focus on both sales and marketing.

The development of a new identity as part of the implementation of the brand strategy review has resulted in an elegant and powerful design but a key purpose of the review was to act as a catalyst for changing attitudes and values within the organisation. It is vital that all employees have a renewed sense of pride in the Royal Mint and a new focus on the needs of the customer. I would like to thank all those involved with the brand strategy review, including the external consultants whose professionalism and imagination have given the project a creative momentum.

To have had the opportunity to lead an organisation with such a long and distinguished history through this important period has been a genuine pleasure and I would like to thank my Executive and Non-Executive colleagues for the support and advice they have offered. The Royal Mint is an organisation with a significant international profile and a world-class reputation. The next twelve months will see the foundations of a new vision being laid and making this a reality will be the first step towards building a stronger and sustainable long-term future of the Royal Mint.

David Barrass

Management Commentary

For the year ended 31 March 2007

Activities and structure

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 central banks and mints;
- the manufacturing, marketing and distribution (both retail and wholesale) of United Kingdom and overseas collector coins and medals;
- the manufacture of official medals, seals and dies;
- the sale of jewellery and collectables; and
- any operation incidental or conducive to such manufacture and supply.

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

The Royal Mint has been operating as a Trading Fund since 1 April 1975 in accordance with the Royal Mint Trading Fund Order 1975 (S.I. 1975 No. 501) and, since 1 April 2002, the Royal Mint Trading Fund (Extension and Variation) Order 2002, both made under the Government Trading Funds Act 1973. As a Trading Fund, the Royal Mint operates on commercial lines and is required under Section 4(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.

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

The Master of the Royal Mint is the Chancellor of the Exchequer. In normal circumstances, the Chief Executive and Accounting Officer of the Royal Mint is the Deputy Master and Comptroller. The current 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.

Objectives and strategy

The Royal Mint is also required under the 1973 Act to 'achieve such further financial objectives as the Treasury may from time to time, by minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with HM Treasury concurrence) to be desirable of achievement'.

The Royal Mint's target of return on net assets as set by the Chancellor of the Exchequer for 2006-07 was 2.9%. The return in 2006-07 was 3.0%. 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). The Royal Mint thus achieved its main objective on RONA in 2006-07. The performance compared with other key ministerial targets is set out on page 13.

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

A business improvement programme commenced in 2006 with the objective of enhancing financial systems, implementing the results of a brand strategy review, developing efficient working practices and lowering operational costs. This programme will be completed during 2007-08.

The Circulating Coin business strategic objectives are to:

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

- improve productivity and reduce costs.

The Collector Coin business strategic objectives are to:

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

Issues of United Kingdom circulating coins 2006-07

Denomination	Face Value £m	Number of Pieces Millions
£2	65.874	32.937
£1	52.055	52.055
50 pence	22.006	44.012
20 pence	26.442	132.208
10 pence	10.161	101.608
5 pence	14.535	290.697
2 pence	5.642	282.080
1 penny	6.515	651.457
Total	203.230	1,587.054

Estimated value & number of coins in circulation 31 March 2007

Denomination	Face Value £m	Number of Pieces Millions
£2	596	298
£1	1,468	1,468
50 pence	403	806
20 pence	453	2,263
10 pence	162	1,615
5 pence	186	3,723
2 pence	131	6,543
1 penny	108	10,765
Total	3,507	27,481

Operating and Financial Review

The Royal Mint significantly improved its trading performance in the year. Turnover increased by 5.5% to £120.9 million with good growth on all core market areas: Circulating Coin achieved sales of £74.4 million, up on the prior year by 5.2%, while Collector Coin achieved sales of £46.4 million, up on the prior year by 6.0%.

Operating profit before exceptional items was £8.7million (2005-06: £1.1 million), its highest level for nine years.

The Royal Mint returned to net profitability with a retained profit for the year of £1.2 million compared to a loss of £1.6 million in 2005-06. This result was achieved after charging £6.4 million of exceptional items, which related to the implementation of the business improvement programme.

Operating margins have increased year on year across the business due to improved product mix, cost reduction initiatives and the impact of the business improvement programme during the second half of the year.

Total staff and overheads costs have reduced by £1.5 million from the previous year.

Cash flow before financing was positive £9.4 million (2005-06: negative £4.9 million). Metal prices have continued to increase significantly and adversely affected stock holding values, increasing working capital by £6.5 million during the year. Despite metal inflation, the Royal Mint has generated £11.9 million positive cash flow in the year. The major contributing factor to this success has been management's actions on working capital control. Net debt reduced from £20.1 million (31 March 2006) to £10.7 million (31 March 2007).

Capital expenditure was £1.4 million (2005-06: £1.7 million). The Royal Mint has continued to implement a selected capital investment strategy directed at product quality, cost reduction and health and safety projects.

	2006-07 £m	2005-06 £m
Turnover:		
Circulating coin		
UK	36.3	27.3
Overseas	38.1	43.5
Collector coin	46.4	43.8
	120.8	114.6
Operating costs:		
Metal costs	(50.9)	(49.5)
Bought-in costs	(3.8)	(5.9)
Staff costs	(25.0)	(25.3)
Other costs	(32.4)	(32.8)
Operating profit/(loss) before exceptional items	8.7	1.1
Exceptional items		
Restructuring	(6.4)	(1.4)
Operating profit/(loss)	2.3	(0.3)

The Circulating Coin business delivered an excellent result with contribution to common central costs of £7.2 million, an increase of £3.2 million over the prior year.

United Kingdom circulating sales were 1.587 billion, compared with 1.415 billion a year earlier, which included a slight increase in demand for the £2 coin. During the year in response to the requests from the banks the Royal Mint changed its method of coin delivery into bulk packaging and from now onwards all United Kingdom coin will be delivered in this way. United Kingdom circulating coin contract prices remained constant; a reduction in real terms compared with the prior year.

Overseas circulating coin and export blank volumes were 23% lower than the previous year. Sales value, however, excluding the impact of metal costs, remained broadly similar. An improved product mix was achieved from a small number of large overseas contracts, dominated by an order from Nigeria. Other major coin orders included Sri Lanka and Mozambique; in total the Royal Mint supplied forty-one countries with their circulation coins. During 2006-07 the business won overseas blank orders from Nigeria, which will largely be fulfilled during 2007-08, and several major copper-plated steel orders,

including France, Belgium, Ireland, Austria and the Netherlands, all of which have a carry-over element into 2007-08. In total, circulation blanks were shipped to twelve countries.

Circulating production volumes were down compared to 2005-06 by 21% adversely affecting overhead recovery values; the Circulating Coin business carries a high proportion of fixed and semi-fixed costs. There was, however, an 8.6% reduction in production overheads, down by £2.3 million from the previous year. Implementation of new management accounts has focused production unit managers on all aspects of financial performance within their departments and has resulted in improved control of spending levels.

The technical issues associated with the melting furnaces – upgraded in the fourth quarter of the year ended 31 March 2005 – have been overcome. A new insulation lining strategy has been developed to permit the production of cupro-nickel alloys.

Problems in attaining the required quality for plated orders in the fourth quarter of the prior year were resolved in the early part of 2006-07. Investment in the two nickel-plating plants was made during the year to improve significantly both the productivity and quality of this product.

The Collector Coin business had a very successful year with significant growth in both the business to customer and wholesale market areas. Profitability increased by 129% over 2005-06, generating a £9.7 million contribution compared to £4.3 million in 2005-06. The Queen's 80th Birthday provided a key opportunity to continue the effective new customer acquisition strategy which, together with the development of the existing customer database, was instrumental in driving profit performance. A strategic review of the Royal Mint brand conducted early in the year triggered the cessation of the Royal Mint Classics brand and a downsizing of the non-coin business. A small range of non-coin products will form part of continuing operations with emphasis placed on those products which complement the Royal Mint brand and yield a good financial return.

The ministerial targets for fulfilment of Collector Coin orders to individual customers in the United Kingdom were partially achieved. The overwhelming success of new customer acquisition promotions at the end of 2005-06

and into the beginning of 2006-07 resulted in significant supply and demand issues during the first quarter of the financial year. The situation was recovered in July and the fulfilment target was fully achieved between August 2006 and March 2007.

Exceptional items

Exceptional costs in the year were £6.4 million, consisting of business improvement programme implementation costs including early retirement costs and voluntary redundancy costs. Of the above, £4.4 million is included in provisions and creditors to cover the balance of voluntary redundancy payments in 2007-08 and the balance of the early retirement payments to be paid over the next ten years.

Dividends

The Board has resolved that no dividend will be declared for the year. The Board is mindful of the desirability of paying dividends to HM Treasury.

There were three reasons why it was considered not appropriate to declare a dividend this year. Firstly, the cash outflow for the reorganisation programme falls mainly in 2007-08; secondly, higher metal prices create an increased need for working capital; and, thirdly, the Board considered it prudent to see further evidence of a sustained return to profitability.

Vesting

In December 2004 the Chancellor of the Exchequer announced an intention that the Royal Mint's business operations would be vested into a Companies Act company, wholly owned by Government. Work on vesting is well advanced but is currently on hold pending the recruitment of the new Chief Executive and the next stage in the Royal 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.

Derivative financial instruments

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

Metal prices

A significant proportion of the Royal Mint's raw materials consist of non-ferrous metals which are traded on the London Metal Exchange (LME) and whose prices are therefore volatile. 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 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.

Metal prices have increased significantly during the year: gold increased by 14%, silver by 13%, copper by 26%, nickel by 197% and zinc by 22%. All of these metals are purchased in United States dollars, which weakened in the year by 13%, partially compensating for the above increases.

Higher metal costs are recovered in circulating coin and blank selling prices and therefore do not adversely affect the operating profit. Metal price inflation does however increase working capital, loan funding and interest charges. Due to the hedging policy of the Royal Mint the full impact of these metal price rises has yet to be realised. Using 31 March 2007 metal prices, currency rates and stock volumes, working capital would increase in value by a further £5 million.

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 2007. 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).

Foreign exchange

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

Credit payment policy

The policy of paying creditors complied with the Better Payment Practice Code. A total of 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 skills, knowledge and dedication of the Royal Mint's staff are an integral element to the future success of the business.

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 disability but their experience and skills.

As a result of the business improvement programme, seventy-two permanent staff are leaving the Royal Mint either through early retirement or voluntary redundancy. Of this total, sixty-two have already left. The number of people employed (permanent and casual staff) at 31 March 2007 was 762 (2006: 915). The average number of people employed in the year was 861 compared with 933 in 2005-06.

Employee communications are a key 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.

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 Royal 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 Royal Mint's continuing progress towards these goals.

- The results of external safety, health and environmental audits indicate that the Royal Mint is achieving continuous improvement from previous performance and the targets that have been set.
- The combined number of total and reportable accidents showed an increase during the year. The average number of reportable accidents, however, remains below the Health and Safety Executive's national incident rate for manufacturing industry.
- The Royal Mint continues to work to the stringent controls of its Pollution, Prevention and Control (PPC) Permit, which is regulated by the Environment Agency.
- Within its status as a Top Tier Site, as defined under the COMAH Regulations, the Royal Mint continues to co-operate with the competent authorities in order to ensure that compliance with the

regulations is maintained. In addition, following the Royal Mint's continuous improvement strategy, it is expected that the organisation will soon achieve the major milestone of moving to Lower Tier Status. This will mainly be due to the reduction of highly toxic substances held on site, owing to significant improvements and changes in processes within the Blank Processing Department.

- The Royal Mint continues to maintain accreditation to the International Environmental Management Standard of ISO 14001. The Royal Mint is the first and only Mint to achieve this demanding certification.

No significant safety, health and environmental incidents, including emissions to land, air, water or dangerous occurrences, were recorded.

Outlook

Further growth is anticipated in Collector Coin within the forthcoming year aided by two key events: the Queen and the Duke of Edinburgh's Diamond Wedding anniversary and the introduction of new United Kingdom definitive reverse designs. A suite of improvements to the Royal Mint website will also aid functionality and continue to drive sales and enhance customer service on line. A formal project team will be set up to manage the opportunity presented by the Collector Coin Programme for the London 2012 Olympic Games.

As the Royal Mint moves into the next financial year Circulating Coin order enquiry levels are healthy and the market place looks active. Additional nickel-plating capacity will be on stream by late summer 2007 following the conversion of one of the existing plating lines. The key for the Circulating Coin business is to develop and maintain profitable pricing of overseas contracts.

Metal prices have continued to rise since the year end and this price inflation will drive working capital levels higher. The cash outflow relating to early retirement and redundancy payments is £3 million within the next financial year; both of which will increase the funding required in 2007-08.

The Circulating Coin and Collector Coin business areas must stay focused on their strategic objectives and successfully manage all critical resources and relationships; the planned 2007-08 targets are challenging but attainable.

The business improvement programme will be fully implemented from 2007-08 onwards, moving the Royal Mint towards a sustainable level of profitability appropriate to the capital employed.

David Barrass

Accounting Officer
3 June 2007

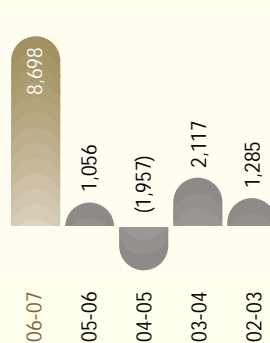
Financial Summary

	2006-07 £'000	2005-06 £'000	2004-05 £'000	2003-04 £'000	2002-03 £'000
United Kingdom sales	73,165	59,323	55,311	62,161	66,489
Overseas sales	47,700	55,229	44,302	27,729	25,532
	120,865	114,552	99,613	89,890	92,021
Operating profit/(loss) before exceptional items	8,698	1,056	(1,957)	2,117	1,285
Exceptional items	(6,385)	(1,344)	-	-	900
Operating profit/(loss)	2,313	(288)	(1,957)	2,117	2,185
Profit/(Loss) for the year	1,238	(1,600)	(3,245)	1,294	1,357
Dividend	-	-	-	(750)	-
Retained profit/(loss) for the year	1,238	(1,600)	(3,245)	544	1,357
Total assets less current liabilities at 31 March	65,580	59,887	59,564	63,084	63,278
Operating profit/(loss) before exceptional items/sales	7.2%	1.0%	(2.0%)	2.4%	1.4%
Operating profit/(loss)/sales	1.9%	-	(2.0%)	2.4%	2.4%

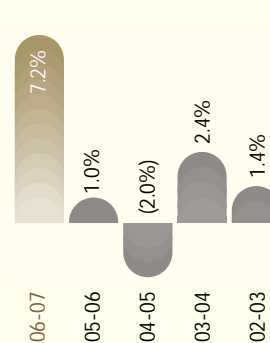
United Kingdom/
Overseas Sales £'000



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



Operating Profit/(Loss)
Before Exceptional Items/Sales

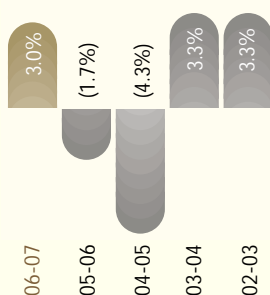


Key Ministerial Targets

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

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

Financial Objective Ratio
(Target 1)



The Royal Mint Advisory Committee, 2006–07

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 Royal Mint with the recommendation of all new designs for United Kingdom coins and official medals.

During the year the Committee met in London on six occasions, three times at Cutlers' Hall, once at Goldsmiths' Hall, once at Skinners' Hall and once at Buckingham Palace. It examined designs for a range of coins marking significant anniversaries in the history of Britain and continued its deliberations on the definitive reverse designs of the six denominations from the penny to the fifty pence. Over the course of the year the short list of designs for the new reverses was gradually reduced from 4000 until, during the autumn, two series emerged as the front runners. Representing contrasting design styles, and also contrasting approaches to how Britain might be symbolised on the coinage, the two series presented the Committee with a real choice. From the 4000 pieces of artwork that were originally submitted, the largest ever response to a public competition of this type in Britain, the field had therefore been narrowed down to just two series and by the time the Committee met on 14 March it was in a position to make a final recommendation. A public announcement will be made in due course and coins bearing the new designs will enter circulation during the second half of 2008. To arrive at this point has demanded a great deal of effort from the artists involved. David Barrass, the Chief Executive of the Royal Mint, would like to express his sincere thanks to all those who submitted designs and also to the Chairman and members of the Committee whose judgement and advice have helped secure a fascinating series of designs.

A conjoint portrait was prepared for the crown piece to celebrate the Diamond Wedding of Her Majesty The Queen and His Royal Highness The Duke of Edinburgh by Ian Rank-Broadley FRBS, one of the most respected figurative sculptors at work in Britain today. The design for the reverse, depicting the north rose window of Westminster Abbey, by Emma Noble of the

Royal Mint Engraving Department, is her first United Kingdom coin and both designs have been very well received by collectors. While the commemoration of such important royal occasions has been part of the fabric of the British coinage for many years, marking the 200th anniversary of the abolition of the slave trade with a £2 coin presented a series of design challenges seldom encountered by the Committee. It was as a result of the creative talents of David Gentleman RDI that a solution was finally reached that encapsulates with directness and clarity the symbolism of ending an oppressive system. The 300th anniversary of the Act of Union between England and Scotland was commemorated with the issue of a further £2 coin, and an intelligent design by Yvonne Holton has succeeded in creating a new and original symbol of the Union. The design for the Scouting Centenary 50p was the work of Kerry Jones, again of the Royal Mint's Engraving Department, and her success shows the developing strength of the young team of artists who have been recruited over the last few years. In recent years the Royal Mint has renewed a close relationship with the Royal Academy and it was particularly gratifying therefore to see Christopher Le Brun RA, an artist entirely new to numismatic design, being selected to design the Britannia bullion coins for 2007.

During the autumn a design competition was initiated for a crown piece to mark the sixtieth birthday of His Royal Highness The Prince of Wales. Work continues on this project as well as on that for two other commemorative coins that will be issued in 2008: the Queen Elizabeth I anniversary crown and the London Olympic Centenary £2 coin.

Since the Duke of Edinburgh retired as President of the Committee in 1999 the Queen's representative has been the Lord Chamberlain, and since 2001 Lord Luce has fulfilled this role with subtlety and discretion. Following his retirement from the Royal Household in the autumn of 2006 his successor as Lord Chamberlain, the Earl Peel, has contributed to meetings of the Committee and his membership was formally confirmed in February. Two other retirements occurred during the year with Sir Peter Michael CBE and Rosalind Savill CBE both standing down after eight years of service. The contributions that these three retiring members have made to the Committee's deliberations have

materially improved the quality of designs and their presence at meetings will undoubtedly be missed.

It is with regret that the Committee learned in March of the death of Diana Condell, who had been a member since September 2004. The quiet authority with which she approached her responsibilities, both for the Royal Mint and as a Senior Curator at the Imperial War Museum, earned her the deep respect of all those with whom she worked.

Membership of the Committee at 31 March 2007 (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

Miss MaryAnne Stevens April 2001

Professor David Cannadine September 2004

Mr John Maine RA September 2004

Mr Stephen Raw January 2005

The Rt Hon The Earl Peel GCVO DL
February 2007

Mr John Porteous OBE
(Numismatic Consultant to the Committee)

Kevin Clancy
Secretary

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

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

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

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

HM Treasury has appointed the Chief Executive of the Royal Mint as the Accounting Officer for the Royal Mint. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, for the keeping of proper records and for safeguarding the Royal Mint's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in 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 the 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 2007 and up to the date of approval of the *Annual Report and Accounts*. It accords with HM Treasury guidance.

Capacity to handle risk

The leadership of the Royal Mint's risk management process is undertaken by the Management Team comprising Executive Directors and the Board Secretary who meet formally on a regular

basis and not less than ten times a year. The Management Team focuses on the identification and management of the key risks which could impact on the achievement of the Royal Mint's policies, aims and objectives, and the control strategy for each of the significant risks.

A new Risk Management Committee was established during the year and is responsible for overseeing the effective establishment and maintenance in operation of a management framework within which risk is evaluated and managed. The Committee's membership comprises the Chief Executive, the Director of Finance, the Board Secretary and the Head of SHE (Safety, Health and Environment). The Head of Internal Audit also attends all meetings.

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

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

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

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

The risk and control framework

Risk management is embedded in the ongoing planning and strategy process and focuses on the identification of the key risks which could impact on the achievement of the Royal Mint's strategic objectives. A Risk Register is maintained.

The Risk Management Committee is responsible for ensuring that:

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

The Committee also:

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

Governance

Although there is currently no requirement for the Royal Mint to comply with the Combined Code on Corporate Governance, the Directors support high standards of governance and, in so far as is practicable given 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, other than the Chairman, all of whom are deemed to be independent, having documented terms of reference and chaired by a Non-Executive Director with recent and relevant financial experience; and
- a Remuneration Committee, comprising all Non-Executive Directors, all of whom are considered to be independent except the Chairman, having documented terms of reference and chaired by an independent Non-Executive Director.

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

Board of Directors

The Board currently comprises a Non-Executive Chairman, two independent Non-Executive Directors and seven Executive Directors, three of whom are engaged under interim arrangements. Peter Allred replaced Huw Edwards as Director of Finance in April 2006. Hugh Beevor stood down as Chairman in February 2007 and Mike Davies was appointed to succeed him in March 2007. The terms of appointment of two Non-Executive Directors, David Wertheim and Robert Guy, came to an end in March 2007. Subsequent to the end of the year Colin Balmer was appointed as a Non-Executive Director.

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

The Board met seven times in 2006-07 (2005-06: five times). Hugh Beevor, Robert Guy and Andy Mitchell attended six of the seven Board meetings. Clare Janczewski attended two and Mike Davies attended one. The remaining members attended all seven meetings.

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

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of 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 the Risk Management Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

In particular, it includes:

- comprehensive budgeting systems with an annual operating plan and budget which is reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual reports, which indicate performance against the forecast;

- setting targets and key performance indicators to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- formal security arrangements.

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

The Royal Mint's risk priorities in 2006-07 were in the following areas:

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

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

The business improvement programme, described more fully at page 4, is resulting in significant changes being made throughout the organisation. The programme will be completed during 2007-08 and one benefit will be an improved control environment. During any period of rapid and significant change, especially where it involves a number of senior management changes, there is a risk that control processes and procedures may not function as anticipated. The key risks have been identified and plans drawn up to mitigate these risks. The recruitment of permanent replacements for the posts of Chief Executive and Director of Finance will take place during 2007-08, and arrangements are in hand to ensure continuity of leadership.

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
3 June 2007

Remuneration Report

Remuneration Committee

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 for the financial year 2006-07 comprised 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 was Secretary to the Committee. The Committee meets as necessary during the year; in the past year it met a total of four times (2005-06: four 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.

Committee remit

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

Remuneration policy

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

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. The Remuneration Committee agreed that due to the performance of the business Executive Director base pay would not be increased for 2006-07.

ii. Short-Term Incentive Plan (STIP)

The Remuneration Committee did not agree any STIP for 2006-07.

iii. Civil Service Pension

Clare Janczewski and Messrs Burnell, Carpenter and Cottrell are members of the Classic Pension Scheme. Please see Note 14 for details.

The following table is subject to audit:

Executive Directors	Remuneration including performance pay 2006-07 (2005-06) £'000	Real increase in pension and related lump sum at age 60 £'000	Total accrued pension at age 60 at 31 March 2007 and related lump sum £'000	CETV 31 March 2006 £'000	CETV 31 March 2007 £'000	Real increase in CETV after adjustment for inflation and changes in market investment factors £'000
Tony Burnell (Early retirement 31 May 2007) Director of Human Resources	70-75 (70-75)	0-1 lump sum 0-2	5-10 plus 25-30 lump sum	135	148	9
Philip Carpenter Director of Production	65-70 (65-70)	0-1 lump sum 0-2	10-15 plus 30-35 lump sum	135	141	4
Keith R Cottrell Director of Circulating Coin Sales	70-75 (70-75)	0-1 lump sum 0-2	15-20 plus 45-50 lump sum	331	354	8
Clare Janczewski (Appointed 11 December 2006) Director of Collector Coin Sales	15-20	0-1 lump sum 0-4	5-10 plus 15-20 lump sum	60	72	12
Andy Mitchell* (Appointed 1 June 2006) Director of Marketing	85-90	0-2	0-5	-	13	11
Huw Edwards (Resigned 30 April 2006) Director of Finance	10-15 (70-75)	0-1	0-5	40	39	(1)

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

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 14.

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 Marketing. David Barrass was appointed as interim Chief Executive on 16 January 2006 under a contract through a service provider. The total cost of the interim Chief Executive's services incurred in the financial year to 31 March 2007 was £319,117 (2005-06: £66,931). Peter Allred was appointed interim Director of Finance on 10 April 2006 under a contract through a service provider. The total cost of the interim Director of Finance's services incurred in the financial year to 31 March 2007 was £225,315. Andy Mitchell, Director of Marketing, was appointed on 1 June 2006 on a fixed-term contract providing a three-month notice period.

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 *Annual 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 one, two or 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.

Hugh Beevor's three-year term ended in February 2007 and Mike Davies replaced him on 7 March 2007 as Non-Executive Chairman. Robert Guy and David Wertheim also completed their three-year terms as Non-Executive Directors in March 2007.

The following information is subject to audit:

	2006-07 £'000	2005-06 £'000
Hugh Beevor	20.6	22.5
Mike Davies	3	-
Robert Guy	8.6	9
Jan Smith	9	9
David Wertheim	8.6	9

David Barrass

Accounting Officer
3 June 2007

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 31 March 2007 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Royal Mint, Accounting Officer and Auditor

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

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

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

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

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

I read the other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Royal Mint's affairs as at 31 March 2007 and of its profit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information given within the *Annual Report*, which comprises only the Chairman's Statement, Chief Executive's Report, Financial Summary, Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

Please see my report on pages 39 and 40.

John Bourn
Comptroller and Auditor General
7 June 2007

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

Profit and Loss Account

For the year ended 31 March 2007

	Notes	£'000	£'000	2006-07 £'000	2005-06 £'000
TURNOVER	2, 3			120,865	114,552
Change in stocks of finished goods and work in progress			(1,427)		(1,376)
Own work capitalised			-		29
Other operating income			30		62
Raw materials and consumables		(62,438)			(61,557)
Exceptional raw materials & consumables	6	(14)			-
			(62,452)		(61,557)
Other external charges			(3,815)		(4,749)
Staff costs	5	(25,391)			(25,264)
Exceptional staff costs	6	(4,907)			(229)
			(30,298)		(25,493)
Depreciation and other amounts written off tangible fixed assets	8	(4,112)			(4,588)
Exceptional depreciation	6	(81)			-
			(4,193)		(4,588)
Other operating charges		(15,014)			(16,053)
Other exceptional operating charges	6	(1,383)			(1,115)
			(16,397)		(17,168)
				(118,552)	(114,840)
OPERATING PROFIT/(LOSS)	4				
Operating Profit before exceptional items			8,698		1,056
Exceptional Items	6		(6,385)		(1,344)
				2,313	(288)
INTEREST RECEIVABLE AND SIMILAR INCOME				153	68
INTEREST PAYABLE AND SIMILAR CHARGES	7			(1,228)	(1,380)
PROFIT/(LOSS) FOR THE YEAR				1,238	(1,600)

No activities have been acquired or discontinued during the year.

The Notes on pages 29 to 38 form part of the Accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006-07 £'000	2005-06 £'000
Profit/(Loss) for the year	1,238	(1,600)
Unrealised surplus on revaluation of property	644	813
Unrealised surplus on revaluation of plant and machinery	423	815
Unrealised surplus on revaluation of uncommitted metal	3,272	1,563
Total recognised gains and losses relating to the year	<u>5,577</u>	<u>1,591</u>

MOVEMENTS IN CAPITAL AND RESERVES (Government Funds)

	Public Dividend Capital £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1 April 2006	5,500	9,008	35,432	49,940
Movements in the year:				
Revaluations				
Fixed assets	-	1,067	-	1,067
Stocks	-	3,272	-	3,272
Profit for the year	-	-	1,238	1,238
Reclassification	-	(202)	202	-
At 31 March 2007	<u>5,500</u>	<u>13,145</u>	<u>36,872</u>	<u>55,517</u>

The Notes on pages 29 to 38 form part of the Accounts.

Balance Sheet

At 31 March 2007

	Notes	£'000	2007 £'000	*Restated 2006 £'000
FIXED ASSETS				
Tangible assets	8		36,927	38,648
CURRENT ASSETS				
Stocks	9	57,712		48,737
Debtors	10	11,133		16,551
Cash at bank and in hand		4,184		2,458
		<u>73,029</u>		<u>67,746</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(44,376)		(46,507)
NET CURRENT ASSETS			<u>28,653</u>	<u>21,239</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			65,580	59,887
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	12		(8,172)	(8,872)
PROVISION FOR LIABILITIES AND CHARGES	13		(1,891)	(1,075)
NET ASSETS			<u>55,517</u>	<u>49,940</u>
FINANCED BY:				
CAPITAL AND RESERVES				
Public dividend capital			5,500	5,500
Revaluation reserve			13,145	9,008
Profit and loss account			36,872	35,432
CAPITAL EMPLOYED			<u>55,517</u>	<u>49,940</u>

* See Note 12.

The Notes on pages 29 to 38 form part of the Accounts.

David Barrass
Accounting Officer
3 June 2007

Cash Flow Statement

For the year ended 31 March 2007

	Notes	2006-07 £'000	2005-06 £'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(a)	11,881	(1,849)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		145	68
Interest paid		(1,238)	(1,406)
		<u>(1,093)</u>	<u>(1,338)</u>
CAPITAL EXPENDITURE			
On acquisition of tangible fixed assets		(1,405)	(1,694)
Receipts from sale of tangible fixed assets		-	7
		<u>(1,405)</u>	<u>(1,687)</u>
CASH FLOW BEFORE FINANCING		9,383	(4,874)
FINANCING			
Long-term loan principal repaid		(657)	(618)
Movement in short-term loans		(7,000)	5,000
NET CASH FLOW FROM FINANCING		<u>(7,657)</u>	<u>4,382</u>
INCREASE/(DECREASE) IN CASH IN THE YEAR	(b)	<u>1,726</u>	<u>(492)</u>
(a) RECONCILIATION OF OPERATING PROFIT/(LOSS) WITH THE NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		£'000	£'000
Operating profit/(loss)		2,313	(288)
Depreciation charge		4,193	4,588
Movements in			
Stocks		(5,703)	(761)
Debtors		5,426	(3,335)
Creditors (excluding dividend)		4,836	(2,053)
Provision for liabilities and charges		816	-
		<u>11,881</u>	<u>(1,849)</u>
b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		£'000	£'000
Increase/(Decrease) in cash in the year		1,726	(492)
Cash flow from movements in borrowings		7,657	(4,382)
Movement in net debt		<u>9,383</u>	<u>(4,874)</u>
Net debt at start of year		(20,071)	(15,197)
Net debt at end of year	20	<u>(10,688)</u>	<u>(20,071)</u>

The Notes on pages 29 to 38 form part of the Accounts.

Notes to the Accounts

Note 1

PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Accounting

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

(b) Turnover

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

(c) Value Added Tax

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

(d) Tangible Fixed Assets

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

The valuation is based upon the following:

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

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

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

(e) Depreciation

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

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

No depreciation is provided in respect of land.

(f) Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost (or net current replacement cost where materially different) and estimated net realisable value. Cost consists of direct materials, labour and production overheads. The net current replacement cost of the metal element of stocks and work in progress less commitments to and advances received from customers has been revalued on the basis of LME prices ruling at 31 March 2007. Net realisable value is the price at which the stock can be realised in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from its existing state to a finished condition. Provision is made for obsolescent, slow moving and defective stocks.

Note 1 continued

(g) Foreign Exchange

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

(h) Insurance

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

(i) Pension Scheme

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

(j) Leases

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

Note 2

TURNOVER

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

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

	2006-07 £'000	2005-06 £'000
United Kingdom	73,165	59,323
Overseas	47,700	55,229
	<u>120,865</u>	<u>114,552</u>

Note 3

SEGMENTAL REPORTING

ANALYSIS BY CLASS OF BUSINESS

	2006-07 £'000	2005-06 £'000
Turnover		
Circulating Coin		
United Kingdom	36,317	27,301
Overseas	38,132	43,461
	<u>74,449</u>	<u>70,762</u>
Collector Coin		
United Kingdom	36,848	32,022
Overseas	9,568	11,768
	<u>46,416</u>	<u>43,790</u>
Total Turnover	<u>120,865</u>	<u>114,552</u>

Note 3 continued

	2006-07 £'000	2005-06 £'000
Operating profit/(loss)		
Circulating Coin	7,248	4,076
Collector Coin	9,731	4,250
Common costs	(8,281)	(7,270)
Exceptional items	(6,385)	(1,344)
Total operating profit/(loss)	<u>2,313</u>	<u>(288)</u>
Net operating assets		
Circulating Coin	52,864	51,273
Collector Coin	12,389	14,742
Unallocated net assets/(liabilities)	327	(6,128)
Total assets less current liabilities	<u>65,580</u>	<u>59,887</u>

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

	2006-07 £'000	2005-06 £'000
Operating profit is stated after charging:		
Sub-contracted work and semi-processed material	3,815	4,749
Hire of plant and machinery	103	71
Travel and subsistence	426	515
Foreign exchange (gains)	(271)	(51)
Auditors Remuneration		
Audit of these financial statements	55	57

Note 5

REMUNERATION AND EMPLOYMENT

Details of the salary and pension entitlements of Executive Directors are included in the Remuneration Report, pages 20 to 22.

TOTAL STAFF COSTS	£'000	2006-07 £'000	£'000	2005-06 £'000
Wages and salaries				
Staff with a permanent contract	18,187		18,520	
Other staff	2,651		2,282	
	<u> </u>	20,838	<u> </u>	20,802
Social Security costs				
Staff with a permanent contract	1,289		1,369	
Other staff	170		196	
	<u> </u>	1,459	<u> </u>	1,565

Note 5 continued

	£'000	2006-07 £'000	£'000	2005-06 £'000
Other pension costs				
Staff with a permanent contract	3,082		3,115	
Other staff	12		11	
		3,094		3,126
		<u>25,391</u>		<u>25,493</u>
AVERAGE NUMBER EMPLOYED		2006-07		*Restated 2005-06
Production				
Staff with a permanent contract	504		556	
Other staff	85		147	
		589		703
Sales and Marketing				
Staff with a permanent contract	115		115	
Other staff	32		9	
		147		124
Administration				
Staff with a permanent contract	116		103	
Other staff	9		3	
		125		106
		<u>861</u>		<u>933</u>

* 2005-06 reclassified to be consistent.

Note 6**EXCEPTIONAL ITEMS**

	£'000	2006-07 £'000	2005-06 £'000
Redundancy costs (See Note 13)	2,947		-
Early retirement costs (See Note 13)	1,822		-
Costs of staff involved in implementing business improvement programme	138		-
		4,907	-
Non-staff business improvement programme implementation costs		1,383	-
Costs associated with closure of Precious Metal Unit			-
-Consumables		14	-
-Depreciation		81	-
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 in March 2006		-	46
		<u>6,385</u>	<u>1,344</u>

Of the 2006-07 items, the following payments were made in year:

Redundancy	£178,840	(the balance of the expenditure will be paid in the next twelve months)
Early retirements	£183,733	(the balance of the expenditure will be paid over the next ten years)
Restructuring	£1,546,959	(the balance of the expenditure will be paid in the next twelve months)

Note 7

INTEREST PAYABLE AND SIMILAR CHARGES

	2006-07 £'000	2005-06 £'000
On loans repayable within five years	732	757
On loans payable by instalments over more than five years	590	623
Unwinding of discount on provision for early retirement (Note 13)	45	-
Adjustment to provision (Note 13)	(139)	
	<u>1,228</u>	<u>1,380</u>

Note 8

TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Valuation			
At 1 April 2006	14,115	77,028	91,143
Additions	192	1,213	1,405
Disposals	-	(594)	(594)
Revaluation	253	797	1,050
At 31 March 2007	<u>14,560</u>	<u>78,444</u>	<u>93,004</u>
Depreciation			
At 1 April 2006	-	52,495	52,495
Charge for year	391	3,802	4,193
Disposals	-	(594)	(594)
Revaluation	(391)	374	(17)
At 31 March 2007	<u>-</u>	<u>56,077</u>	<u>56,077</u>
Net book value at 31 March 2007	<u>14,560</u>	<u>22,367</u>	<u>36,927</u>
Net book value at 1 April 2006	<u>14,115</u>	<u>24,533</u>	<u>38,648</u>

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

The valuation has been reduced by the impairment provision made in the year ended 31 March 2002. There has been no change in the impairment provision between the years ending 31 March 2003 and 31 March 2007; a full review was conducted as at 31 March 2007.

Note 9

STOCKS

	2007 £'000	2006 £'000
Metal stocks	36,240	26,788
Work in progress (excluding metal)	4,294	4,227
Stores and packing materials	2,572	2,533
Finished goods	14,606	15,189
	<u>57,712</u>	<u>48,737</u>

Note 9 continued

Metal stocks of £36.240 million (2006: £26.788 million) include a base stock of copper and nickel with a net realisable value of £10.14 million at 31 March 2007 (2006: £6.322 million) and £17.31 million (2006: £15.951 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	2007 £'000	2006 £'000
Trade debtors	10,502	16,080
Other debtors	444	175
Prepayments and accrued income	187	296
	<u>11,133</u>	<u>16,551</u>

Included within the debtors are the following:

	2007 £'000	2006 £'000
Balances with other Government bodies		
Other central Government bodies	852	1,326
Local Authorities	-	-
NHS Trusts	2	4
Public Corporations and Trading Funds	1	187
	<u>855</u>	<u>1,517</u>

Note 11

CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2007 £'000	2006 £'000
Short-term fixed-rate NLF loans	6,000	13,000
Long-term NLF loans (See Note 12)	700	658
Trade creditors	25,609	24,528
Other creditors	4,512	832
Payments received on account	5,824	6,274
Taxation and Social Security	524	536
Accruals and deferred income	1,207	679
	<u>44,376</u>	<u>46,507</u>

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

Early retirement (See Note 13)	785	686
Redundancy (See Note 13)	2,768	-

Included within the creditors are the following:

Balances with other Government bodies		
Other central Government bodies	732	553

The short-term fixed-rate NLF loans comprise two loans as follows:

Date Loan Matures	Interest Rate	Loan £'000
12 April 2007	5.9%	4,000
27 April 2007	5.9%	2,000
		<u>6,000</u>

Note 12

CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2007 £'000	* Restated 2006 £'000
Loans repayable:		
Between one and two years	745	700
Between two and five years	2,536	2,382
After five years	4,891	5,790
	<u>8,172</u>	<u>8,872</u>

* Early retirement costs for 2005-06 of £1.075 million have been reclassified to the Provision for Liabilities and Charges.

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) £'000	Amount due after 12 months (above) £'000
10,500	6.347	20 September 2001	615	7,112
1,500	6.305	2 October 2001	85	1,060
			<u>700</u>	<u>8,172</u>

Note 13**PROVISION FOR LIABILITIES AND CHARGES**

HM Treasury guidance requires that the full cost of early retirement and severance schemes should be recognised on the Accounts when early departure decisions are made. The Operating Account is charged with the full liability of new decisions taken and a Balance Sheet provision made, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2007 and 2017. The provision has been assessed at current prices at the Balance Sheet date, and in accordance with Financial Reporting Standard 12, has been discounted at a real rate of 2.2%, with the unwinding of the discount treated as an interest charge on the Operating Account.

	Redundancy £'000	Early Retirement £'000
At 1 April 2006 (restated, see Note 12)	-	1,075
+ Adjustment to provision	-	(139)
Provision made in year	2,947	1,822
Unwinding of discount on provision	-	45
Release of provision	-	21
Payments offset against the provision	(179)	(148)
At 31 March 2007	<u>2,768</u>	<u>2,676</u>
Less amount payable within one year (included in creditors - see Note 11)	(2,768)	(785)
Amount payable after one year	-	<u>1,891</u>

+ Adjustment to provision represents the effect of discounting opening balance at 2.2%.

Note 14

PENSION COSTS

Pension benefits are provided through the CSP 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.

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 CSP arrangements was carried out on 31 March 2006. Details can be found in the resource account of the Cabinet Office: Civil Superannuation (<http://www.civilservice-pensions.gov.uk/publications.aspx#csra>).

For 2006-07 employers' contributions of £3.114 million were paid to the CSP Schemes (2005-06: £3.125 million) at rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The contributions reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the schemes.

Note 15

CAPITAL COMMITMENTS

	2007 £'000	2006 £'000
Commitments in respect of contracts	526	499

Note 16

OPERATING LEASE COMMITMENTS

	2007 £'000	2006 £'000
Operating lease rentals due within the next year	82	72
Leases expiring:		
Between one and five years	30	-
After five years	-	-

Note 17

RELATED-PARTY TRANSACTIONS

The Royal Mint is an Executive Agency and Trading Fund.

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

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

Note 18

NUMERICAL DISCLOSURES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

Hedges

As explained in the Management Commentary on pages 6 to 13, 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.

Liquidity and Interest Risk

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

Currency Risk

The forward exchange contracts which were outstanding at 31 March 2007 amounted to £18.314 million (2006: £16.3 million). If these contracts were translated at the year-end rate there would have been a gain of £0.025 million (2006: gain of £0.4 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 2008.

Note 19

CONTINGENT LIABILITIES

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

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

Note 20

ANALYSIS OF CHANGE IN NET DEBT

	At 1 April 2006	Cash Flow	Other Movements	At 31 March 2007
Cash at bank and in hand	2,458	1,726	-	4,184
Short-term loans	(13,000)	7,000	-	(6,000)
Long-term loans due within one year	(657)	657	(700)	(700)
Long-term loans due after more than one year	(8,872)	-	700	(8,172)
	<u>(20,071)</u>	<u>9,383</u>	<u>-</u>	<u>(10,688)</u>

Note 21

DATE OF AUTHORISATION OF ACCOUNTS

The Accounts were authorised to be issued on 12 June 2007.

Report by the Comptroller and Auditor General

Introduction

1. As a Government Trading Fund, the Royal Mint (the Mint) 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 requirement is interpreted to mean that the Mint should not record an operating loss in two consecutive years.
2. In recent years, the Mint has consistently failed to meet this requirement, with losses registered in the 2001-02, 2004-05 and 2005-06 financial periods. As a result, I reported to Parliament in 2002¹, 2005², and 2006³. My 2002 report described the problems the Mint was facing and the remedial action being taken by management to improve profitability and stabilise the business. My 2005 report described the reasons for the further loss and also commented on the preparations for the vesting of the Royal Mint Trading Fund to a Government-owned Company, as announced by the Chancellor of the Exchequer in December 2004⁴. My 2006 report provided an update on progress since 2004-05 and also detailed: the exceptional costs that the Mint incurred in preparation for the vesting process, which is currently on hold; the costs associated with the resignation of the previous Chief Executive; and the Mint's plans, under an interim Chief Executive, for improving the business following a wide ranging review of operations.
3. The Mint's operating performance, as outlined in the Chief Executive's Report, has improved in 2006-07, registering an operating profit before exceptional costs and interest of £8.7 million in contrast to £1.1 million in 2005-06. The Mint's retained profit is £1.2 million, after charging exceptional costs of £6.4 million and net interest costs of £1.1 million. These exceptional costs relate to the extensive restructuring programme the Mint is implementing, which included granting voluntary redundancy packages to seventy-two staff (£4.9 million) and related consultancy fees (£1.5 million).
4. This report outlines: factors that have contributed to the Mint's financial and operating performance in 2006-07; further changes in the Mint's Board membership and governance arrangements during the year; and future plans for the development of the business.

Financial and operating performance

5. The Mint's operations are focused in two business areas: Circulating Coin, which involves the production of circulating coinage for the United Kingdom and coins and blanks in overseas markets; and Collector Coin, involving the production and sale of collectable coins and other items.
6. Overall, the Mint's operating results in 2006-07 have improved significantly in comparison to 2005-06. As detailed in Note 3 to the Accounts, before '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 £8.3 million, the Mint's Circulating and Collector Coin businesses registered operating profits of £7.3 million and £9.7 million respectively in 2006-07, up 78% and 129% on the 2005-06 results.
7. During the year, the Mint focused on managing better the assets and working capital required to run the business, such as tightening monitoring and recovery procedures for debtors, improving the management of stock and increasing the efficiency of both the Circulating and Collector Coin businesses.
8. On the Circulating Coin side of the business, the Mint has continued to meet its contractual obligations with HM Treasury to supply United Kingdom coinage. As the *Annual Report* notes, overseas Circulating Coin and export blank volumes were lower than the previous year, but sales value, excluding the impact of metal costs, remained broadly similar. On Collector Coin, the improved level of operating profit reflected better targeting of new and existing customers and a rationalisation of the product offering.

Exceptional Costs

9. As detailed above, the Mint incurred £6.4 million of exceptional costs in 2006-07 related to the launch of the business improvement programme during the year. In August 2006, the Mint employed consultants to carry out an overall review of operations of the business and define a restructuring plan that would return the business to profitability. As a result of the

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 *Royal Mint Annual Report*, 2005-06, Report by the Comptroller and Auditor General pp31-32 (HC1432 2006-07)

⁴ Paragraph 6.61, Pre-Budget Report, December 2004 (HM Treasury)

recommendations of the consultants' review, as detailed in the Chief Executive's Report, the Mint has reduced its staff numbers by a total of 151 by the end of March 2007 through natural wastage, reducing the number of casual staff and granting people voluntary redundancy packages. The exceptional costs included in the Accounts are made up of £4.9 million relating to the costs of the redundancy programme and £1.5 million relating to the associated consultants' fees.

10. The Chairman notes in his statement that the extensive programme of change and improvements was led by the interim Chief Executive, supported by the interim Director of Finance. The Mint incurred costs of £544,000 in employing these two interim senior managers during 2006-07, as detailed in the Remuneration Report.

Board membership and governance arrangements

11. During the year, as set out in the *Annual Report* and the Statement on Internal Control, there have been considerable changes in the Mint's Board membership and governance structures. Four board level posts within the Mint have changed during the year, with a new (interim) Director of Finance, Director of Marketing, Director of Collector Coin Sales and Chairman being appointed. The interim Chief Executive (who remained in post throughout 2006-07) and interim Director of Finance are due to leave in 2007-08. The Shareholder Executive is currently in the process of recruiting a permanent Chief Executive, with the objective of Treasury Ministers being able to appoint a successful candidate to be in post by autumn 2007.
12. In addition to the appointment of a new Non-Executive Chairman in March 2007, the terms of office of two Non-Executive Directors, who acted as the Chairmen of the Audit Committee and Remuneration Committee respectively, came to an end in March 2007. In May 2007, the Financial Secretary to the Treasury appointed a new Non-Executive Director, who has taken up the role as Chairman of the Audit Committee. The Shareholder Executive, together with the Chairman, plan that the remaining Non-Executive post will be filled during the coming financial period.
13. Significant staff turnover at senior levels, in particular during a time of business transformation, carries with it risks in terms of governance and control. The Accounting Officer notes in his Statement on Internal Control that one benefit of the business improvement programme, which is resulting in significant changes being made throughout the organisation, will be an improved control environment. However he acknowledges that during any period of rapid and significant change, especially where it involves a number of senior management changes, there is a risk that control processes and procedures may not function as anticipated. He confirms that the key risks have been identified and plans drawn up to mitigate these risks.

Future developments

14. The Mint continues to face challenges in cementing its improved operational performance and stabilising the senior management team. The operational performance and financial savings due to the restructuring programme should aid profitability in the coming financial period. Consolidation of the management team will provide stability for the business going forward. The process of vesting the Mint to a Government-owned Company is currently on hold, pending the recruitment of the new Chief Executive and the next stage in the Mint's strategic development.
15. My staff will continue to monitor the Royal Mint's trading and financial performance over the coming periods. I will report further on this to Parliament, as appropriate.

